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Basel Committee on Banking Supervision
Bank for International Settlements
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**Re: IIF-ISDA-GFMA Comments on Consultative Document: Standards - Review of the
Pillar 3 disclosure requirements**

Dear Messrs.,

The Associations (the Institute of International Finance (IIF), the Global Financial Markets Association (GFMA), and the International Swaps and Derivatives Association (ISDA)) and their member institutions very much welcome the opportunity to respond to the Basel Committee's consultation on standards for the future Pillar 3 disclosure regime. The Committee has set out an ambitious two-phase program, entailing a major reconfiguration and consolidation of Pillar 3 requirements. The Associations value the engagement of the Committee with the industry and users to build a framework that will enhance and give greater long-term credibility to these disclosures.

Given the broad scope of the consultation, the Associations' response is structured in five parts:

- This letter, which introduces at high level certain important points;
- Appendix I, which elaborates on the main issues across the proposals;
- Appendix II, which addresses the detail of individual templates;

- Appendix III, offering industry’s thoughts on the second phase of the Committee’s program; and
- Appendix IV, observations on comparison of these proposals with EDTF recommendations.¹

In addition, it should be taken into account that the IIF is preparing detailed comments on and proposals to the Committee for the reduction of disparities and improvement of credibility of internal models and Risk Weighted Assets (RWAs). That work is ongoing and may imply subsequent modifications of disclosures regarding RWAs (as of course may the Committee’s work in that area). Comments given here should be considered subject to such further proposals from the RWA review process.

The Associations appreciate that the Committee wishes to implement certain requirements of the first phase with all reasonable speed, in order to progress through the second phase without undue delay. The industry shares the objective of removing the uncertainties and deficiencies of the existing Pillar 3, but also strongly believes it is well worth investing the time in further collaborative discussion between the major stakeholders, in order to reach the best outcome for both users and producers of banks’ disclosures overall. Placing the usefulness of disclosure at the forefront, the Associations hope the Committee found helpful the Basel roundtable on 19 September, and that the Working Group on Disclosure will continue its outreach efforts as it has done since last year.

To this end, when considering the merits and suitability for Pillar 3 purposes of the twin “models” of periodic financial statement and related information disclosures to the market on the one hand, and frequent, detailed bilateral supervisory reporting on the other, aspects of the Committee’s proposals need to be reconsidered to achieve optimal prudential disclosures to the market. While the market clearly favors comparability, it does not wish to receive voluminous prudential information at quarterly frequency, because detailed information at such frequency is not generally useful.

Greater flexibility is also needed in order to develop a coherent, manageable and efficient overall package of disclosures that takes all sources of disclosure requirements into account, accommodating external developments such as those arising from the work of other standard-setters.

The Associations welcome the Committee’s consideration of the EDTF’s work and recommendations in framing its proposals. The Associations strongly recommend, in the follow-through to this consultation, building on that model of open user-producer collaboration and synergy through the Committee’s sponsorship of workshops with users and the industry to refine its proposals.

The Associations’ principal points are as follows:

Usefulness to the market

The proposals represent a significant expansion of Pillar 3 disclosures. While the industry shares the view that more and better-structured information may be needed to solve the problem of lack of confidence in RWAs, some of the information called for, particularly in combination with the frequencies proposed, appears to some to be driven more by a desire to align with a supervisory reporting view, which is perhaps a misreading of the needs and interests articulated by the market overall. While it is understood that it is not the intent of the Committee, there is a sense that greater user focus is still needed and would help achieve the goals of Pillar 3. Whilst to implement the current version would require significant investment by banks, it is unclear that the result in many instances would be what users need.

¹ The Enhanced Disclosure Taskforce (EDTF), *Enhancing the Risk Disclosures of Banks: Report of the Enhanced Disclosure Task Force* (hereafter “**EDTF Report**”), October 2012, available at: http://www.financialstabilityboard.org/publications/r_121029.pdf.

In addition, the largely prescriptive format leaves relatively little true flexibility for banks to present information and changes in the context of their distinctive business models and risks. There is an evident risk, in standardized formats, of spurious comparability.

Frequency of reporting; materiality

The proposed quarterly frequency of several of the templates would lead to a significant level of redundancy of information, and therefore tend to cloud a user's ability to identify important interim changes and obscure a comprehensive view of an institution's risk profile, while also unnecessarily exacerbating the implementation and ongoing costs of certain of the proposals. In many cases, disclosures would be required quarterly related to information that generally would not be expected to change dramatically from quarter to quarter. Furthermore, as a broad generalization, information other than regarding basic capital and leverage information (already provided in many cases) is likely not to be of great interest on a quarterly basis.

The Associations recommend that these prudential disclosures should adhere to the same principle as financial reporting requirements, requiring quarterly updates only where material change or new developments have occurred.

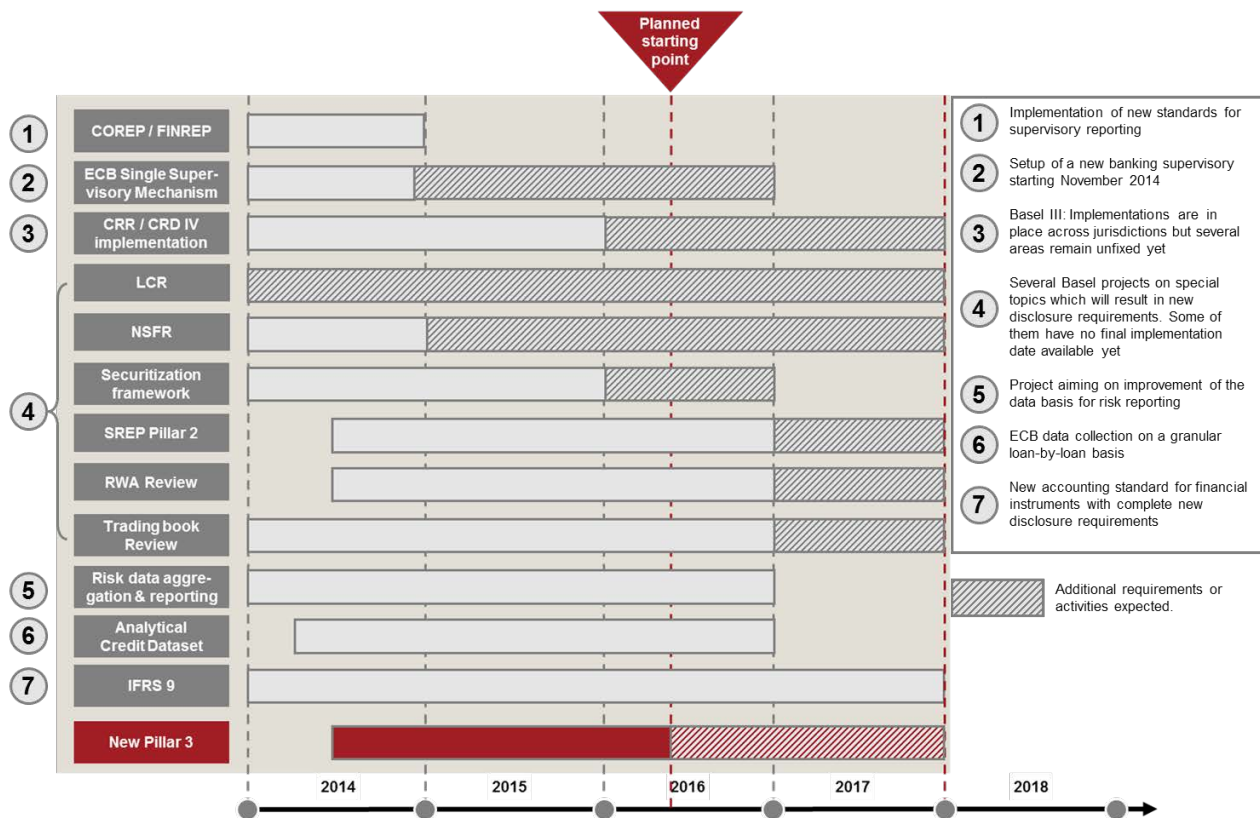
Appropriate sizing of interim reporting is part of the broader point that the materiality principle, allowed at present for some of the qualitative information only, should apply to all Pillar 3 data and information.

To the extent quarterly reporting is retained, a more thorough cost-benefit analysis of each disclosure proposed to be disclosed quarterly (as proposed in Appendix I), with industry and user participation, needs to be undertaken.

Implementation timeline and concurrent reporting

Even if the industry's suggestions for moderating the frequency requirements and level of prescription of presentation of data were accepted, both the overall program timeline of the first phase and the detailed operational timeline of individual deliverables within it will pose substantial operational issues and great challenges for banks' capacity to effect the changes.

The diagram below summarizes some (not all) of the demands on international banks' resources:



Owing to the need for significant systems investment to achieve such disclosures, and to human resource and systems strains arising from other regulatory requirements, such as LCR and NSFR implementation, expanded supervisory reporting in many jurisdictions, risk-data aggregation and stress testing globally (see diagram), the proposed implementation date of 1 April 2016 is unrealistic and would constrain development of optimum outcomes.

The human-resource limitations are especially compelling as the expert knowledge of the same few regulatory and IT specialists are needed for all such projects. Many banks believe that the simplest solution would be to move the starting date for new Pillar 3 back to the annual accounts for 2018. If that is not acceptable, a phase-in schedule, as discussed in the detailed comments, is essential.

An April 2016 deadline provides insufficient time for the Committee to finalize the framework, allow for appropriate time for consultation process in national jurisdictions, for national regulators then to issue final rules, and for banks to implement the changes required in a controlled and tested manner.

It should be noted that banks are already making substantial disclosure improvements in response to the EDTF reports, accounting disclosure changes, and other regulatory requirements. Progress made is confirmed by users' evaluations in the most recent FSB/EDTF progress report.²

The Associations consider that it is important to highlight that each jurisdiction currently has varying regulatory disclosure requirements and hence the comments regarding difficulty or convenience of implementation are necessarily a summary of different points of views; different issues will arise for members, and have not been scheduled by jurisdiction.

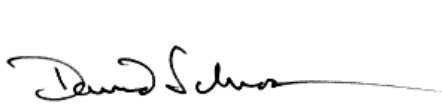
² See EDTF, *Progress Report on Implementation of Disclosure Recommendation*, September 2014, available at: http://www.financialstabilityboard.org/publications/r_140930a.htm.

At many points, **simultaneous publication with financial statements** is required. While this has been required for banks in certain jurisdictions, it is not universally the case. For those banks that have not been required to do this, the transition would be yet another challenge to systems and procedures, and they question whether such costs are proportionate to the benefit, which is not obvious. More generally, all banks would face serious challenges. Operationally, though some banks achieve simultaneous publication of financial statements and Pillar 3 at year-ends, managing to meet the shorter interim reporting deadlines at Q1, H1 and Q3 in the full volumes envisioned would put a significant strain on operational resources and assurance procedures for many banks.

Significant further effort is required from stakeholders, collaboratively, to turn the proposal into a coherent package of information that genuinely serves the needs of the market, increasing transparency and market discipline.

We set out our principal concerns in more detail in the Appendices below.

Very truly yours,



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Appendix I

This Appendix develops some of the main issues the Associations wish to stress.

Complexity and Usefulness.

The Pillar 3 package is a major expansion of disclosure and should be subject to a carefully explained, detailed cost-benefit analysis. Members are concerned that, while the goal of improving the usefulness of Pillar 3 is important, the new Pillar 3 proposals in effect go too far: they require volumes of highly granular disclosures that would be of questionable value to users and be burdensome for banks to produce. In addition, at a time when the Committee has put some premium on simplification and clarity, the proposal adds new dimensions of complexity, some of which may operate at cross-purposes to the goal of making the Basel Accord and its effects more broadly understood.

The draft templates are sometimes unrelated to each other and need fuller consistency of definitions and concepts, and several areas need greater clarification; otherwise, banks would need to bridge between templates by way of lengthy narrative that would distract from the explanations of the banks' business models and risks.

While the Committee has solicited views from users directly, it is notable that many of the users with whom we have been in contact share the view that aspects of the proposal are excessively granular and voluminous and does not always correspond to users' needs in an obvious way. It is also notable that much of the proposed disclosure has not to the Associations' knowledge been requested independently by users, whether through the EDTF or otherwise. As numerous studies have pointed out, clear and sufficient but concise reporting is important to improving the overall quality and impact of what is reported.³

In particular, the Associations question the value of disclosure of pre-Credit Risk Mitigation (pre-CRM) RWAs as proposed. Such values are not required for supervisory reporting and do not directly generate capital requirements. To the extent that they are therefore not currently calculated, to produce the values would require significant systems investment and cost, and since they are also not used for any internal purpose by the banks they would add additional verification, quality control, and attestation complexities. We suggest that if the objective is to identify the sensitivity of capital requirements to the quality of CRM, there may be better ways to achieve this end.

Like the Committee, the Associations and the industry generally are concerned to make Pillar 3 more useful as a means of structuring market discipline than it has appeared to be in the past; however, the present proposal, in addition to needing clarifications in many cases, seems more likely to contribute to less-than-useful information overload than to efficient and effective disclosures that serve users' needs proportionately to their cost of preparation. There is serious concern that the current version would not make Pillar 3 a vital part of the overall disclosure program.

Place of Pillar 3 in Overall Disclosure Suite.

The goal of any changes to disclosure requirements should be to facilitate users' understanding across the entire suite of disclosures of the risk profile of banks, whatever requirements they are based on. While industry accepts that there is a need for greater standardization in banks' disclosures, firms should be

³ See, e.g., *Towards Clear & Concise Reporting*, U.K. Financial Reporting Council, Financial Reporting Lab, August, 2014.

allowed some degree of flexibility to arrange disclosures in ways that are coherent and make sense for their business models.

The industry appreciates the goals of minimizing overlap recognized at Paragraph 18 with other disclosure requirements and avoiding duplication. It is especially welcome that the need to avoid conflict with accounting requirements is recognized. However, as discussed at the September 19 meeting, more reliance on signposting pursuant to Paragraph 44 should be allowed and the downsides of separate prudential reporting should be recognized.

Banks agree that a separate Pillar 3 report per Paragraph 17 collecting prudential-regulation information in one place, compared to dispersion of prior Pillar 3 disclosures, can be very useful, insofar as the information can stand on its own. However, there is concern that the present conceptualization of the report is too rigid and that banks' flexibility in presentation of information in the context of their overall disclosure packages should be enhanced, subject to good sign-posting that will allow users to understand the whole picture, as discussed further below. An overly rigid Pillar 3 report runs the risk of running against, rather than in favor of, creation of a truly coherent and integrated disclosure package that will really benefit users. It might be useful to manage flexibility by allowing firms the option to provide guidance for users to help them navigate the overall disclosure package instead of specific linkages within each document. This would incorporate the "signposting" concept of the Pillar 3 proposal with respect to specific disclosure requirements by providing directions as to the use of the entire suite of disclosures.

While it is understood that the Committee has taken into account the EDTF's work and other bodies of disclosure requirements, it is not evident that consistency among disclosure requirements and coherence with other disclosures have been major priorities.⁴ More should be done to streamline reporting into a more concise and useful package. A high premium should be placed on avoiding duplication and inconsistency, especially with the EDTF but also with other bodies of disclosure.

Wherever in the new Pillar 3 it is concluded that information should be reported for Pillar 3 purposes in a different form or manner than in annual reports, disclosures required by prudential regulators, or other required documents, the Committee should explain the differences, as a guide to users and preparers alike.⁵

It is understood from the September 19 meeting that there may be some differences after finalization between Pillar 3 as published by the Committee and national prudential reporting that is required to be disclosed, in particular in the US. This should certainly be avoided and the effort should be made to adapt Pillar 3 to permit it to follow national requirements, especially where there is well established public reporting of information covered in these proposals.

Consideration should be given to using different terminology where Pillar 3 and accounting items are somewhat different. This would contribute to making the overall disclosure package more comprehensible.

The Associations urge the Committee to keep working with the accounting standard setters, national prudential regulators, the securities regulators, the FSB, and the EDTF to help achieve a fully integrated and efficient overall disclosure package that will work better for users and prepares than the current multiplicity of separately defined disclosure requirements. EDTF Recommendation 1 regarding integration and coherence of reporting is a good basis for such efforts.⁶ At the same time care needs to be

⁴ See discussion below of Appendix IV.

⁵ See *Paragraph 21, Paragraphs 44-45, Common comments on Parts 5, 6 and 7*, for examples.

⁶ See EDTF Report, Page 10. See also Principle 1 and 3 on Page 6 and 7 of the report.

taken to avoid expanding the scope of audit or changing banks' assurance responsibilities or increasing potential liabilities.

Quarterly Reporting.

Quarterly requirements should be reconsidered and, in line with financial reporting requirements, a principle should be stated of requiring quarterly updates only where material changes or new developments have occurred.

In other words, the materiality principle now stated for some of the qualitative information only should apply to all Pillar 3 information. In addition, consideration should be given to allowing more alignment with other periodic requirements. For example, information that is required semi-annually under local law should not be required quarterly for Pillar 3 purposes, unless a very compelling case can be made for specific items.

Voluminous quarterly reporting, especially of information that would not change a great deal from quarter to quarter, will not add much if at all to users' understanding and may instead undermine the purpose of interim disclosures, which is normally to provide timely updates of the most relevant information, rather than to update volumes of information routinely. The internal due process and quality checks required to support publication of any disclosure with the requisite assurance should not be overlooked, and these become very challenging given the short lead-times of quarterly disclosure, especially if a great deal of detail were to be required. Pillar 3 requirements need to take into account the implications of other requirements such as securities and other laws, listing requirements, and Sarbanes-Oxley attestations, among other things.

