FÉDÉRATION
BANCAIRE
FRANÇAISE

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FBF RESPONSE TO BCBS CONSULTATION PAPER ON VOLUNTARY DISCLOSURE OF SOVEREIGN EXPOSURES…

I- General comment

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorised as banks and doing business in France, i.e. more than 340 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 340,000 people in France and around the world and serve 48 million customers.

The FBF welcomes the opportunity to provide comments on BCBS consultative document 'Voluntary disclosure of sovereign exposures' issued on 14 November 2019 (d485).

Please find our main comments below.

II- Comments on the consultation

BCBS disclosure framework is aimed at enhancing the comparability of banks' disclosures. In December 2017, the Basel Committee on Banking Supervision published a discussion paper on the regulatory treatment of sovereign exposures. However, recognising that sovereign exposures entail multidimensional risks, and that sovereign exposures play an important role in the banking system, financial markets and the broader economy, the Committee has reached a consensus not to make any change to the regulatory treatment of sovereign exposures in December 2017.

In the absence of such consensus, the BCBS is now consulting on potential banks' disclosures that would only be mandatory subject to local supervisor's discretion. Although the FBF supports the Committee's objectives when it asserts the need for clear harmonised disclosures that are meaningful to users, consistent over time and comparable across banks, we believe the proposed initiative of 'voluntary disclosures' would fail to meet these objectives and would even prove misleading to users, who would have access to only a partial view of the bank-sovereign nexus.

- Considering the lack of global harmonisation regarding the regulatory treatment of sovereign exposures, starting with their definition/scope but also including notably the national discretions applied, the information disclosed in the proposed templates would not be comparable across jurisdictions[1], so that the clarity and the usefulness could be strongly questioned.

- The situation would eventually give rise a significant risk of misinterpretation when comparing bank individual situations, all the more since the templates proposed in the

[1] The heterogeneous treatment of sovereign exposure may also for example be related to the nature of central government guarantees to other sovereign / assimilated entities in the EU

consultation paper seem not consistent with BCBS final Pillar 3 disclosures standards[2] and hardly reconcilable (e.g. total exposure under STA and IRB approach vs. total exposure in the tables SOV 1 and SOV2)

- Such 'voluntary disclosures' go against the goal of consistent disclosures over time: the framework should be first finalised at global level before setting disclosure requirements that have many chances not to be stable over time.

- Finally, as some but not all jurisdictions would implement this voluntary disclosure requirement that raises level-playing field (cf. impact on financial markets, operational cost) and market fragmentation issues at international level. That would also mean that internationally active banks would have to set up different data collection and reporting rules according to subsidiaries' location, making the reporting requirements potentially overly complex to achieve BCBS objectives.

Why does the Committee want to set up disclosure requirements now, in the absence of an agreement at international level and why on a voluntary basis? If aimed at users, such disclosures are likely to be non-comparable and misleading, as explained above. If the BCBS objectives is to prepare a data gathering exercise for analysis at long term horizon, the information will be biased (with no possibility to adjust for harmonisation) and not available for some jurisdictions due to the voluntary feature of the requirement, so that we warn against any conclusion that may be drawn from it.

The bottom line is that these voluntary disclosures requirements appear to be a "half-baked" proposal.

Either the Committee considers that disclosure of sovereign exposures by banks is an important feature in ensuring proper understanding of risk exposures by market participants, and in this case this disclosure should not be left to the discretion of national authorities and should be mandatory for all jurisdictions. Needless to say, this would entail a rigorous work to ensure harmonization of definitions and scope of sovereign exposures to ensure comparability.

Or the importance of this disclosure is left to the appreciation of each jurisdiction, in which case the present BCBS initiative is pointless, and full discretion should be left to national authorities. It should be noted that in the case of the European Union, disclosure of sovereign exposures has been the norm for many years, with considerable data at granular level provided by the EBA in its semi-annual Transparency Exercise.

If the BCBS maintains its intent to publish 'a final version of the templates in a timely manner', we urge the Committee, for transparency, consistency and comparability reasons to either:

(i) Establish and publicly issue clear guidelines that should cover critical issues such as a homogeneous definition/scope of sovereign and harmonised metrics calculation in order to clarify, for banks but also for the users, the reporting standard to be used for the purpose of this voluntary exercise, or,
(ii) Align the templates on the existing disclosure practices, in particular the European one, to avoid any additional implementation costs for banks already subject to such requirements.

[2] Pillar 3 disclosure requirements - updated framework – December 11, 2018

Finally, we would like to draw the attention of the Committee on some elements that appear relevant to us in the perspective of specifying the reporting standards for any sovereign disclosures and we recommend the following adaptations:

- General comments on the 3 templates

    - As the 'classification into types of sovereign exposures used in the templates proposed' is aimed at being 'consistent' with the credit risk [and market risk] framework[s], we think it would be clearer to replace the terminology used, namely « banking book » / « trading book » by « credit risk » / « market risk »
    - The scope of exposures to be reported, with reference to the definition of 'sovereign', appears unclear and misleading. Therefore, we suggest relying on the following scope of 'sovereign third parties' which covers (i) central governments, state or regional governments, and local governments, including their administrative bodies and non-commercial undertakings but also (ii) counterparties/issuers with a 0% risk weight that are assimilated, thus including in particular some public companies and private companies held by these administrations that have a commercial activity, some social security funds, some international organisations and some multilateral development banks (MDBs).
    - Moreover, we question the relevance of the second template combining disclosure of exposures to MDBs and Non-Central Government Public Sector Entities (PSEs). The risk of those 2 categories is totally different and its aggregation makes no sense. Indeed, exposure to MDBs is very high quality (mostly AAA rated) based on strong and resilient financial structure relying on multiple sovereign shareholders. At the opposite, non-central government exposure is higher risk, given more limited financial flexibility and higher vulnerability to local shocks. We recommend that those 2 categories of public sector counterparts should be treated separately, with a proportionate materiality threshold.

- Additional comments on template SOV 1 by jurisdiction

    - To avoid a very burdensome IT implementation and reporting production, we think the exposures to be disclosed under Pillar 3 should be limited to direct exposures when it comes to the non-derivative ones (column a) as the treatment of partial or full guarantees and of financial collateral issued by sovereign entities would be very difficult in practice.
    - We believe there is no benefit for users and investors to have a specific line for each country 'of which denominated in domestic currency'; indeed this would lead to duplicate the lines and result in very heavy templates (an international bank has exposures with around 40-50 countries at minimum); in addition, the information on the currency is very burdensome to obtain; finally in practice, amounts of exposures with sovereigns and central banks in another currency than the domestic currency are not significant.
    - Finally, we also think that the requirement to disclose the sovereign exposure denominated in domestic currency, as expected in the draft template for each country where there is a 'material' exposure, should be removed, as the riskiness of the related exposure could easily be misinterpreted at consolidated level.
        - It would be unclear indeed as to whether the reported exposure is in a domestic or in a foreign currency for the actual booking entity, whereas

this currency may determine the capital treatment at legal entity level according to the jurisdiction considered (national discretion).

- Additional comments on template SOV 2 by currency

  - For the same reasons as those explained in template SOV1, we consider that the information presented in template SOV2 would be of low added value to disclosures users and suggest removing this table in order to limit the reporting burden, for simplicity reasons and to avoid any misinterpretation risk, or with appropriate materiality threshold.

- Additional comments on template SOV 3 entities by accounting classification breakdown

  - We consider it makes sense for debt instruments and loan and receivables to disclose both gross values and net values (balance sheet amount) as the netting and accountancy rules are not the same across jurisdictions (IFRS vs US GAAP)