

25 May 2018

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

Dear Sir / Madam

**Standard Chartered response to the Basel Committee's consultative document "Pillar 3 disclosure requirements – updated framework"**

Standard Chartered Bank (SCB) welcomes the opportunity to comment on Basel Committee's consultative document "Pillar 3 disclosure requirements – updated framework". In our letter, we provide responses to the Committee's request for feedback as set out within the Consultative Document.

We are supportive of the majority of the proposals, the desire for consistency and clarity of reporting and for greater transparency. However, we have some areas of concern. Some of the proposals could have unintended consequences in terms of expectations of market participants or may lead to confusion because they suggest comparability which does not, in fact, exist. Specifically:

- Disclosure of full standardised risk weighted assets against modelled RWA poses the risk that internal model based approaches would be disregarded, effectively reverting to a Basel I type approach. It is likely that market participants would use this information as the basis for assessing capital adequacy and, in consequence, expect higher capital levels.
- Credit valuation adjustments (CVA) disclosure includes certain items that are commercially sensitive as they would reveal banks' positioning in hedging instruments.
- Restricting the ability to signpost information with cross-references to separate documents would have a negative impact on the effectiveness and efficiency of the Pillar 3 disclosures.

We appreciate this opportunity to provide our comments on the consultative document and refer the Basel Committee to the technical comments and specific recommendations made in the joint associations' (GFMA, IIF, ISDA) and the UK Finance responses 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 black ink, appearing to read "Alan Quaintance".

**ALAN QUAINANCE**  
**HEAD OF TECHNICAL ACCOUNTING POLICY**

**Standard Chartered Bank**

Group Finance  
1 Basinghall Avenue  
Address 2  
London EC2V 5DD

Tel : +44 (0)207 885 5111

sc.com

Incorporated in England with limited liability by Royal Charter 1853 Reference Number ZC18  
The Principal Office of the Company is situated in England at 1 Basinghall Avenue, London EC2V 5DD.

## **Question 1: What are respondents' views on the proposed disclosure requirements set out within the Consultative Document?**

### **Standardised approach RWA to benchmark internally modelled capital requirements**

We understand the value to supervisors of having the ability to compare and contrast standardised vs. modelled outcomes. We do not, however, believe that this has the same value to market participants who are less able to judge the accuracy and effectiveness of each firm's modelling processes. We are concerned that, in practice, those standardised numbers would become the benchmark used by market participants in assessing adequacy of capital which is, of course, what the committee has spent a long time seeking to avoid.

We therefore recommend that, at least for an interim period (say 3-5 years), such data is not routinely disclosed publicly but is made available to supervisors. After that period supervisors will be better able to judge whether such information is useful to the market.

We are concerned that requiring banks to disclose their risk-weighted capital ratios including the capital floor will lead to the market using this figure as the basis for assessing capital adequacy and judging alternative capital levels across all banks. There is a high risk that market participants would disregard the internal model approaches, effectively reverting to a Basel I type approach, and expect higher capital levels. This would compromise the alignment of regulatory capital and risk management practices if the importance of models were reduced.

Granular templates comparing RWA calculated under the standardised approach with RWA computed under internally modelled based approaches such as BEN2 may adversely affect the benefits of the Pillar 3 disclosures in terms of promoting market discipline through provision of meaningful information. The information contained in more complex templates, e.g. template CR9 the IRB – Backtesting of probability of default (PD) per portfolio, is more meaningful than the information provided in BEN1 and BEN2, but Pillar 3 users may incorrectly believe that BEN1 and BEN2 gives them a summary of that complexity that can be used to compare banks. This may undermine the overall benefits of Pillar 3 disclosures.

The proposed template BEN1 breaks out RWA by risk types including market risk. We note that as far as market risk is concerned, there is a dependency on the finalisation of the Fundamental Review of the Trading Book to report standard rules market risk RWA for positions capitalised under IMA. The implementation of FRTB is planned to align with the Pillar 3 proposals. However, if for any reason FRTB is not implemented by January 2022 then it would be very difficult to report the current standard rules RWA for positions capitalised under IMA. The Pillar 3 BEN1 proposal should therefore recognise this timing dependency on implementation of FRTB.

### **Credit valuation adjustment (CVA)**

Volume and granularity of disclosures relating to CVA as proposed in the consultative document is significantly higher than in the existing disclosure standard.