The volume of quarterly reporting requests may reflect a view that Pillar 3 could become an "early warning indicator", but the likely value of such reporting should not be overestimated. Risk is already included in continuous disclosure requirements, and banks are generally required to disclose major developments on an interim basis. Pillar 3 is essentially a statement of known current or historical information and thus, like financial statements, will always be a lagging indicator. Indeed, voluminous quarterly information on a routine basis is more likely to obscure than assist the market's taking notice of significant developments (which should be the focus of quarterly disclosure, as already stated).

Based on the above, each requirement for quarterly as opposed to annual reporting should be reexamined on a cost-benefit basis to determine whether it is truly necessary and, if so, whether full detail would be needed each quarter. Discussions of specific templates and tables below indicate where quarterly presentation would be especially problematic.

While qualitative discussion is often essential, it may not always be necessary for quarterly reporting. Therefore, the word "always" should be removed from Paragraph 47. Requiring it for quarterly reporting without allowing for judgment may result in unduly voluminous or repetitious disclosure statements that will do little other than add to information overload. It may also lead to overlapping statements with other disclosure requirements, such as discussions of significant changes or items, so cross-reference should always be an alternative, where narrative disclosure is judged necessary by the firm.

Flexibility of templates and tables; sign-posting.

Flexibility needs to be balanced with comparability; of course, but the proposed very granular version will often produce ostensibly comparable templates that are in fact hard to interpret or easily become misleading because of underlying business-model and jurisdictional differences that will skew very detailed presentations.

In the present draft, even the “flexible” information, although somewhat variable as to presentation, in fact is defined in Paragraph 43 and in the templates in effect as minima and so will tend to contribute to complexity of overall disclosures. The level of prescription required for “flexible” templates may add complexity to other disclosures or make it harder to use the flexibility option. As with other parts of the disclosure, this requirement should be understood to be subject to the materiality and relevance principles.

Although “sign-posting” is helpfully allowed by Paragraph 44, the stated requirements for it would be unnecessarily awkward to meet. The requirements include the name and number of the disclosure requirement; the document name in which the disclosure has been published; a web link where relevant; and the page and paragraph numbers of the separate document. These very-specific requirements will make it difficult to present disclosures in different contexts or embed them into text on broader topics located in different parts of, for example, the Annual Report as the specific referencing information would always be required. In addition to its rigidity, this approach seems at odds with rapidly evolving technology, which can provide various, increasingly flexible, ways to find and identify information.

Additionally, the requirement for fixed templates with restrictions on the use of sign-posting for flexible templates creates overlap and inconsistencies with established supervisory reporting (e.g. Template CR1), and more consideration needs to be given to how these proposals will interplay with national prudential reporting.

Rather than setting out the currently stated requirements, the mandate should be simply to provide a ready means of identifying the relevant information in the related document.

This approach would also be more in harmony with Paragraph 43, which states in principle that banks may present the information required by a flexible template or table in the format that best suits the bank.

As a related matter, the intent of Paragraph 47 on voluntary disclosures is unclear and unnecessary. Banks are already subject to strict legal standards on any disclosures they make and it is not evident that there is any need for additional mandatory requirements around voluntary disclosures, especially as the language of this paragraph, if taken as a mandatory standard, is very open-ended and subject to a range of interpretations that could actually make a bank hesitate to provide helpful information for want of certainty of the implications of doing so in light of this paragraph. This paragraph should be deleted and generally applicable legal principles to govern voluntary disclosures should be relied upon.

Effective Date and Implementation.

The generally applicable starting date of April 1, 2016 per Paragraph 8 is not realistic, given the significant systems investments and procedural changes that would be required to implement the changes, even if many of the suggestions made in these comments are accepted, and given the need for due time to be allowed for national consultation and finalization of requirements.

As the Committee will be aware from other discussions, with the industry working toward implementation of the Risk Data Aggregation and Risk Reporting requirements,⁷ with a highly challenging deadline of January 1, 2016 and new regulatory reporting requirements such as stress testing, resolution, COREP, and new proposals on the suite of US reports,⁸ there are many demands on banks for IT and data developments, which compete for scarce human and financial resources.

⁷ BCBS, *Principles for effective risk data aggregation and risk reporting*, January 2013, available at: <http://www.bis.org/publ/bcbs239.pdf>.

⁸ As an example, the Consolidated Financial Statements for Holding Companies (FR Y-9C), and Proposed Market Risk Regulatory Report for Institutions Subject to the Market Risk Capital Rule (FFIEC 102)).

The new information requirements, for example, gain/loss comparison of defaulted loans between reporting periods, and RWA comparison analysis, would require some banks to build new systems. Further examples of systems and data challenges are mentioned in the detailed discussions of specific parts of the proposal in Appendix II. However, in several instances, such as the above example, it would be necessary to develop systems that enable calculation of risk exposures with combinations of single variable factors while retaining remaining factors constant. Similarly, in several instances, the templates do not correspond to existing systems and would require inquiry of data feeds upstream, which implies additional cost and quality checking. Finally, reconciliation with the balance sheet or between the trading book and the banking book is inherently complex.

With respect to several parts of the proposals, noted in the comments below, substantial regulatory changes are expected that would significantly affect the related disclosures; such portions should preferably be left open for further consultation and refinement, and included in the second phase of Pillar 3. It would be a waste of resources to prepare for reporting of measures that will or are likely to become obsolete as a result of current work on the Fundamental Review of the Trading Book (this applies especially to Market Risk but also to the review of Counterparty Credit Risk (CCR) to eliminate Current Exposure Method (CEM), forthcoming work by the FSB on resolution of CCPs and FMIs). As noted above, both the industry and the Committee will make important proposals for revision of RWA-related procedures and disclosures. Furthermore, for IFRS banks, the transition to IFRS 9 already implies a complex systems and reporting adjustment that should be taken on board; concomitant with that adjustment on the preparers' side, users will require substantial education to understand the new IFRS 9 accounting for financial instruments. Orderly transition to the new disclosure regime should be planned on a coordinated basis.

Many banks feel that starting the new Pillar 3 with the annual reports for 2018 would be more realistic and manageable. If that should prove not to be acceptable to the Committee, however, a phasing-in schedule of new Pillar 3 disclosures should be identified, reflecting the data challenges of the new Pillar 3 (in its final form) and also taking into account the current work on proposals to reduce the discrepancies across banks' RWAs and the Fundamental Review of the Trading Book, allowing for prioritization, but also for recognition that certain disclosures are much more challenging. This approach would be consistent with the view articulated by the Committee at the September 19 meeting that Pillar 3 will become a living document subject to adjustment over time. If that is to be the case, then an ongoing program of phasing in changes with realistic lead times for changes will be all the more essential.

In any case, new Pillar 3 requirements should start with a bank's first full annual report after the effective date. A mid-year date (such as April 1) would compound the practical and assurance problems of starting a new body of disclosure.

Compilation and review timing.

Paragraph 22 requires banks to publish Pillar 3 reports concurrently with financial reporting where applicable. It would be more appropriate in a global standard to allow some time for compilation and review of Pillar 3 information after issuance of financial information in accordance with local norms, especially if the Committee ultimately decides to retain significant elements of the proposed quarterly information requirements. This window would allow firms time to ensure consistency of both qualitative and quantitative information across the disclosures, and to operate necessary controls. As far as banks can tell, there is little difference in impact on or interest of users between those countries where current Pillar 3 reports have been produced simultaneously and those where there is a delay.

To the extent the requirement is retained, it should be made clear which financial reporting should be referenced. For example, full alignment with quarterly reporting of a management statement of extract financial information, as under IAS 34, would be difficult from production and assurance perspectives

because of short time frames, where systems are not set up for such purpose in response to local requirements.

Materiality and Relevance.

Principles of materiality and relevance are generally missing in this proposal, although they are partially recognized by implication in Paragraph 37 (“disclosures should be meaningful to users”). Materiality is always important to control the volume of disclosure and avoid meaningless minor disclosures or publication of empty templates. The former version of Pillar 3 mentioned materiality as such.⁹ A principle of relevance of disclosures to the particular institution is important for similar reasons.

Requiring attention to both materiality and relevance would result in more useful and concise disclosures because such disclosures would more accurately reflect the risk characteristics of the institution. The concepts of materiality and relevance are under consideration by the accounting standard setters at this time, and have been the subject of considerable discussion in the context of the EDTF; thus there is a solid ground on which banks can base judgments about materiality and relevance and the Committee would not need to add incremental definitional commentary on those concepts if they were included in the proposals.

Adding principles of materiality and relevance would also support the easier integration of Pillar 3 into the overall suite of a bank’s disclosures, as other disclosures are subject to such principles. Such principles would also be coherent with Paragraph 35, which calls for information to allow users better to understand a bank’s risk appetite or tolerance, and similar principles enunciated by the EDTF.

It would be well for banks to be invited to remove information that is no longer meaningful or relevant, but Paragraph 37 seems to create an affirmative obligation to do so. Having the option to remove such disclosure when identified is important and helpful; however, an affirmative obligation to do so would in fact be quite burdensome as it would require a good deal of internal vetting and review, and would raise assurance issues. In addition, banks may decide to keep past information for comparison’s sake or because a given investor constituency is interested in it.

There is also a tension here between mandatory templates and the ability to remove disclosure that is no longer meaningful or relevant, specifically given that the current proposal does not include the concept of materiality and relevance. Mandatory fixed-format templates could lead to conflict over time, unless the Committee (or regulators) check the validity of the templates and make appropriate corrections (see Paragraph 27), or a broadly applicable principle of materiality is stated.

The commitment to ongoing review in Paragraph 27 is much appreciated and important in a fast-changing world; however attention should also be given on an ongoing basis to removal of requirements for information that is no longer relevant or meaningful (in other words, this review should be linked to Paragraph 37).

⁹ Basel Framework, Paragraph 817, Page 227.

“**E. Materiality 817.** A bank should decide which disclosures are relevant for it based on the materiality concept. Information would be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. This definition is consistent with International Accounting Standards and with many national accounting frameworks. The Committee recognizes the need for a qualitative judgment of whether, in light of the particular circumstances, a user of financial information would consider the item to be material (user test). The Committee is not setting specific thresholds for disclosure as these can be open to manipulation and are difficult to determine, and it believes that the user test is a useful benchmark for achieving sufficient disclosure.”

It should also take into account avoiding duplications and redundancies; thus the Committee should continually compare evolving requirements from other sources such as accounting Management Discussion and Analysis (or equivalent), or supervisory reporting. This is especially important as the IASB and US FASB are reviewing their disclosure requirements.

Possible Disclosure of Hypothetical Standardized Approach.

The reference in Paragraph 13 to possibly requiring banks on the IRB to disclose hypothetical capital requirements according to the standardized approach could present significant challenges and issues and would be confusing to readers.

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. Any changes should reflect that work, not a hypothetical capital approach. Care should be taken not to undermine the conceptual basis of the risk-based approach. Although the Committee obviously will continue thinking about this issue, the industry would like to put down a clear marker at this stage that any such proposal is likely to have adverse implications for the overall objective.

Confidential and Proprietary Information.

Paragraph 36 is much too vague on the protection of confidential and proprietary information. It appears to subject even the most obvious confidential and proprietary information to balancing with the needs of "other stakeholders", which raises a number of concerns.

As to confidential information, the industry obviously needs to respect legal and regulatory protections of confidentiality and privacy, not only of customer information but also of prudential and central-bank related information where required or generally understood to be confidential.

As to proprietary information, the protection of information of competitive significance is always important, all the more so when parts of the industry are still rebuilding profitability and capital positions. Rather than stating a vague balancing requirement as does Paragraph 36, the final Pillar 3 should provide on the one hand clear requirements, avoiding information that is likely to be proprietary or sensitive, and on the other state a robust principle for the protection of confidential and proprietary information. The EDTF provides a useful model, but there are many others in national regulations.¹⁰

A further concern that some of the required, highly granular information may be of use to bank and non-bank competitors. Banks should not be required to make disclosures that would undermine their competitive positions. The Committee surely recognizes this principle but it should be restated affirmatively.¹¹

Linkages.

Accounting values and regulatory Exposure At Default (EAD) do not easily match up as accounting values are generally on-balance sheet and there are numerous measuring differences, such as different treatment of collateral, netting, inclusion in regulatory EAD of measures of potential future exposure, and off-balance sheet items.

¹⁰ EDTF Report, Page 4. "... Banks will need to continue to comply with the relevant securities laws and reporting requirements applicable to their activities, and will also need to assess any relevant confidentiality and other jurisdictional legal issues." See also Principle 4 on Page 7 of the report.

¹¹ See BCBS, *Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version*, June 2006, Paragraph 819, available at: <http://www.bis.org/publ/bcbs128.pdf>.

We understand that explanation of the relationship of accounting data, regulatory EAD and risk data would be welcome to investors, but the proposal requires changes and clarifications in order to provide information that will really explain this relationship in an understandable manner. It would also present a challenge to implement as for many banks the information required for such reconciliation will come from various IT systems that are not generally linked up and reconciliation would therefore be heavily reliant on time consuming manual processes until an IT solution can be implemented.

See the detailed comments on the changes and clarifications needed on the templates themselves.

Definition of Exposure.

As discussed in the detailed comments below, the definition of “exposure” or “regulatory exposure” needs attention at several points. It would help users’ understanding and preparers’ procedures a great deal if there were a consistent and clearly explained definition of “regulatory exposure” applicable throughout the new Pillar 3. It is understood that the broader term “regulatory exposure” was preferred because certain national implementations of the Standardized approach may not use EAD explicitly. This makes it all the more essential to have a clear definition of what is meant by “regulatory exposure.”

Such definition should equate to EAD, which would be more congruent with the Pillar 1 ratios being explained, and clarity of the basic definition would require many fewer complex explanations than would the present approach.

Where exceptions arise as to the use of EAD for “regulatory exposures”, for example, regarding derivatives, it would be helpful to discuss them with the industry (and users) in advance and provide a clear explanation of what definition of “regulatory exposure” is intended.

In addition, further explanation of the differences between the Standardized and the Internal Ratings Based approaches may be necessary, for example to note that the former is post-provisions, while the latter is pre-provisions. Points regarding provisioning should of course be aligned with the Committee’s forthcoming Sound Credit Risk Assessment and Valuation for Loans guidance.

Pre-CRM RWAs.

As a general comment, the Associations recognize the value of presenting the impact of CRM; however, by requiring RWA information on portfolios as if they were fully unsecured and non-guaranteed, it in effect requires reporting on a hypothetical portfolio of unsecured exposures that banks would certainly not have taken on. Reporting RWAs on a hypothetical portfolio does not achieve the goal of improving transparency and would create significant operational burdens. Hypothetical RWAs does not reflect risk management.

For these reasons, the Associations recommend deferring any pre-CRM RWA computation to the RWA review project, and to reconsider its rationale during the second phase of the Pillar 3 project. Additionally, a cost-benefit analysis should be performed on this requirement given the considerable costs that would be required, for unclear benefit.

Credit Risk.

Among the many specific comments on the proposed Credit Risk proposals, it is important to stress certain overall, essentially conceptual points.

The scope of application of the templates should be clarified, as such, we recommend that each template clearly specify whether accounting or regulatory definitions and values are required.

The Associations furthermore observe that there are material differences in the implementation of the definition of regulatory default, which may impede full comparability between banks. Even within the constraints of the given Basel definition of default, these differences are legitimate, and are often driven by accounting and consumer protection laws. Efforts are being undertaken to reduce these differences by both regulators and the industry.

One of the key points is the “days past due” default threshold, which ranges from 60 to 180 days. These differences directly affect all risk parameters as well as the bank’s internal default and loss data and the “defaulted exposures” columns: the EAD, Probability of Default (PD) and Loss Given Default (LGD) models are constructed based on each bank’s implementation of a definition of default. Requesting information on a “90 days past due” basis in Template CR1 creates a reconciliation problem with the other templates containing information on a bank’s regulatory PD, LGD and EAD where the bank uses another definition of default. In order to avoid misalignment between the different templates, it would be preferable to require banks to report the default and risk parameter information based on their implementation of the regulatory definition of default mandated by their national regulations and to supplement this with narrative outlining the main characteristics of the definition of default in all relevant templates.

In addition to the ambiguities and problems with the definition(s) of exposure now used, the concept of “protections” as used in the current draft poses numerous problems. It would be difficult operationally and confusingly complex in terms of presentation to apply the current concept of “protections”, which lumps together legally and operationally distinct credit-risk mitigation devices.

To take the most obvious example, netting is legally, operationally, and conceptually quite distinct from guarantees and collateral in its various forms as applied to normal credit exposures, and the disclosures need to be sorted out as suggested in the detailed comments to be meaningful.

Conversely, for derivatives, netting and collateral are integrated in banks’ overall risk management and cannot be shown separately, so derivatives will require differentiated treatment.

Defining more appropriate types of disclosures for the different types of protection (including derivatives on a comprehensive basis) would both make the discussion more comprehensible and less challenging to produce.

Furthermore, the premise of the “protections” disclosures seems to equate coverage levels with good asset quality; however, this may be misleading as the credit of a higher-quality unsecured and unguaranteed obligor may be just as good as or better than a highly “protected” obligation. While it is important for investors to have a good, basic understanding of the nature of collateral or guarantees or netting or derivatives protection where they are material, there is a danger that inducing investors to focus on “protection” rather than credit quality overall could increase the cost of credit for end users if the net result is that banks are pushed to demand “protections” from creditworthy borrowers unnecessarily.

Counterparty Credit Risk.

The level of granularity in the templates, and proposed frequency of disclosure are inappropriate for counterparty credit risk given the generally slow changing nature of the reported items.

Importantly, a number of clarifications are requested in relation to disclosing internal capital limits, among other things, making clear use of the measure of exposure at default post-credit risk mitigation.

Securitization.

