Comments
on BCBS Pillar 3 disclosure requirements – updated framework

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The German Banking Industry Committee is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent more than 1,700 banks.
We appreciate this opportunity to comment on the above-mentioned Consultative Document. Our comments are provided in the following.

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

**General comments**

In principle, we welcome the Basel Committee’s initiative to revise the Pillar 3 disclosure requirements and thereby improve the provision of meaningful information for users of Pillar 3 reports.

At the same time, however, we note that the **scope of information to be disclosed** is growing steadily and significantly. As a general principle, we welcome the move to standardise the required information. However – especially in light of the differences between the users of reports issued by listed and unlisted institutions – the level of detail is too high in many cases. We have serious concerns that the sheer abundance of information might overwhelm users, rather than helping them to obtain a better understanding of the risk exposures faced by individual institutions.

We can see at the present time that the supervisors are seeking on the one hand to reduce the burden on the banking industry, but that on the other, the Pillar 3 requirements are calling for ever more extensive and more complex disclosures that are not offset by the proportionality approaches (currently under consideration). As a general principle, the Basel Committee should examine whether the scope of the Pillar 3 disclosure requirements is still appropriate. At many institutions, the size of the Pillar 3 report is now almost as large as the annual financial statements and management report.

It is our impression that the proposed requirements largely reflect the requirements imposed on large listed institutions, a view that is also underpinned by the statement regarding the scope of application in section 5.1.1. However, many of the amendments also **affect small and medium-sized institutions** that are not listed. Our experience to date has shown that interest in Pillar 3 reports of these institutions is extremely low. This is shown clearly by the small number of Pillar 3 reports downloaded from the internet as well as by the small number of queries received and by feedback from clients and investors. Nor do the banking supervisors need the data to be disclosed because they already have more comprehensive and more timely access to the institutions’ Pillar 1 data through the supervisory reporting. In addition, we are unclear in the case of many disclosure requirements as to how they are expected to or can achieve the stated objectives of improving market discipline and decision-usefulness for market participants. At least for small and medium-sized institutions, the package of requirements should therefore only stipulate mandatory disclosure for information that is highly relevant for the majority of the users (business and retail clients). If this does not happen, those institutions will suffer a considerable additional burden (in terms of both capacity and cost) without any discernible additional benefit.

The objective of the Pillar 3 disclosure requirements is to promote **market discipline**. It is our understanding that they were developed not to satisfy information requirements expressed solely by a relatively small number of report readers. The Pillar 3 reports should provide information for a broad group of users, in particular market participants and lenders. They are largely addressed to persons who require a lucid overview of institution-specific disclosures that are reduced to the essentials. At present, institutions are only infrequently asked directly by analysts such as rating agencies to provide complex, granular disclosures. The active participation – compared with other users of the reports – of the rating agencies in the consultation including public hearing should not result in a detailed and comprehensive disclosure requirement that unduly burdens a large number of institutions without actually being needed.
by a broad group of users, and without bringing additional benefits in terms of market discipline and 
transparency. The goal of transparency should not be achieved by expanding the scope of the reports 
and increasing the level of detail, but rather through the relevance and clarity of the required disclosures. 
In this respect we wish to propose a review of the international pillar 3 disclosure framework in the near 
term to establish the potential for streamlining it. Such a review should aim to identify the actual groups 
of users and their needs, depending if appropriate on the size and complexity of the reporting credit 
institutions, as well as ensuring feedback from various groups of users.

To avoid information overload for the users, the principle of materiality should apply to the very 
comprehensive information requirements being proposed in all the templates. Only information that is 
actually necessary for an understanding by the users should have to be disclosed.

Equally, the principles of relevance and materiality, as well as the non-disclosure of information 
that is sensitive for competitive reasons, are not adequately reflected in the package of 
requirements. We are therefore asking the Basel Committee to relax the rigid requirements at least by 
clarifying the general principle that fields in a template or table need only be populated if the information 
is deemed to be relevant and material. We would like to draw attention to the fact that equivalent 
concepts are already applied in financial reporting and banking supervision disclosures. For example the 
European Banking Authority (EBA) has issued corresponding guidelines on materiality and the protection 
of proprietary and confidential information. We are therefore urging a close exchange of information 
between the regulators in this respect so as to ensure conceptual consistency.

In addition, the requirements cannot be implemented within a short period of time. In particular, for 
example, the use of fixed template formats means that IT systems will have to be modified at 
considerable effort to allow the necessary information to be captured. In turn, the institutions can only 
start their implementation projects once the final rules are known. In Europe, for example, these will 
have to be transposed into EU law before that can happen. In particular, it will be extremely difficult to 
implement the new disclosure requirements for problem assets (Template CRB-A) and asset 
encumbrance (Template ENC), which are not based on the Basel IV package, by the initial disclosure date 
at the end of 2019.

We believe that the frequency of disclosure is too high. Much of the information will only change 
insignificantly, so considerations of relevance mean that more frequent reporting than an annual cycle 
does not appear to make sense.

In addition, the requirement to simultaneously publish the financial and Pillar 3 reports appears 
to us to be an inappropriate imposition. As a rule, the same group of persons at the institutions is 
involved in preparing both reports, and the current requirements mean that they are already labouring 
under considerable time pressure. The cost of maintaining an additional qualified human resource 
capacity over the whole year that will only actually be needed in the preparation phases for the peak 
annual reporting load would be disproportionate to any benefits. Moreover, the Pillar 3 reports are based 
at many points on the final financial data, some of which is only available when the financial reports have 
been completed. In this respect, we believe that it is necessary to allow a minimum publication period for 
Pillar 3 reports of at least four weeks (at least for non-G-SIIs).

