



May 25, 2018

Mr. William Coen
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Re: BCBS Consultative Document on Pillar 3 disclosure requirements – updated framework

Dear Mr. Coen,

The Institute of International Finance (IIF), the International Swaps and Derivatives Association (ISDA), and the Global Financial Market Associations (GFMA) (the “Associations”) appreciate the opportunity to provide comments on the Basel Committee on Banking Supervision (the “Committee” or “BCBS”) Consultative Document on Pillar 3 disclosure requirements – updated framework.

Executive summary

The Associations strongly endorse the goals of Pillar 3 framework, and would be pleased to contribute to the development of more simple, effective and meaningful Pillar 3 disclosures. After discussion and consideration of the consultative paper, we would like to formulate the following key observations:

- While we strongly support the role of Pillar 3 and meaningful disclosures, we would like to express an overall concern about the quantity and granularity of information that is sought in several of the proposals. We would argue that the current consultation is a proper opportunity to carefully examine and consider the actual current usefulness of granular information in terms of the number of users, the types of users and the actual value added by information usage. We firmly believe that the costs and the incremental benefits of granular disclosures should be carefully evaluated, rationalized and explained clearly to stakeholders in advance of the finalization of disclosure rules. In many cases, we would argue that the introduction of new granular requirements has not been supported by such analysis.

- We are concerned about granular requirements on qualitative narratives, which would reveal confidential or proprietary information in operational risk templates, CVA templates and others. It should be recognized that certain information cannot be disclosed to public due to its confidentiality, ongoing litigations or strategic decisions.
- We strongly believe that current benchmarking templates are not appropriate. Indeed, they are excessively granular and may mislead users. For example, if too granular benchmarking information is disclosed and if there are significant differences between RWA SA and RWA IRB, market participants excessively may rely on RWA SA and may distrust RWA IRB without fully understanding the underlying rationales used in IRB. Although peer comparison is desirable, the objective of comparability should not be pursued at the expense of proper analysis of the specifics of a bank's business model and risk profile. It is important not to undermine the IRB and output floor frameworks by too granular benchmarking disclosures. The conceptual basis of the risk-based approach should be maintained to make sure that true risks are properly reflected into the market. This should be properly recognized by the Pillar 3 framework so that potentially misleading information is not produced by disclosures.
- The column for central bank facilities in Template ENC (Asset encumbrance) should be deleted as it could be quite sensitive and might cause unnecessary procyclical market reactions, and the template should be carefully redesigned to eliminate any possibility for users to estimate assets in central bank facilities to contain procyclical reactions. In addition, we recommend the harmonization of international and local rules where appropriate to avoid unnecessary regulatory fragmentation. For example, the use of median value in asset encumbrance disclosure should be considered as it is currently used in EBA's template.
- We believe that it would be unnecessary and inappropriate to introduce Template CDC (Capital distribution constraints) into Pillar 3. As the Consultative Document indicates, Pillar 2 capital is sensitive information. Moreover, information containing Pillar 2 capital is not comparable across banks as the definition and application of Pillar 2 capital vary across jurisdictions; therefore, disclosures in this area will likely detract rather than add useful informational value.
- We recommend that the BCBS do not expand the scope of application of Template CC1 to resolution groups because it would result in an artificial (and hence, unuseful) classification, as there is no regulatory capital requirement necessarily applied at that level. It would cause serious confusion to users and misunderstanding of information disclosed. In addition, Template TLAC1 already provides of the necessary information on the composition of TLAC at resolution group level.

General comments

The Associations strongly endorse the underlying policy goals of the Pillar 3 framework in terms of seeking to enhance market understanding of banks' risk profiles. We agree with the BCBS that

sufficient granularity, and transparency and credibility are important. We would be very pleased to continue to contribute to the development and evolution of an effective Pillar 3 framework.