It is essential to determine the fundamental objective of Pillar 3 disclosure requirements regarding securitization. Therefore, rather than looking at securitization only as a product, it is important to separate out risks associated with banks' securitization activity from those where a bank acquires a third-party securitized instrument in a transaction not related to its own securitization activity. The Pillar 3 framework should focus on risks retained by a bank in its own securitization transactions, e.g. where effective risk transfer has been achieved, and on risks assumed by the bank as sponsor of an Asset-Backed Commercial paper (ABCP) conduit. These risks should be kept separate from risks acquired by the bank as an investor in third-party originated transactions. It is therefore important to stress that only securitizations that fall into the regulatory securitization framework should be considered under Part 7 of the Pillar 3 Disclosure.

Furthermore, there is at some points uncertainty about whether the "exposure" required under the templates in Part 7, as currently drafted, refers to underlying pool or retained positions. The Associations propose to make it clear that the goal of Pillar 3 framework is disclosure of exposure to retained or acquired positions (not assets in the underlying pool) in transactions where effective risk transfer of the underlying assets has been achieved.

Finally, clear guidance is necessary not only regarding terminology (e.g. exposure to the underlying pool vs. securitization position), but also in relation to template names, purpose statements, column headers, and associated definitions. For these reasons, we propose for the Committee's consideration alternative proposals of the Templates SEC1 to SEC6 (Please see *Exhibit 5*).

Market Risk.

It is important to highlight that the market risk framework is currently being revisited as part of the Fundamental Review of the Trading Book (FRTB), with significant policy and methodological changes being considered. Given that the review is expected to be finalized in 2015, the Associations advocate that FRTB should be fully integrated in the phasing-in of the Pillar 3 requirements. Therefore templates that request details or other information with regard to current methodologies that are expected to be phased out (such as the current regulatory VaR metric) should be amended accordingly.

The Associations also note that an industry paper on market risk RWA variance is forthcoming and will elaborate on the Committee's Regulatory Consistency Assessment Program (RCAP) report identifying the modelling assumptions that significantly drive the variability of the RWA results. The findings should be utilized to tailor the Market Risk Pillar 3 templates to achieve a balance between informational value to the user and operational burden to firms.

Appendix II

This Appendix offers detailed comments on the proposed templates and tables.¹²

Scope

Although the consultation document does not explicitly address the question, the Associations assume that the intended scope will remain in accordance with Paragraph 822 of the Basel II text, which generally provides for disclosure at the top consolidated level of each banking group, subject to limited exceptions. It may, however, be helpful to confirm this point.

Part 3: Overview of Risk Management and RWA

See the comments in Appendix I above, especially concerning the definition of “exposure”.

Table OVA: Bank risk management approach.

It is not clear why qualitative disclosures should be laid out in the form of tables. While the table is stated to be flexible, it would make sense to dispense with the table (which, given the specific definition of “flexible” for purposes of the proposal would introduce some rigidity) and simply specify qualitative text requirements. The same would be appropriate for other descriptions of risk management.

Table OV1: overview of RWA.

The floor adjustment seems appropriate given overall disclosure goals. It is noted that this adjustment is apparently optional, allowing a bank to make it if it wishes, per the definition. Clarity is needed on application in some jurisdictions. In the US for example, the implementation of the Collins Amendment of the Dodd-Frank Wall Street Reform and Consumer Protection Act, requires a comparison of the “Standardized” approach to the Basel 3 “Advanced” approach which is the focus for Pillar 3 disclosures. As the Collins Amendment is not literally the same as the adjustments outlined in Paragraphs 45 – 49 of the Basel framework, per the definition of “floor adjustment”, the language should be clarified to make clear that this does not apply to the US Collin Amendment. There will in any event be separate, detailed, public reporting of the Standardized approach under US regulatory reports.

To avoid ambiguity, it should be confirmed that the 1.06 scalar and other elements of conservatism added by Basel II/III should be applied as in the underlying Pillar 1 calculation to all relevant RWAs throughout Pillar 3.

While it is assumed that the Basel II/III scaling factor (1.06) should be taken as applied in the Basel calculation and that there would be no requirement to break out that or other imposed factors of conservatism, it should be noted that banks may wish to make a narrative statement about the multipliers and other elements of added conservatism in Basel II/III that reflect prudential adjustments of the actual underlying risk.

It is important that the disclosures in this template be aligned with supervisory and other reports to avoid the disclosure of information with inconsistencies that could be confusing.

¹² Column and row labels stated in this Appendix excluding *Exhibits* refer to those of the templates and tables proposed by the Committee in its consultation document.

The required conversion of RWAs to minimum capital requirements at 8% is unnecessary as this amount is arbitrary in the new capital framework, and could confuse users as it may conflict with information expressed as capital requirements elsewhere in banks' disclosures including the various floors applicable.

Part 4: Linkages Between Financial Statements and Prudential Exposures

Members are supportive of the overall concept of providing users with more information about the relationship of financial and prudential information. There are already many incentives to produce linkages between financial statements and prudential exposures; for instance, elements of linkage are already recommended by the EDTF¹³ and the UK PRA also requests disclosure of a linkage between accounting balance sheet and credit risk EAD. It is to be recognized that the EDTF recommendation on market risk linkage is, however, one of the most challenging recommendations of the EDTF; therefore, the difficulty of producing such linkages should not be underestimated.

Banks already disclose information about the linkage between accounting and regulatory capital, as well as the reconciliation between the accounting and the prudential scope of consolidation of their balance sheets (columns (a) and (b) of Template LI1). The proposed Pillar 3 framework goes beyond this granularity by requiring for Template LI1 the breakdown of the balance sheet¹⁴ by regulatory risk categories and for Template LI2 a reconciliation between those accounting figures and the corresponding regulatory exposures.

What presentation of linkage would be the most appropriate for end-users?

The Associations believe that a bridge-type presentation would provide meaningful information sufficient to understand the differences between the financial-accounting and risk-management numbers. A "bridge" to explain the differences and complementarity of the two disciplines should be the foundation of Pillar 3 disclosure, allowing for a reasonable degree of flexibility. Such a bridge would not be based on full, formal quantitative reconciliation in the accounting sense but would provide meaningful explanations to users. While the initial draft has elements of this approach, the proposed changes would clarify and streamline the templates to make them more useful, in accordance with a bridge approach.

As it is, the linkage tables also require clarifications and amendment in order to help users to understand the riskiness of portfolios.

The complexity of any form of linkage, especially if elements of formal balance-sheet reconciliation are intended, should not be overlooked, and would require time for implementation. Template LI1 includes a breakdown of the regulatory trading book into balance sheet-subsets that are subject to market-risk or counterparty credit risk treatment. Although the proposed template has similarities to the corresponding EDTF template¹⁵ for market risk (which itself has posed not insignificant implementation challenges for many banks), it would be much more granular and burdensome to produce.

¹³ EDTF Report, Page 12. "22: Provide information that facilitates users' understanding of the linkages between line items in the balance sheet and the income statement with positions included in the traded market risk disclosures (using the bank's primary risk management measures such as Value at Risk (VaR)) and non-traded market risk disclosures such as risk factor sensitivities, economic value and earnings scenarios and/or sensitivities." And: EDTF Report, Page 60, Figure 9, reconciliation of regulatory capital to the balance sheet.

¹⁴ within the scope of regulatory consolidation

¹⁵ EDTF Report, Page 22, Figure 7.

Given the complex investment implied as well as the conceptual issues still open, deferring the development of a linkage disclosure until the current RWA review is completed would have been justified; nevertheless the group understands the Committee's constraints and that end-users' expectations may lead to a decision not to postpone implementation on these key elements.

Implementation Date. As noted above, a longer implementation schedule would be in order. At the very least, this template should not be required before the first annual accounts following the effective date of revised Pillar 3 (i.e. no earlier than the 2016 accounts).

Paragraph 26: linkage with accounting information.

While the goal is well understood, the language of Paragraph 26 needs to be clarified. Members would be supportive of a breakdown of carrying amounts by financial-statement items but it is unclear from the language used whether Paragraph 26 refers to carrying amounts exclusively or a mix between exposure and carrying amounts (it says that the consultative document "sets out a process to map row items in a bank's financial balance sheet to the exposure amounts used in its Pillar 3 report").

Members seek confirmation that Template LI1 should solely report carrying values, whereas Template LI2 presents the bridge between accounting and regulatory exposures.

As already noted, definition of "regulatory exposure" that would be applicable is essential. Such definition should equate to EAD for Template LI2 so that the exposure measure ties back to the exposure measures for the relevant risk types in the other templates.

Template LI1: Differences in financial and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories.

See Exhibit 1 below for an illustration of how the Associations propose to implement the suggested changes.

Purpose: LI1 should indicate only carrying values.

From the stated purpose of Template LI1, it appears that it is intended to show accounting values. However, in connection with the language in Paragraph 26, and the instructions below Template LI1 "credit risk matched with exposures reported according Part 5 below", suggests that Template LI1 could report regulatory exposure amounts in columns (c) to (g).

The Associations believe columns (c) to (g) should be correctly understood in accordance with the purpose statement to require accounting balance sheet values, rather than exposure values, so as to provide information on how such items are distributed within the regulatory risk categories.

Therefore the instructions on Page 15 of the proposed text should be deleted or amended accordingly, or revised to relate to Template LI2, and Paragraph 26 should be amended accordingly.¹⁶

Counterparty Credit Risk and Market Risk: overlapping of carrying values should be avoided.

¹⁶ Members were confused as to what exactly is intended.

(See the footnote on Page 15 of the proposed text – "The breakdown of regulatory categories (c to g) corresponds to the breakdown prescribed in the rest of the document, i.e. c) credit risk matches with exposures reported according to Part 5 below, d) and g) counterparty credit risk matches with exposures reported according to Part 6 below, e) securitization framework corresponds to exposures in the banking book reported in Part 7 below, and f) market risk matches with exposures reported in Part 8 below."

For the regulatory trading book risk category, the inclusion of two separate columns ((f) and (g)) for counterparty credit risk and market risk exposures in the template would lead to “double counting” carrying values where certain types of exposures attract both market and counterparty credit risk. As a result, non-additive totals would lead to confusion in the interpretation of the table for users. Therefore the Associations recommend that Template LI1 be amended.

A solution would be to show one column for the regulatory trading book that includes both market risk and counterparty credit risk, and then an “of which” column for counterparty credit risk.

This would facilitate reconciliation in Template LI2 but avoid the problem of double counting and difficulty of understanding in Template LI1.

Other more detailed issues will need to be clarified, e.g., certain banking book positions are required to be included in market risk capital measures as well as being subject to banking book requirements (e.g. FX and commodities risks, some securities financing transactions).

Given the ongoing FRTB, it would be reasonable to postpone the detailed breakdown for the Trading Book and to take it up as part of phase two, when the FRTB is completed and issued. If that is judged not to be feasible, the FRTB should include consideration of how Pillar 3 should evolve to reflect the changes that will be made.

Detailed Comments and points for clarification.

- Confirmation of these readings of the template would be appreciated:
 - Column (h) “not subject to capital requirements” would require assets that do not attract risk requirements owing to being deducted from capital resources (other than securitizations), and liabilities that do not attract risk requirements.
 - It appears that assets that attract a 0% risk weighting would be reported under columns (c) to (g).

Rows related to liabilities could be excluded from Template LI1 as they would be reported substantially under column (h).

- Liabilities may be identified as attracting risk requirements where they have been subject to netting or offsetting treatment against assets and will otherwise be shown in column (h) “not subject to capital requirements.”

Off-balance items should be removed from Template LI1.

- The row showing off-balance sheet amounts considered for regulatory purposes should be deleted from this template as it would confuse users, given that these amounts are not shown in the accounting balance sheet. Instead a reconciling item “off-balance sheet amounts recognized in regulatory exposures” should be included in Template LI2.

Template LI2: Main sources of differences in regulatory exposure amounts compared with amounts in financial statements.

See Exhibit 2 below for an illustration of how the Associations propose to implement the suggested changes.

Market risk should be excluded from the scope of Template LI2.

The Associations understand that Template LI2 is intended to explain the main drivers of the regulatory exposure (EAD) computation.

- As a result, the column for market risk needs to be deleted as there is no EAD for market risk. Market risk is covered in Part 8. However, if the Committee seeks information on Prudent Valuation Adjustments (PVA), this is already included in banks' capital disclosures as an adjustment between accounting and regulatory capital and narrative information is already required for Table LIA.
- Columns (a) and (e) should be deleted from Template LI2 accordingly.

Flexibility is essential for Template LI2 in order to focus on the key metrics. Flexibility should mean that neither the number of the rows nor the nature of the main drivers should be fixed. This is contrary to the instruction on “flexibility” in the current draft, which seems to be very prescriptive and detailed, despite being termed “flexible”.

The bridge items that explain how regulatory EAD derive from carrying values depend on institutions' business models; therefore, alignment with those business models is essential to provide meaningful presentation of the relationship of EAD to carrying values.

The number of rows should be left flexible. If only three drivers are meaningful, there is no rationale to disclose five. To some extent, this recommendation is a reflection of the materiality principle, but, in this context, it is also important to allow banks to focus on the essentials, without clutter that might obscure the message of the disclosure.

The meaning of the rows should also be left flexible. For many institutions, most differences in the Template LI2 as proposed would be reported in the “other differences” row, because there is no mention of many items that can end up being a part of EAD. Those items may include among others, for example:

- in the case of purchased assets, the accrual of discount or premium
- adjustments related to prudential filters:
 - fair value changes for assets accounted at AFS
 - fair value changes for assets at fair value through P&L
- accrued interest / anticipated unpaid interest
- adjustments due to the effect of credit risk mitigation
- adjustments due to specific and general credit risk adjustments
- differences arising from capital deductions
- differences arising from off-balance sheet amounts recognized in regulatory exposures
- differences arising from the impact of the use of own-models in exposures.

To be consistent with our proposal for Template LI1, regulatory adjustments related to off-balance sheet items should be included in a specific row in Template LI2.

Narrative information should complement the scope of the adjustments disclosed by each institution to explain the relevance of the disclosures.

Specific issues related to PVA.

Template LI2 asks for the impact of using prudent valuations on exposures, but it is hard to see how the prescribed PVA methodology could be identified as impacts at anything other than the highest portfolio levels.

- The adjustment is not done by accounting type of product but at a fairly high portfolio level, by parameters. The breakdown as such would need further work to make sure that the split by product is accurate.
- Nevertheless, if PVA comes out to a meaningful number for an institution, it should be included into the narrative part of Template LI2.
- Table LIA already requires providing meaningful information on PVA and banks already disclose PVA as an adjustment between accounting and regulatory capital. PVA should therefore not be mandatory for Template LI2 purposes.

Exhibit 1: Industry proposal for Template LI1

Basis of preparation

- This template contains values on an accounting basis.
- Market risk and CCR overlap for some assets in the trading book. The template therefore shows a combined column for MR&CCR in the trading book.
- However, Market risk does not reconcile to EAD and we therefore propose to include a separate column for CCR that can be reconciled to EAD in Template LI2.
- Column (e) includes assets other than securitizations that are deducted from capital.

	a	b	c	d	e	f	g	h
	Accounting balance sheet US\$m	Regulatory balance sheet US\$m	Regulatory banking book			Regulatory trading book	Not subject to regulatory capital requireme nts	CCR in the trading book
			of which subject to credit risk	of which subject to CCR	of which subject to securitization framework	MR & CCR		
Assets								
Cash and balances at central banks								
Items in the course of collection from other banks								
Trading portfolio assets								
Financial assets designated at fair value								
Derivative financial instruments								
Loans and advances to banks								
Loans and advances to customers								
Reverse repurchase agreements and similar secured lending								
Available for sale investments								
...								
Total assets								

Liabilities	-	-	-	-	-	-	-	-
Deposits by banks	-	-	-	-	-	-	-	-
Items in the course of collection due to other banks	-	-	-	-	-	-	-	-
Customer	-	-	-	-	-	-	-	-
Repurchase borrowing	-	-	-	-	-	-	-	-
Trading p	-	-	-	-	-	-	-	-
Financial liabilities designated at fair value	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
...								
Total liabilities								

Liabilities could be excluded per comments on Page 20.

Exhibit 2: Industry proposal for Template LI2

The row items in the template should be flexible as per comments in the general discussion of Template LI2.

	a	b	c	d
	Regulatory banking book			CCR in the Regulatory trading book
	of which subject to credit risk	of which subject to CCR	of which subject to securitization framework	
Total net asset amounts under regulatory scope of consolidation (sum of total assets and total liabilities as per Template LI1)				
Differences due to off-balance sheet exposures				
Regulatory exposure at default				

Flexible per comments on Page 21.

Part 5: Credit Risk

I. General information about credit risk.

See the comments in Appendix I on the definition of “exposure”. Introducing non-Pillar 1 terminology (if that is the intent or effect) is likely to create confusion; to the extent non-Pillar 1 concepts are used, Pillar 3 cannot be a full reflection of Pillar 1.

As argued in Appendix 1, “Pre-CRM RWAs” section, the Associations recognize the value of presenting the impact of CRM; however, requiring RWA information on portfolios as if they were fully unsecured and non-guaranteed, in effect requires reporting on a hypothetical portfolio of unsecured exposures that banks would certainly not have taken on. Reporting RWAs on a hypothetical portfolio does not achieve the goal of improving transparency and would create significant operational burdens, for considerable costs. Hypothetical RWAs do not reflect actual risk management.

We furthermore observe that there are material differences in the implementation of the definition of regulatory default, which may impede full comparability between banks. Even within the constraints of the given Basel definition of default, these differences are legitimate, and are often driven by accounting and consumer protection laws. Efforts are being undertaken to reduce these differences by both regulators and the industry.

