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EBF COMMENTS ON THE CONSULTATION ON GUIDELINES ON DISCLOSURE REQUIREMENTS UNDER PART EIGHT OF THE REGULATION

Key points:

- ◆ The draft Guidelines fail short of achieving their outspoken objective and the EBA initiative lacks, moreover, any legal basis. The document should be presented as a mere (non-binding) opinion of the European Banking Authority.
- ◆ The level of granularity of the proposed templates is overwhelming whilst a careful detailed cost-benefit analysis is lacking. To meet EU Better Regulation Principles, the EBA may be expected to carefully explain on a template-by-template basis how the excessive detail of the disclosures would be contributing to market discipline.
- ◆ The suggested early implementation date of a subset of 11 templates by year end 2016 is not feasible.
- ◆ With regards to the details of the proposals, definitions are unclear in many cases and various templates would benefit from a review as well.

I. GENERAL COMMENTS

A. Legality of the proposed Guidelines¹

1. We welcome the initiative taken by the EBA to provide EU banks with the possibility to reconcile existing CRR requirements with the revised phase 1 Pillar 3 recommendations issued by the Basel Committee to the extent that they put EU banks wishing to do so to anticipate their implementation into EU legislation with a view to meeting possible market expectations in this respect without going through the effort of providing two sets of templates, i.e. CRR compliant templates and BCBS 309 compliant templates.

¹ The British Bankers' Association does not agree with the objections set out in paragraphs 2 and 3 of Section A.

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2. The Guidelines fall short of achieving their outspoken objective mentioned at page 166, i.e. (i) *"to increase consistency and comparability of information in the EU disclosure framework"* and (ii) *"to address any potential misalignments between Basel revised Pillar 3 and the current CRR requirements"*.

As a matter of fact, the Guidelines, if implemented, will reduce comparability at EU level (considering that the proposed Guidelines discriminate amongst EU banks). If the proposals aim *"to increase consistency and comparability of information in the EU disclosure framework"* – as the consultation paper asserts – they should be imposed on all banks.

Considering that the Guidelines are not in line with what the Basel Committee had recommended, they are not likely to foster comparability at a global level either.

3. More importantly, the legal basis of the proposed Guidelines is basically flawed in several respects: the EBA has no legal authority to crystallise its guidance in "Guidelines (in the sense of Article 16 of the EBA Regulation). They should be presented as a mere (non-binding) opinion of the European Banking Authority instead.

- EBA guidance cannot possibly be proposed under Article 16 of the EBA Regulation.

Article 16 of the EBA Regulation clearly states that "Guidelines" are meant to contribute to *"establishing consistent, efficient and effective supervisory practices within the ESFS, and to ensuring the common, uniform and consistent application of Union law"*.

The Guidelines which are being proposed do not in any way contribute to ensuring common, uniform and consistent practices. To the contrary even, they are most likely to result in achieving diverging practices across the EU.

- Recital 26 to the EBA Regulation specifies, furthermore, that only "(i)n areas not covered by regulatory or implementing technical standards, the (European Banking) Authority should have the power to issue guidelines and recommendations on the application of Union law".

Regulation 575/2013 has harmonised across the EU public disclosures which banks are required to make. An EU Regulation overrides all national laws dealing with the same subject matter and subsequent national legislation must be consistent with it, whatever the EBA may suggest. As a consequence, individual Member States (including their administrative agencies such as banking supervisors) are no longer legally authorised to amend those harmonised rules in any way. As a consequence, banking supervisors have no legal authority whatsoever to implement what the EBA is proposing.

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- Moreover, public disclosure requirements are typically level 1-legislation which cannot, therefore, be imposed by administrative agencies at their own initiative.

It needs to be noted in this context that the EU Commission has apparently deliberately refused to provide the EBA with a mandate to prepare a proposal for a Technical Standard aiming at adapting the CRR requirements to the new Basel recommendations. It had plenty of time to do so considering that the Basel recommendations have been published already in January 2015. On the contrary even, because the EU Commission has decided to present its own proposals aiming at amending Part Eight of the CRR in the autumn of this year.

