

June 10, 2016

Comments on the Consultative Document: *Pillar 3 disclosure requirements - consolidated and enhanced framework*, issued by the Basel Committee on Banking Supervision

Japanese Bankers Association

We, the Japanese Bankers Association (“JBA”), are pleased to provide our comments on the consultative document: *Pillar 3 disclosure requirements - consolidated and enhanced framework*, issued by the Basel Committee on Banking Supervision (“BCBS”).

We respectfully expect that following comments will contribute to your further consideration for finalising the rule.

<<General Comments>>

**1. Disclosure requirements should be considered once the review of Pillar 1 framework has been finalised.**

With respect to credit risk, measurement approaches for risk-weighted asset (“RWA”) under Pillar 1 are currently being reviewed, including revisions to the standardised approaches (“SA”) and constraints on the use of internal ratings-based (“IRB”) approaches. Furthermore, a floor-setting based on the SA for banks using the IRB approaches has been proposed but is still under discussion. In addition to credit risk, items relating to operational risk are also being discussed, such as the withdrawal of the Advanced Measurement Approach (“AMA”) and a review of the standardised measurement approach (“SMA”). With a view to ensuring consistency between Pillar 1 regulatory requirements and Pillar 3 disclosure requirements, the BCBS’s proposals in this consultative document should be discussed once the above mentioned ongoing review of regulatory frameworks has been finalised.

**2. We oppose to the disclosure of hypothetical RWA measured based on the SA.**

The SA is a less granular measurement approach with unclear assumptions compared to the IRB approaches. Although the BCBS is currently reviewing the SA framework, this approach primarily focuses on simplicity, and consequently is less risk sensitive measure than IRB approaches, and is not capable of sufficiently including differences in practice across jurisdictions and banks. In addition, expected losses under the IRB approaches and differences in methods to reflect

provisions between the SA and the IRB approaches will not be considered in the comparison of RWA based on the SA and the IRB approaches. Given the above, calculation based on the SA is not an appropriate approach in light of the objective of this requirement to “reduce the opacity around bank’s internally modelled RWA and to enhance comparability across banks”. Furthermore, if both RWAs calculated based on the SA and the IRB are disclosed, it would be difficult to give a clear explanation to investors about the factors of differences between the two. It is our concern that such disclosure may result in misunderstanding among investors, such as RWAs calculated according to the SA is more accurate or more reliable than those based on IRB approaches. Therefore, we oppose to the proposal to disclose hypothetical RWA calculated using the SA.

**3. The implementation schedule should be determined carefully by taking into consideration banks’ regulatory burdens, including system development.**

The BCBS plans to finalise the items proposed in this consultative document by the end of 2016. However, given that review of several Basel frameworks are underway, implementation of such frameworks in parallel would impose significant regulatory burdens on banks. The BCBS should also consider that banks will need sufficient lead time for preparation to comply with the proposed disclosure requirements, such as system development.

Furthermore, the BCBS should clarify the schedule of the third phase, which is to be separately discussed, including when it will be publicly consulted, finalised and implemented.

## <<Specific Comments>>

### **1. Template KM**

The frequency of disclosure of the countercyclical capital buffer data in Template KM1 should be revised to a semiannual basis. Template CCyB1 requires disclosure of the countercyclical capital buffer information on a semiannual basis, but on the other hand, Template KM1 including the countercyclical capital buffer information needs to be disclosed on a quarterly basis. The same disclosure item should be subject to a consistent disclosure standard (semiannual basis).

### **2. Template HYP**

#### **(1) We oppose to the disclosure of hypothetical RWA calculated based on the SA.**

The SA is a less granular measurement approach with unclear assumptions compared to the IRB approaches. Although the BCBS is currently reviewing the SA framework, this approach primarily focuses on simplicity and consequently is less risk sensitive measure than the IRB approaches, and is not capable of sufficiently include the differences across jurisdictions and banks. Furthermore, in case banks use external ratings in order to calculate based on the SA, RWA may vary significantly depending on the standard of each bank regarding the use of external ratings and how much they obtain the external ratings, because risk weights (“RW”) greatly differ between ratings. Therefore, the calculation based on the SA will give rise to differences between banks and thus cannot be suitable approach for benchmarking purposes.

It is our understanding that the objective of this template is to enhance comparability across banks by comparing and analysing RWA calculated based on the SA and the IRB approaches. However, in the first place, it is not valuable to compare RWA calculated using the one-size-fits-all SA with RWA calculated in accordance with the IRB approaches where each bank aggregates historical data and takes into account practices specific to respective jurisdictions and banks.