Our detailed responses to proposed templates for each category are set out in the following pages. However, we wish to highlight the following general comments which are related to Pillar 3 in general:

The quantity and granularity of information – We would like to express the industry’s key concern over the quantity and granularity of Pillar 3 disclosures. Across the different finalized disclosures issued over the past few years and the additional requirements included in this Consultative Document, there are more than 80 templates. Requiring banking organizations to disclose overly granular and redundant data in several different tables and templates may undermine Pillar 3’s usefulness and create confusion to users. This also requires banks to devote substantial resources to develop the reports. We believe that appropriate quantity and granularity is the key to keep disclosures simple, effective and meaningful and to avoid the risk of over-whelming users with excessive data. Many of the proposed templates are highly granular and their actual utility is questionable in terms of the number of users, the types of users and the actual value added by information usage.

Firstly, regarding the number of users, it needs to be recognized that only a small number of users in fact use granular Pillar 3 disclosure information. For example, based on statistics prepared by some banks, the hit rate of Pillar 3 reports in their websites is less than 10% (and sometimes lower) of that of Annual Reports. In addition, in many cases, banks rarely receive inquiries from users about specific details of granular information. These facts raise a question of the utility of granular information and the number of actual users.

Secondly, it is important to note that there is a range of users (i.e., investors, analysts and other stakeholders), and their size and sophistication considerably vary. Detailed information might be useful only for a small number of analysts or sophisticated investors but might not be so useful for majority of investors, including individual investors. Small sized non-sophisticated users can easily be flooded with voluminous information. Even among analysts or sophisticated investors, it may be likely that only some of them actually use granular information. We often hear the concerns from market participants, even from large sized users, that the volume of disclosures continues to balloon with little or no incremental benefits to them as users. They consider the volume of disclosure as an impediment to investment in banks. This clearly indicates that there is the danger that the Pillar 3 framework is devolving into a voluminous compliance exercise, rather than becoming a real tool for communication. In addition, it is also important to be aware that sophisticated users can gain granular information via due diligence so that granular information does not have to be publicly disclosed in Pillar 3 reports. Overall, considering that there are different types of users, the quantity and granularity of information should be carefully determined to be beneficial for not only a part of users but also the industry as a whole.

Thirdly, and most importantly, it is imperative for the Committee to identify the actual users, which templates and what information they use, what analysis they do, whether they understand the assumptions and conditions set to the disclosure items, and what added value they place on the templates. The existence of users of granular information does not necessarily mean that such granular information adds value to the financial industry. It all depends on how such granular information is used. People tend to presume that they can make better decisions with

more information, but it is not always correct¹. Therefore, the actual usefulness of disclosure information should be carefully monitored and evaluated.

Given the huge costs for banks to prepare granular Pillar 3 disclosures, and given the questions raised against the benefits of granular disclosures as mentioned above, the costs and the incremental usefulness of granular disclosure information to private-sector users should be carefully evaluated, rationalized and explained clearly to stakeholders in advance of the finalization of disclosure rules. This is an important first step to create simple and effective Pillar 3 framework with appropriate quantity and granularity.

Implementation timeline –The Committee proposes additions and revisions of templates, many of which are associated with the finalization of the Basel III. The Basel III package has just been finalized in December 2017, and the implementation of the final Basel III rules is still underway in many jurisdictions. Against that background, the Associations are concerned that it may be premature to finalize disclosure templates. We believe that it may be advisable to take an intentional pause beforehand to provide the industry with the needed time to fully digest, study and interpret the new rules. While uncertainty around the framework and requirements remains, it is difficult or premature to agree on harmonized disclosure templates. The industry is convinced that it is important that Pillar 3 disclosure framework should not front-run.

Additionally, the implementation timeline should be feasible for banks. It should be recognized that disclosure mandates will require substantial IT investments in terms of not only financial resources but also significant amount of time, like years, to design, develop and test the IT system. Currently, there are many other ongoing disclosure requirements coming from such as Phase two of Pillar 3 disclosure requirements, Expected Credit Loss (ECL) accounting provisions, and so on. Although the Committee proposes to implement some proposals such as Template ENC (Asset encumbrance) at the end of 2019, it would be difficult for some banks to implement by the specified date. As always with the Basel framework, a great deal of success will depend on consistent implementation. Therefore, the implementation timeline should be carefully reconsidered as taking feasibilities into account.