4. It needs to be observed, finally, that some of the proposals made in the draft Guidelines are not compliant with Part Eight of Regulation 575/2013 and cannot possibly, therefore, be binding to any institution because they are *ultra vires*.

- Article 13 CRR, Paragraph 1, states that its Part Eight (i.e. the Pillar 3 disclosure requirements) applies, in principle, to EU parent institutions only. This is in line with the Basel recommendations. Article 13, paragraph 2 adds that significant subsidiaries of EU parent institutions and those subsidiaries which are of material significance for their local market are required to disclose a limited amount of information, i.e. the information specified in Articles 437 (composition of own funds), 438 (capital requirements), 440 (capital buffers), 442 (credit risk adjustments), 450 (remuneration policy), 451 (leverage) and 453 (use of credit risk mitigation techniques), on an individual or sub-consolidated basis

Notwithstanding these legal provisions, the proposed Guidelines state that point 4.3 Section C – which is about risk management, objectives and policies, and therefore relates to a topic which is not covered in Article 13, Paragraph 2 – also applies to significant subsidiaries (see page 54, under 8 a). Clearly, the EBA has no authority whatsoever to amend the CRR in this regard.

- The proposed Guidelines require institutions to disclose a disclosure index under a tabular format, informing on where, in the different publications made by institutions, information required by the different Articles in Part Eight of the Regulation can be found (see page 59, Paragraph 25). This requirement goes beyond Article 434 CRR which does not include any requirement to disclose such an index.

Furthermore, they specify a number of requirements which need to be met whenever institutions signpost templates with a fixed format outside the single medium or location required (see page 61, Paragraph 36). This is not in line with Article 434 CRR which merely states that institutions may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements laid down in this Part and that, to the degree feasible, all disclosures shall be provided in one medium or location.

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- The proposed Guidelines suggest that institutions would disclose quantitative information in an editable format. No such requirement is being imposed under the CRR.
- Template EU LI3 (Outline of differences in the scope of consolidation entity by entity – page 77): disclosure by entity is excessive and goes in any event beyond the CRR requirements.
- Template EU CR10 (IRB: specialised lending and equities – page 85): disclosure of on- and off-balance sheet amounts and EL goes beyond CRR requirements.
- Template EU CRB-C (Geographical breakdown of exposures – page 91): the requirement is for 'significant areas' by 'material exposure classes. This template goes beyond the CRR.
- Template EU CR1-A (Credit quality of exposures by exposure classes and instruments - page 100): this proposed disclosure is excessively granular and goes beyond the CRR requirements in requesting the split between defaulted and non-defaulted carrying value.
- Template EU CR1-B (Credit quality of exposures by industry or counterparty types – page 104): this template is more expansive than the BCBS phase 1 version and goes significantly further than the requirements under CRR because of the split between defaulted and non-defaulted carrying values.
- Template EU CR1-C (Credit quality of exposures by geography – page 107): this template is more expansive than the BCBS phase 1 version and goes significantly further than the requirements under CRR.
- Template EU CR1-D (Ageing of past-due exposures – page 110): this requirement goes beyond the CRR requirements.
- Template EU CR1-E (Non-performing and forborne exposures – page 111): this requirement goes beyond the CRR requirements.
- Template EU CR3 (Credit risk mitigation techniques: overview – page 118): the requirement to disclose exposures before on- and off-balance-sheet netting goes beyond CRR requirements.
- Template EU CR4 (Standardised approach: credit risk exposure and credit risk mitigation – page 124): what is required under columns (c), (d) and (e) goes beyond CRR requirements.
- Template EU CR6 (IRB: Credit Risk exposures by exposure class and PD range – page 132): disclosure of maturity, value adjustments and provisions, original exposure, EL, number of obligors goes beyond CRR requirements.

