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Your ref., Your message of Our ref., person in charge Extension Date

BSBV 115/Horvath 3141 19th Sept 2016

**EBA Consultation Paper**

**Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013**

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as legal representative of the entire Austrian banking industry, appreciates the possibility to comment on the above cited consultation document and would like to submit the following position:

**1. General Comments**

The currently presented approach extends the information to be disclosed considerably.

For some categories, the definitions leave room for ambiguity or would mean considerable efforts.

Moreover, the appropriateness of certain disclosure requirements and the usefulness to the public seem questionable. From our point of view, these requirements seem to go beyond the feasible level of detail and will give wrong signals to the market.

It should be taken into consideration that the Basel Committee is also working on the topic of disclosure requirements. Therefore, it is highly important that any plans and new developments are aligned.

Furthermore, we want to emphasise that signposting for individual parts should be allowed as mentioned in chapter 4.2 – section D (page 61), in case the location of the publication varies for some parts.

**2. Comments Questions & Answers**

*Question 1:*

*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?*

EU OV1-B (consistent with COREP) is preferred due to the fact that implementation for this template should be much easier than the implementation of CR6 and CR5-B.

*Question 2:*

*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.*

We prefer a breakdown by exposure classes using the granularity from COREP due to the fact that these data /reporting is available, therefore implementation should be done with less effort. Using existing granularity criteria reduces implementation costs and additional resources. This would also reflect the current European aims to simplify the regulatory framework and reduce redundancies (e.g. “Better regulation”, “REFIT”).

Para 73 of the Guidelines requires institutions to disclose the average net exposure over the period. The definitions specify that this provision refers to the average of the net exposure values observed at the end of each month of the observation period. Since the current reporting is made in a quarterly frequency this requirement would lead to an initial implementation and a continuous monitoring burden. Additionally, the aim of the CRR to provide market participants with accurate and comprehensive information regarding the risk profile can also be achieved if only the net exposure at the end of period was disclosed. If a disclosure of average values has to be introduced the average should be based on existing reporting date, e.g. the average of the quarterly reported data.

*Question 3:*

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

We take the view that this question is model driven, however the implementation could cause additional cost due to new reporting / mappings, etc. and this is only relevant for A-IRB.

*Question 4: 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?*

The implementation could cause additional costs (reporting). Furthermore, we think that this information is not useful to investors (high range of PD bands, therefore the comparability between banks is limited).

In addition, as specific credit risk adjustment is a default trigger according to CRR Article 178, only a larger concentration in default grade would be noticeable and the rest of PD-grade information would carry only partial and non-significant information.

*Templates EU CR7 and EU CR8 – Other quantitative information*

Template CR8 (RWA flow) needs significant effort to implement, whereby an exact calculation is impossible. Especially questionable is row 4 (model updates) and 5 (methodology and policy), where calculation would be strongly influenced by hypothesis, that makes the comparison of results across institutions questionable and so the meaningfulness of the disclosure. The EBA guideline also mentions that the template is not based on an explicit CRR requirement.

*Question 5:*

*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?*

We do not have any objectives in this issue (most of the data is out of the regulatory reporting; therefore implementation costs should be limited).

*Question 8: Is the separate disclosure of end of period and average values for VaR, stressed VaR, IRC and CRM useful for users?*

Additional questions could arise for investors, e.g. which factors drove a higher average VaR compared to beginning/end of period VaR? Therefore, the practical usefulness of this template/report is questionable.

*Table EU CRB-A: Additional disclosure related to the credit quality of assets*

Implementation only possible after 1 year upon the final EBA guideline is published, and competent authority enters into force for the institution.

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

* It could become a very cumbersome table depending on the institution’s model landscape and the definition of “model”.
* Exact definitions which models should be reported and what constitutes a separate model, are needed. (Group wide vs. local/Is each calibration unit a separate model?/level of sub-models – see model map for TRIM exercise to get a flavour for how complicated this can get even for a very simple model landscape. Non-retail reporting should not depend on how a bank defines their models (e.g. group wide or local).)
* One way to make it standardized could be to require backtesting on COREP asset class level (group wide across models)
* On a technical level we do not see the benefit of column g vs h in the table: usually defaults in a rating grade are defined as a flow in a particular period (the “new defaults”), column g sounds like a measure for the stock of defaults, which in this context does not make sense. The potential information content of this value should be contained in column i (the average historical default rate).