In addition, expected losses under the IRB and differences in methods to reflect provisions between the SA and the IRB approaches are not taken into account when comparing RWA. Therefore, the calculation based on the SA is not an appropriate approach in light of the objective to “reduce the opacity around bank’s internally modelled RWA and to enhance comparability across banks”. Furthermore, it is our concern that using the SA as a benchmark may give rise to misunderstanding among investors, such as calculation outcomes by the SA is more accurate or more reliable than those based on IRB approach.

If it is determined that hypothetical RWA calculated using SA should be disclosed,

this should be further discussed over a sufficient period of time after finalising the capital floor framework as well as revisions to the IRB approaches in order to ensure consistency with such regulations. At present, there is overlap of concepts between several consultative documents: i.e. (i) the introduction of the capital floor framework based on the SA for banks using the IRB approaches, (ii) constraints on the use of internal models under the IRB framework (for example, requiring the use of SA for exposures in certain asset classes), and (iii) disclosure of hypothetical RWA calculated based on the SA, and relationships between such concepts are not clear. It should be avoided to implement the disclosure framework of hypothetical RWA calculated based on the SA, as an outcome of this consultative document. It should go through additional public consultation, as necessary, and be further discussed after ongoing review relating to Pillar 1 is finalised.

## **(2) In-scope portfolios**

The SA portfolios for banks using the IRB approaches (e.g. consolidated subsidiaries for which the IRB approaches is planned to be phased in, resecuritisation exposures after revisions to the securitisation framework, derivatives to which the SA-CCR is applied and CVA to which the standardised risk measurement approach is applied) should be excluded from Template HYP1.

## **(3) Treatment of securitisation exposures**

The SEC-SA based measurement and disclosure should not be required for every securitisation exposures. We consider that the capital requirement is already ensured by the revisions to the securitisation framework. Even in such cases where disclosure of hypothetical RWA is necessary, the BCBS should also allow disclosure according to the SEC-ERBA, given that it is not a measurement approach that relies on internal models. Since the SEC-ERBA is an approach which determines RW based on external ratings, there is no likelihood of variation in RW arising from differences in valuation methodology across banks. This should apply to both cases where the SEC-SA is used for valuation and where the SEC-ERBA is used to evaluate securitisations held by banks which are not qualified to use external ratings (e.g. U.S. banks). In view of these, the BCBS is requested to ensure that excessive calculation burdens will not be imposed on financial institutions as a whole.

## **3. Template MR**

In Template MR2, disclosure of the risk amounts per trading desk, such as

expected shortfall (“ES”) and default risk charge, should be excluded from the disclosure requirement. The definition of “trading desk” differs between banks depending on, among other things, differences in their business model. Therefore, such disclosure requirements may mislead investors’ risk recognition when they perform a comparative analysis of banks. In addition, given that a simple aggregate of the risk amounts per desk is not consistent with banks’ overall risk amounts which reflect effects of hedging and diversification, etc., this disclosure requirement may mislead risk recognition in this respect as well.

Furthermore, since the workload for Template MR4 is extremely heavy, the BCBS should allow banks to take a flexible approach according to their risk measurement model in preparing this template. After the fundamental review of the trading book takes effect, banks need to calculate ES, which would require much heavier burden compared to the current practice calculating VaR. Therefore, it is difficult in practice to precisely measure the drivers of RWA changes. Given this, by allowing flexibility with respect to the content of reporting, such as limiting disclosure information to the extent that meets the needs of investors (e.g. information at a level that enables investors to identify factors of changes only when a certain extent of changes in risk amount arises, instead of disclosing the movement in risk levels), it would be possible to calculate and report the disclosure items required under this template periodically and promptly.

#### **4. Template OR**

Disclosure items relating to operational risk should be discussed after the BCBS’s review of the SMA, which is currently under separate consultation, is finalised. Furthermore, while the second consultative document of the SMA framework describes that the “average total annual loss only including loss events above €10 million” and the “average total annual loss only including loss events above €100 million” are necessary to calculate the loss component of the SMA, Template OR1 in this consultative document requires disclosure of “Total amount of losses exceeding 1m €” as internal loss data used for the SMA calculation, giving rise to inconsistency in the threshold of loss amounts. Disclosure items under Template OR1 should be aligned with the requirements under the SMA framework after such a framework is finalised. In addition, disclosure items required under Template OR3 should be deleted because they are not used in the proposed SMA framework.