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- Template EU CCR 1 (Analysis of the counterparty credit risk exposure by approach – page 140) includes an additional disclosure requirement for which the CRR does not provide a legal basis.
- Template EU CCR4 (IRB-CCR exposures by portfolio and PDF scale – page 146) includes an additional disclosure requirement for which the CRR does not provide a legal basis.
- Template EU CCR7 (RWA flow statements of CRR exposures under Internal Model Method – page 149) includes an additional disclosure requirement for which the CRR does not provide a legal basis.
- Template EU CRR5-A (Impact of netting and collateral held on exposure values – page 150) includes an additional disclosure requirement for which the CRR does not provide a legal basis.
- Template EU CCR6 and Template EU CRR6-B (Credit Derivatives exposures – page 153) includes a new row “breakdown by underlying hedged exposure classes” at fair value for both assets and liability and a new column “Other credit derivatives. The CRR does not provide a legal basis for those additional disclosure requirements.

B. Other comments of a general nature

1. The level of granularity of the proposed templates is overwhelming. Adapting to the new requirements will imply a huge workload for banks. Clearly, the heavy administrative burden which the granularity of the proposals imposes on the banks should not be decisive to assess the appropriateness of the proposals. Nevertheless, the question remains if they reach the right balance between banks’ cost to produce the information to meet disclosure requirements and the benefits/usefulness of the disclosure for the stakeholders. A careful detailed cost-benefit analysis is, however, lacking.

Considering that Pillar 3 has been conceived as a tool allowing market participants to influence the behaviour of banks, it would have seemed obvious for the Basel Committee to take their views into account.

- AUTONOMOUS RESEARCH – a research provider on financial companies – was critical in stating the following:
“We fear that disclosure of data which are not relevant for users can diminish or obscure the information which is of genuine use when understanding the risks a bank has undertaken, and the RWAs which those risks produce. We believe that in some of its scope, the Review errs on the side of over disclosure, and we highlight a number of

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proposals which we think can either be removed, or produced less frequently.”²

- DEUTSCHE BÖRSE GROUP commented that it saw *“the need to limit the disclosure in line with principle 3 to the meaningful information for users instead of keep the principle of comprehensiveness.”³* It continued in stating that:
“Consequently, in connection with the Pillar 3 disclosure requirements we generally ask the Committee not to introduce further measures and further burden to the banks without clearly verifying the added value for the user of that information as well as cost-benefit evidence. From our point of view the Pillar 3 disclosure requirements are amended in a way that they are becoming more and more voluminous and extremely closed to supervisory reporting under Pillar 1, without adequately taking into account the different necessities of the different recipients of information. In our view more disclosure of data does not mean more clarity and readability for the users. It is neither useful nor advisable to further increase the information in the disclosure requirements (already nowadays the disclosure reports are complex and for unexperienced persons hardly if at all readable). How complex and overarching the proposed adjustments are could easily be seen in the “List of format and frequency of each disclosure requirement” as shown on page 9 and 10 of the consultation paper. The mix of different frequencies with fixed and flexible formats is even for persons with dedicated experience in disclosure requirements confusing (how should an unexperienced interested party bring together the different formats, scattered information even linked by references etc.?). The sheer number of different templates and frequencies seems not reasonable and proportionated.”

- The auditing firm KPMG, a neutral observer, echoed similar concerns⁴:
‘It is not necessarily the case that more disclosure is always better disclosure. There is a risk that the sheer volume of data may obscure important information. As the Committee notes, disclosures should be relevant, focused, proportionate and understandable. (...) Before finalising any new disclosure requirements, we believe that the Committee should establish that the benefits of the new requirements – i.e. the value of the additional information provided to market participants outweigh the costs – i.e. the costs incurred by banks in preparing and publishing information and the potential benefits to users arising from excessive or boilerplate disclosure.’

² <https://www.bis.org/publ/bcbs286/autonomous.pdf>

³ <https://www.bis.org/publ/bcbs286/deutscheboerse.pdf>

⁴ <https://www.bis.org/publ/bcbs286/kpmg.pdf>

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The operational / reporting burden that the current consultation may imply needs to be made subject to a cost benefit analysis considering that the responses to the consultation from users have revealed that they do not share the view that the granularity of the information results in significant incremental gains in terms of market information nor if it is of similar utility for investors with different levels of financial knowledge / sophistication.