For these reasons, the Associations recommend deferring any decision about requiring a pre-CRM RWA computation to the RWA review project, and to reconsider its rationale during the second phase of the Pillar 3 project.

Table CRA: General qualitative information about credit risk.

The items included in this table are mostly already disclosed as part of banks’ other disclosures; although the template is flexible, it is difficult to see the added value.

- The scope of row (b) regarding the credit risk approach and credit-risk limits could be interpreted very expansively. It is therefore unclear what is expected from banks. If highly-granular information is intended, it would often be of competitive significance and should not be made public. It is difficult to see what use such detail would be to investors. In any case, it should be possible for banks to continue making similar disclosures in accordance with other requirements.
- Row (e) is also difficult to interpret and incur the risk of being treated very expansively.
- Clearly, the “main content” of reporting to the board should not be reported as such; substantively, much of the material information reported to the board is already required to be reported publicly in various ways. Either this row should be dropped or it should be made very clear that the intent is only to disclose publicly a bank’s procedures for reporting to the board (which, however, are probably reported elsewhere anyway).

Template CR1: Analysis of exposures by products.

Carrying values of regulatory exposure amounts?

As a general comment, the Associations strongly believe that Template CR1 should not mix accounting and regulatory definitions and values.

It is not clear whether this template is solely based on carrying values and definitions because the title refers to “exposure”. Presentation of regulatory data for credit risk is by regulatory exposure class, while

Template CR1 splits the balance sheet between two product types (loans and debt securities) in a way that is simplistic from an accounting perspective and also does not fit with the regulatory asset classes.

If Template CR1 is based on carrying values, we recommend signposting to the financial statements, where extensive similar disclosures are already provided. The amount of new information compared to annual reports and account would be limited.

However, if the template is based on regulatory values and exposures, it should be clearly stated in order to have consistency with the other Pillar 3 templates.

For large and complex banking groups reporting on a consolidated basis, the vast majority of exposures are likely to fall within row (1) “loans”. This would therefore appear to contradict the “purpose” described in the consultation paper which is “to provide a comprehensive picture of the quality of the bank’s credit exposure”. With the partial exception of providing data on defaults and impaired exposures (available elsewhere in other forms), this template would not provide any further information on quality, particularly on non-defaulted portfolios.

Furthermore, if Template CR1 requires reporting on regulatory exposure amounts, there is also a fundamental question of the value of the approach taken in this template and in various other parts of the proposal, in that it attempts to look at a gross-value basis before write-offs and (as discussed above) without taking into account the EAD approach normally used in the Basel II/III scheme. Consistently with the concept of using EADs as the basic point of reference, is not clear why it would be appropriate to disregard Credit Conversion Factors (CCFs) and CRM techniques (as stated in the definition of “exposures”). Moreover the linkage with Templates CR7 and CR10 should be explained unless the template is modified on this point.

Given that the overall shape of the book does not change very quickly it is not clear why this template would need to be published in synchronization with financial statements. Annual publication would be sufficient.

Detailed Comments and Points for Clarification.

- It is unclear what this disclosure is seeking to achieve by the split between past-due more than 90 days and “other” in rows (a), (b) and (e), (f).
 - The references to “other” in columns (b), (d) and (f) are not understood. Is it expected that defaults would migrate from “other” to “more than 90 days past due”? If so, it is not clear how such information would be useful to investors.
 - The relevance of the number of days past due for already-defaulted exposures is not evident.
- For wholesale business, the vast majority of defaults are triggered by unlikelihood to pay (generally a more conservative metric than days past due) and if such a judgment is made it will rarely be corrected by the passage of 90 days.
- As off-balance sheet commitments by definition cannot be past due, it is not clear what is intended in row (3) with respect to defaulted exposures.
- How should loans derecognized and replaced by a new loans recognized following a restructuring be captured? Is this considered a partial write off or a full write-off? Tracking write-offs post restructuring would be challenging and of little relevance.

- In Template CR1 and elsewhere in the proposed new Pillar 3, firms that manage and present their banking books in whole or in part on a fair-value basis would have a fundamental problem in complying, given that there is no concept of “impairment” in the usual sense for fair-valued assets, and the measure of “loss” needs to be clarified (e.g., over what period is the “loss” measured?). Firms that have positions in the banking book held at fair value should be allowed the flexibility to adapt Template CR1 to reflect this basic difference; for such firms, the “fixed” format is clearly inappropriate.
- It is not clear how to treat loans purchased at a deep discount. Given the purpose of the disclosure to show credit quality, it would be appropriate to exclude such loans from the template, as this will otherwise imply that the bank could suffer greater losses than could actually happen, given the discount. If it is thought necessary to present information on such loans, it would be clearer for users and more manageable for preparers to provide for separate disclosure thereof, for example as is already done under US SEC practice. Such disclosure would need to be adapted to the specificities of such loans. Presumably the desire would be to show any changes from the time of purchase.
- Is it intended to exclude securities financing transactions from the “defaulted exposures” columns?
- The definitional footnote of “exposures” excludes CCFs but does not mention all types of exposures for which the standardized approach puts CCFs in place; it only mentions guarantees, but not Standby Letters of Credit, Letters of Credit, performance bonds, Note Issuance Facilities and Revolving Underwriting Facilities etc. The categorization probably works more or less, but it does not follow Pillar 1. As discussed above, a comprehensive definition and explanation of what is meant by “exposures” and “regulatory exposures” is required.
- In that context, rather than distinguishing between guarantees and irrevocable loan commitments it would be preferable to use the categories of off-balance sheet items that are included in the Basel Pillar 1 text (i.e. the standardized approach CCF), which aligns with the Leverage Ratio reporting.
- Clarification is sought as to the meaning of Non-Defaulted Impaired Exposures, with explicit reference to the recently revised IFRS and US GAAP rules. It is not evident how this will intersect with the new “EL based” impairment rules under both accounting standards. For present purposes, it is assumed that non-accruals as defined by accounting would be included in “defaulted exposures” and that troubled debt restructurings (TDRs) would be included in column (c), but it would be helpful to have confirmation of this understanding and further commentary with specific reference to the major accounting standards. See also the comments on Template CR2.

Template CR2: Changes in defaulted loans and debt securities.

As for Template CR1, as a general comment, the Associations strongly believe that Template CR2 should not mix accounting and regulatory definitions and values.

If the purpose of the template is to report on accounting values, the template should be made flexible in order to allow incorporate reference to the financial statements.

However, if the template is based on regulatory values and exposures, it should be clearly stated in order to have consistency with the other Pillar 3 templates.

The information called for by Template CR2 is very similar to the information on impaired loans provided in the annual reports and accounts. Similar comments to those on Template CR1 apply:

- It should be clarified whether solely carrying values are required;
- Defaulted exposure gross of impairment is not in line with the Pillar 1 definition.

Detailed Comments and Points for Clarification.

- Similar comments to the general comments at the head of this section about the need to focus on actual portfolios apply here.
- Therefore, we need to ask what is the value of reporting loans and debt securities gross of impairment and provisions. Would such disclosure not be confusing as it could imply a statement about recoverable values, or just confuse users with added information of no utility? Is there not a danger that this disclosure would overlap confusingly with disclosure of provisions under the new accounting rules?
- Why is the list of products different from Template CR1 (not including off-balance sheet exposures)?
- The differences between rows 2 and 3 (new defaulted loans and debt securities; transfer from not defaulted) and the related definitions are not clear and it is hard to tell what information value was intended to be captured by either or both of them. This could be quite difficult to track. The information provided would be an imperfect measure of defaults in the first year of origination because it would be dependent on when the origination happened in relation to the financial reporting year. For a December year-end company, loans originated in January have a greater chance of going into default within the year than those originated in December. It would make sense to revise the definitions of new defaults (row (2)) and transfer from not defaulted (row (3)) to refer to activity in the current reporting period regardless of when the exposures were originated or purchased.
- There is added complexity in that the return to not-defaulted status differs per banks or jurisdictions since supervisory requirements with regard to cure periods and probation periods are quite distinct in different jurisdictions. Some banks put their loans immediately back to performing status whilst others (have to) take into account a cure or probation period of up to 15 months.
- Consideration should be given to merging row (2) and row (3) as “transfer from not defaulted” as a solution to the above problem.

Table CRB: Additional disclosure related to assets subject to credit risk treatment.

These qualitative disclosures can only be done on a jurisdiction by jurisdiction basis as the (accounting, regulatory and, for restructured exposures, legal and consumer protection) rules are different between jurisdictions. This is highly cumbersome and may not produce much added value.

It is questionable whether this information would be useful for investors. The challenge is both the cost-benefit analysis for banks and information overload for users. There is no reason to believe that the generic "shape" of the book (geographic and industry concentrations) is very different between regulatory and accounting. Therefore, it is unclear what new information is being provided to investors.

It would be better to substitute a high-level narrative that could be adapted as necessary to the jurisdiction and the bank's business practices. The present version threatens to produce confusion, false comparability, and over-interpretation without actual added value to users.

If a purely narrative approach were not accepted, then a high threshold (e.g. 15/20%) of difference in regulatory scope should be introduced and only when such threshold is exceeded should the quantitative requirements kick in.

If the table were to be retained, it would pose very serious production challenges in its present form. The information required is typically not available in systems and would require new development to obtain (in particular, rows (e), (f) and (g)).

Detailed Comments and Points for Clarification.

- It is unclear whether the requirement to provide a breakdown of credit risk exposures in row (e) is to be done on the basis of EAD (see the general comments on the definition of “exposure”).
- For row (g), some banks wish clarification whether the intent is to capture all past-due exposures only defaulted ones; if the latter, would the aging show the total number of days past due, or the number of 90 days past due?
- The meaning and purpose of row (h) is not clear: does it mean to capture previously impaired exposures that have been restructured or restructured exposures that have become impaired? Clarification of the definition of “restructured exposures” is needed, preferably with reference to the corresponding categories under IFRS and US GAAP, to minimize confusion. Restructurings that do not qualify as “Troubled Debt Restructurings” under US GAAP should not be reported, for example. The definition of restructuring differs considerably by jurisdiction, as observed in the credit risk modeling analysis of the IIF credit risk surveys which will be distributed to the Committee in the near future.
- The implication seems to be that all modifications are in scope, but this seems excessive, given that modifications may be made for many businesses reasons and do not necessarily indicate credit weakness.
- Note that the narrative disclosure must include the definition of default used but Template CR1 provides its own analysis of default based on 90 days past due. Is this appropriate?
- Since the table is flexible, a useful suggestion would be to allow banks to follow current supervisory requirements.¹⁷

II. Protections available for credit risk exposure.

Table CRC: Qualitative disclosure requirements related to protections.

Most of the information in this table is already included in the annual reports and accounts; therefore it is questionable whether this table provides new or useful information to investors.

¹⁷ e.g. FINREP under EU reporting requirements, available at: <http://www.eba.europa.eu/-/eba-publishes-xbrl-taxonomy-for-remittance-of-supervisory-reporting-by-competent-regulatory-authorities>.

As a general comment, the amalgamation of different forms of what are called here “protections” or CRM is potentially confusing. In particular, netting is conceptually and legally quite different from the other forms of “protections” and should not be mixed with those other types.

Detailed Comments and Points for Clarification.

- Separate presentation of CRM techniques for ordinary credit transactions may reduce the need for extensive and potentially confusing narrative explanations if “protections” are lumped together.
- The instructions state “if the fair value of the protections is available,” it should be considered. This is ambiguous, but it is assumed to mean that if the fair value of protections is calculated in the ordinary course it should be used. This should not be interpreted to expand the scope of fair-value accounting.

Template CR3: Protections – overview.

While Template CR3 seems to be based on regulatory exposure amounts as opposed to carrying values, there is a basic question whether the information sought here would be better expressed in terms of EAD as normally used in the Basel scheme. To be consistent with EAD reporting, the breakdown by rows should follow the regulatory asset classes. Moreover, EAD includes on balance sheet and off-balance sheet exposures.

As the protection levels of a bank’s overall positions would not fluctuate significantly over time, the cost benefit analysis of providing this data frequently would be negative. Rather than seeking aligning with the frequency of financial disclosure reports, it should be required annually, with updates required solely if there is a material change in the composition of the book.

More generally, we recommend that the Committee clarify the scope of exposures requested in Template CR3. While the scope of Part 5, as defined on Page 18 of the proposed text, indicates that counterparty credit risk is out of scope, the definition of exposures secured by collateral in Template CR3 includes exposures benefitting from a netting effect. Since counterparty credit risk is out of scope, there are no exposures that would benefit from a netting effect for the IRB approach.

Another issue is that the current approach seems to be based on the premise that coverage levels suggest good credit quality, but this may be misleading as the credit of a higher-quality unsecured and unguaranteed obligor may be just as good as or better than a highly “protected” obligor, regardless of the source of protection. Good-quality portfolios do not need credit-risk mitigation, but the proposed presentation could induce investors to focus on CRM rather than credit quality as such, which in turn could increase the cost of credit for end users, if banks are pressured to seek CRM more generally.

Detailed Comments and Points for Clarification.

- Blanket guarantees or statutory guarantees that are already reflected in the obligor ratings, may not be picked up in the protections templates if they intend to pick up only direct, specific guarantees. Perhaps it should be clarified that “financial guarantees” includes blanket guarantee or statutory guarantees reflected in obligor ratings. But if so, that would complicate the process of producing the disclosure if some sort of direct attribution were required, so presentation of the effects of such blanket guarantees should be left flexible to allow banks to find the most appropriate way to make the disclosure, without otherwise-unnecessary procedures or undue burdens in providing assurances as to such disclosure.

- Similarly, it is not clear what to do when a borrower has given a blanket lien (e.g. a superpriority lien in a restructuring) or a broad floating charge on its assets. How would the benefit of such collateral be allocated for purposes of this template?
- The differences between columns (b) and (c), (d) and (e), and (f) and (g) are not understood: what do the “of which” columns intend to capture? Generally, either a disclosure is secured or it is not. (The introductory discussion on Page 21 of the proposed text is not enlightening.)
- The definitions are inconsistent as to whether they call for “original” exposure or not. The reasons for the inconsistency are not apparent, and (as mentioned above), it is not clear what “original” means.
- The proposal indicates that Template CR3 links to Template CR5, but indicates no linkage to Template CR4. This should be clarified.

Template CR4: Protected exposures and coverage ratio.

From a high-level perspective, information on secured portfolios can be beneficial for users. However this information is already typically disclosed within annual accounts, e.g. mortgage and commercial real estate portfolios. A high-level split by credit quality is also beneficial. The benefit of disclosing secured vs. unsecured portfolios however, is questionable, especially if aggregated across banks.

As also indicated above, the suggestion that “not protected exposures” are necessarily riskier than “protected” exposures is likely to be misunderstood and could have unfortunate effects on the cost of credit. Without an indication of credit quality (internal or external ratings) “not protected exposure” is fairly meaningless, certainly if a comparison to “protected” exposures is intended. The protection ratio as presented can therefore be misleading.

This template was found confusing and overly granular and it is suggested that it be rethought along with Template CR3. The template combines so many concepts that the results are likely to be difficult to interpret and not comparable across banks, as well as causing substantial aggregation and attestation and assurance problems.

A clear and simple presentation of coverage in Template CR3 would obviate the need for any equivalent to Template CR4.

As already indicated, the idea of adding collateral to guarantees to credit derivatives as seems to be required from the definitions, is counterintuitive. The table seems to mix the widely used concepts of over- and under-collateralization with a broader interpretation of “protection” in ways that are likely to be confusing as well as difficult to produce.

As already noted, the “actual amount of protection” will in many cases be difficult to determine and could, if taken very literally, require complex attribution calculations (e.g. blanket liens, many floating liens, super priority liens, and portfolio-based and broadly applicable coverage via macro hedging strategies).

Detailed Comments and Points for Clarification.

- Should this template be split by portfolio? For example, commercial real estate, mortgages or other asset-backed portfolios are likely to have different risk characteristics. Aggregating across all portfolios simply reaffirms the split of secured and unsecured exposures normally already disclosed with the financial accounts.

- More guidance is recommended, particularly for the split between obligor and facility and how this differs across retail and wholesale. For example a retail customer with a mortgage and an overdraft - how should this be analyzed?
- The use of different ratios in rows (2) – (6) and (8) – (12) (“exposure / protection” vs. “protection / exposure”) is confusing and inconsistent. If maintained, a clear explanation for the differences should be provided and align meaning of measure between the two metrics (25% is the highest over-protection while is the lowest under-protection).
- For portfolios that are typically secured (e.g. mortgages), it would be more useful if partially protected exposures were expressed as exposure/protection. This is much more commonly in use and will allow better comparability of exposures across the whole book. E.g. an exposure of 500 vs protection of 125 gives an LTV of 400%, which is more meaningful than a protection/exposure % of less than 25%.
- If the current format is to be retained then the row order needs to be changed to make it continue to flow from good to bad so row (8) should become row (12) and vice versa since a ratio of protection/exposure of 91% to 100% is better than one of less than 25%.
- While coverage levels are indicative of protection, the volatility of collateral values and types of CRM may differ between markets. Therefore, 50% coverage may be adequate in certain markets or for some forms of protection but inadequate for others. The separation of defaulted and non-defaulted exposures in combination with coverage levels could, as already indicated above, lead to the conclusion that a bank is potentially vulnerable in case the coverage level is low; however, this can only be established if combined with information about provisioning levels.

Template CR5: Protected exposures by guarantor rating class.

These comments are subject to the questions raised above about blanket and other non-specific guarantees, and to confirmation that “exposures” for this purpose are net of provisions and written-off amounts. But, generally speaking there would be limited obvious benefit from this disclosure. This information is not included as part of supervisory reporting, which calls into question the use and relevance of this template to investors or other users.