Separately, the Consultative Document says in page 14 that implementation date for Phase III shall be 1st January 2022, but this would lead to disadvantages to some banks by shortening the preparation period of implementation depending on their fiscal year end. Therefore, we would propose to describe implementation date as “their year-end 2022 financial report” instead of 1st January 2022. The same treatment has been made in the previous Pillar 3 standards².

Reflecting policies appropriately - Disclosures should properly reflect Pillar 1 policies and should not require more than what has been explicitly defined in the regulatory standard. Some disclosure templates such as Template BEN1 and BEN2 (– benchmarking) establish requirements beyond those in Pillar 1 policies. The final Basel III rule provides that “banks must disclose more granular information related to the calculation of their risk-weighted assets (RWA) under internally-modelled (IRB) and standardized approaches (SA)”. However, requiring for “every single asset class” disclosures of both IRB and SA RWA goes far beyond

¹ Tsai, C.I., Klayman, J., Hastie, R., (2008). Effects of amount of information on judgement accuracy and confidence. *Organizational Behavior and Human Decision Processes* 107, 97-105. – This report introduces studies, showing that when people receive more information, their confidence increases more than their accuracy on judgements.

² BCBS Standards “Revised Pillar 3 disclosure requirements” published in January 2015. Implementation data section in page 2 of the standards.

what has been decided. Such granular disclosure requirements could clearly undermine IRB and output floor framework as we discuss in detail in the following section (Part 6: Benchmarking).

In addition, considering that some local rules have already been developed and are currently in force, we recommend the harmonization of international and local rules where appropriate to avoid unnecessary fragmentation. At least, it should be necessary for the Committee to review local rules and understand their rationale before proposing templates which are not aligning with major local templates. We have identified several examples and we discuss them in detail in the following section (e.g. Part 4: Leverage ratio, Part 8: Asset encumbrance). From banks' viewpoints, it would be much more efficient if international and local rules are well aligned. Dynamic implementation via enhanced communication between the Committee as the international standard setter and local supervisors would therefore become more important to identify any possible areas of over-lap or under-lap.

Format of templates (fixed/flexible) – Disclosure templates should be feasible and meaningful. Enforcing templates which banks cannot prepare or less useful templates which users including supervisors do not pay particular attention to is just a waste of time for all stakeholders.

Therefore, we recommend a review of the appropriateness of the flexibility of template formats. The Committee might also give more flexibility in some formats where this is possible by considering the right balance of comparability, feasibility and usefulness.

Signposting - We recommend removal of the requirement that signposting be undertaken only if “the national supervisor responsible for ensuring the implementation of the Basel standards is subject to legal constraints in its ability to require the reporting of duplicative information,” as this is too restrictive so that the chance for signposting significantly decreases. Additional disclosure of the same information in both public regulatory reports and Pillar 3 reports would be redundant and would not add additional clarity.

In addition, we believe that provisions under the section 5.2.3 of the Consultative Document, especially regarding web links, which change a lot over time and require a constant update, would make Pillar 3 information less comparable among banks.

Miscellaneous -

- **Clearer reference needed** – It is recommended to review, update and make sure that reference documents and linkages across template are clearly written without any incorrect or confusing referrals.
- **Track changes** - Since there are many revisions in templates, it would be more efficient if the Committee could provide materials, which allow banks to track changes.
- **G-SIB reporting instructions** – The BCBS instructions usually reach banks in January and final numbers are reported to the BCBS in July (i.e. after the issuance of the Pillar 3 reports depending on their fiscal year end). Instructions further suggest that Pillar 3 numbers are restated if they contain differences to the final data reported to the BCBS in July. We are of the view that republishing is not a sound practice. Therefore, we recommend the Committee to send the G-SIB instructions earlier, for example in November, before final numbers being fixed for the Pillar 3 publications.

Question 1: What are the respondents' views on the proposed disclosure requirements set out within the Consultative Document – comments on specific templates

Part 2: Credit risk

Table CRB-A: Additional disclosure related to prudential treatment of problem assets

The newly proposed Table CRB-A may partly overlap with the existing tables such as Template CR1 and Table CRB. Both newly proposed and existing tables / templates require banks to disclose both qualitative and quantitative information of non-performing assets. Duplication of disclosure information not only puts additional operational burdens to banks but also makes users of information confused. To make disclosure simple and effective, these three tables / templates should be streamlined.