The stated objective of Pillar 3 disclosures is to discipline banks by means of pressure exerted by the users of those disclosures. The Basel Committee has not explained in a feedback statement why precisely their critical comments have not been taken on board. As a consequence, to meet EU Better Regulation Principles, we would like to invite the EBA in its feedback statement to carefully explain on a template-by-template basis how the excessive detail of the disclosures would be contributing to market discipline.

2. The proposed Guidelines recommend G-SIIs to implement them as soon as year-end 2016. This will be highly challenging and, even where possible, will need to be on a best endeavours basis considering that banks can only start adapting to new requirements once they have been finalised and, moreover, once their supervisor has decided whether or not it will take the legal risk of implementing them. Furthermore, banks need to be provided with sufficient time to analyse the final templates, assess them and organise themselves internally with a view to adapting their practices to the new requirements.

Because of the excessive detail of the proposed disclosures is overwhelming, adapting to the new requirements will, imply a huge workload. Moreover, banks will need to carefully assess possible concerns with respect to their implications for the competitive arena, which adds to the complexity of the implementation challenge.

It is also evident that there will be further changes to the guidelines at the completion of this consultation exercise. Depending on the degree of change, it will not be clear to the user which version of the disclosure requirements are being presented; the BCBS final standards from January 2015, the EBA consultation from June 2016 or the EBA final rules from December 2016. Any late changes banks attempt to their disclosures increases the risk of error and failure in governance and control procedures.

Against this backdrop, the suggested early implementation date of a subset of 11 templates by year end 2016 is not feasible.

3. With regards to the details of the proposals, definitions are unclear in many cases and would benefit from a review.

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The definition of “significant change” which is being used in several templates perfectly illustrates this. Considering that (i) significance varies between banks and (ii) the objective of the Basel review is to increase comparability amongst banks, more clarification seems warranted.

Risk disclosures should be based on concepts which have been standardised in an unequivocal manner, avoiding misinterpretation issues and distorted conclusions that can have severe implications on investor and customer’s perceptions.

4. The CRR requires institutions to publish their Pillar 3 annual disclosures in conjunction with the date of publication of the financial statements, which means that they can be published soon after the release of the annual accounts. Such a delay is reasonable and even inevitable considering, amongst others, that the latest Basel recommendations require institutions to disclose a disclosure index under a tabular format, informing on where, in the different publications made by institutions (such as financial statements), information required by the different Articles in Part Eight of the Regulation can be found.

The Basel Committee has taken the view that Pillar 3 disclosures must be made concurrently with the financial statements for the corresponding period. Such a requirement would put a significant strain on operational resources and assurance procedures of banks. It might, moreover and foremost, give rise to an unintended consequence of delaying the publication of financial statements and therefore risk reducing the timeliness of financial reporting.

Against this backdrop, we appreciate that the EBA has proposed that the publication can occur within reasonable delay.

II. QUESTIONS FOR CONSULTATION

Q1. Do users prefer a comprehensive template providing a breakdown of capital requirements and RWA by exposure classes for credit risk in Template EU OV1-B, or would they prefer to have the detailed breakdown by exposure classes provided in Template EU CR5-B for the Standardised approach and Template EU CR6 for the IRB approach?

Template EU OV1-B provides a sufficiently comprehensive and useful breakdown of capital requirements and RWA. It is also very similar to disclosures already stipulated by the CRR. It is therefore preferable to provide the comprehensive breakdown in OV1-B than to implement it in both EU CR5-B and EU CR6 which would require significant IT investment.

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Q2. Do members prefer a breakdown by exposure classes for Article 442 CRR using the granularity from COREP, the CRR or the Transparency exercise? In case users prefer a combination of the different exposure classes available in these breakdowns, please indicate the combination you would favour.

