EAPB Position Paper on EBA Guidelines on disclosure requirements under Part Eight of the CRR

29 September 2016

The European Association of Public Banks (EAPB) welcomes the initiative of the European Banking Authority (EBA) to start a public consultation on guidelines on disclosure requirements under part eight of the Capital Requirements Regulation (CRR). Herewith, EAPB would like to submit its position paper on the draft guidelines. This paper provides general comments on the overall consultation and specific comments on the templates in section 1 and 2. Moreover, section 3 gives more detailed answers on the questions in the consultative document.

Section 1 – General comments

The EAPB perceives the draft guidelines not as a first step towards the implementation of the reviewed Basel Committee on Banking Supervision (BCBS) pillar III requirements, but rather as a step towards reconciliation of existing CRR requirements with the revised BCBS standards (BCBS 309) in order to allow European credit institutions to meet market expectations without having to provide two sets of templates, i.e. CRR compliant and BCBS 309 compliant ones. EAPB's understanding is that the guidelines – once finalised – will not be binding and that it will be up to each individual institution to decide if and to what extent it will apply them. It is only by amending the CRR that these requirements could have a legally binding character but such a measure is outside EBA's remits.

EAPB notes that the scale of disclosures is continuing to significantly increase for all credit institutions irrespective of their size or low-risk business model just like it is the case for public and promotional banks within EAPB membership. Certain EBA proposals implying to bring BCBS requirements in line with the CRR are rather complex (e.g. exposure classes in template EU OV1-B, EU CRB-B) and not appropriate for public and promotional banks whose activities fundamentally differ from those of the global systemically important institutions (G-SIIs) for whom the BCBS provisions were set up in the first place.

EAPB believes that the principle of proportionality should play a key role in the context of pillar 3 requirements and supports the fact that the guidelines are mainly targeted to G-SII and larger or more complex credit institutions. In the draft guidelines, proportionality is already incorporated by allowing institutions to make their own assessment whether more frequent disclosure than annual disclosure is necessary. At the same time, based on the size of an institution, EBA notes that some entities should pay particular attention to the need for disclosing more frequently than on an annual basis (pages 62-66) although more frequent disclosure is not mandatorily prescribed by the guidelines. However, some of the templates

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels ● Phone : +32 / 2 / 286 90 70 ● Fax : +32 / 2 / 231 03 47
Website: www.eapb.eu

in the consulted guidelines do already contain in their instruction a quarterly and semi-annual disclosure frequency which is in clear contrast to the statements made in the guidelines and the actual disclosure frequency as stated in CRR article 433 – namely once per year if not decided differently by the institution. Therefore, EAPB believes that EBA's guidelines could be clearer about the fact that disclosure frequency is specified in the CRR and allows for an institution's own assessment on the required disclosure frequency.

In addition, while EBA takes into consideration proportionality concerns in the guidelines, the only aspects factored in are the size of an institution and the identification of its G-SII or O-SII status. Neither the risk profile, nor the field of activity are taken into account. Such an approach is too simplistic and puts an additional burden to larger promotional banks which, despite their low-risk business model and specific legal set-up, could fall among the group of banks that EBA would want to disclose more frequently. The risk profile of promotional banks is stable and exceptionally low and a disclosure frequency going beyond the yearly provision would not provide any additional insights which materially improve the transparency of the respective promotional bank. Consequentially, EAPB believes that disclosure frequencies should not be prescribed only by considering the total assets of an entity but also by taking well note of the business model and risk profile as this would be also in line with the original intention of CRR article 433. Irrespective of the size of their balance sheets, for banks with leaner organisational structures (which is often the case for public and promotional banks), the costs and administrative burden generated by implementing regulatory requirements represent a substantial challenge. Both in the past and in the course of current reviews, the BCBS pillar 3 standards, on which the requirements of the CRR are based, have been drafted by having in mind internationally active cross-border banks or publicly traded institutions although the scope of application of the CRR is much wider than the one of the BCBS and also applicable to smaller and low-risk entities.

Besides, the timing of disclosure is an important issue. The BCBS has proposed that prudential data should be disclosed at the same time as annual financial statements. At present however, the CRR requires the publication of a separate disclosure report soon after the release of the annual accounts. EAPB believes that the latter arrangement is sensible and sufficient. Hence, EAPB appreciates that EBA also subscribes to that by stating that the disclosure publication can occur within reasonable delay (page 21). Since the official disclosure and implementation of the guidelines will not be in place before 31 December 2017, EAPB would assume that for the first binding disclosure report, no information on data from the previous year will have to be submitted.

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Section 2 – Specific comments

Page 75 – Template EU LI2

Template EU LI2 only requires for row 4 "Off-balance sheet amounts" a disclosure of off-balance sheet original exposure prior to the application of conversion factor. However, this would imply a methodological discrepancy in comparison to the data that has to be disclosed in row 1. Thus, it is unclear how to obtain the correct "exposure amount considered for regulatory purposes" in row 10 "Total" if the credit conversion factor is not used for off-balance sheet amount in row 4 column (a). Consequently, the result for row 10 cannot be deducted from the values in the previous rows. Therefore, EAPB believes that it is not necessary to differentiate in row 4 between off-balance sheet original exposure prior to the use of conversion factor and after the application of the conversion factor.

Page 89 – Template EU CRB-B

The last column of template EU CRB-B requires disclosure based on monthly average data. For the scope of the reporting on own funds, however, quarterly data has to be applied. Therefore, it would result in a significant extra burden for institutions to calculate monthly average data for the scope of this template. Moreover, the data resulting from that would not be comparable with the data from own funds reports. EAPB would thus suggest continuing working with quarterly data in order to ensure comparability and avoid additional costs.

