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Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

10 June 2016

**RESPONSE TO THE CONSULTATION ON PILLAR 3 DISCLOSURE REQUIREMENTS –
CONSOLIDATED AND ENHANCED FRAMEWORK**

Dear Sir / Madam,

We are pleased to provide our comments on the *Pillar 3 disclosure requirements – consolidated and enhanced framework* and thank the committee for the opportunity to take part in the consultative process.

We support the Basel Committee on Banking Supervision's ("the Committee") objective to raise global reporting standards by harmonising best practice and providing more transparency in the form of clear, comparable, risk-related and straightforward reporting.

We also agree that the usefulness of Pillar 3 disclosures for investors, analysts and other market participants will be enhanced by consolidating the disclosure framework as part of this second phase of Pillar 3 review.

In our letter, we provide overall comments on the proposal and highlight some key issues. We also provide specific comments and alternative proposals on some of the individual templates in the Appendix.

Enhancements to the revised Pillar 3 framework

We appreciate the investors' challenge to collate a set of key regulatory metrics on a regular basis; however the usefulness of the current proposal to disclose a number of the templates quarterly should be re-examined. We are concerned that the internal "due process" and quality checks required to support disclosure with the requisite assurance and senior management oversight would become very challenging given the short lead-times of quarterly reporting particularly when in concurrence with financial reporting.

We believe the disclosure of the quarterly templates on a semi-annual basis would provide key stakeholders with an appropriate level of frequency to inform investment and other decisions. If the Committee ultimately decides to retain a quarterly disclosure requirement, we urge it to allow sufficient time for compilation and review of Pillar 3 information after issuance of financial reporting statements.

The proposal to disclose hypothetical RWA based on standardised approaches may result in spurious comparison or complete disregard of the risk sensitive model-based RWA calculations.

While we appreciate that the templates' design is not finalised, we would like to stress our concern that any such proposal is likely to fall short of the overall objective of comparability and simplicity, which we believe will compromise the effectiveness of the risk-based capital ratio as a measure of a bank's solvency.

Revisions arising from ongoing reforms to regulatory policy framework

With respect to several parts of the proposals, substantial regulatory changes are expected that would significantly affect the related disclosures, such as the proposed revisions to the standardised approach for credit risk, the proposed constraints on the use of internal model approaches, national implementation of TLAC, internal TLAC requirements and TLAC holdings restrictions. In addition, the transition to IFRS 9 will introduce further amendments to the data requirements for the Pillar 3 templates.

We therefore recommend that these should be left open for further consultation and refinement after the associated regulatory changes are finalised.

The consistency and comparative objectives would also be compromised if the templates were to be modified multiple times over a short period.

Consolidation of all existing and prospective disclosures

While we appreciate and support the move of having the complete set of regulatory disclosure requirements in a single Pillar 3 framework, we are mindful of the significant extra resource requirement to support voluminous concurrent disclosures. The time required to ensure consistency across such a broad range of detailed disclosures with the requisite level of assurance should not be under-estimated, while considering the benefits of consolidation.

Summary

We appreciate this opportunity to provide our comments on the consultative document and refer the Committee to the technical comments and specific recommendations made in the response of the Institute of International Finance to which we have contributed.

We would be pleased to discuss the contents of this letter, and related matters, with you or your representatives at your convenience.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Andy Halford', with a long horizontal line extending to the right.

ANDY HALFORD
GROUP CHIEF FINANCIAL OFFICER

Appendix – Specific Feedback

Use of standardised approaches to benchmark internally modelled capital requirements (Paragraph 1.2)

Our concerns

We do not believe that templates HYP1 & HYP2 meet the initial guiding principle of disclosures to be clear, useful and comparable considering that the hypothetical RWA calculated according to the standardised approach lacks the required level of risk sensitivity for evaluating the true level of risk of large sophisticated banks.

We are deeply concerned that the proposal will artificially enforce superficial comparability across peer banks leading to a false sense of comparability. Pillar 3 users may rely on the hypothetical RWA to compare and evaluate individual banks even if and when their risks are not fully comparable to those of their peer banks.

A further concern is that the proposal may prove to be counterproductive and in some instances may even confuse the readers. We appreciate the proposal requires banks to explain the main drivers of differences between the hypothetical RWA and modelled RWA, however, it would be unrealistic to assume that the difference can be sufficiently explained without presenting very granular level disclosures, which may require disclosing confidential and proprietary information. Furthermore, since both approaches are conceptually different the methodological differences would have to be explained, too, however, this would not add value as it would fail to explain the difference in risk-profile; even worse it would obfuscate the analysis.

Our proposals

We share the Committee's concerns on the need to improve the comparability and transparency of banks' RWA disclosures. Both the private and the public sectors are working on proposals to reduce unwarranted discrepancies across banks' RWAs while maintaining the principle of risk-based capital and we propose any change or new disclosure requirements should reflect that work, not a hypothetical regulatory capital approach.