Banks prefer the COREP regularity.

Q3. Do you believe information on the exposure-weighted average maturity by PD grade is useful for understanding of an institution's IRB RWA?

In most cases the information would not add value to the analysis of an institution's IRB RWA.

Furthermore, revealing information in a standardised exposure weighted PD vs. maturity matrix could be misleading. This is due to difference in treatment of maturity in contracts in different markets/products and due to that the maturity split between different PD grades can be volatile due to credit mitigation actions. Hence, qualitative and confidential information would be needed to be able to make a fair comparison between the banks. This is a good example when more details would create more questions than answers. Information on total exposure PD and average maturity is a better and more comparable figure.

Q4. Would it be feasible to breakdown the value adjustments and provisions by PD grade for the fixed PD grade bands that are provided in the masterscale? Would this information be useful to users?

Such breakdown is feasible but it would be ad-hoc and on top of regular reporting. For some banks it would require additional work to produce this information.

It would be more appropriate that this reporting be referred until such time as IFRS9 is in place, the point being that on implementation of IFRS9 banks should be in a better position to draw out range of granular data enabling them to provide requested information as per EBA proposal.

Q5. Is information on the sources of counterparty credit risk (breakdown by type of transactions) for exposures measured under the Internal Model Method useful for users? Should this breakdown be expanded to the other methods of computation of the exposure value?

For some banks there would be practical impediments to produce this information.

We could envisage that some investors would be interested in the break-down of sources of counterparty credit risk under IMM. Having said that, we have not yet received requests

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from investors for the breakdown of sources of counterparty credit risk. Hence we do not believe there is a need to provide further granularity to this table.

Q6. Is the split of credit derivatives between used for the institution's own credit portfolio and one for credit derivatives used in the institutions' intermediation activities useful or relevant to users? What definitions or policies do you currently use to identify credit derivatives used for your own portfolio, and credit derivatives used for your intermediation activities?

This question requires further clarification from the EBA. Is the aim to split hedging vs trading? Further clarification and interpretation would be appreciated as it appears the requirement is not clear in CRR and the proposed Guidelines fail to achieve clarity as well

Q7. Which impediments, if any, including issues of availability of information, currently prevent you from disclosing the information on total (Standardised plus Internal model approaches) capital requirements by types of market risk as required under Article 445 CRR or are likely to render the disclosure of Template EU MR1-A unduly burdensome?

There is no impediment to disclose the information on capital by risk type as it is information that already has to be provided through the current COREP templates.

The requirement to disclose EU MR1-A in its currently proposed form does not create additional burden for banks as the information is already required in COREP C24.00 Market Risk Internal Models. However, a breakdown of capital requirements under the internal model approach by market risk types is not useful for users as diversification will lead to the sum of the individual components greater than the aggregate number calculated at portfolio level. This would therefore risk confusing the investors.

Q8. Is the separate disclosure of end of period and average values for VaR, stressed VaR, IRC and CRM useful for users?

The separate disclosure of end of period and average values could give an idea of how the risk profile is changing and this could be useful for reader of this info.

Q9. Do you agree with the proposed scope of application of the Guidelines?

The question is not to the point considering that the guidance which is being provided cannot possibly be considered binding. It will be up to each individual bank to decide if, and to what extent, it wishes to implement them.

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Regarding differentiated frequency, such as semi-annual and quarterly tables and templates, we consider that an “accompanying narrative” should not be required as it adds to an unnecessary operational burden. Furthermore, the drivers behind significant changes on a Q-o-Q or H-o-H basis could be misleading.

Q10. In case you support the development of key risk metric template(s) that would apply to all institutions, which area of risks and metrics would you like to be covered in such template(s)?

We support the introduction of a key risk template as it helps transparency and comparability. From our point of view the Key risk templates from the BCBS Phase 2 consultation on Pillar 3 would be a good model to use.

Q11. Do you regard making available quantitative disclosures in an editable format as feasible and useful?

Banks should decide themselves if they want to provide this service to the users.