*Question 9:*

*Do you agree with the proposed scope of application of the Guidelines?*

According to the guidelines, in some aspects a quarterly disclosure is suggested. However, it has to be mentioned that currently disclosed figures are audited whereas quarterly data are not audited. Therefore the scope of application is questionable in terms of frequency of data disclosure.

**Art 436 (b) CRR/EU LI3 (page 77)**: The breakdown on entity level (chapter 4.4 and template EU LI3), in order to show the difference in the scope of consolidation between the financial and the regulatory scope, goes beyond the requirements set out in Art. 436 (b) CRR and were so far never mentioned in any BCBS paper and sets out a new disclosure requirement. According to accounting/ IFRS requirements there is no obligation to disclose the scope of consolidation on entity level.

Despite the already mentioned features which could render the implementation of EU LI 3 (Article 436 [b] CRR/Frequency set to annual/ Information available in FINREP as well COREP) the added value of a break down on entity level for an external reader is in our point of view very limited and generates on the side of the credit institution a higher burden to provide this detailed entity list. We suggest to limit the breakdown to a more aggregated level e.g. based on entity classes as defined in the CRR Art. 4 e.g. credit institutions, financial institutions, etc.

*Question 10:*

*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)?*

More information is needed, in particular decisions/consultations of the Basel Committee.

*Question 11:*

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

Generally, this is feasible and useful, especially if it would be possible to create disclosure data and templates within xls only. Using a text and xls document separately, in contrast, create additional effort.

*Question 12:*

*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?*

We take the view that the decision about additional information should be done by the institutions due to different risk/business and threshold structures. Furthermore, this would meet the original intention of Pillar III.

*Question 13:*

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

No, due to additional effort of an earlier implementation of subsets.

*Question 14:*

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

None, see Q13.

*Question 15:*

*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.*

No, as the strict harmonization of templates, data etc. is not in line with the original intention of Pillar III. Furthermore, it is questionable if the risk profile of a bank can be interpreted by investors (e.g. PD time bands). As mentioned, especially the usefulness of a quarterly disclosure of some information (with not audited data) seems questionable.

**Article 435 CRR**: We oppose the additions in “blue” to the requirements for Article 435 (1) (f) and Article 435 (1) (b), i.e. information intragroup transactions and disclosure on the control framework incl. approved limits, as these are neither required by the Basel template nor the CRR and therefore we see no justification to provide this additional disclosure

* With regard to Art 435 (1) (c) in our opinion the new wording is not reflective of either the Basel requirement or the deleted text of the CRR
* It is unclear where the requirements for Article 435 (2) (e) are covered in the guidelines, they are deleted from the table but allegedly covered in Section 4.3., however, this does not appear to be the case

**Art 435 (1) (f) CRR/ table EU OVA** (Para 42,page 66) requires **table OVA** for each separate risk category, however, the requirements under Article 435 (1) (f) are not risk specific and therefore cannot be disclosed at this level of detail.

**Article 439 (e) CRR/template EU CCR5-A (page 151):** The gross positive fair value shall be reported on deal level and not on netting set level. The netting benefit and collateral impact is usually available on netting set level. The breakdown of the values which are available only on netting set level to the different product types and the matching to the gross positive fair value is not defined, therefore we may ask for a definition.

Furthermore the consideration of the prudent value adjustments would in many cases reduce the fair values. The reduction would also reduce the counterparty credit risk and would cause a mismatch between the fair values and the collateral.

**Article 439 (g) and (h) CRR/template EU CCR6-A:** It would be helpful if the underlying hedged exposure classes would be defined.

**Article 445 CRR/template EU MR1-A:** We ask to define the methodology for the breakdown to asset classes

**Article 455 (e) CRR/ template EU MR2-B**:

* Point 8a on page 43 defines the “RWA at end of day quarter”, whereas point 8a on page 160 defines the “RWA at end of day previous quarter”. We assume that the definition for point 8a on page 43 RWA at end of day quarter” is the correct one.
* Furthermore we ask to define the requirements for the points 2-7 which are not clearly defined. Actually there is room for interpretation; therefore detailed technical standards would bring more clarity.

We ask you to give our remarks due consideration.

Yours sincerely,

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Managing Director

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