POSITION PAPER

ESBG responds to consultation on guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013

ESBG (European Savings and Retail Banking Group)

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ESBG

European Savings and Retail Banking Group (ESBG) members are most appreciative of the opportunity afforded to them by the European Banking Authority to comment on the Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013.

We are confident that the below feedback will prove useful in this process.

General Comments

Members are concerned by the continually increasing scale of disclosures and the sheer amount of information required. Instead of allowing institutions to better assess their risks this may in fact overwhelm users. It is the opinion of our members that some of the EBA's proposals for bringing the EBA's proposals in line with the CRR would be very demanding to implement (e.g. exposure classes in template EU OV1-B, EU CRB-B). While members have reacted positively to the fact that European G-SIBs will have the possibility to report on a common standard with other G-SIBs, making international comparisons and benchmarks easier, they have been keen to stress that in a number of instances the required data or information to be disclosed goes beyond the requirements in the CRR and the revised Pillar 3 standard from the BCBS. This should not be the case.

As with all requirements and regulations, the principle of proportionality is key and the Pillar 3 requirements are no different. In general, the Basel Pillar 3 standards seem to have been drafted with internationally active or even publicly traded institutions in mind and for small banks, who also have to apply these standards, the implementation costs have represented a substantial burden. ESBG has been quite vocal on the need for proportionality and members have voiced their appreciation, in this case, for the fact that the guidelines basically focus on G-SIIs and O-SIIs.

Members have emphasised 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. 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. We consider an arrangement as envisaged by the EBA, i.e. that publication can occur "within reasonable delay" (page 21) to be sensible and sufficient and appreciate the EBA statement in this regard. Also, members are working under the assumption that as the guidelines will not have to be implemented and applied until 31 December 2017, the first Pillar 3 report issued after this date will not have to contain any comparative data from the previous year.

Finally, it has to be taken into account that a revision of the CRR/CRD IV is going to be undertaken in 2017. In this regard, it will be desirable to understand how the requirements in Part Eight of the CRR are going to be modified before issuing new Guidelines, in order not to overload credit institutions with constant modifications of disclosure requirements.

Similarly, the BCBS is currently finalising a review of a number of the approaches used to quantify risk weighted assets; this applies to credit, market and operational risk. These revisions, once implemented, will have an impact on disclosures and the EBA should ensure that any new requirements introduced by the Guidelines (or the forthcoming revisions of the CRR) take into account anticipated changes in the underlying approaches to risk quantification. If this is not the case, banks might have to implement costly IT solutions for the purposes of disclosure in only one period, as the required data will no longer be relevant if underlying methodologies change.

Detailed Comments

ESBG members have also made the following specific observations on the guidelines:

- **Art 436 (b) CRR/Template EU LI 2 (page 75)** The requirement to provide disclosures for credit risk, counterparty credit risk, securitization and market risk separately for each of the approaches used goes beyond the requirement for the same template in the BCBS standards and we, therefore, oppose this increase in required granularity at EU level.

  In addition, it is not clear how this further breakdown should be provided in the template as the guidance, with respect to the adaptation to bank-specific items, only relates to the rows to be disclosed by institutions and not to the columns.

  Providing a further breakdown in columns would make the tables significantly larger and less comparable at international level (as the breakdown is not required for non-EU headquartered banks). Furthermore, members fail to see the value of this disaggregated information for the purposes of understanding differences between carrying values in financial statements and exposure amounts used for regulatory purposes. ESBG believe granularity is required in the rows of the table in order to understand drivers of differences in line with the purpose of the template but not in the columns over and above the granularity currently set out in the template.

  We also oppose the requirement that banks 'that do not provide one of the rows listed in the template … should explain the reasons for the absence of the specific row' as this contradicts the flexible nature of the template and the requirement that banks should show information that explains the differences between values that best fit their individual situation. In this regard, the requirement for the first four items to be mandatory also goes beyond the requirements of the BCBS and should be reviewed.