Q12. In case you do not support making available all quantitative information specified in these Guidelines under an editable format, which subset of quantitative information should in your views be made available?

Banks should decide themselves if they want to provide this service to the users.

Q13. Does an early implementation of a selected set of information specified in these Guidelines appear feasible?

We have carefully explained in our General Comments (under part B) above why this is not feasible.

Q14. Which amendments, if any, would you bring to the selected set intended to be included in the recommendation for early application?

Only templates based on COREP reporting should be considered.

Q15. Do you agree with the content of these Guidelines? In case of disagreement with specific parts of these Guidelines, please outline alternatives regarding these specific part(s) to achieve the implementation of the revised Pillar 3 framework in a fully compliant way with the current CRR requirements.

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We are supportive of the EBA initiative to provide further clarity of the disclosure requirements for EU banks and its effort to align the templates to be compliant with CRR requirements as well as BCBS proposals. We are also supportive of the effort to align with existing reporting especially through COREP. However, the Law needs to be observed in all respects.

The guidance provided will be helpful but it will be up to each individual bank to decide what line of action it will take.

Q16. Do you agree with the impact assessment? In case of disagreement, please identify areas where costs and benefits are misstated or suggest alternative options.

Yes, we do. This being said, the amount of resources required by banks to implement changes to disclosures should not be underestimated

III. TEMPLATE SPECIFIC COMMENTS

a. Group structure and scope of application

EU LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

The rows in the balance sheet related to liabilities should be removed from the template OV1. Liabilities may only attract risk requirements where they have been subject to netting or offsetting treatment. As a result, liabilities would substantially be reported in column (g), which would be of minimal value to users.

b. Capital requirement

EU OV1-A: Overview of RWA and **EU OV1-B:** Overview of Exposure by Class

Since EU OV1-A appears to be a less granular more frequent (quarterly) version of EU OV1-B, we suggest disclosing template EU OV1-B on a semi-annual basis and disclosing template EU OV1-A on the quarters where EU OV1-B is not being disclosed i.e. in the first and third quarter. It does not make sense to disclose the information in two different templates where differences are that immaterial.

It needs to be clarified if the exposures mentioned in row 23 "Amounts below the threshold for deduction (subject to 250% risk weight)" should be reported under Sovereign (DTA) or equity exposure classes in other sections. If this is the case, sovereign and equity exposure classes would not be reconcilable towards these tables.

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Credit value adjustment (CVA) risk is absent from Template EU OV1-A in its current form. In our view, this risk type should be seen as distinct from counterparty credit risk as well as other risks listed in the template. As a result, we propose to add a row that includes this risk type separately.

Additionally, we propose to include a separate row that includes other risks such as those stemming from the application of Article 3 of the CRR, which allows institutions to apply stricter capital requirements than those required by the Regulation.

EU OV1-B

Clarification to avoid double counting is needed on what have precedence of SME, SL and Other in section 3a and 3b if overlaps exist (if a customer is both SME and SL).

c. Credit risk and credit risk mitigation general information

Templates EU CRB-B and EU CRB-C follow classifications defined by the CRR, yet use gross and net carrying amounts to define exposure that are more closely associated with FINREP. We propose to substitute "Original Exposure Pre Conversion Factors" that is defined by the CRR in place of gross and net carrying amounts.

EU CRB-B: Total and average net amount of exposures

Column (b), "Average net exposure over the period" refers to a monthly average. We propose to amend this to a quarterly average to align with current quarterly disclosures required by the CRR.