In addition, Table CRB-A is mandatory only when required by national supervisors, and the format is flexible, which amounts to allow full national discretion. In such a case, the necessity of setting international standards is highly questionable. Moreover, setting such a non-influential standard would undermine the meaning of other important international standards. If there were critical jurisdictional differences that could not be overcome, the template should be left at the discretion of local authorities.

Furthermore, the BCBS has not provided compelling arguments why information about forbearance should be disclosed. The disclosure of forbore exposures might be of very limited use for users.

Template CR5: Standardised approach – exposures by asset classes and risk weights

The template contains similar information to Template CR4, with exposures by asset classes just broken down further into risk weight categories. Therefore, these two templates are duplicative. In addition, we are concerned that the template is too granular. The second table in Template CR5 by risk weight is again duplicative and it is unclear what additional value the exposure amount that aligns with a particular risk weight provides.

Template CR10: IRB (specialized lending under the slotting approach)

High level information of the RWA and exposure amounts is already provided, so additional disclosure on specialized lending slotting approach is duplicative and too granular.

Part 3: Operational risk

Table ORA: General qualitative information on a bank's operational risk framework

In general, we welcome the opportunity to provide additional information of the main characteristics and elements of operational risk management framework, enabling users to understand the quality of banks' risk management framework. However, we believe that excessive details are anything but useful. Thus, we invite the Committee to consider whether there is need for disclosures such as "the scope and main context of reporting framework on

operational risk to executive management and to the board of directors” and, if so, to set out the reason for.

Separately, it would be appreciated if the Committee could elaborate a little more about what “the risk mitigation and risk transfer used in the management of operational risk” mean.

Template OR1: Historical losses

We are heavily concerned that the template requires too much details on historical losses, which include confidential /proprietary information. In the first place, relevant information is already disclosed in the notes to the financial statements (e.g. in the legal risk section) and it should suffice. It also should be recognized that certain information cannot be disclosed due to its confidentiality or ongoing litigations.

Likewise, the rationale for new loss exclusions may not be able to be disclosed due to the strategic decisions behind it. Although section 5.1.5. of the Consultative Document explains the treatment of confidential information (e.g. banks do not need to disclose in an exceptional case), in practice, “exceptional” is often interpreted as either not at all or extremely rarely. In addition, section 5.1.5. of the Consultative Document says that “It must also explain in the narrative commentary on the disclosure requirement the fact that the specific items of information have not been disclosed and the reasons for this”. This will effectively flag confidential information. It is important to make sure that confidential information is protected in any cases.

In addition, regarding “excluded operational risk loss”, we are concerned that users of information might be misled by seeking to determine underlying historical operational losses by adding back all excluded items. Supposed that one of the reasons of requiring disclosures of “excluded operational risk loss” is to make it easier for users to understand the differences in disclosure over the previous year (e.g. if there are any revisions in the previous year’s amount of losses and if the reason of the revisions is the divesture of the related business unit, users of information can easily understand the reason of the revisions if “excluded operational risk losses” are disclosed). If this is the primary reason for “excluded operational risk loss” disclosure, “Total amount of excluded operational risk losses” can be replaced with “Total amount of operational risk losses *excluded since last year*” to avoid misleading users, while preserving the Committee’s purposes.

Furthermore, the requirement to disclose the rationale for new loss exclusions appears to be excessive given that, in line with the document “Basel III: Finalising post-crisis reforms”, banks have to follow a specific procedure with the supervisor to exclude certain operational loss events that are no longer relevant to the banking organizations’ risk profile³.

Template OR2: Business Indicator and subcomponents

Business Indicator (BI) components defined in the “Basel III: Finalising post-crisis reforms” are similar but not fully coincident with the official balance sheet items that are reported in the financial statement such as earnings/10Q/10K. Therefore, disclosure of the BI subcomponents should be restricted to row 1, 2, 3, 4 and 5 in the Template and remove the lettered subcomponents (e.g. 1a, 1b, etc.). Disclosure of these lettered subcomponents may be confusing

³ Basel III: Finalising post-crisis reforms, Minimum capital requirements for operational risk, paragraph 27-29.

to end users. Detailed accounting information would already be disclosed as part of the financial statements, so removing these lettered subcomponents should not occur problems.