The split between defaulted and non-defaulted disclosures is simplistic. The non-defaulted exposures will have a range of credit quality those near default to AAA rated exposures. Giving the external rating of the guarantor without giving a sense of what exposures the guarantor is guaranteeing is not meaningful. More columns would be required, thereby giving a matrix of guarantor quality vs. quality of underlying exposure being guaranteed.

Detailed Comments and Points for Clarification.

- The format description is confusing, for example a large, global bank would be using credit rating agencies for supervisory purposes and would be on both the IRB and standardized approach - in this case how should the table be prepared? Could a bank end up with a table containing the three different ratings (credit rating, IRB and standardized)?
- Are banks required to report the external rating of any protection (guarantees or credit derivatives) which is used under the standardized approach and the internal rating (PD) if taken via the IRB approach within the same template?

- When should a defaulted exposure with a guarantee be disclosed as such? In other words, when does one stop reporting the original exposure and simply report the exposure to the guarantor with no further reference to the original obligor?

Template CR6: Exposures protected by credit derivatives; breakdown by counterparty rating.

There would be limited benefit from this disclosure. This template requests defaulted/non-defaulted exposure grouped by credit derivative protection providers and therefore seeks confirmation of the credit worthiness of protection providers. Protection providers are likely to be limited to other banks (or monoline insurers), and therefore very likely to be grouped into the higher ratings. Furthermore, the split between defaulted and non-defaulted disclosures is simplistic. The non-defaulted exposures will have a range of credit quality from those near default to AAA rated exposures giving the external rating of the protection provider without giving a sense of what exposures the protection is against is not meaningful. More columns are required to give a matrix of protection provider vs quality of underlying exposure against which protection is available.

Furthermore, while it will often be possible to attribute protection obtained via derivatives (such as single name CDS) to identifiable exposures, even if the CDS are not explicitly tied to specific exposures, this may not always be the case depending on a bank’s hedging strategies. It is assumed that banks can use good-faith allocation of protection obtained where necessary.

CDS disclosure on defaulted exposures would be of limited benefit, as the CDS should be closed out on default of the underlying exposure, barring limited circumstances where a CDS isn’t legally triggered. It should be noted that the “defaulted exposures” presentation will be highly variable from period to period, perhaps in ways that would not be useful for investors, because defaulted exposures are likely to be written off and any related derivatives settled rather quickly, resulting in a snapshot that is not necessarily indicative of the value of the “protection” obtained. For this reason, it is doubtful whether the stated purpose of distinguishing weaker original debtors will be met in any meaningful way.

Detailed Comments and Points for Clarification.

- Would IRB and Standardized exposures be presented separately?
- Should this table be limited to non-defaulted exposure for bilateral CDS only?
- More guidance is required on how to treat protection bought on CDS indices.
- It should also be clarified when a defaulted exposure with a guarantee is disclosed as such and when a bank should stop reporting the original exposure and simply report the exposure to the guarantor with no further reference to the original obligor.

III. Credit risk under standardized approach.

Table CRD: Qualitative disclosures related to standardized approach.

All of these templates and tables for the standardized approach appear to apply to IRB banks using the standardized approach for certain portfolios; however, as with other points, these should be subject to a materiality test: the standardized approach is often adopted for very immaterial portfolios where investment in advanced approaches is not warranted; therefore, disclosure of such immaterial portfolios would be distracting and disproportionate rather than useful. Applying a materiality filter would be in accordance with Principle 3 on meaningfulness to users.

Template CR7: Standardized approach: credit risk exposure and CRM effects.

The approach suggested in these comments is illustrated in *Exhibit 3* below.

Templates CR7 and CR10 raise the same questions on the usefulness of the template, since banks do not manage their portfolio on a pre-CRM basis. Reporting on transactions that would not have been done without collateral or guarantees is really reporting of hypotheticals and would be misleading, as such, as a minimum adjustment, Template CR7 should not require the computation of pre-CRM RWAs.

This is a clear instance of a dimension of the RWA disclosures that should be phased in to align with the upcoming results of the review of RWAs by the Committee (and the industry). Any such disclosure would require significant discussion to understand how it could be managed. Maintaining the present version unchanged would require significant system investment that would likely be subject to subsequent change in light of the RWA review.

As noted in the general comments, the utility and meaningfulness of including assets such as mortgages on a pre-CRM basis is doubtful at best. It would be difficult, as well as methodologically challenging to differentiate pre- and post-CRM values for such assets.

Moreover, we question the usefulness of distinguishing between the comprehensive and simplified approach, which for example is not requested in such a way in the European supervisory reporting.

Consequently, we recommend withdrawing columns (d) and (e), limiting the pre-CRM calculation to exposure values in column (c) for comprehensive and simplified approaches, and limiting the presentation of column (g) to RWA.

The comments on Template CR3 about the different ways guarantees can be applied also apply to this template.

Here and elsewhere in the proposal, the term “RWA density” should be defined (is it the same as in Template CR9 IRB?). It is not apparent why RWA density (if we understand it correctly) is a useful “synthetic metric on riskiness of each portfolio”; especially in the context of the standardized approach, such a measure would be highly arbitrary and potentially misleading because not truly risk-based.

Given that the overall shape of the book does not change very quickly it is not clear why this template would need to be published on a quarterly basis. Annual publication would be sufficient.

Detailed Comments and Points for Clarification.

- It would make more sense to ask for column (g) to show total RWAs rather than capital requirements, given that capital requirements (expressed as 8% of RWAs) is a bit of an arbitrary figure in the new capital framework as it does not include buffers, whereas RWAs are universally applicable and useful information. If the change to expression based on RWAs were made, then there would be a sensible flow to the template as the logical column to show after RWA density would be total RWAs.
- The title of column (c) should indicate “credit exposure post CCF...” instead of “CCF effect...”, because the latter would show a negative amount.

Template CR8: Standardized approach: exposures by asset classes and risk weights.

It is not clear why row (1) of Template CR7 refers to central banks whereas row (1) of Template CR8 omits central banks (and subsequently Templates CR10, CCR3 and CCR5 as well).

Asset classes should be aligned with each bank's implementation of Basel requirements. In the EU for supervisory reporting (COREP) purposes, banks and securities firms are combined as Institutions rather than included separately, and it should be clarified that this should also be done for disclosure purposes. More generally, for all the disclosures in the Credit Risk section, alignment of these templates with detailed supervisory reports is critical to avoid confusion and unnecessary reconciliation.

IV. Credit risk under internal risk-based approaches.

Table CRE: Qualitative exposure related to IRB models.

Given the nature of the information requested here, it would be better to request narrative about the generic methodological choices in models of the main asset classes.

Detailed Comments and Points for Clarification.

- Row (b) overlaps with information contained in Template CRA.
- Row (c) on the “scope of the supervisor’s acceptance of approach” is unclear and could potentially require disclosure of a disproportionate amount of sensitive supervisory information; an appropriate method of summarization should be described.
- In row (d), the time-schedule for approval of models either may not be known or may be uncertain. Such schedules have been unpredictable in several cases and banks would not be comfortable reporting them, especially as they are entirely within the discretion of home and host supervisors.
- Row (e). This paragraph should be replaced by a more focused question. Banks may have tens or even hundreds of PD, LGD and EAD models. Moreover, there is not a 1:1 relationship between IRBA models and regulatory defined asset classes, which would add a requirement of further narrative complexity for the granular presentation of details.
- Row (f)(iv). Similarly, this disclosure in itself could take hundreds of pages of information. While the implied requirement of excess volume should be corrected, the questions should also be more focused to ensure banks do not summarize it in various differing ways.
- Rather than requiring “deviations” from the Definition of Default, the text should refer to approved exemptions (“deviations” implies non-compliance – banks do not get IRB approval if they do not comply with the Basel definition of default). Banks in any case should only be required to give information on “deviations” or exemptions where material. As stated in Appendix I, more important is to provide information about the main characteristics of an individual bank’s definition of default.

Template CR9 IRB – Credit risk exposure by portfolio and PD range.

This is a highly challenging template, given its potentially wide-ranging scope, its granularity, and the lack of a materiality qualification. In addition, it will most likely be affected in important ways by the review of RWAs currently being conducted; therefore, it would ideally be left for the second phase of the Pillar 3 revision. While it is recognized that this may not be the Committee’s preference, perhaps the temporary nature of the current disclosure could be recognized by reformulating it to basic minima.

The weighted averages called for in columns (c), (g) and (h) do not correspond to the way risk management is conducted for Basel II/III purposes. With respect to the Weighted Average LGD, the difficulty is compounded by the requirement as currently drafted to net out any CRM effect which, again, is contrary to the way risk management is conducted. It is very hard to see how extracting these weighted-average figures from the capital calculation could be of any use to users.

The required split into AIRB and FIRB, compounded with further splits into portfolios and asset classes (and potentially prior period comparative templates) would lead to a very high number of complex templates. For example, assuming six exposure classes, there would be 14 tables with an additional template for the total and separate templates for AIRB and FIRB. In order to provide comparatives, this would result in 28 templates to be disclosed on a quarterly basis.

Given its complexity and challenges as drafted, this template would be difficult to produce on a quarterly basis; moreover, it would be to show relatively little movement on a quarter-by-quarter basis. Users have expressed interest in the breakdown of PD scales (commented on below), but have made clear that they are unable to be able to use the full information, even if produced by banks, on a quarterly basis; therefore this template is a prime candidate for conversion to annual production.

Detailed Comments and Points for Clarification.

- It is misleading to refer to original on-balance sheet gross exposures for defaulted assets: defaulted-asset exposures should be reported net of write-offs.
- It is unclear why banks must present separate data for FIRB and AIRB since under both approaches internal PD estimates are used. Although this is intended to enhance analysis by type of counterparty and risk levels, the information is likely to provide false precision without any real usefulness.
- The definitions (e.g. EAD) in this template follow Pillar 1 more closely than other templates but would therefore not be aligned with the other templates unless consistency of definitions is achieved, as recommended.
- Column (h), maturity, should not be required for retail exposures, many of which, especially credit card debts, have no stated maturity. In addition, formal maturities are not relevant for mortgages in many jurisdictions because most mortgages are refinanced or paid off well before maturity. Maturity is not used in the retail RWA calculation.
- Is the assignment to a portfolio based on the obligor (borrower) or counterparty (protection providers under substitution)?
- Is the PD to be used in weighted average in column (e) after CRM effects?
- Weighted average maturity - is the residual maturity (maturity remaining) used or the effective maturity (used in RWA calculation)?
- A definition of “number of obligors” is needed. The number of obligors seems irrelevant for retail portfolios on a consolidated group level.
- The definition of “obligor” could be clarified: there is a need to distinguish between different levels of aggregation: banks may track a customer; a borrowing entity (which may include one or more customers); and a corporate group (which may be interlinked for credit purposes by guarantees or cross-defaults).

Any interpretation of this template would often be skewed substantially by supervisory overrides under Pillar 2 and local rules. These can take the form of multipliers, add-ons, general margins of prudence or floors applied by supervisors to banks operating in their jurisdiction. While these could be explained in the narrative, it seems likely that false comparisons would be made because of the difficulty of adjusting for such variations.

Template CR10: IRB credit-risk mitigation techniques.

As discussed in the general comments, the Associations recommend deferring any decision about requiring a pre-CRM RWA computation to the RWA review project, and to reconsider its rationale during the second phase of the Pillar 3 project.

In its current form, Template CR10 requires banks to calculate pre-CRM RWA, CRM including collateral, financial guarantees and credit derivatives. The fundamental conceptual problem of reporting essentially hypothetical information discussed at the head of this section applies with particular force to this template. This poses important, basic problems that need to be corrected:

First, members question the usefulness of this template, because banks do not manage their portfolios on a pre-CRM basis. Reporting on transactions that would not have been done without collateral or guarantees is, as already noted, really reporting of hypotheticals. The Associations strongly urge therefore that the purpose be clarified and reengineered to reflect banks' actual internal risk-management practices, which users want to understand.

The utility and meaningfulness of including assets such as mortgages or asset-based loans such as shipping loans on a pre-CRM basis is highly questionable. It seemed clear at the September 19 meeting that the buy-side community was also primarily interested in post-origination credit-risk mitigation (i.e. credit-mitigation not directly associated with the creation of the underlying exposure); in other words, credit derivative hedges. These latter enable institutions to hedge their credit risk exposure either on an individual or a portfolio basis. Collateral is not typically used for post-origination credit risk mitigation, nor, with occasional exceptions, are guarantees.

Second, the pre-RWA requirement would present a significant operational burden, even after technology enhancements have been implemented, because it requires producing two complete sets of RWA results each quarter: one with unsecured LGDs for every asset and one with the actual LGDs. A complete set of results would entail not only running the calculations, but also performing reconciliations, performing adjustments, and obtaining attestations. This would create a significant volume of additional work on multiple groups within the firm for the sole purpose of producing this template, and with no internal use whatsoever.

Third, AIRB banks will not have a valid unsecured model to apply to such cases. Their unsecured models will have been developed on truly unsecured observations of loss, which means that carrying such assumptions across to assets that are secured would be highly misleading. Normally, banks expect an unsecured loss on a customer to whom they are prepared to lend only on a secured basis to be higher than the loss on a customer to whom they are prepared to lend unsecured. The problem is that there would be no available data to estimate what the unsecured loss might be. It would not be possible to build a model from observed history for mortgages and other types of asset-based lending (e.g. ship mortgages).

Finally, as has already been noted, such a template further might be misconstrued as implying that a high level of CRM coverage is indicative of high credit quality; without connection to portfolio quality (e.g. in terms of PD bands) this cannot be ascertained; for exposures to good quality obligors there is no need to require CRM.

Therefore, the Associations recommend Template CR10, if retained, be modified to present only the RWA impact of credit derivative hedges, at annual frequency.¹⁸ This approach would substantially simplify and clarify disclosure, while more clearly achieving the goals of Pillar 3. Additionally, because the information is not likely to change much from quarter to quarter, annual reporting would be sufficient.

Detailed Comments and Points for Clarification.

- The collateral column is particularly troublesome and should be eliminated because it would be meaningless to report RWA without collateral benefit in many cases (especially, but not only, with respect to mortgages, as discussed elsewhere). Counterparty credit risk EAD without collateral would be meaningless, for example.
- For many operations the guarantee is integral to the structure of the transactions and cannot be viewed as a separate component. Report on pre-guarantee RWA would present risk that a bank would not have taken, this is misleading.
- The relationship of this template to Table CRC and Templates CR3, CR4, CR5 and CR6 is not clear; the reasons for the overlaps are not apparent.

Template CR11: IRB – RWA flow statements.

As with other templates and tables relating to RWAs, it might make sense to defer this to the second phase of Pillar 3, given the reconsideration of RWAs currently under way, or to simplify in the interim to take account of the pending changes.

While members conceptually are supportive of the idea of RWA flow statements, unambiguous definitions should be provided to accommodate the definition of allocation keys and to enhance comparability. Alternatively, there needs to be an option to comment qualitatively on the directional impact especially for rows (3), (4) and (5).

The sequence of items (2) – (8) is not obvious and could make a real difference in the reported results. Banks should be able to apply the factors in the way that makes the most sense, without distorting results. For example, a reduction in a corporate portfolio's maturity profile or a decision to increase CDS coverage could have a material effect and careful consideration would need to be given to their appropriate presentation.

Banks notably find it hard to decide whether to route changes through row (3), (4) or (5). Model updates are intrinsically linked to changes in asset quality (e.g. through rating migration) as well as to changes in internal risk policies. Model changes often are grouped together (e.g. at annual recalibration) and therefore singling out one factor (such as a change in regulatory policy, a change in the model's predictive power due to a shift in portfolio composition or time series) is not always feasible.

The boundaries of the categories are not always clear. For example, the difference between row (4) (model updates) and row (5) (methodology and policy) is not at all obvious. Model updates often reflect the evolution of methodology or policy and vice-versa.

The relationship of the RWAs as reported here to PDs and LGDs is not obvious, but the meaningfulness of just reporting RWAs is open to question.

¹⁸ See *Exhibit 4*.

As the template is presented currently, a good deal will depend on narrative; thus, comparability may be more apparent than real.

Detailed Comments and Points for Clarification.

- For wholesale models after implementation of a revised model, the impact is seen in RWAs progressively over time as the exposures go through the annual rating process using the new model. Further the old model once superseded is discarded because it is not cost beneficial to rate exposures using two models. Therefore the model impact is always necessarily an estimate – this should be noted in the requirements.
- It is worth defining where model recalibrations should be categorized (as model updates or asset quality) in order to enhance consistency across banks.
- On row (4) for example, for wholesale model updates, some institutions do not rerate every customer when updating their models, but wait for rating evolution to occur in the financial statements.
- Row (6) would be the less difficult to provide; however members would still need to allocate how much related to acquisitions or disposals, how much was organic evolution of the portfolio; and how much reflected actual changes in asset quality.

Template CR12: IRB – Back testing of probability of default (PD) per portfolio.

The reasons for wanting to have better disclosure of the back testing performance of banks' internal models are well understood and reflect concerns that the banks share. In fact, the industry is considering disclosures intended to demonstrate the performance of models in connection with the IIF RWA review that is currently under way, and certain banks already make disclosures intended to indicate the quality of performance of their models which, in most case, demonstrate that their model performance is adequate or even conservative.

Template CR12 is problematic for several reasons detailed below. In addition, it is understood from the September 19 roundtable and subsequent conversations that the user community has doubts as to the usefulness of this template as proposed. Even though the template is marked as “flexible” the requirement that “the content and granularity” should be “at least equivalent” compounds the difficulties and would be an impediment to use of the template in banks' overall disclosure packages, and cuts against the materiality principle.