- **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. A disclosure on an entity-by-entity basis is not currently required by Article 436(b) CRR (contrary to the statement made in section 3.2.6 on page 23). In addition, such an entity-by-entity disclosure is not required in any BCBS document and accounting/ IFRS requirements also do not include an obligation to disclose the scope of consolidation on an entity-by-entity level. Although the information is available in COREP and FINREP on an annual basis, the added value of a breakdown by entity is – in our view – very limited for any external reader of the disclosures. It does, however, create an additional burden for institutions to provide this detailed list and would increase the size of the disclosure documents significantly (adding a large number of additional pages).

  In order to fulfil the requirements of Article 436(b), we suggest limiting the breakdown to a more aggregate level, e.g. based on entity classes as defined in the CRR (credit institutions, financial institutions, etc.). This level of detail is considered adequate for the recipients of the disclosures.

  The description of the template content on page 77 refers to entities that 'have not been identified as individually material for the purpose of separate disclosures in accordance with EBA GL 2014/14'. This reference is incorrect as the EBA guidelines do not actually relate to the identification of material entities but rather to the identification of disclosures (at consolidated or solo level) that can potentially be omitted due to immateriality. The identification of material entities that have to produce separate (but limited) disclosures is covered in Article 13(1) CRR.

- **Article 435 CRR**: ESBG members have questioned the additions in "blue" to the requirements for Article 435 (1) (f) and Article 435 (1) (b), i.e. information on intragroup transactions and disclosure on the control framework including approved limits, as these are neither required by the Basel template nor the CRR and therefore we see no justifiable reason to provide this additional disclosure.

- In our opinion the new wording of Art 435 (1) (c) 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 have been deleted from the table and are supposedly 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)**: this 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.

- **Art 442 (i) CRR/Template EU CR2-A (page 113):** We are unsure of what information is to be included in row 7 of the template. EBA has requested the impact on the amount of accumulated specific and general credit risk adjustments of '*any transaction or other event in which an acquirer obtains control of one or more businesses*'. What should be understood by 'transaction or other event in which an acquirer obtains control of one or more businesses'? We would appreciate an example of the kind of transactions that would fall under this heading.

- **Art 438 Article 438(c)-(d) and Article 49(5)/table EU INS 1 (page 27) – Non-deducted participations in insurance undertakings:** Members disagree with this disclosure, which is not required by Article 49(5) CRR under which banks are required to disclose the supplementary own funds requirement and capital adequacy of the financial conglomerate (but not details on the RWA of the holdings not deducted as required by this table). ESBG considers the requirement in Table INS 1 to be potentially questioning the authorisation given by competent authorities to use the Article 49(1) option. Given that the CRR explicitly allows this option and includes disclosure requirements for this purpose, any additional disclosure is at this juncture not considered adequate.

- **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 are 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. Members are of the opinion that in this case a definition is required.

- In addition to this, the consideration of the prudent valuation 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 (page 153)**: with regard to this template there is a need for a definition of the underlying hedged exposure classes.

  Article 445 CRR/template EU MR1-A (page 155): ESBG members have strongly suggested that the methodology for the breakdown to asset classes needs to be defined.

- **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, this must be confirmed.
- Furthermore we are of the opinion that the requirements for points 2-7 need further explanation as they are not clearly defined. In this case there is room for interpretation; therefore detailed technical standards would bring more clarity.

May we conclude by again thanking you for this opportunity and rest assured that should you have queries on any of the above we will gladly provide further clarification.

About ESBG (European Savings and Retail Banking Group)

ESBG – The Voice of Savings and Retail Banking in Europe

ESBG brings together nearly 1000 savings and retail banks in 20 European countries that believe in a common identity for European policies. ESBG members represent one of the largest European retail banking networks, comprising one-third of the retail banking market in Europe, with 190 million customers, more than 60,000 outlets, total assets of €7.1 trillion, non-bank deposits of €3.5 trillion, and non-bank loans of €3.7 trillion. ESBG members come together to agree on and promote common positions on relevant regulatory or supervisory matters.

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