In addition, disclosure of BI for excluded divested activities would not be necessary if a national supervisor approves such exclusion. BI for excluded divested activities can be addressed through the accompanying narrative instead of row 6a and 6b.

Furthermore, as defined in page 135 of the “Basel III: Finalising post-crisis reforms”, “other operating expense” includes operational risk losses which have not been provisioned/reserved for in previous years and expenses related to establishing provisions/reserves for operational loss events. This is sensitive and confidential information that should not be disclosed.

Part 4: Leverage ratio

Templates LR1 and LR2: Summary comparison of accounting assets vs leverage ratio exposure measure and leverage ratio common disclosure template

As discussed in general comment section, it is important to be aware that some local rules have already been developed and are currently in practice. It is recommended to harmonize international and local rules where appropriate to avoid unnecessary fragmentation. For example, in leverage, it might be suggested to align the requirements regarding Template LR1 and Template LR2 to the existing EBA Guidelines⁴, which require a semi-annual submission instead of a quarterly submission, as proposed by the BCBS.

Part 5: Credit Valuation Adjustments (CVA)

We believe that the disclosure of specific and detailed elements could potentially result in revealing banks’ proprietary strategies on CVA management, level of hedging and typology of instruments used for hedging purposes, and how transactions are undertaken and valued. The templates also require a lot of confidential information, including transaction pricing, that can be commercially sensitive (e.g. “adjustments to front office / accounting CVA”, risk management strategy, proxy spread methodology, etc.). We understand the purpose of the Pillar 3 disclosures is to provide public information of the calculation of a bank’s capital charge. The new requirements expand into areas not relevant to the specific capital calculation, and no justification is provided for doing so.

Therefore, we recommend the Committee to streamline the CVA disclosures to key outputs of the calculation and high level qualitative descriptions. The nature and granularity of disclosures is commensurate with what is typically requested by the national supervisor as part of the regulatory examination, which is more appropriate to cover such technical and sensitive details. Detailed methodologies and components of the capital calculation should be provided only to supervisors as they are proprietary information for banks. Specific comments for each Template are as follows:

Template CVA2: The full basic approach for CVA (BA-CVA)

The template requires disclosure of overly granular information (row numbers 1-2, 4-7) and disclosure should be restricted to rows 3, 8, and 9. It is unclear what insight could be gained

⁴ Final Report - Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013, EBA, 14 December 2016

from numbers in row 1-2 and 4-7. In fact, we believe there is a risk for misinterpreting the results given the standardized nature of the underlying calculation.

Template CVAB: Qualitative disclosures for banks using the SA-CVA

The template contains excessive proprietary information on bank model choices and modelling techniques. Part (A) requires disclosure of bank specific, proprietary information about the CVA calculation. These items are in line with what should be provided to supervisors, but not to investors and end users. For example, exhaustive lists of inputs, specific methodologies including algorithms, adjustments made by front office, etc.

Template CVA3: The standardised approach for CVA (SA-CVA)

Rows 8-9 would be misleading as they would not consider the potential diversification benefits across counterparty types and furthermore they would potentially contain sensitive proprietary information about what hedging instruments a bank may be using.

In addition, the table's disclosure by risk type is too granular. Given that the Total Capital Charge is assessed at portfolio level, any splits would require some form of allocation. We are also concerned about the proprietary nature of information requested in rows 8 and 9. In addition, it is unclear how this information could be useful given that the different results across banks could be driven by divergent portfolio compositions and / or different criteria.

Template CVA4: RWA flow statements of CVA risk exposures under SA-CVA

We recommend the Committee to remove the template since narrative commentary about significant changes can be addressed in another template.

Part 6: Benchmarking

First of all, we are concerned about the granularity of information in the benchmarking templates. The Associations firmly believe that the templates are not appropriate, and they should be much less granular than those proposed in the consultation. The breakdown by each risk category and by credit risk asset classes is far excessive and not necessary since the Basel output floor is applied only at an aggregate level.

