

Association of German Banks | P.O. Box 040307 | 10062 Berlin | Germany

European Banking Authority - EBA
One Canada Square, Floor 46
Canary Wharf
LONDON E14 5AA
Great Britain

Ingmar Wulfert
Advisor
Telephone: +49 30 1663-2120
Fax: +49 30 1663-2199
ingmar.wulfert@bdb.de

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Prepared by Wu/Gk

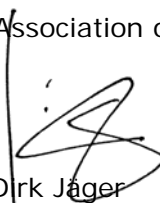
**Guidelines on disclosure requirements under Part Eight of
Regulation (EU) 575/2013 (EBA/CP/2016/07)**

27 September 2016


Dear Sir or Madam,

Thank you for the opportunity to comment on the Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013. Please find enclosed the comments of the German Banking Industry Committee.

Yours sincerely,
on behalf of the German Banking Industry Committee,
Association of German Banks


Dirk Jäger

Member of the Management Board


Ingmar Wulfert

Advisor

Coordinator:
Association of German Banks
Burgstraße 28 | 10178 Berlin | Germany
Telephone: +49 30 1663-0
Telefax: +49 30 1663-1399
www.die-deutsche-kreditwirtschaft.de

Comments on

Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013 (EBA/CP/2016/07)

Register of Interest Representatives
Identification number in the register: 52646912360-95

Contact:
Ingmar Wulfert
Advisor
Telephone: +49 30 1663-2120
Fax: +49 30 1663-2199
E-mail: ingmar.wulfert@bdb.de

Berlin, 27 September 2016

The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent approximately 1,700 banks.

Coordinator:
Association of German Banks
Burgstraße 28 | 10178 Berlin | Germany
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Comments on EBA/CP/2016/07

General comments

It is our understanding that the draft guidelines are not intended as implementation in the EU of the first stage of the Basel Pillar 3 Review (BCBS 309). Instead, their purpose is merely to enable EU banks to reconcile existing CRR requirements with the revised Basel recommendations in order to allow them to meet possible "market expectations" (whatever these are) without having to complete two sets of templates, i.e. CRR-compliant templates and BCBS 309-compliant templates. As we see it, the guidelines will not be binding and, in consequence, it will be up to each individual institution to decide whether, and to what extent, to abide by them. To make the proposed guidance legally binding on all European institutions, it would first be necessary to amend Regulation (EU) No 575/2013 (the CRR). Issuing binding guidelines at this stage would needlessly pre-empt the requisite Level 1 legislation (i.e. modification of the CRR) and be outside the remit of the EBA, in our view.

The scale of disclosures is continuing to increase significantly. We are seriously concerned that the sheer amount of information may be more likely to overwhelm users than enable them to better assess the risks carried by the disclosing bank. Some of the EBA's proposals for bringing the Basel requirements in line with the CRR would be very demanding to implement (e.g. exposure classes in template EU OV1-B, EU CRB-B).

As we believe the principle of proportionality should play a key role in Pillar 3 requirements, we were pleased to note that the guidelines basically focus on G-SIIs and O-SIIs. In recent years, this principle has not been adequately applied to smaller banks in our view. For small, regionally active banks, in particular, the costs generated by implementing regulatory requirements represent a substantial burden. Both in the past and in the course of current reviews, the Basel Pillar 3 standards, on which the requirements of the CRR are based, have been drafted with internationally active or even publicly traded institutions in mind. When these standards were implemented in the CRR, however, they were applied to all banks.

The timing of disclosure is a critical issue. The Basel Committee has proposed that prudential data should be disclosed at the same time as annual financial statements. At present, the CRR requires the publication of a separate disclosure report soon after the release of the annual accounts. We consider this arrangement sensible and sufficient and hence appreciate that, in the view of the EBA, the publication can occur "within reasonable delay" (page 21).

Since it is envisaged that the guidelines will not have to be implemented and applied until 31 December 2017, we assume that the first Pillar 3 report will not have to contain any data about the previous year.

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Specific comments

According to section 3.3.1 (Scope of application of the Guidelines and proportionality considerations), full application of the guidelines will be limited to G-SIIs and O-SIIs. According to the decision tree on page 48, the guidelines will also have to be applied by institutions categorised as significant by their national competent authority. By contrast, paragraph 9 of the draft guidelines, for example, refers simply to “competent authorities”. We assume that an editing error has been made and that the decision tree needs to be corrected to refer only to the “competent authority”.

In template EU LI2, only row 4 (off-balance sheet amounts) is required to show an amount before application of the conversion factor. The calculation method therefore differs from that for the initial amount in row 1. This means that the result in row 10 cannot be derived systematically from the amounts indicated. The instructions for row 4 should therefore refrain from differentiating between amounts before and after application of the conversion factor.

Column (e) of row 10 in template EU LI2 requires the provision of market risk data. These do not exist for the result in row 10, however. The handling of this field needs to be clarified. We see two possibilities: a) the field can be left blank; b) the EBA should explain how the amount is supposed to be calculated, especially by banks using internal models.

According to the definition of the final column in template EU CRB-B, the average of the net exposure values observed at the end of each month has to be indicated. By contrast, the Commission Implementing Regulation of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 specifies in Section 1 for solvency reporting and Section 2 for FINREP reporting that reports should be submitted to supervisors on a quarterly basis. Calculating and keeping records of end-of-month data would be highly onerous and produce results that could no longer be reconciled with the values in solvency reports. This, in turn, would generate a need for more explanations in disclosure reports, which could confuse, rather than inform, users. We therefore urge the EBA to permit average values to be calculated on the basis of the data submitted in supervisory reporting.