EU CRB-C: Geographical breakdown of exposures & EU CRB-D: Concentration of exposures by industry or counterparty types

This template may prove unwieldy for a large number of countries

EU CR1-A: Credit quality of exposures by exposure classes and instruments –

This proposed disclosure as currently designed is excessively granular in requesting the split between defaulted and non-defaulted carrying value. The design of the template should be reconsidered to deliver the requirements, for example introduce an additional template with reduced number of columns to present total value for defaulted, impaired and past due carrying values across exposure classes see below:

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	Specific credit risk adjustments	General credit risk adjustments	Total credit risk adjustments	Accumulated write-offs	Credit risk adj charges in period
Central governments and central banks					
Institutions					
Corporates					
Of which Specialised lending					
Of which SME					
Retail					
.....					
.....					
Total					

	Carrying value			Carrying value			Carrying value		
	Defaulted	Non-defaulted	Total	Impaired	Unimpaired	Total	Past due	Not past due	Total
Central governments and central banks									
Institutions									
Corporates									
Of which Specialised lending									
Of which SME									
Retail									
.....									
.....									
Total									

EU CR1-B: Credit quality of exposures by industry or counterparty types

Same as comment for template EU CR1-A

EU CR1-C: Credit quality of exposures by geography

Same as comment for template EU CR1-A

d. Credit risk and credit risk mitigation IRB approach

EU CR6: IRB – Credit risk exposures by exposure class and PD range

Clarification is sought on whether (h) “weighted average maturity” refers to residual maturity (maturity remaining) or the effective maturity (as used in the RWA calculation). Further, maturity should not be required for retail exposures as many exposures have no

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stated maturity or are irrelevant because most mortgages are refinanced or paid off well before maturity. In the CRR, maturity is not a component of the retail RW formula laid down in Article 154.

General comment: These templates follow classifications defined by the CRR yet use gross and net carrying amounts to define exposure that are more closely associated with FINREP. We propose to substitute "Original Exposure Pre Conversion Factors" that is defined by the CRR in place of gross and net carrying amounts.

EU CR7: IRB – Effect on RWA of credit derivatives used as CRM techniques

Clarification is sought on whether credit derivatives arising from synthetic securitisation (subject to the securitisation framework) should be included in the credit risk template "EU CR7".

EU CR8: RWA flow statements of credit risk exposures under IRB

It needs to be clarified:

- which key parameters that are to be included in "quality" and to whether the measure should be measured top down (portfolio level) or bottom-up (transaction level).
- if the table is supposed to include total credit risk REA. If this is the case should SA be included in "Other".

The proposed drill down seems to be unfeasible to be implemented. It needs to be clarified how to split RWA amounts on key drivers.

EU CR9: IRB – Backtesting of probability of default (PD) per exposure class

It needs to be clarified:

- What figures should be enclosed in column b - by PD range
- What is expected to be enclosed in column c – External rating equivalent
 - o The description below the table is unclear
 - o External Rating Equivalent should not be mandatory for all exposure classes. An external rating equivalent will not be applicable on the retail segment.

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

PFE is not an input required for CCR exposure calculation under IMM. It is unclear how and why this should be disclosed for IMM. This is at the risk of confusing users. The breakdown by sources of CCR exposures i.e. rows 5-7 is only for those under IMM. However, this is not reflected in the template. We suggest that rows 5-7 are labelled as 'Of which' under row 4.

CCR3: Standardised approach – CCR exposures by regulatory portfolio and risk

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It is noted that this template does not include the breakdown of exposure values at credit quality step level which does not fulfil Article 444 (e) of the CRR.

Please clarify what is expected to be populated in column 'deducted' in this template.

Please confirm where to disclose exposure values for instruments in the non-trading book that are subject to CCR capital charge.

CCR 4: CCR exposures by portfolio and PD scale

The purpose of the table is to provide all relevant parameters used for the calculation of CCR capital requirements for IRB models. However, columns a, b, c, k and l are irrelevant for the stated purpose. Hence we propose these columns to be removed and column d to be renamed as 'EAD post CRM'.

CCR 5: A - Impact of netting and collateral held on exposure values

Impact of netting and collateral held on exposure values are performed at counterparty level as opposed to product type level. The level of granularity required in this template is counter-intuitive as it goes against the setting of netting agreements. We propose that the breakdown at product type level is removed.

Please clarify if the offset of assets and liabilities between repo and reverse repos are allowed when calculating the net amount. If yes, what is expected to be included in column b 'Netting benefits'?