Too granular information required by Template BEN1 and BEN2 will easily make users be confused by disclosure overflow. The main objective of these templates is to allow users to compare risk-weighted assets (RWA) across banks. Therefore, disclosure requirements should be simplified and the templates should be more user-friendly. Again, it should be remembered that majority of users of disclosure information would be small-sized non-sophisticated market participants. This level of granular information is not only burdensome for banks but also unnecessary for most users and its usefulness to users is highly questionable.

In addition, as discussed in general comment section above, the templates require more than what has been decided in "Basel III: Finalising post-crisis reforms." In the finalized Basel III standards, it is decided that "banks must disclose more granular information related to the calculation of their RWA under internally-modelled (IRB) and standardized approaches (SA)". However, requiring disclosures of RWA calculated by both IRB and SA for "every single asset class" is far beyond what has been decided. The proposed templates allow users to compare RWA across banks with 100% floor and undermine both the IRB and 72.5% output floor frameworks, which we believe would cause misinformation. In this regard, we reiterate our view

that disclosures should properly reflect policies and should not require more than what has been decided in the policy standard.

Furthermore, it is significantly important to be aware that too granular disclosures on benchmarking might distort the incentives, and true risks might not be reflected properly. Pillar 3 is a communication between market participants and banks, so market reactions on disclosed information should be carefully considered and monitored. Especially, care should be taken not to undermine the conceptual basis of the risk-based approach. For example, if too granular benchmarking information is disclosed, market participants may pay more attention to RWA SA and start to depreciate the value of RWA IRB because of SA's easiness for comparison and other reasons. In another example, if there are significant differences between RWA SA and RWA IRB, although SA would not be able to fully capture risks, market participants may distrust RWA IRB without fully understanding the underlying rationales used in IRB. As such, there is a danger that market participants may believe in an illusion that RWA SA is the 'single truth'. In such cases, IRB might be undermined, banks might lose their motivations for IRB and the real risk of banks might not be properly reflected into the market. This situation is against the principles of Enhanced Disclosure Task Force (EDTF)⁵ such as "Disclosures should be comprehensive and include all of the bank's key activities and risks" and "Disclosures should reflect how the bank manages its risks".

In conclusion, the Associations strongly believe that the templates are not appropriate. Indeed, they are excessively granular and might make users confused and undermine the conceptual basis of the risk-based approach. Any templates which might mislead users and undermine important framework are not appropriate in Pillar 3.

Separately, the name of templates should be reconsidered. Although RWA SA should serve just as a reference, "benchmarking" sounds like as if SA is the way banks should adopt. That is why the name of templates should be changed to what is not misleading users (e.g. pro-forma).

Finally, an extra column can be added to show the "Actual Total RWA" to make it easier for users to grasp the actual total amount applied for capital requirement calculation.

Part 7: Overview of risk management, key prudential metrics and RWA

Template OV1: Overview of RWA

The template is somewhat duplicative of Template BEN1. The Committee should rationalize why an additional template is needed and aim to reduce the overall number of required tables and templates which contain similar information.

Template KM1: Key Metrics (at consolidated group level)

The template requires disclosure of too many capital ratios. The Committee should consider splitting the table into transition and fully loaded categories. Otherwise, it is not clear to users which ratio is effective or not. Pre-floor RWA and ratios should be removed as the benchmarking RWAs are already provided in the Benchmarking templates. If not removed, these ratios should be listed in a separate category in the table.

In addition, we believe that accompanying narratives that explain any significant changes in each metric's value compared with previous quarters might be burdensome for banks and,

⁵ Report of the Enhanced Disclosure Task Force (EDTF), 29 October 2012

therefore, should not require a deep level of details. As mentioned in the general comment section, costs and benefits of such granular information should be carefully examined.