The template requires aggregation of different models applicable to diversified portfolios in ways that would not be meaningful, especially given that many large banks that have dozens or hundreds of approved models with high volumes of parameters. We understand that The Committee shares the view that it would not be feasible or useful to disclose hundreds of models. However, given the interest of the investor community in the disclosure of back testing results, and back testing enabling banks to demonstrate that their models perform as expected, we propose in line with potential industry recommendations currently in preparation to apply a materiality threshold under this template (consistently with the general comments above about materiality). Because it is not meaningful to aggregate retail profiles across jurisdictions given very different legal, social and cultural contexts, banks should be allowed to include a breakdown of retail asset classes for material countries.

With respect to the portfolios required, it will be important to ensure the principle of materiality be considered here, so as to ensure disclosure of manageable size.

Similarly, if this aggregation approach is carried over to the final Pillar 3, banks should be enabled to disregard models that are not material to disclosed results.

The five-year average annual default rate is also problematic, given that that level of aggregation would tend to obscure specific back-testing results. In addition, if the intent is to capture only the most recent five years, that would exclude other five-year periods (if available to the bank) that might include downturn periods whereas the most recent five years might not. Banks use different time series for different models based on representativeness, data availability and other reasons

It would be preferable to compare for predicted and realized values the time periods actually used in the models, instead of a fixed five-year period. Doing so would enhance the visibility of back testing results and make their disclosure meaningful. Banks may wish to add narrative explaining the length of data series used in general terms.

It should be borne in mind that banks use different rating philosophies, and showing back testing of Through The Cycle (TTC) PDs or Point in Time (PiT) PDs against a five-year default rate may generate different results compared to peer banks, thereby setting up false comparisons and requiring extensive explanation.

Until further harmonization of PD modeling and supervisory validation, the same information will reflect different things, e.g. the default definition, the default-rate definition (number or exposure-weighted); treatment of inflows and outflows; supervisory add-ons to PD, etc.). For these reasons a flexible format is essential but banks should be urged to explain the choices they have made and that affect back testing (if need be, a list of issues could be discussed for supplemental guidance).

Furthermore it should be noted that, if the current approach were continued, some data would require new IT and data collection procedures for no other reason than disclosure for Pillar 3.

Detailed Comments and Points for Clarification.

- The definition of obligor needs to be agreed on (for retail portfolios, some banks run systems that are product based and some use systems that are client based). Also needed is clarification of how to treat outflows and inflows.
- Members seek clarification of the reason for requiring the number of obligors, which would be meaningless for retail portfolios and only potentially meaningful for wholesale portfolios to the extent it may indicate (exceptional) concentration issues.
- There is no direct link between external rating equivalents and exposure classes, so the requirement in that regard would not be possible as things now stand; in addition, of course, the US cannot include external ratings in such a template.
- If the external ratings requirement is retained, for those jurisdictions which are permitted to disclose in this fashion, it should be made clear that the column for “external rating equivalent” should only be required where banks map their portfolios to external ratings. The Basel framework only requires banks to use at least one of internal default experience, mapping to external data, or statistical default models (and of course the US excludes use of external ratings).¹⁹

¹⁹ See Paragraph 461 and 462 of Basel Framework, Page 102.

- Is the assignment to an exposure category based on the direct obligor (borrower) or counterparty (protection providers under substitution)?
- Would the “PD Ranges” be the same as those in Template CR9? Materiality would suggest that there should be some flexibility to screen out irrelevant results. Using a fixed PD band would not be consistent with internal back testing and resulting recalibrations.
- The “end of year” column appears to include all obligors, defaulted or not. Is this correct? Or should defaulted obligors be excluded (covered in the next column)?
- For purposes of the required supplemental disclosure, it is not entirely clear what is meant by “cured” defaults; does this include everything that is “resolved” or only defaulted items that go back to non-default status from default status? Consistent definitions of “cured” and “resolved” would be essential to comparability as banks are likely to use different definitions.
- The two columns “defaulted obligors in the year” and “of which: new defaulted obligors in the year” relate to the footnote that states the latter are defaults that “were not funded” at the end of the previous year. It appears to exclude unfunded commitments at the end of the previous year. Is that correct?

An interim solution? Current Pillar 3 reports back-testing for material models and portfolios. Given that, as noted above, intensive work on this complex topic is ongoing in both the public and private sectors, a solution would be to allow banks to continue their present disclosure practices on back testing and model performance, recognizing that the current problems of comparability would remain. In any case, full comparability cannot be achieved at this stage owing to differences in, for instance, default rate definitions, the definition of default, and rating philosophies. While this would not be fully satisfactory, the essence of reporting back-testing results is to show how well a bank’s models are performing. That is a point on which full comparability is less necessary than others, and it would be better to continue current practices pending a full working-through of the issues than to provide new disclosures with the many technical problems that the current draft presents.

Exhibit 3: Industry proposal for Template CR7

Purpose: The template is aimed at illustrating the effect of CRM (comprehensive and simplified approach) on standardized approach capital requirements calculations. RWA density provides a synthetic metric on riskiness of each portfolio.

Scope of application: Figures are reported according to regulatory exposure amounts.

Frequency: Annually

Format: Fixed

The whole template is mandatory for banks using the standardized approach and must be used to disclose exposures treated accordingly to this approach. The columns are fixed.

The rows, as indicated, reflect the asset classes as defined under the Basel framework. However, the rows may slightly differ at the individual jurisdiction’s level to reflect exposure categories as required under national implementation of the standardized approach.

Accompanying narrative: explanations must supplement the template, in particular changes compared to the previous issuance of the template.

		a	b	c	d	e
		Exposure before CRM		Credit exposure post-CCF and post-CRM	RWA density	RWA
		On balance sheet amount	Off balance sheet amount			
1	Sovereign and Central Bank					
2	Non-central government public sector entities					
...	...					
13	Other assets					
14	Total					

Rows:

Higher-risk categories: Banks must include in this row the exposures included in paragraph 79 of the Basel framework that are not included in other regulatory portfolios (e.g. exposure weighted at 150% or higher risk weight reflecting the higher risks associated with these assets, such as venture capital and private equity investments).

Other assets: refers to assets subject to specific risk-weight set out by Paragraph 81 of the Basel framework and to significant investment in commercial entities that receive a 1250% risk-weight according to Paragraph 90 fourth bullet of Basel III.

Columns:

On Balance sheet amount: banks must disclose the amount of exposure (net of allowances and write-offs) under the regulatory scope of consolidation.

Off Balance sheet amount: banks must disclose the exposure value without taking into account conversion factors and the effect of credit risk mitigation techniques.

Credit exposure post CCF and post-CRM: This is the amount to which the capital requirements are applied. It is therefore a net credit equivalent amount, after having applied CRM techniques and CCF.

RWA density: Total Risk Weighted Assets / exposure after CRM.

Linkages across templates

The amount in [CR7:Total/c] is equal to the amount in [CR8:14/j].

Exhibit 4: Industry proposal for Template CR10

Scope: Retail and wholesale credit, excluding counterparty credit risk

Purpose: The template illustrates the effect of post-origination CRM, i.e. credit derivative hedges on the IRB approach capital requirements calculations.

Frequency: Annually

Format: Fixed. The template is mandatory for banks using AIRB and/or FIRB approaches. Columns are fixed but the portfolio breakdown in the rows will be set at individual jurisdiction level to reflect exposure categories required under national implementations of IRB approaches.

Accompanying narrative: Explanations must supplement the template, describing the effects of CRM techniques on PD and LGD.

	a	b	c
	RWA pre-credit derivative hedges	Impact of credit derivative hedges	Final RWA
Sovereign – FIRB			
Sovereign – AIRB			
Banks – FIRB			
Banks – AIRB			
Corporate – FIRB			
Corporate – AIRB			
...			
Total			

Part 6: Counterparty Credit Risk

Table CCRA: Qualitative disclosure related to counterparty credit risk.

The template would benefit from more clarity with regard to the intention and scope of rows (b) to (e).

In particular, it is unclear whether rows (b) to (e) represent an exhaustive list of issues to be covered in the narrative under row (a).

Detailed Comments and Points for Clarification.

- Row (b) refers to internal capital limits, but purpose of the template is to describe the traded credit risk management framework. Therefore internal capital limits are only relevant if integrated as part of risk management. Depending on an institutions' approach to measuring & monitoring its internal capital, this may not be integrated and therefore row (b) could be disjointed from the rest of CCRA narrative.
- Row (c) refers to guarantees, which are one of a number of mitigants, so it is unclear why there is a particular focus on these. We recommend that this cover other credit risk mitigants, where relevant and material. Also in terms of assessments concerning exposures towards CCPs, clarity is required on what this pertains to (e.g. an assessment of credit standing or risk that arises).
- Row (e) seems to ask for a quantitative impact of a downgrade, which is at odds with the qualitative nature of the CCRA disclosure.

Template CCR1: Analysis of counterparty credit risk exposure (CCR) by approach.

Template OV1 states that amount in OV1:2/b (minimum capital requirement of total CCR) is equal to the sum of:

- CCR1:8/f (capital requirement for total CCR exposure);
- CCR2:4/c (capital requirement for total CVA capital charge); and
- CCR8:1/c and CCR8:11/c (capital requirements for CCP exposure).

This implies row (3) of Template CCR1 (SA-CCR method) should exclude CCP exposure once Template CCR8 becomes applicable in 2017 but it is not apparent from the template, thus further clarification or definition is required.

Column (d) “EAD post CRM”: In the context of SA CCR and IMM, EAD post CRM is counter-intuitive as collateral recognition is an integral part of the EAD calculation, for example through the adjustment of the margin frequency in the MPOR. Therefore it makes no sense to deduct again collateral from the EAD measure (similar comment in credit risk templates where CRM is recognized through LGD in the EAD calculation). The only exception is the credit valuation adjustment, which can be deducted only after the actual EAD calculation.

Cell 4b: Under the IMM approach, the EEPE contains the replacement cost and collateral with netting, therefore it cannot be filled in as currently defined.

Row (7): It is unclear what relevance VaR for SFTs has to do with this template as the other elements pertain to counterparty credit risk capital measures. Also not all firms/subsidiaries have approval to use VaR for SFTs for capital purposes.

Template CCR2: Credit valuation adjustment (CVA) capital charge.

We question the value of this template given that this information is given elsewhere in the disclosures (e.g. Template MR2). Also the CVA approach is tied to the information already provided in Template CCR1.

Column (a) “EAD post CRM”:

- EAD post CRM is counter intuitive as collateral recognition is an integral part of the EAD calculation. See comments in Template CCR1.
- It is not clear why the incurred CVA is mentioned as an EAD adjustment as it cannot be used to reduce EAD for the purpose of calculating the CVA market risk charge as per BCBS rules. See comments in Template CCR1.

Template CCR3: Standardized approach – CCR exposures by asset classes and risk weights.

We recommend the frequency of disclosure of this template be annual as the exposures are not dynamic enough to justify quarterly disclosures.

This template would benefit from more clarity on the following points:

- It is not clear whether this template refers to exposures generated by the Standardized Method, CEM or SA-CCR (to be implemented in 2017).
- It is not clear whether this template should include cleared exposures or not. If they are to be included, we recommend inserting a 2% column for CCPs.
- It is not clear what the term “regulatory retail portfolios” or “other assets” mean in the CCR context?
- It is not clear how securitization exposures should be treated.

Template CCR4: IRB – CCR exposures by portfolio and PD scale.

This template mixes multiple types of information and is very hard to interpret. Columns (a), (b), and (c) appear to be relevant to banking book positions, not trading book positions. As such they should be removed. At the same time, it is unclear what is required as CCF in the context of CCR under columns (b) and (c). The same is also true for EL and provisions as these are not terms used in the CCR context. It would be useful to see an example of an off balance sheet exposure under CCR where CCF would apply.

Furthermore, we question the value of providing such granular information on a quarterly basis. For the banks that use both FIRB and AIRB, this would result to an increased number of templates to publish every quarter. If banks need to include also previous period’s figures to allow comparability it would result to an overflow of information which is burdensome to produce with limited added value to the external investor.

The Associations' view is that this template should be flexible so as to allow banks to align it to their own PD rating bands.

If a bank is incorporating the collateral through EAD and not LGD, LGD will be unsecured across all trades. Apart from the fact that LGD would be the same or very similar (could be different for derivatives vs repos potentially), this would reveal effectively the modelled unsecured LGD to the public which is proprietary information.

Detailed Comments and Points for Clarification.

- It is not clear what obligor maturity means. Does it refer to the effective maturity of the netting set?
- It is unclear what the purpose is for column (f) (Number of obligors). The number of obligors would be unwieldy as well as irrelevant for many portfolios, particularly SME and retail portfolios.
- Column (m) (provisions) at this level of disaggregation could be confusing without lengthy explanation.
- Columns (a) to (c) add limited value, and therefore we propose they are removed as "EAD post CRM" in column (d) is sufficient.
- It is not clear whether this template should include cleared exposures or not.
- The default row under the PD scale column is redundant; there would be zero counterparty risk in a default scenario.

Template CCR5: Composition of collateral for counterparty credit risk exposure.

We question whether this adds value at a portfolio level and it may be more useful in the context of Annual Reports and Accounts.

The definition of "segregation" must be provided as there are many types of segregation. In the same context while differentiation of segregation provides only limited insight for received or posted collateral no disclosure information is given for associated asset encumbrance.

Furthermore, the split required for the cash line item and sovereign debt into domestic and other currencies is irrelevant as the split does not provide insight into the FX risk position a firm is running within netting sets due to the mismatch between the currency of the collateral and the settlement currency of the netting agreement.

Therefore, the current item should be replaced with a line calling for a simple presentation of the FX mismatch risk.

Detailed Comments and Points for Clarification.

- Should collateral information be provided for bi-lateral trades or also Initial & Variation Margin that is provided to CCPs?
- It is not clear what the informational content of the collateral breakdown. A lowly rated sovereign could be riskier than a highly rated corporate for example.

Template CCR6: Credit derivative exposures.

The scope of this template should be clarified i.e. whether it applies to trading books only.

Providing gross notional amounts under this template would be misleading. For both notional and gross fair values, it is necessary to clarify whether there is any netting to be performed or whether this is simply and aggregation of the individual trade values. Collateral needs to be accounted for true risk representation; otherwise the information value of such a disclosure is highly questionable.

In addition what is the notional definition, for index options, would it be delta weighted? Also would it be calculated as a bond equivalent amount that reflects the credit sensitivity? Otherwise pure notional aggregation provides not much informational value. For example an RPS and single name credit derivative have very different risk sensitivities for the same notional.

Do these exposures include cleared credit derivatives?

How should investors interpret the results since in certain instances credit derivatives hedge non-credit derivative exposures?

Template CCR7: RWA flow statements – exposures under Internal Model Method.

Providing such flow statement will require significant assumptions and will be hardly comparable across banks (same comment in credit and market risk).

Examples would be the allocation methodology used when multiple effects (as always the case) are in play, how is asset size defined in the IMM context since IMM is a risk based measure and MtM (as a proxy for asset size) is hardly related to risk. Not clear why foreign exchange movements are singled out as a market risk factor.

Row (8) could be used as a catch-all; it would be useful to understand whether there is any restriction as to what proportion of RWAs can be included under this item.

This template pertains to IMM only; we suggest there should be another which is applicable for the standardized approach.

A qualitative outline and explanation of major changes that have occurred over the quarter would bring much more valuable information to Pillar 3 users.

Template CCR8: Exposures to central counterparties.

The Associations call attention to the fact that important components of the regulatory framework for central counterparties are still being considered (especially with respect to resolution issues); therefore they suggest that the template be reviewed and updated where necessary as that process proceeds.

The stated purpose of the template is that all types of exposures are to be reported; however it is unclear where certain exposures are to be reported. The Associations seek clarity on where such exposures that are not specifically itemized in the template are to be reported.

Part 7: Securitization

General comments.

The Associations' members strongly support transparency in respect of the ABS markets and measures which incentivize investors to conduct their own independent risk review. To that end, GFMA and ISDA have been constructively engaged in various transparency initiatives, such as the Bank of England and European Central Bank development of templates for loan level data, establishing and implementing the European Data Warehouse or continuing dialogue with ESMA and the European Commission on Article 8b CRA3.²⁰ The IIF has similarly supported appropriate measures for proportionate regulation of securitization.

The Associations are cognizant of the interest expressed by stakeholders regarding the extent of historic and continuing involvement by each bank in securitization activity and the provision of clear and useful disclosure to stakeholders is supported by the banks in equal measure. However Pillar 3 objectives of the disclosure requirements should be to avoid duplication of the information that is already provided elsewhere, inconsistency and compliance uncertainty so as not to hinder the recovery of securitization markets, especially in Europe.

Therefore, it is essential to determine what the fundamental objective of Pillar 3 disclosure requirements is regarding securitization.

The Associations' most basic point is that, rather than looking at securitization only as a product, it would be beneficial to separate out disclosure of risks associated with banks' own securitization activity from those where the bank acquires a third-party securitized instrument. Disclosure should focus on the one hand, on risks retained by the bank in its own in *effective securitization transactions* and risks assumed by the bank as sponsor of an ABCP conduit, which should be kept separate from risks acquired by the bank as an investor in third-party originated transactions.

Risks can be retained, acquired or transferred from the bank to third parties and disclosure under Pillar 3 should only be required with respect to positions in transactions where significant risk transfer has been achieved and regulatory capital released. Of course, other types of exposures (where risk transfer has not been achieved or the bank has decided to retain the tranches on its own books) would be otherwise disclosed in credit- and market-risk disclosures.

It is of great consequence that only regulatory-relevant securitizations should be considered under Part 7 of the Pillar 3 Disclosure. Following this approach would allow not only to avoid double counting with credit and market risk disclosures (Parts 5 and 8) which might lead to confusion and reconciliation issues between accounting and prudential standards, but more importantly it would provide better clarity on the information that is required under Part 7, and better overview of the bank's activity in securitization.