CCR 6 A&B: Credit derivative exposures

It is noted that the split of credit derivative hedges and other credit derivatives goes beyond the requirement in Article 439 (h) and we have not seen evidence that the investors demand to see such split.

Please confirm that column c 'Other credit derivatives' is a sum of protection bought and sold.

Please clarify if credit derivatives hedges refer to credit derivatives designated under IFRS hedge accounting rules or those for risk management purposes.

CCR7: RWA flow statements of CCR exposures under Internal Model Method (IMM)

Please clarify what is expected from row 6 'Foreign exchange movements'. Does it refer to foreign exchange translation movements?

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e. Market risk

MR1-A: Market risk own funds requirements

Row 1 'Position risk' to be replaced by two rows 'Interest rate risk (general and specific)' and 'Equity risk (general and specific)' – this will align this template with COREP templates C18.00, C21.00 and C24.00.

It is not meaningful or useful for investors to have aggregate values of RWA and capital requirements for the whole market risk portfolio, i.e. both standardised and internal models approach. The sum of individual components at market risk type level under internal model approaches will not reconcile to the total portfolio level calculation due to the recognition of diversification and hedging benefits. In other words, the sum of rows 1 – 6 would not reconcile to row 7 for both 'RWA' and 'Capital requirements'. An alternative would be to disclose standardised market risk portfolio RWA and capital treatment at risk type level and the modelled portfolio by components of the capital charge i.e. VaR, stressed VaR etc.

Please clarify in which table capital treatment for free deliveries should be included.

MRB – B: Qualitative disclosures for banks using the Internal Models Approach

The EBA proposed template makes the below CRR requirements redundant

- 1) Approach used to determine liquidity horizons
- 2) The methodologies used to achieve a capital assessment that is consistent with the required soundness standard and
- 3) The approaches used in the validation of the model

It is unclear what the EBA's intention is on this given these are still binding requirements under Article 455 (a)(ii).

EU MR2-A: Market risk under internal models approach

Lines 1(b) and 2(b) implicitly require banks to disclose information on the VaR multiplier. This disclosure does not add value to the market and poses propriety risks. As the imposition of certain 'add-ons' to the multiplier are subjectively based by the local supervisors, this requirement misses the mark regarding an even playing field disclosure. There is no clear instruction on where to include RWA and capital requirements for risks not in VaR ('RNIV'). To make it clearer and easier for the users, an additional row named 'RNIV' should be introduced.

EU MR2-B: RWA flow statements of market risk exposures under an IMA

Attribution of changes in the risk figures over a quarter-period and split by the categories listed is not a simple task and is certain to bring about differences between banks in interpretation of those changes and the how they fit into the various categories. Particularly challenging is the following:

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- The RWAs are using either 60 days or 12 weeks averages, so isolating changes in a RWA figure from movements in risk levels, foreign exchange and acquisitions & disposal will be very subjective and difficult for most banks; and
- The effects from model updates/changes and methodology & policy changes could be accomplished by running the models before and after an update (or simultaneous running of models over several quarters). This is not common practice, so this change will at best be based on a rough estimate.

It is unfeasible and impractical to compute RWA and capital requirements changes due to 'Foreign exposure movements'. We suggest that this row is removed.

The introduction of 'Regulatory adjustment' rows might not be clear to the users especially for those who are not familiar with the market risk capital framework. We propose an alternative template as follows:

		a	b	c	d	e	F	G
		VaR	SVaR	IRC	CRM	Other	Total RWA	Total capital requirements
1	RWA at previous quarter end (higher of values 1a and 1b)							
1a	60 day average RWA in the previous quarter							
1b	RWA at end of day previous quarter							
2	Movement in risk levels							
3	Model updates/changes							
4	Methodology and policy							
5	Acquisitions and disposals							
6	Other							
7a	RWA at end of day of the reporting period							
7b	60 day average RWA in the reporting period							

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7	RWA at end of reporting period (higher of values 7a and 7b)								
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