In the description of the content of template EU CR3, sentence 2 requires the separate disclosure of exposures secured by collateral which is not eligible as a CRM technique. It is not clear where or how these collateralised exposures are supposed to be disclosed. Since the format is fixed, it is not possible to add cells to the template. We would ask the EBA to clarify a) whether these collateralised exposures really have to be shown, and b) if so, how.

In template EU CCR5-A, netting benefits have to be disclosed in column (b). These are only available per netting set, which may contain different types of derivatives with different underlyings. It is not possible to assign the netting benefits to different types of underlying in a way that makes methodological sense. The requirement to break netting benefits down by underlying should therefore be dropped and institutions should just have to disclose the total amount.

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The description of template EU CRB-D does not match the title. The purpose is not to provide a breakdown of exposures “by geographical areas and exposure classes.” The purpose should read: “Provide a breakdown of exposures by industry or counterparty types.”

The instructions for calculating column (m) in templates EU CR1-A, EU CR1-B and EU CR1-C are “(a+a1+b+b1-c-c1-c2-c3)”. This bears no relationship to the columns of the templates. The instructions should probably read “(a+c+e+g-i-j)” and should be adjusted accordingly.

In template EU CR2-B, the heading of the column refers to “defaulted exposures” while row 2 mentions “securities that have defaulted or impaired”. We assume that, in the interests of international comparability, only “defaulted exposures” are meant here too. The wording should be adjusted.

In template EU CR3, the last five rows are numbered 1 to 5. This numbering is inconsistent and should be replaced with 43 to 47. The title of row 20 is the same as that of row 1. This suggests a new subcategory is being introduced. Rows 1 to 19 seem to relate to the IRB approach and rows 20 to 42 to the standardised approach. In the interests of intelligibility, headings should be inserted above row 1, row 20 and below row 42. An “of which” seems to be missing from rows 8, 9, 12 and 13.

In template EU CR10, a risk weight of 190% is indicated for the exchange-traded equity exposure category and a weight of 290% for private equity exposures. But the CRR specifies a risk weight of 290% for exchange-traded equity exposures and a 190% risk weight for private equity exposures. The amounts need to be corrected.

In template EU CCR1, rows 5 to 7 are shaded green, which gives the impression they are “of which” items of row 4. As there is not normally any colour differentiation in Pillar 3 reports, an “of which” should instead be inserted in front of the text in rows 5 to 7.

The definition of “total” in template EU CCR3 includes the phrase “but before in Template CR5-A or after in Template CR5-B”. It is not clear which of the two should be referred to. According to the first paragraph of section 3.2.11(b) on page 37 of the consultation paper, the template relates only to exposures after both CRM and CCF have been considered. We would appreciate clarification in the template’s definition of “total”.

According to the scope of application of table EU MRB-A (page 154), the disclosure is mandatory for all institutions with trading book business. These normally have to comply with all requirements relating to market risk. But the first column of the table mentions Article 455 of the CRR, which applies only to institutions using internal market risk models. We would therefore appreciate clarification that the table is only mandatory for institutions which use internal market risk models and are subject to the requirements of Article 455 of the CRR.

Paragraph 96 on page 123 refers to “Template **XX** in these Guidelines”. It is not clear which template is meant.

Paragraph 108 on page 135 refers to “paragraph **XX** of these Guidelines”. It is not clear which paragraph is being referred to.

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In the description of off-balance sheet amounts for the purposes of template EU LI2 (page 76), the wording “in application **pf** Part Three” should doubtless read “in application **of** Part Three”.

The title of the table on page 154 should doubtless read “EU MRB-A” instead of “EU MRB-B-A”.

Paragraph 129 (page 154) should doubtless read “Article 105 in Regulation (EU) 575/2013...”.

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?”

The scale of disclosures is continuing to increase significantly. We are seriously concerned that the sheer amount of information may be more likely to overwhelm users than enable them to better assess the risks carried by the disclosing bank. Some of the EBA’s proposals for bringing the Basel requirements in line with the CRR would be very demanding to implement (e.g. EU OV1-B). The level of detail required should be similar to that in the Basel standard, in our view.

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?

The value adjustments for non-defaulted exposure would be marginal compared to the defaulted exposures no matter what exposure class was reported.

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

No. The “broader scope of application” should be dropped. These requirements are not necessary for small or non-publicly traded institutions and there would be no added value for users. The cost of complying with the guidelines for small and non-publicly traded institutions would be out of all proportion to the economic benefits of the disclosure. We firmly believe it makes better sense to confine the guidelines’ scope of application to G-SIIs and O-SIIs only.

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)?

As explained above, we believe the principle of proportionality should be applied and that it should not be mandatory for small, non-publicly traded banks to complete any further disclosure templates. We do not, therefore, consider it appropriate to introduce any “key risk metric templates” for all institutions.

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

An editable format for quantitative disclosures could be used for market manipulation purposes. Banks have no influence on the transfer of the editable data to third parties. Possible differences between the full disclosure and the editable format might be wrongly interpreted. Banks would then need to explain the reasons for such differences, which could cause significant problems. In any event, an editable format for quantitative disclosures only would be of limited benefit to users since a complete assessment would also need to draw on qualitative information from the Pillar 3 report.

For these reasons, we are opposed to the idea of requiring disclosure in an editable format.

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?

The arguments outlined above in our reply to Q11 apply to any other subset of information. For this reason, we are also opposed to the idea of disclosing any information in an editable form.

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.

We are highly concerned about the scale of disclosure already required. There is a danger that the flood of information, which would be significantly increased by the EBA's proposed guidance in its present form, may cause users to lose sight of what is really relevant. In other words, we fear a "disclosure overload", which would fly in the face of the objective of Pillar 3 reports – namely to facilitate market discipline by means of information.