Another significant concern with the current version is the lack of clear distinction between disclosures of securitization positions as opposed to disclosures of underlying pools. There is uncertainty about whether the "exposure" required under the templates (i.e. Templates SEC1 – 4), as currently drafted, refers to underlying pool or retained position. Principally we oppose disclosures on pool level as these are inappropriate from a risk perspective as we deem pool size to be an inadequate disclosure dimension as it does not necessarily provide an insight on the risk the institution faces and constitutes a pure volume-based disclosure item.

²⁰ EU Regulation 1060/2009 on Credit Rating Agencies (commonly referred to as "CRA3").

ABS prospectuses have always contained detailed disclosure and standards of transparency are even better and increasingly harmonized today in light of already-existing regulations and central bank and industry-led initiatives with which the Committee is already familiar. Thus, when it comes to underlying pools, there already exist a considerable (regulatory and non-regulatory) framework in Europe²¹ and in the US²² and compliance with these existing rules should provide sufficient level of underlying pool disclosure. A key success factor is to align to the extent possible definitions and standards with those standards already in place.

Furthermore, members are most concerned that the analysis that would be required at the asset class level would potentially have to be performed on a quarterly basis, creating an additional burdensome and time consuming exercise that would not be proportionate to the amount of period-to-period change that would normally be expected.

Consequently, the Associations propose to make it clear that the goal of Pillar 3 framework is disclosure of exposure to retained or acquired positions (not exposure to underlying pool) in transactions where effective risk transfer of the underlying assets has been achieved²³ which is the appropriate way to present the risk an institution is exposed to. Clear guidance is necessary not only regarding terminology (e.g. exposure to the underlying pool vs. securitization positions, as suggested in the alternative proposals for templates below), but also regarding activities (originator, sponsor, investor) and if any allocation is required, the appropriate mechanism for application.

Finally, in relation to all templates in Part 7, in addition to clarification of definitions noted above, template names, purpose statements, column headers, and associated definitions need to be reviewed and clarified throughout the entire securitization section. In some cases the purpose statements and the information required in the template contradict each other; in other cases, the definitions are simply unclear.

²¹ The existing transparency framework in Europe includes: European Central Bank (ECB) requirements for specific loan-by-loan information for ABS transactions accepted as collateral in Eurosystem credit operations (national central banks – e.g. Bank of England – introduced similar requirement to ECB plus further requirements for investor reports, legal documentation, cash flow models etc.); European Data Warehouse responsible for collecting, validating and making available for download detailed, standardized and asset class specific loan-level data for ABS transactions; investor reports contain summary information on the underlying pools available for readers of these reports, which are obtainable at least quarterly on bank issuer websites, subject only to user registration. In September, the EU Commission has adopted regulatory technical standards (RTS) relating to the implementation of the ABS disclosure requirements referred to in Art 8b of the EU Regulation on Credit Rating Agencies. The RTS mandate loan-level-data disclosure by law and will apply to “structured finance instruments” (SFI), which are defined to include any financial assets resulting from a securitization;

²² In August 2014, the US Securities and Exchange Commission (SEC) approved final Regulation AB II. Initial and ongoing asset-level disclosure will be required for registered offerings of RMBS, CMBS, Auto loan and lease ABS, ABS backed by corporate debt, and re-securitizations of such assets. The Final Rules also enhance the SEC’s existing pool-level disclosure requirements as it will mandate disclosure of originator and sponsors’ retained interest in the transactions. At the same time the ABS disclosure rules were finalized, the SEC also finalized rules related to the public disclosure of pre-securitization due diligence reports which apply to all ABS transactions, both registered and unregistered.

²³ However, in case this is not acceptable the Associations urge the BCBS to coordinate Pillar 3 disclosures with existing regulations on underlying pools and ask that pool size information should be clearly labeled as such with regard to related language and headings to prevent any confusion on the readers’ end.

To these ends, the Associations propose for the Committee’s consideration alternative proposals of the Templates SEC1 to SEC6 (Please see *Exhibit 5*).

Template SEC1: Quantitative disclosure – description of the bank activities related to securitization.

It is the Associations’ understanding that Template SEC1 is intended to require disclosure of securitization positions (instead of underlying pool information), where the risk transfer have been achieved; therefore in Template SEC1, we suggest to use “securitization exposures” instead of “securitized products exposures”. The definitional reference to “securitized products” lists the same exposures as “securitization exposures”.²⁴ Since both terms refer to the same exposures, we recommend using just one definition. From the perspective of those who deal regularly in the securitization business, the term “securitization exposures” is much clearer than the term “securitized products”. For consistency purposes, we also recommend using “securitization exposure” (as oppose to “securitized products exposures”) in the Definitions section of Template SEC1 and to make a clear distinction between the securitization exposures when bank acts as originator and when it acts as a sponsor. The same comment applies to Template SEC3.

To provide better clarity, the purpose statement of the Templates SEC1 and SEC3 should refer to bank’s activities as originator, sponsor and investor to reflect different risks bank is exposed and to ensure more accuracy of the information provided in Templates SEC1 and SEC3. In addition, the term “sponsor” should be clearly defined.

The purpose statement should include and make clear that Templates SEC1 and SEC3 would apply only to effective securitizations (i.e., where risk transfer has been effective); therefore transactions where the risk transfer has not been achieved should be reported in different part of the Pillar 3 disclosure framework. All securitized assets in a transaction with no confirmed regulatory risk transfer are already disclosed in the templates for credit or market risk exposures; thus in order to avoid duplication of disclosure, we recommend the following wording: *“The values shown in the template should only include transactions for which the capital requirement is assessed under the securitization framework; hence transactions that are not considered effective (i.e. where risk transfer has not been effective) as of the reporting date should not be included.”*

The term “stock measure” appears unclear and it is neither commonly used, nor defined adequately; thus the heading does not contribute to an understanding of the purpose of the template. Therefore, we propose to remove the term “stock measure” from the title of Templates SEC1 and SEC3. The same rationale applies to the term “flow measure” which should be removed from the Templates SEC2 and SEC4.

Template SEC1 appears to be asking for bank’s “sponsoring or originating securitization activities” yet the template also requires securitization exposures where the bank acts as investor. Therefore, the marked-up proposed revisions of the templates aim to differentiate and clarify reporting where the bank acts as an investor in third-party transactions versus where the bank retains or acquires a position in an originated or sponsored transaction, such position should be reported as part of origination or sponsored activity. As noted above, one of the fundamental issues here is that these functions are quite distinct both from a business and risk management perspective, so a clear separation would be most appropriate. The same comment applies to Template SEC3.

Templates SEC1 and SEC3 should require an “annual” reporting to align with other templates that refer to an annual frequency; the Associations have concluded that the information reported here would not

²⁴ See footnote of Table SECA.

change sufficiently from sub-period to sub-period, and hence alignment with annual reporting is most appropriate and most likely to be of value to users, without contributing to information overload in interim reports.

We also note that there is a row to report “other retail exposures” within “Retail”; however there is no such row for “other wholesale exposures” within “Wholesale”. Clarification should be provided as to which row should be used to show wholesale exposures that cannot be categorized into any of the line items. The same comment applies to Template SEC3.

The current version creates problems of interpretation for reporting synthetic transactions and protection received. It is proposed to report synthetic transactions in these templates just like the retained securitization exposures (tranches). If the direct transition between the pool assets and the protection received is considered to be useful information, we do prefer to report this in a separate template or via an explanatory text.

The alternative proposal of Template SEC1 refers to on- and off-balance sheet exposures, rather than “traditional” and “synthetic”. While this is not an essential point, the Associations believe the “on” and “off” balance sheet categories are more intuitive and provide better disclosure for general purposes; such approach would also make clearer what is to be done with semi-synthetic transactions.

Template SEC2: Securitization activities in the banking book – origination/sponsoring activities and related P&L (flow measure).

The title and purpose statement of Templates SEC2 and SEC4 refer to sponsoring and originating activities (not investor activities). Therefore, we suggest deleting the “Bank acts as investor” column as it seems to be at odds with the intended purpose of the Template SEC2 (the same is true for Template SEC4). As discussed above, it is important to keep a clear separation between investment in third-party transactions and origination or sponsorship activities.

We propose the term “flow measure” to remove it from the title of Templates SEC2 and SEC4 for the same reasons as outlined above in relation to Template SEC1.

Although banks can provide the P&L information requested, it is at odds with disclosures aimed at capital issues to include P&L information, which in any case is not relevant to capital calculations. Requiring P&L information here seems likely to cause confusion, particularly the split between “realized” and “unrealized” which is not clear. P&L information is of course part of financial-statement reporting. If the P&L information is retained, the instructions should make clear the intended purpose of such disclosure. Furthermore, it seems that such information at a very precise level could be used by competitors to benchmark individual transactions given the level of detail required and the possibly low numbers of transactions a bank might have outstanding in certain asset classes (e.g. P&L on credit card ABS). Therefore, the Associations conclude that exposure amounts is the only relevant information for users and that P&L,²⁵ numbers should not be required in this form.

²⁵ In the EU, CRR Article 449 - Exposure to securitization positions, requires the following but this is disclosed at sufficiently high level to avoid disclosure of proprietary information:

- (n) separately for the trading and the non-trading book, the following information broken down by exposure type
- (vi) a summary of the securitization activity of the current period, including the amount of exposures securitized and recognized gain or loss on sale

With regard to frequency, Templates SEC2 and SEC4 should be on an “annual” basis for the same reasons as for Template SEC1.

In order to clarify that Templates SEC2 and SEC4 apply to effective securitizations, we propose to redraft the definition of “Exposures securitized” so that it includes exposures “securitized by the bank, whether generated/originated by the bank or purchased into the balance sheet *which meet the requirements to fall within the securitization framework for capital purposes*”. It is important to stress that the definition should exclude any exposures where the risk transfer has not been achieved.

P&L information required in Templates SEC2 and SEC4 raises concerns as stated above.

Template SEC3: Securitization activities in the trading book – Balance of securitized product exposures at the end of each reporting period (stock measure).

With regard to the reasoning behind the proposed amendments to Template SEC3, please see our comments on Template SEC1. As noted therein, the term “stock measure” is not helpful and should be deleted.

Furthermore, please clarify the treatment of credit derivatives and the basis on which they should be reported in Template SEC3 (e.g. market value or notional).

Template SEC4: Securitization activities in the trading book – origination/sponsoring activities and related P&L (flow measure).

With regard to the reasoning behind the proposed amendments to Template SEC4, please see our comments to Template SEC2. As noted therein, the term “flow measure” is not helpful and could be deleted.

Template SEC5: Securitization positions in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor.

The Associations note that the proposed format of Templates SEC5 and SEC6 states “fixed”, however it may be adapted at individual jurisdiction level where necessary. We recommend that the columns be fixed for comparability across institutions.

With regard to frequency, in order to provide consistency with other Templates in Part 7 (and other parts of Pillar 3 framework), we recommend an “annual” basis for Templates SEC5 and SEC6.

Within proposed Templates SEC5 and SEC6, securitization exposures in the banking book are to be disclosed into long term rating bands and short term rating bands that appear to be based on S&P practice. However this is not aligned with supervisory reporting in the EU under COREP, which maps to long-term and short-term credit quality steps and unrated. It would be more useful to require risk weight bands rather than rating bands, among other things to be more consistent with the other templates, as discussed above. We reiterate the point made in the credit risk RWA templates that banks’ internal ratings, ratings philosophies and modeling choices are not always in line with S&P potentially leading to mapping issues.

In line with the “purpose” of Templates SEC5 and SEC6, we propose to simplify the template and make a division between “Exposure Value” and “RWA” as well as to indicate what dimension (in percentages) should be entered in columns (a) to (k).

We also note that the maximum capital requirement does not have a material effect on final RWA, so rather than focusing on it in the templates, we recommend deleting columns (p) through (s) and instead including the aggregate impact of maximal cap in the narrative supporting the template.

Finally, the present language could be confusing to preparers and users alike whether the “senior/non-senior” rows refer only to wholesale underlying or to both wholesale and retail underlying; to that end we propose to replace “senior/non-senior” rows with “wholesale” row in relation to “securitization “ under both “Traditional “ and “ Synthetic” section.

Template SEC6: Securitization positions in the banking book and associated regulatory capital requirements – bank acting as investor.

With regard to the reasoning behind the proposed amendments to Template SEC6, please see our comments on Template SEC5.

Exhibit 5: Industry proposal for Template SEC1 – 6

Template SEC1: Securitization activities in the banking book – Balance of exposures to securitization transactions at the end of each reporting period

Purpose: To present the exposure of the bank to residual origination, sponsorship and investment securitization activity in the banking book as at the reporting date. The values shown in the template should only include transactions for which capital requirement is assessed under the securitization framework. Hence transactions which are not considered effective (i.e. where the risk transfer has not been effective) as of the reporting date should not be included.

Frequency: Annual

Format: Flexible. Banks may in particular modify the breakdown proposed in rows if another breakdown would be more appropriate to reflect their activities. Row order may be inverted so as to provide sub totals and overall total which should agree to other disclosures.

Accompanying narrative: Explanations must supplement the template, in particular changes to the amounts compared to the previous reporting date and the drivers of such changes.

	Securitization exposures at the end of the reporting period									
	Bank acts as originator			Bank acts as sponsor			Banks acts as investor			Total
	On Balance sheet	Off balance sheet	Sub-total	On Balance sheet	Off balance sheet	Sub-total	On Balance sheet	Off balance sheet	Sub-total	
Retail (total) – of which:										
residential mortgage										
credit card										
other retail exposures										
re-securitization										
Wholesale (total) – of which:										
loans to corporates										
commercial mortgage										
lease and receivables										
re-securitization										

Definitions

1. Securitization exposures include, but are not restricted to, securities, liquidity facilities, protection provided to securitization positions, other commitments and credit enhancements such as I/O strips, cash collateral accounts and other subordinated assets.
2. Securitization exposures when the “bank acts as originator” includes (i) amounts still unsold (e.g. bonds retained under securitization rules), and (ii) amounts once sold but repurchased by the bank during the period.
Securitization exposures do not include : (iii) Balance of exposures securitized where the bank does not get sales treatment or risk transfer recognition (all under Basel definition) and (iv) exposures (i.e. loans) in the pipeline at the end of the reporting period but to be securitized.
3. Securitization exposures when the “bank acts as sponsor” should comprise exposures to commercial paper conduits to which the bank provides program wide enhancement, liquidity and other facilities. Overlapping facilities should not be double counted.
4. Synthetic transactions: if the bank has purchased protection, the remaining exposure (for example retained first loss tranche) should be included.

The total on and off-balance sheet amount of the pool of exposures on which the bank has purchased protection should be listed in the “originator or sponsor” column of Template SEC2 during the reporting period in which that transaction became effective. If the bank has sold protection, the amount on which credit protection has been sold should be posted in the “investor” column.

Template SEC2: Securitization activities in the banking book – origination/sponsoring activities

Purpose: To present amount of banking book assets securitized by the firm in the banking book during the reporting period.

Frequency: Annual

Format: Flexible

Accompanying narrative: Explanations must supplement the template, in particular changes to the amounts compared to the previous reporting date and the drivers of such changes.

	Activity during the reporting period	
	Bank acts as originator	Bank acts as sponsor
	Exposures securitized	Exposures securitized
Retail (total) – of which :		
residential mortgage		
credit card		
other retail exposures		
re-securitization		
Wholesale (total) – of which:		
loans to corporates		
commercial mortgage		
lease and receivables		
re-securitization		

Definitions

Exposures securitized includes underlying exposures originated or acquired by the bank, whether originated by the bank or purchased into the balance sheet for purposes of being securitized by the bank, which meet the requirements to fall within the securitization framework *for capital purposes*; Exposures securitized where the bank does not get sales treatment or risk transfer recognition (all under Basel definition) and exposures (i.e. loans) in the pipeline at the end of reporting period but yet to be securitized will fall within in the credit risk framework and a narrative description should be provided with a quantitative total as at the end of the reporting period.

Template SEC3: Securitization activities in the trading book – Balance of exposures to securitization transactions at the end of each reporting period

Purpose: To present the exposure of the bank to residual origination, sponsorship and investment securitization activities in the trading book as at the reporting date. The values shown in the template should only include transactions for which the capital requirement is assessed under the securitization framework; hence transactions that are not considered effective (i.e. where the risk transfer has not been effective) as of the reporting date should not be included.

Frequency: Annual

Format: Flexible. Banks may in particular modify the breakdown proposed in rows if another breakdown would be more appropriate to reflect their activities. Row order may be inverted so as to provide sub totals and overall total which should agree to other disclosures.

Accompanying narrative: Explanations must supplement the template, in particular changes to the amounts compared to the previous reporting date and the drivers of such changes.

	Securitization exposures at the end of the reporting period									
	Bank acts as originator			Bank acts as sponsor			Banks acts as investor			Total
	On Balance sheet	Off balance sheet	Sub-total	On Balance sheet	Off balance sheet	Sub-total	On Balance sheet	Off balance sheet	Sub-total	
Retail (total)										
– of which:										
residential mortgage										
credit card										
other retail exposures										
re-securitization										
Wholesale (total)										
– of which:										
loans to corporates										
commercial mortgage										
lease and receivables										
re-securitization										

Definitions

1. Securitization exposures include, but are not restricted to, securities, liquidity facilities, protection provided to securitization positions, other commitments and credit enhancements such as I/O strips, cash collateral accounts and other subordinated assets.
2. Securitization exposures when the “*bank acts as originator or as sponsor*” includes (i) amounts still unsold (in other words, kept) with the form of securitized products at the end of reporting period, and (ii) amounts once sold but repurchased by the bank during the period. Securitization exposures do not include: (iii) Balance of exposures securitized where the bank does not get sales treatment or risk transfer recognition (all under Basel definition) and (iv) Exposures (i.e. loans) in the pipeline at the end of the reporting period but to be securitized.
3. Securitization exposures when the “bank acts as sponsor” should comprise exposures to commercial paper conduits to which the bank provides program wide enhancement, liquidity and other facilities. Overlapping facilities should not be double counted.
4. Synthetic transactions: if the bank has purchased protection, the remaining exposure (for example retained first loss tranche) should be included.