Part 8: Asset encumbrance

The Associations acknowledge that the template plays an important role to make users understand the extent to which bank's assets remain available to creditors in the event of insolvency. However, as it is mentioned in the Consultative Document, the disclosure requirement regarding central bank exposure could be quite sensitive. Moreover, it might cause unnecessary procyclical market reactions in certain market circumstances although the disclosure requirement is optional. It is important that the disclosure requirements do not discourage banks to access to central bank facilities in recessions. That is why, the Associations are convinced that the requirement of disclosing central bank facilities should be completely deleted from Template ENC.

The Associations believe that the template should be carefully designed to eliminate any possibility for users to estimate assets in central bank facilities to contain procyclical reactions. The Consultative Document states that "in jurisdictions which decide not to include the optional column in the disclosure requirements, banks should group any assets used in central bank facilities with other encumbered and unencumbered assets, as appropriate." However, this might leave a possibility for users to estimate assets pledged in central bank facilities.

In addition, as discussed in general comment section, we recommend the harmonization of international and local rules where appropriate to avoid unnecessary regulatory fragmentation. We would like to highlight several discrepancies and concerns as follows:

- We are concerned about the level of granularity. Compared with the template recommended by EDTF⁶ or proposed by European Banking Authority (EBA)⁷, Template ENC requires much granular information. The examples of breakdown of column (d) and (h) on Template ENC, showing as [eg xxx], should be deleted because it is misleading in that they could be regarded as if they were the international standards although the breakdown shall be decided only by local supervisors/regulators and their practice of breakdown would considerably vary across jurisdictions. In addition, too granular disclosure may expose banks' proprietary information if they are asked to reconcile to the consolidated balance sheet. Furthermore, accompanying narrative which requires explanation on changes in balances could inadvertently disclose confidential information. For example, there could be changes in legal reserves that coincide with changes in encumbered assets, inadvertently disclosing material nonpublic information.
- In EBA's requirements, median value is used instead of period-end value to suppress the procyclicality. The use of median value should be considered as an alternative both not to make users confused and to contain procyclical effects.

Furthermore, the template would require some clarifications. For example, although the Consultative Document provides some definitions on encumbered / unencumbered assets, there might be a possibility that some assets are not consistently classified into encumbered / unencumbered depending on definitions used by banks. We invite the BCBS to consider using the same definition of encumbrance, which matches that of NSFR/LCR to maintain consistency

⁶ Report of the Enhanced Disclosure Task Force (EDTF), 29 October 2012

⁷ Draft Regulatory Technical Standards on disclosure of encumbered and unencumbered assets under Article 443 of the CRR, EBA, 03 March 2017

with other disclosures and calculations, and to ease implementation. In another example, the Consultative Document does not clarify the treatment of off-balance products such as security financing transactions and collateral swaps. In principle, it is not clear whether banks are required to report all transactions through which they have received collateral.

Given the concerns over granularity which may expose banks' proprietary information, given the lack of clear definitions of encumbered / unencumbered, and given Net Stable Funding Ratio (NSFR) disclosure already includes a lot of information about asset encumbrance, we recommend that only significant unencumbered assets be disclosed as opposed to every asset class on the balance sheet. This would avoid the need to reconcile to the consolidated balance sheet, inconsistencies across banks, and duplication of information. It is also an option to give banks flexibility to signpost against existing publicly disclosed asset encumbrance information rather than fixed Template ENC.

Part 9: Capital Distribution Constraints

While some jurisdictions require banks to disclose Pillar 2 capital information, others, as pointed out in the Consultative Document, deem this information sensitive and appropriate to continue not to disclose the Pillar 2 requirements.

Moreover, it needs to be stressed that the definition and application of Pillar 2 capital vary across jurisdictions. Therefore, information containing Pillar 2 capital is not comparable across banks. Disclosing such inconsistent information may be misleading and not meet the EDTF principle, "Disclosures should be comparable among banks"⁸.

In addition, as discussed above (see Table CRB-A section), the need for international standard is questionable when it is not binding as implementation and format of the template are left at national discretion. In such a case, local authorities may continue to address the whole issue.

Finally, it should be noted that national supervisors have a broad range of measures for capital distribution constraints. For example, supervisors can constrain dividend payments, can tighten the approval process for RWA models, might not approve the merger with other banks, or might tighten the entire prudential supervision for a bank. The choice of a measure might be a rather political decision. Therefore, the exact trigger for the disclosure of such constraints is difficult to be defined and described by banks. Moreover, Template CDC would create unnecessary pressure for national supervisors to disclose a specific measure to be taken for capital distribution constraints, which is not appropriate.