The list of formats and frequencies for the disclosure requirements (BCBS 432, page 14f.) consistently 
gives 1 January 2022 as the implementation date for Phase III. For banks with a different financial 
year (e.g. 31 March), the requirements would already have to be applied for the first time as at 31 March 
2022, meaning that the implementation period is extremely short. We believe that the requirements
related to the implementation date must be worded in such a way that institutions should not suffer any disadvantages with regard to the implementation period merely because they have a different financial year. We therefore urge modifying the wording to read “year-end 2022 financial report” or “end-2022”. This would mirror the implementation date required in BCBS 309 “Revised Pillar 3 Disclosure Requirements” (January 2015).

In conclusion, we wish to note that the consultation period collides with the preparation of the current annual Pillar 3 reports at the institutions and that the timing is therefore unfortunate.

**Comments on tables and templates**

**Part 3 – Operational risk**

We believe that the granularity of the requirements in Template OR1 is unjustified; it is disproportionately high compared with the other requirements and the proposed thresholds are far too low. Additionally, we presume that in particular incurred losses generally fall within the scope of confidential information, so banks would probably not be in a position to comply with the requirement to classify and explain (not defined) large losses for reasons of confidentiality.

General section 5.1.2 contains the principle of “retrospective disclosure” with the option to omit disclosures for previous periods when the new requirements are applied for the first time. For Template OR1, this option generally does not apply (with the exception of transitional arrangements permitted by the national supervisor). We believe that this exclusion is inappropriate and that disclosure of historical data for the period before the new standard takes effect or is published cannot be implemented. The data repositories could only be developed once the final disclosure requirements become known, such that the disclosures would start with the initial implementation date and would then be augmented by a year each year until the desired comparative scope has been reached. We believe that the number of previous periods to be disclosed is too high; in our view, disclosure of the average data would be sufficient. We also have general doubt about the need to disclose historical losses.

**Part 6 – Benchmarking**

The compromises reached to finalise Basel III and the corresponding output floor provide for phasing-in by 2027. Based on the disclosure requirements proposed by the Basel Committee in the Consultative Document, we believe there is a risk that the expectations of market participants would considerably shorten this phasing-in period. Using the Pillar 3 disclosure data, the difference between the modelled RWA and the final 72.5% floor could be identified for each individual asset class. The phasing-in for the own funds requirements in the first Basel III package showed clearly that, regardless of the transitional arrangements applicable at the relevant date, the market already anticipates the future requirement in advance once it knows the differences from the final target. In our experience, it can therefore be presumed that the proposed benchmarking disclosure would result in the own funds effect of the higher final floor being brought forward. We therefore oppose this disclosure requirement in its entirety.

In addition, as a matter of principle we take a critical view of the direct comparison of the results of internal models with prudential standardised approaches. Internal model approaches are considerably more risk-sensitive than prudential standardised approaches, which logically leads to differences. On the contrary, direct comparisons generally suggest that the prudential figure is the more accurate one, especially if the internal model results lead to lower RWA. The focus on the figures of the standardised approach that is evident in both the templates could result in readers of the Pillar 3 report regarding those figures as more relevant and more significant. As a consequence, we are concerned that the internal models will lose value for the institutions and might be abandoned one by one. We take a critical
view of such a development because we believe that internal models produce a better estimate of risk, and that risks might be underestimated in future if internal models were to be abandoned. In addition, the floor was designed as a cross-risk benchmark. The single comparison of risks makes a mockery of this concept and will very likely lead to incorrect conclusions by the market. We are therefore in favour of deleting this proposal.

Part 8 – Asset encumbrance

The new template ENC for Asset encumbrance requires period-end values to be disclosed. By contrast, Commission Delegated Regulation (EU) 2017/2295 requires European institutions to disclose median values of encumbered and unencumbered assets. We believe that the resulting inconsistency in the requirements should be removed. The need to maintain parallel data for different requirements would most likely lead to the disclosure of both values, which would reduce transparency and confuse the report users.

Additionally, we regard a mandatory requirement of the annual disclosure as sufficient.

Stipulating a fixed format could result in a requirement to disclose nil returns by institutions that do not have any encumbered assets. The institutions should continue to be offered an explicit option to comply with their disclosure obligation by means of a reference to the existence of exclusively unencumbered assets.

Part 9 – Capital distribution constraints

The Basel Committee is proposing to disclose the capital ratio that would result in restrictions on capital distributions being imposed by the national supervisors. This is designed to give users of Pillar 3 data more meaningful information about the risks of coupon cancellation for capital instruments. It is argued that this would enhance price discovery and market stability. This requirement would mean that institutions would have to disclose not only their compliance with the Pillar 1 capital requirement, but also with the Pillar 2 requirements (P2R). This information is extremely sensitive and there are good reasons why it is not currently published. The Basel Committee is aware of the sensitive nature of this issue, which is why the requirement to disclose the information would be at the discretion of the national supervisors. We take a critical view of the new proposed disclosure and therefore oppose it in its entirety.

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?

No comment.