The total on and off-balance sheet amount of the pool of exposures on which the bank has purchased protection should be listed in the “originator or sponsor” column (of Template SEC2 during the reporting period in which that transaction became effective. If the bank has sold protection, the amount on which credit protection has been sold should be posted in the “investor” column.

Template SEC4: Securitization activities in the trading book – origination/sponsoring activities

Purpose: To present flows of originator or sponsoring securitization activities in the trading book during the reporting period.

Frequency: Annual

Format: Flexible

Accompanying narrative: Explanations must supplement the template, in particular changes to the amounts compared to the previous reporting date and the drivers of such changes.

	Activity during the reporting period	
	Bank acts as originator	Bank acts as sponsor
	Exposures securitized	Exposures securitized
Retail (total) – of which :		
residential mortgage		
credit card		
other retail exposures		
re-securitization		
Wholesale (total) – of which:		
loans to corporates		
commercial mortgage		
lease and receivables		
re-securitization		

Definitions

Exposures securitized includes underlying exposures originated or acquired by the bank, whether originated by the bank or purchased into the balance sheet for purposes of being securitized by the bank, which meet the requirements to fall within the securitization framework *for capital purposes*; Exposures securitized where the bank does not get sales treatment or risk transfer recognition (all under Basel definition) and exposures (i.e. loans) in the pipeline at the end of reporting period but yet to be securitized will fall within in the credit risk framework and a narrative description should be provided with a quantitative total as at the end of the reporting period.

Template SEC5: Securitization positions in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor

Template SEC6: Securitization positions in the banking book and associated regulatory capital requirements – bank acting as investor

Frequency: Annual

Format: For comparability across institutions, we recommend the risk weight bands are fixed.

	a	b	c	d	e	f	g	h	i	j
	Exposure value					RWA				
	<=20%	>20% to 50%	>50% to 100%	>100% to <1250%	1250%	<=20%	>20% to 50%	>50% to 100%	>100% to <1250%	1250%
Traditional securitizations										
Of which securitization										
Of which retail underlying										
Of which wholesale										
Of which re-securitization										
Of which senior										
Of which non-senior										
Synthetic securitization										
Of which securitization										
Of which retail underlying										
Of which wholesale										
Of which re-securitization										
Of which senior										
Of which non-senior										
Total										

	a	b	c	d	e	f	g	h
	Exposure value				RWA			
	IRB RBA (inc. IAA)	IRB SFA	SA/SSFA	1250%	IRB RBA (inc. IAA)	IRB SFA	SA/SSFA	1250%
Traditional securitization								
Of which securitization								
Of which retail underlying								
Of which wholesale								
Of which re-securitization								
Of which senior								
Of which non-senior								
Synthetic securitization								
Of which securitization								
Of which retail underlying								
Of which wholesale								
Of which re-securitization								
Of which senior								
Of which non-senior								
Total								

Part 8: Market Risk

General Comment.

As noted in the general comments at the beginning of this letter, the market risk framework is currently being revisited as part of the FRTB, with significant policy and methodological changes being considered. Altering the Pillar 3 disclosure requirements without factoring in the new methodology framework is likely to create redundant effort for users and preparers:

- Users would need to become familiar with analyzing and interpreting changes that will be replaced within a short period by a significantly different methodology that will require a careful education process; thus, new reporting on the current methodology may result in further discontinuity and confusion; and
- Preparers would need to apply limited available resources to develop new processes for a methodology that will be replaced, whereas the FRTB will require significant resource effort and organizational focus to meet the new model development and validation processes.

Therefore, the Associations recommend that the implementation timeline for the revised Pillar 3 market risk templates be aligned with the timing for rolling the changes to the market risk regulatory framework. The revised market risk framework is expected to be finalized in 2015 and thus, could and should, be fully integrated in the phasing-in of Pillar 3 requirements. Therefore templates that request details or other information with regard to current methodologies that are expected to be phased out (such as the current regulatory VaR metric) should be amended accordingly.

The Committee proposes the disclosure of market risk modelling choices at a very granular level. Specifically on the topic of the impact of modelling assumptions, the Committee's RCAP report on the variability of market risk RWAs²⁶ identifies only a limited number of modelling choices with significant impact on RWA variability, such as:

- For VaR and SVaR, the length of the data period, and the method used to aggregate general and specific risk.
- For IRC, correlation assumptions, probability of default assumptions and the choice between spread or transition matrix based models.
- For CRM, the correlation between default/migration and spread movements, the choice whether to age positions, and modelling of stochastic LGD.

An industry paper on market risk RWA variance is forthcoming, which will elaborate on the Committee's RCAP report. The Associations thus recommend that the Pillar 3 disclosure templates contain only information regarding the key modelling choices that drive the RWAs, avoiding the creation of additional superfluous work for firms that has limited user value.

In any case, the Associations provide below comments and recommendations on the individual market risk templates of the current draft, in case the Committee does not accept the foregoing suggestions.

²⁶ See BCBS, *Regulatory Consistency Assessment Programme – Second report on risk-weighted assets for market risk in the trading book*, December 2013, available at: <http://www.bis.org/publ/bcbs267.htm>.

Table MRB: Qualitative disclosure requirements for all banks using IMA

The industry supports the principle that Pillar 3 disclosures enhance clarity and transparency of a financial institution's risk profile. Consistently with that view, however, we argue that the level of technical detail in this table requires a high level of specialized knowledge that is likely to surpass that of a typical market user. This level of detail is unlikely to contribute to users' understanding of market-risk RWA variability, resulting in confusion rather than better clarity.

For example, it is unclear what would be the value to an investor or a market analyst of disclosing whether a bank uses a one-day scaled VaR, as opposed to a 10-day overlapping period, when either approach may be appropriate and approved by the bank's supervisor.

This is an instance where it is important to note that a good deal of the information called for is already provided in important jurisdictions.

Furthermore, there is an issue of proportionality because the amount of market-risk disclosures called for in Pillar 3 and in other disclosure requirements are likely to be disproportionate to the overall risk profiles of many banks

Therefore, consideration should be given to the volume of additional disclosure implied by the market-risk approach taken in the current proposal.

While the Associations note that the table is flexible, it is stated that "the whole table is mandatory for banks using internal models", which would if anything compound rather than help manage the volume and proportionality problems just mentioned. An appropriate and useful revision of this table would make it fully flexible, while providing guidance to allow banks to craft disclosures appropriate to the IMA as implemented by them, focused on the most material issues for them.

Detailed comments and points for clarification.

- **Subsection A, panel (B):** there is a requirement to describe the main activities and risks not included in VaR / stressed VaR regulatory calculations. Industry participants interpret this requirement as Risks Not In VaR (RNIV). RNIVs are by definition very esoteric risks and often difficult to understand. Therefore the amount of discussion of those topics to explain them to the general audience is going to be far in excess of their meaningfulness for the overall level of RWA.
- **Subsection E, panel (B):** if a firm has to take into account the key modelling choices for all the different products, the number of iterations for the requested template may sum up to a multiple above x100 (depending on the trading book composition and subject to the regulatory model permissions regulators have granted). This would be highly impractical and cumbersome and adds little value to a market participant's understanding of the firm.
- **Subsection f (iv), panel (B):** subsection f (iv) asks for a number of risk factors by category of risk. There could be hundreds of risk factors, if not more, for each risk class and the grouping of the risk factors is highly dependent on each firm's risk framework. The level of detail required for stressed VaR models is fairly unprecedented and raises questions with regard to its usefulness for the Pillar 3 audience.
- **Subsection e (iv), panel (B):** we seek clarification on "aggregation approach" and whether it refers to the aggregation of VaR and specific risk.

- **Subsection G, panel (B):** we seek confirmation that this relates to stressed VaR rather than stress testing more generally.
- **Subsection c, panel (C):** we seek clarification of what is meant by “methodology used to achieve a capital assessment that is consistent with the required soundness standard.”

Template MR1: Market risk under standardized approach

The Associations’ principal technical comment on this template is to highlight that the requirement of splitting the option parameters as per the template is artificial and it is unclear how it would be done in practice. Once again, the purpose and usefulness of the information seems unclear.

Clarification of the reasons for the split as to options, if the disclosure is judged of sufficiently important would help banks’ understanding of the template.

Template MR3: RWA movement by key driver

This template poses considerable challenges given both data and modelling processes and the resulting risk of misinterpretation. RWA movements by key driver in the context of a capital charge that is based on average values over a quarter are complex to produce and interpret. Market moves often impact risk sensitivities and it would be essentially impossible to disentangle those components on a large portfolio, especially over 60 days (or 12 weeks). As such, banks appreciate the flexible nature of the template’s format.

The Associations propose that qualitative comments focusing on the main events or positions which have led to significant RWAs movements in the quarter and providing insight on those events or positions would be more valuable to Pillar 3 users.

The term “reconcile” implies a level of precision that is not practical operationally. The amounts presented will be estimates based on the predominant driver of the change. As such, we recommend removing the word “reconcile”.

Detailed comments and points for clarification.

- FX effects are missing as a separate category (or summarized under market movements). The EDTF proposal was to isolate the FX movements.
- The instructions state that where more than one model change has taken place, “additional rows could be added”. We assume that this refers only to material changes, and not, e.g., to details such as changes in the hierarchy of sources of ratings used in IRC.

It is important to note that that the finalization of the FRTB methodology may warrant significant alterations to this template. Consequently, we would propose that this template be included in Pillar 3 at a later date, within a suitable phasing schedule for the new Pillar 3 requirements.

Template MR4: Internal models approach (IMA) for trading portfolios

The Associations question the value of disclosing minimum values, as we believe that average and maximum values are more informative and useful for users.

To improve the readability of the template, we propose a layout with four rows (VaR, SVaR, IRC, CRM/APR) and three columns (period-end, average, max) as follows:

	a	b	c
	Period-end	Average	Maximum
VaR			
Stressed VaR			
IRC			
CRM/APR			

Detailed comments and points for clarification.

- How Template MR4 would be applied for banking groups which are subject to multiple regulatory VaR approvals and therefore have different maximum and minimum values for different periods and days.
- What the requirement “Banks may disclose an identical table for internal VaR (used for management purposes)...” means. In lieu thereof, an amendment to the narrative as follows would be appropriate: “Banks may disclose any additional information they feel is relevant.”

Template MR5: Comparison of VaR estimates with gains/losses

Detailed comments and points for clarification.

- It is unclear what “actual” and “hypothetical” trading outcomes are. The appropriate terminology, in order to avoid confusion, would be to compare estimated VaR and actual VaR; which is effectively the process used for official back-testing purposes. Note the similarity to the EDTF recommendation which banks have generally struggled to implement.
- In the narrative, the level of detail required for the analysis of outliers should depend on the zone as per the Basel back testing framework,²⁷ e.g. if in the green zone the number of outliers is statistically reasonable. In particular the narrative should not require separate disclosure of the dates of outliers; this information can already be inferred from the graph with sufficient accuracy.
- Under the CRR, commissions and fees are excluded; therefore such disclosure would not add value.

²⁷ BCBS, *Supervisory framework for the use of “backtesting” in conjunction with the internal models approach to market risk capital requirements*, January 1996, available at: <http://www.bis.org/publ/bcbssc223.pdf>.

Appendix III

A two-phase project.

At a time when both the private sector and the official sector are working hard on proposals to reduce the discrepancies across banks' RWAs while maintaining the essential characteristics of risk-based capital, it is obvious, but important to state, that any decisions either the first phase or the second phase of Pillar 3 would necessarily be subject to the outcome of all current work on RWAs. As a result, most disclosures in this area are likely to be subject to revision, a fact that should be taken into account in the cost-benefit analysis of the current version; any requirements issued now should take this into account and avoid disproportionate implementation burdens that are likely to be overridden in the near future.

Hypothetical capital under consideration. As part of the second phase, Paragraph 13 indicates that the Committee intends to consider the possibility of requiring banks using internal ratings-based approaches for credit risk to disclose hypothetical capital requirements according to the standardized approach for credit risk. As discussed briefly in Appendix I, it is obviously too early to comment in detail on this suggestion, but the industry believes that disclosure of hypothetical capital requirements under any scenario would be confusing and counterproductive.

It would be especially unfortunate if such disclosures suggested that the standardized requirements, which are necessarily cruder and less reflective of the situation of a given firm than risk-based requirements, would somehow be more reliable or accurate.

Moreover, any version of disclosure against hypothetical requirements would imply significant IT investments to permit calculation of the hypothetical figures: would this be the best use of scarce resources? Time would certainly be required to implement it. Any eventual solution to this problem should be built on current work being done on RWA benchmarking, rather than standardization. The concerns about opacity of RWAs have been broadly overstated; the consultative document should not reinforce those concerns, but should focus on benchmarking or other means of making RWAs more understandable, pursuant to ongoing work on RWAs.

Dashboard. The proposal refers at Paragraph 14 to the 2013 discussion paper on *The Regulatory Framework: balancing risk sensitivity, simplicity and comparability*²⁸ wherein is suggested a “dashboard” of key metrics to provide an overview of a bank’s prudential situation, as something to be taken up in the second phase. The Associations would be pleased to have an exploratory discussion of the implications if this idea moves forward. However, the Associations would like to bring the following immediate concerns to the Committee’s attention:

- Any new “dashboard” would have to be consistent with regulatory relevant metrics already disclosed by banks.
- “Key metrics” need to reflect the rest of the disclosure package and not add new metrics not otherwise developed in the disclosure framework in ways that would increase disclosure complexity. Otherwise, the key metrics will become de-facto new requirements, creating a kind of shadow regulation on top of the Basel Accord.
- Caution needs to be exercised in identifying “early warning signs of distress”: it may be risky to put too much stress on certain specific metrics, which could be relied upon too simplistically, on

²⁸ BCBS, *The regulatory framework: balancing risk sensitivity, simplicity and comparability - discussion paper*, July 2013, available at: <http://www.bis.org/publ/bcbs258.pdf>.

the one hand, or over-interpreted, on the other. It is unlikely that any specific metrics will offer a “magic formula” to predict distress, and appropriate caution needs to be applied in the presentation of any “dashboard” information.

- Any such “dashboard” should also avoid expanding the audit perimeter and already-existing assurance requirements and liabilities.
- Finally, a standardized suite of resilience measures is only meaningful if it differentiates risks. It should not be based on standardized approaches where banks use advanced IRB approaches.

As soon as it becomes possible, it would be helpful to know the nature of the substantive proposals coming into the second phase and the implementation schedule envisioned for the second phase. As much lead time as possible should be allowed for the outreach discussion on the second phase, which we know the Committee would plan to have. The schedule should of course be integrated with the overall phasing-in advocated in the comments on Paragraph 8 above. The Associations and their members stand ready to discuss the second phase whenever convenient.

Appendix IV

Annex: Comparison between EDTF Recommendations and Pillar 3 Proposals.

While the industry appreciates the fact that the Basel Working Group took great care to consider the EDTF recommendations, it nonetheless finds the discussion in the Annex more confusing than helpful. Overall, the industry would like to see more convergence with the EDTF Recommendations, which have had the benefit of extensive input from users (and robust debate between users and issuers). The Associations note with appreciation the EDTF's own constructive response to Pillar 3, dated 3 October 2014.

The stated difference of objectives of the EDTF and Pillar 3 seems exaggerated. The EDTF, just as much as Pillar 3, has comparability as one of its principles and one of its major goals. Yet the EDTF appropriately recognizes the tensions and trade-offs between comparability and appropriate understanding of the actual risk management of a given bank. While those tensions can never be fully resolved, it seems better to accept them and deal openly with the tensions. The current Pillar 3 proposal, despite good intentions, seems to go too far in the direction of seeking comparability through extreme granularity, but that undermines itself because much of the granular information will never be truly comparable, for reasons mentioned in the discussions of the tables and templates.

To reiterate, the EDTF has been driven by the needs of actual users. While it is understood (and laudable) that the Pillar 3 working group has consulted users in refining the proposal, the industry has a strong perception based on its daily interactions with users (including users that do not participate in the EDTF) that important portions of the voluminous and granular information requested (especially where requested on a quarterly basis) will not in fact be used by investors, and hence will not contribute to market discipline.

Furthermore, if the point is market discipline, as indeed it is, it is hard to see why Pillar 3 would systematically give priority to comparability over idiosyncratic bank risk, as stated at Page 74. Market discipline is likely to work most effectively in identifying and constraining firms taking outlier risks and indeed it is likely that trouble will first arise at such firms, as was the case in the crisis.

While it is understood that the scope of financial accounting, the EDTF Recommendations, and Pillar 3 are somewhat different, and Pillar 3 is not aimed at meeting all the disclosure needs of users, it nevertheless is also the case that users look at a firm overall, and want as much coherence as possible. While the differences set out in the Annex are somewhat driven by the unavoidable differences between the scope of a firm's regulatory group and the overall consolidated group that investors generally look at, nonetheless, a higher priority should be given to achieving tied-up disclosures with other parts of the overall disclosure package. Pillar 3 needs to have a more flexible definition of "flexible" to achieve this goal. This point is mentioned at several points in the text.

Finally, it is understood that the EDTF may withdraw some of its Recommendations once Pillar 3 is finalized, to the extent there is overlap. That would certainly be a good thing, to manage down duplication and information overload, but it should not obstruct the EDTF's ability to move more quickly than formal standards to meet changing market needs and conditions.