Page 94 – Template EU CRB-D

The description of the template EU CRB-D does not seem to be aligned with its headline. It seems that *"Purpose: Provide a breakdown of exposures by geographical areas and exposure classes"* is mismatched and should instead say *"Purpose: Provide a breakdown of exposures by industry or counterparty"*. Therefore, clarification on the headline would be sought.

Page 100 – Template EU CR1-A, EU CR1-B, CR1-C

Column (m) in templates EU CR1-A, EU CR1-B and EU CR1-C includes the formula: *"(a + a1 + b + b1 – c – c1 – c2 – c3)"* which however seems mismatched with the template. Presumably, the formula should be *"(a + c + e + g – i – j)"*. Additional clarification and possible corrections would be helpful.

Page 115 – Template EU CR2-B

In template EU CR2-B, the column reads *"defaulted exposures"*, while row 2 *reads "securities that have defaulted or impaired"*. It is assumed that row 2 actually refers to *"defaulted exposure"*. More clarification on this would be helpful.

Page 118 – Template EU CR3

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In the description accompanying template EU CR3, it is mentioned that *„any secured exposures by collateral, financial guarantees or credit derivatives that are not eligible as CRM techniques under Part Three, Title II, Chapter 4 of Regulation (EU) 575/2013 to be used to reduce capital requirements should be disclosed separately within Template EU CR3"*. However, the template does not provide for a separate field in which this could be disclosed. Therefore, clarification is needed on whether, how and where to disclose this information.

For the sake of consistency, the last 5 rows of template EU CR3 should follow the numeric order of the previous rows and be given the numbers 43-47 instead of 1-5. Otherwise, it could be assumed that a new subgroup is established in the template. Moreover, it seems that rows 1-19 refer to IRB, while rows 20-42 refer to the CRSA. It would be helpful if this could be emphasized by labelling the rows accordingly.

Page 123
In paragraph 96 it reads *"(…) as well as Template **XX** in these Guidelines (…)"* which does not allow for conclusions on what template XX refers to. Clarification would be sought.

Page 135
In paragraph 108 it reads *"(…) as specified in paragraph **XX** of these Guidelines (…)"* which does not allow for conclusions on what template XX refers to. Clarification would be sought.

Page 144 - Template EU CCR3
The definition of "Total" in template EU CCR 3 reads *"(…) but before in Template CR5-A or after in Template CR5-B (…)".* It remains however unclear to what the definition is referring to and further explanations would be helpful on how to take "Total" in this template.

Page 150 - Template EU CCR5-A
Template EU CCR5-A requests disclosure of netting benefits in column (b). However, from a methodological point of view it is hardly possible to break down the netting benefits by underlyings. Therefore, it would be advisable to only disclose a total value for netting benefits without imposing the requirement of having to break it down.

Section 3 - Answers to questions

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?"

EAPB assumes that the amount of disclosures will continue to increase over time. EAPB is also concerned that the amount of information to be disclosed might rather overwhelm users

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instead of enabling them to better assess the risk profile inherent to a disclosing bank. Some of the EBA proposals with regards to template EU OV1-B are very demanding and EAPB believes that the degree of details should not exceed requirements as set up by the BCBS.

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 the non defaulted exposure would be marginal compared to the defaulted exposures, no matter which exposure class is reported.

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

EAPB would not agree with the proposed scope of application of the guidelines as the BCBS provisions are originally set up for G-SIIs. Extending the application of these guidelines should be subject to proportionality concerns in which not only the size of an entity should be the decisive factor but also the type of business model and risk profile. Such an approach would take into account the variety in O-SII's and other large financial institutions and would be in line with the original intention of CRR article 433. Furthermore, EAPB believes that the provisions for a broader scope of application should be omitted since there is no need to impose even more obligations on small or not capital market oriented entities such as promotional banks and since this would give no value-added to market participants. The expected cost increase for such entities to set up the report is in no proportion to the economic value-added of the disclosure and thus EAPB believes that it would be enough to limit the scope of application to G-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 already laid down in previous statements above, the principle of proportionality should be respected in a way which allows to exempt promotional banks from the obligation to disclose key risk metrics as these metrics are not relevant for the specific low-risk business model of promotional banks.

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

Quantitative disclosure in editable format might increase the risk of arbitrage and manipulation and could cause confusions or wrong interpretations of the respective template. Finally, this could result in more problems for institutions instead of

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simplifications. Moreover, the value-added of editable formats for quantitative disclosure is limited since this information would also have to be backed by qualitative aspects of the disclosure report. Therefore, EAPB would believe that making available quantitative disclosures in an editable format would not be useful.

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 answer to Q11 also corresponds to Q12 and EAPB would also believe that no subset of quantitative information would need to be disclosed in an editable format.

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.

Overall, EAPB believes that the amount of information to be disclosed is critical and already too extensive. Moreover, there is a risk that based on EBA's guidelines, even more information will have to be disclosed which may decrease the value added of disclosure reports making them less concise and clear. As a consequence, a "disclosure overload" could result which would be in conflict with the original goal of pillar III disclosure – market discipline and better information.

About EAPB:

The European Association of Public Banks (EAPB) gathers member organisations (financial institutions, funding agencies, public banks, associations of public banks and banks with similar interests) from 17 European Member States and countries, representing directly and indirectly the interests of over 90 financial institutions towards the EU and other European stakeholders. With a combined balance sheet total of about EUR 3,500 billion and a market share of around 15%, EAPB members constitute an essential part of the European financial sector.

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