Due consideration to industry comments on constraints on the use of internal model approaches in general and specifically its interaction with the standardised approach and capital floors should be given before finalising the design of templates HYP1 & HYP2.

If it is decided ultimately to retain the proposed design we strongly urge the Committee to provide:

- Guidelines on both qualitative and quantitative disclosure requirements to explain differences between the hypothetical and modelled RWAs and
- Sufficient lead time for implementation to develop systems that enable calculation of risk exposures with combinations of single variable factors while retaining remaining factors constant.

Composition of capital and of TLAC (Paragraph 3.1)

Concerns and proposals

We note the expectation that quantitative information is supplemented by qualitative narrative and in the context of a bank's resolution strategy, it should be noted that resolution regimes vary between countries. For example, in the EU resolution plans are owned by the resolution authorities and are subject to strict confidentiality requirements. The official sector, therefore, has a role to play in ensuring transparency to investors on how a resolution would take place; the proposed disclosures alone would not provide full clarity and allow a meaningful comparison of resolution strategies and resolution plans between banks.

Regarding table CCA, we are concerned that the requirement to update the table whenever the bank issues or repays a TLAC instrument and whenever there is a redemption, conversion, write-down or other material change in the nature of an instrument is onerous and would be a significant change to the current requirements for capital instruments. Semi-annual disclosure should be sufficient.

The stated purpose of templates TLAC 2 and 3 should be clarified. It is currently unclear how each of the rows in the templates (such as the requirement to split liabilities by residual maturity profile when the residual maturity is greater than one year) relates to the stated purpose, which is to provide creditors with information about ranking.

The stated purpose of template TLAC 2, which is to "provide creditors with information regarding their ranking in the liability structure of the material subgroup entity", is particularly confusing as internal TLAC will be issued to other group entities. Resolution should impact only the external creditors of the resolution entity, so we question the value of this level of disclosure for material subgroup entities.

Market risk (Paragraph 2.3)

Our concerns

Overall, the proposals in the consultation have our support other than table MR4 which needs thorough review.

We support a move to more transparency where it provides investors with clear and significant risk information. Our proposals under this category are labelled “RISK” and reflect a focus on presenting data relating to material risk, avoiding presenting too many numbers or unclear qualitative text.

We support globally comparable reporting, providing investors with a more consistent picture of how banks differ in their risk management practices, modelling and risk profile. Our proposals under this category are labelled “COMPARABILITY” and reflect the desire to provide clear, well thought-through and tested reporting requirements leaving interpretation by any individual bank to a minimum.

We support the avoidance of over-complication or technical obfuscation, so that investors can more easily see the risk picture. Our proposals under this category are labelled “SIMPLICITY” and reflect development in the direction of distilling the scope of reported information.

Finally, we would like to raise how the requirements relate to an earlier consultation¹, which formed part of the Trading Book working Group’s (TBG) development of the Fundamental Review of the Trading Book (FRTB), finalised in January 2016.

Our proposals

We present a series of small changes below (Table 1) for consideration related to the three themes above: RISK, COMPARABILITY and SIMPLICITY.

With respect to template MR4, we suggest that the requirements be piloted and developed prior to publication of the final text given that it is not clear how to disaggregate the various effects listed unambiguously.

A small number of technical details are also included in Table 1. These could perhaps be dealt with effectively by representatives of the TBG and are labelled “TBG review”.

¹ FRTB – second consultative document, October 2013 ref bcbs265.

Table 1

Table	Proposal	Theme / notes
MRA, p75	Change (A) (a) bullet 2 to require a list of desks excluded from table MR2 as well as the main risk types dealt with by these excluded desks. Require inclusion in table MR2 to be based on the following criterion: MR2 must include desks representing 10% or more of IMA based market risk RWA subject to a minimum of reporting 5 desks in total.	COMPARABILITY & RISK Avoid listing desks with immaterial contribution to IMA based capital. Provide an unambiguous standard for MR2 inclusion not open to bank specific interpretation.
	Omit (A) (a) bullet 6.	The standard approach capital is a portfolio based measure and does not require desk by desk validation (unlike IMA). The broad risk class is reported in MR1 so we could avoid duplication (SIMPLICITY, RISK).
MRB, p77	Omit (A) (b).	SIMPLICITY It might be better to keep disclosures regarding Pillar I and the ICAAP separate.
	Move (A) (f) to the section describing risk management practices MRA (A) (a) bullet 1	SIMPLICITY It might be better to group all risk management practices together.
	Drop the requirement to provide details of back testing and P&L attribution approach (A) (g) as this is too technical for the audience and unlikely to provide helpful information to investors. We feel that pass/fail is sufficient.	SIMPLICITY Avoid reporting overly technical detail. The necessary discussion of type I statistical error is unlikely to be informative for the intended audience.
	Edit (B) (a) (i) – DRC is based on VaR, not expected shortfall	TBG review.
	Edit (B) (a) (ii) a requirement to provide information about correlation calibration (rather than assumptions) would be a clearer instruction	COMPARABILITY
	Edit (B) (b) to require only whether the liquidity horizon for Equity exposures was reduced from one year. Validation of the soundness standard, we understand will fall under (B) (c).	COMPARABILITY Post FRTB, there are few modeling choices and most of paragraph 186 are minimum standards subject to internal validation and scrutiny by regulators as part of the model approval and monitoring processes.