For the reasons described above, we believe it would be unnecessary and inappropriate to introduce the Template CDC in the Pillar 3 framework.

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

We are strongly concerned about the proposal of expanding the scope of application of Template CC1 to resolution groups because it may cause regulatory uncertainty and will mislead users.

⁸ Report of the Enhanced Disclosure Task Force (EDTF), 29 October 2012

Therefore, we suggest the Committee not to expand the scope of application. The reasons in detail are explained below.

First of all, it is important to prevent any regulatory uncertainty. The scope of application of Template CC1 has only recently been just determined as at the consolidated level in “Pillar 3 disclosure requirements – consolidated and enhanced framework” in March 2017. We believe that reopening issues that have already been decided upon does not set a good precedent for future discussions as it raises concerns about the stability of the decisions already taken, creates regulatory uncertainty and significantly complicates firms’ planning and reporting processes.

Importantly, there are differences between the regulatory capital framework, or going concern perspective, which necessitates a group consolidated approach, and the resolution framework, or gone concern perspective, which requires a resolution group approach. It is crucial to recognize that the scope of application of regulatory capital requirements and TLAC requirements is different and it is necessary to keep the regulatory capital disclosure separate from the TLAC disclosure. For banking groups with more than one resolution group, Template CC1 should be applied only at the group consolidated level (i.e. the level at which regulatory capital requirements apply) and Template TLAC1 should be applied only at a resolution group level. If Template CC1 is applied at a resolution group level, it would cause serious confusion and misunderstanding of information disclosed. Detailed reasonings are as follows:

- Regarding the different scope of application of capital and resolution/TLAC requirements, as the Committee has already pointed out in the Consultative Document, requiring a resolution group to disclose Template CC1 would be artificial, as there is no regulatory capital requirement to be applied at that level. The perimeter of a resolution group may not be the same as the scope of application of prudential capital requirements within the banking group.
- Furthermore, the eligibility criteria for regulatory capital instruments and TLAC is also different. For example, some instruments are not counted as TLAC, while counted as capital, and vice versa.
- As such, there are significant technical differences between the two regimes which will need to be delineated clearly within disclosures. Therefore, the emphasis of disclosure at a resolution group level should be on TLAC eligible resources rather than regulatory capital eligible instruments.

In addition to the arguments above, we would also raise the following points to be noted by the Committee.

- As stated in the Consultative Document, the proposal may result in a higher disclosure burden for Multiple Point of Entry (MPE) banks by increasing their administrative costs. This may undermine the level playing field.
- Users already have all information they need. Template TLAC1 provides broad necessary information on the composition of TLAC at a resolution group level. The template comprises both regulatory capital elements and non-regulatory capital elements. The regulatory capital items in Template TLAC1 include the most important determinants of its composition: CET1, AT1 and T2. The incremental benefit of a further breakdown of CET1 is marginal.
- For Single Point of Entry (SPE) banks, the consolidated level is equal to the resolution group level. Therefore, in the final standard, the similar clarification should be made as

footnote 18 in “Pillar 3 disclosure requirements – consolidated and enhanced framework” in March 2017: “For single point of entry (SPE) G-SIBs, there is only one resolution group”. This clearly indicates that they only need to complete the template once to report their positions.

- In addition, only for SPE banks, it could be considered to combine Template CC1 and Template TLAC1 just for pragmatic purposes (i.e. avoiding duplication).

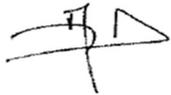
Conclusion

The Associations hope that the suggestions will contribute to create beneficial Pillar 3 framework both for banks and users, and would appreciate the opportunity to discuss any of these matters further. If you have any questions on issues raised in this letter please contact ourselves, or Junichi Fujimori (jfujimori@iif.com), Nicola Mariano (NMariano@isda.org), or Mark Bearman (Mark.Bearman@afme.eu)

Very truly yours,



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