The disclosure of the aggregate positions in index swap hedges as required in template CVA2 would reveal a bank's positioning in the CVA book and is therefore commercially sensitive. We recommend avoiding direct disclosure for index swap hedges and instead include in the template only the total BA-CVA based charge, or otherwise only the charge components relating to the unhedged (K\_reduced) and hedged (K\_hedged) spread risk components.

Template CVA3 requires a breakdown of capital charges based on counterparties with liquid CDS spreads and those without. This goes beyond the requirements in the recent QIS and does not have an impact on the overall capital. We suggest leaving this for the qualitative description. Much of this will depend on footprint, modelling choices and data sourcing, and will not enhance comparability across banks.

Most banks have part of their book on the basic approach to CVA (BA-CVA) and the standardised approach (SA-CVA). There will therefore be a requirement to include both CVA2 and CVA3 templates. However, the underlying reasons that drive the use of BA-CVA and SA-CVA differ across banks which may undermine the comparability of the disclosed information.

## **General considerations and presentation - signposting**

We recommend removing the last criteria for signposting in section 5.2.3, “the national supervisor responsible for ensuring the implementation of the Basel standards is subject to legal constraints in its ability to require the reporting of duplicative information”.

There is a risk that this requirement, as it is currently stated, would remove the ability to signpost altogether for the majority of banks adversely affecting effectiveness and efficiency of disclosures. Producing duplicative information will lead to additional costs for banks while not being beneficial in terms of promoting market discipline through transparency.

## **Operational Risk**

We question the proposed detailed disclosures of aggregate historic operational losses incurred over the past 10 years and would consider disclosure of 10-year average figure to be sufficient.

Granular information on loss data may not be comparable among banks and can be misleading for users of the Pillar 3 disclosures as definitions of loss (including the national discretions on the threshold), the effectiveness of loss data collection process, and the accounting standards vary across banks.

Moreover, banks may be prevented from disclosure of narrative information on large losses and new loss exclusions for legal and confidentiality reasons. It can take several years to conclude events of large operational risk losses. During the workout period banks are legally prevented from sharing any details publicly. Confidentiality issues also arise if new loss exclusions are due to strategic divestments or exits from certain businesses or countries that are not yet public information.

## **Capital Distribution Constraints (CDC)**

As the Basel Committee has already pointed out in the consultation, Pillar 2 capital information tends to be sensitive to national supervisors and requiring disclosure of information that is deemed sensitive by most national supervisors may interfere with national supervisory approaches.

Information about Pillar 2 capital requirements is not comparable as Pillar 2 approaches vary across jurisdictions. Disclosing non-comparable information is likely to be misleading and would not be beneficial in terms of contributing to promoting market discipline.

The template is mandatory for banks only when required by national supervisors. This is ambiguous. It can mean that national supervisors should as a matter of policy mandate the template but can effectively waive for impacted banks on a case by case basis or that each national supervisor can decide whether to implement the template for all banks or not. Both interpretations would undermine the comparability of disclosures.

Furthermore, the column headings of the template, as they are currently presented, are ambiguous. We recommend changing the wording from “CET1 capital ratio/leverage ratio that would trigger capital distribution constraints” to “Ratios that would trigger CDC (%)” and from “Current CET1 capital ratio/leverage ratio” to “Current ratios (%)”.

## **Credit Risk**

The newly proposed Table CRB-A partly overlaps with existing tables such as CR1 and CRB. For instance, gross carrying value of total performing and non-performing exposures, broken down first by debt securities, loans and off-balance sheet exposures are already required in CR1 as well as in CRB-A, potentially giving rise to duplications in disclosures.

## **Overview of risk management, key prudential metrics and RWA**

Template OV1 item 23, Capital charge for switch between trading book and banking book, is aligned with FRTB. As above, the Pillar 3 OV1 item 23 proposal should therefore recognise this timing dependency on implementation of FRTB.

**Question 2: What are respondents' views on the advantages and disadvantages of expanding the scope of application of Template CC1 to resolution groups, relative to retaining its current scope of application to the consolidated group?**

We note that implementation of FSB and BCBS TLAC standards in numerous jurisdictions is still ongoing. As long as uncertainty around the national frameworks and requirements remains, it will be difficult to harmonise disclosure requirements.

Template CC1 requires disclosure at resolution entity level. This may be misleading and confusing for users, as local minimum capital requirements may not apply at this level.