Table	Proposal	Theme / notes
MRC, p78	Populate columns a-e with the mean liquidity adjusted, diversification constrained stressed expected shortfall on a standalone basis i.e. the risk metric that enters the IMA capital formula. Omit columns f&r. Simplify columns g-q to show whether a desk trades cash instruments, derivatives or both. We were surprised to see ABS and MBS listed as securitisations are required to be capitalised under the standard approach.	COMPARABILITY Remove bank discretion to interpret “main risk type”. SIMPLICITY Listing instruments is overly technical and detailed to assist most investors. TBG review
MR1, p76	We propose reporting capital charge broken down into the 11 sub-components, rather than extending to a more granular 32 part break down.	SIMPLICITY The break down into delta, vega and curvature is overly technical, not quite risk sensitive and we question how meaningful it would be for investors. “Curvature” is an FRTB specific regulatory term and does not recognise long gamma from hedging positions.
MR2, p79	As above we propose defining an unambiguous criterion for inclusion and further to require that desks be ordered by the sum of expected shortfall plus default risk charge. We propose that the IMA non-modellable risk factor capital charge be reported at portfolio level but broken down by asset class.	COMPARABILITY Ordering by a risk sensitive measure will indicate to investors which desks carry most risk in a way directly related to capital. The non-modellable risk factor charge is more a penalty charge than risk sensitive capital and this is why we propose omitting it from the ordering and reporting it at portfolio level only.
	Omit details of back testing exceptions and P&L attribution breaches. While regulators will receive very detailed reporting of ongoing regulatory IMA validation measures, we feel that pass/fail by desk (as implied by inclusion) is sufficient for the intended audience.	SIMPLICITY We feel this is overly technical and would obfuscate information regarding to what extent a bank’s model approach is fit-for-purpose where used. Currently a banded (RAG) outcome for back testing is reported at the top level – something similar at desk level would give more information to investors than current practice, but also be clear. To illustrate the point, for each desk, there are: - actual exceptions, 97.5% confidence level - hypo exceptions, 97.5% confidence level - actual exceptions, 99% confidence level - hypo exceptions, 99% confidence level and each confidence level has a different type I statistical error leading to different pass/fail boundaries. Taken together the statistics are more complicated still (Bonferroni correction); for this reason we propose a banded reporting scheme.
	Change the “Sum of all” row to represent portfolio quantities.	RISK The sum of standalone charges is not related to a risk metric

Table	Proposal	Theme / notes								
MR3, p81	Replace two columns with one “Risk measure used to compute market risk IMA capital”	SIMPLICITY Reporting risk metrics not used to compute capital is an over-complication of limited interest to investors.								
	A clarification: <i>Total Capital Charge</i> would be clearer expressed as “the higher of 10 a) and 10 b)” although what is written is mathematically the same.	COMPARABILITY A clarification								
MR4, p82	Change the frequency to be consistent with MR1, MR2 and MR3 i.e. semi-annual.	SIMPLICITY and COMPARABILITY								
	We feel that this disclosure needs to be thought through and tested before final text is published. We propose that an alternative be considered, namely a list of changes made during the reporting period with % change in total point-in-time RWA (no time averaging) at the time of the change. This approach is; • Well defined • Practical, and • Informative.	COMPARABILITY It is not clear how to disaggregate the various effects nor that it will always be possible. E.g. risk increases over the period and the model changes half way through. Denoting D1,D2 as the start/end dates of the period and M1,M2 as the two versions of the model suppose we have RWA as below: <table border="1"> <tr> <th>Model\Date</th><th>D1</th><th>D2</th></tr> <tr> <td>M1</td><td>100</td><td>130</td></tr> <tr> <td>M2</td><td>110</td><td>150</td></tr> </table> The situation could be reported as: • Risk +30, model +20 • Risk +40, model +10 Results for parallel/testing around the date of implementation would already be to hand and have been subject to detailed scrutiny as part of the testing process.	Model\Date	D1	D2	M1	100	130	M2	110
Model\Date	D1	D2								
M1	100	130								
M2	110	150								