

29th October 2016

**British Bankers’ Association response to the EBA consultation on guidelines on disclosure requirements under Part Eight of Regulation (EU) (EBA-CP-2016-07)**

The British Bankers’ Association (BBA) is the leading association for the UK banking and financial services sector, speaking for 200 banking members, headquartered in 50 jurisdictions and operating in over 180 territories worldwide.

This response has been prepared in consultation with the seven largest UK lenders who are in dialogue with the UK Prudential Regulatory Authority specifically on Pillar 3 issues.

We welcome the opportunity to respond to European Banking Authority’s (EBA) consultation on guidelines on disclosure requirements under Part Eight of Regulation (CP).

**General observations**

The BBA has considered the consultation document and subsequent questions. We would like to open by acknowledging that COREP, FINREP and Pillar 3 (“P3”) reporting are an important element of the overall regulatory ecosystem for British banks. As such, the proposals in the EBA’s CP represent an important change to how banks operating in Britain interact with regulators, investors and other external stakeholders.

The members have not received many queries or requests for additional information or clarification of Pillar 3 disclosures over the last few years, other than on capital, leverage and RWAs disclosed in banks accounts and quarterly interim management statements. We do however welcome the overall proposal as it contains a cohesive enhancement and clarification of the disclosure approach and also better alignment to the CRR. There are, however, aspects within the consultation paper that appear to go beyond the existing level 1 CRR disclosure requirements. We expect that under the proposed developments for CRR2, an opportunity will be provided to revisit the regulatory framework to include updates and harmonisation to level 1 & 2 text and guidelines. In the context of disclosure proposals that anticipate CRR2, we recommend that they are tested via COREP and FINREP processes or through quantitative impact studies first before enforcing first time reporting through market disclosures.

For UK banks considering early adoption of some of these templates we have included some detailed comments that propose certain changes in the pages that follow.

We found that a number of key technical points need to be clarified/agreed for Pillar 3 disclosures to work as intended, with appropriate governance and data reliability, including:

* **Credit risk tables**
	+ The credit quality of asset templates have grown significantly compared to the Basel proposals which were already particularly challenging. Within the CP there is an implied harmonisation between COREP and FINREP templates which is not true in practice. Banks question whether this degree of granular information is useful and particularly on a semi-annual basis.
	+ It also does not appear proportionate to implement some of the templates (CR1 A-E, CR2 A-B, CR 3) ahead of IFRS 9 coming into force. These templates could be worked on once definitions are clearer and would be achievable in due course but this will take time and will require technical advice. UK (and other) banks already publish significant amount of credit quality disclosures in their annual and semi-annual accounts so market discipline objective is already satisfied albeit international comparability may not at highest level. Therefore we recommend that these templates are implemented as part of IFRS 9 suite. Please see ‘salient points’ section for further detail.
	+ Templates CRB B-E contradict CRR requirements which require analysis of EAD exposures. Please see ‘salient points’ section for further detail.
	+ Some templates (CR 7, CCR 1, CCR 5 A-B, CCR 6 A-B, CCR 8) are materially over and above CRR requirements and we question the need for their implementation prior to CRR 2.
	+ We suggest amending the requirement for exposures to be split based on the ‘accounting carrying value’, to instead be split on the ‘regulatory exposure value’. See “Salient points” and also Appendix 1 for specific examples of this issue.
* **Clearer definitions**
	+ Mapping of COREP & FINREP reporting fields carried over to Pillar 3 disclosures,
	+ Comparatives for first time implementation and forward,
	+ If flow tables are period (quarter) or YTD basis,
	+ Clarification of the expected approach for quarterly tables when producing annual Pillar 3 disclosures (e.g. OV1-A). Are banks expected to only provide the prior quarter comparative (t-1 as per the instructions) and not the prior year comparative? This would be out of line with most other tables in our annual disclosures,
	+ Carrying value and links to IFRS9, which should be implemented when IFRS 9 enters into force,
	+ How prudential valuation adjustments and other valuation reserves recorded at portfolio level in counterparty credit risk and market risk templates would be apportioned for reporting purposes,
	+ Clear cross-referencing where specific cells in one template should agree to cells in another.
* **Timing of submissions**
	+ Currently presented as “in conjunction” with other statutory reporting needs to be clearly agreed/stipulated and must provide for a reasonable time between banks’ presentation/production of statutory financial and regulatory reports to allow for appropriate transformation, reconciliation, review and governance of the data. Otherwise if reports are to be produced simultaneously it could potentially reduce reliability of Pillar 3 disclosures (as they would be submitted before appropriate governance can be completed). We recommend that this is at least eight weeks post period end e.g. in line what we understand are the timelines proposed by other key European banks. For avoidance of doubt, this could be four weeks after the Interim Management Statement publication.
* **Ancillary table submissions**
* For banks that proceed with early adoption of other templates (outside the core 11 proposed for YE 2016) on a “initial run basis” this would not necessarily mean that these templates would be disclosed quarterly/semi-annually before Q4 2017.
* The qualitative disclosures are currently being worked through as the method in which they have been described in the EBA CP and compared against the CRR is confusing. Banks’ expectations are that the qualitative disclosures should not be vastly different to what they are currently disclosing under CRR and they expect that if these templates are aligned to CRR there should be no issues with compliance. If this is confirmed as they work through the requirements in detail, banks are more likely to adopt the approach set out in the EBA guidelines (where possible but in free form). However, where requirements are over and above the CRR (examples include OVA & CRC), banks are not in favour of adopting due to potential issues with other compliance. Please see “Salient points” and also Appendix 1 for more detailed comments.
* **Early adoption**
* For those banks that are considering early adoption of some templates we would note certain important caveats:
	+ Adoption will necessarily be on a ‘best endeavours’ basis given the limited time available and open issues and questions
	+ Banks will have to make certain assumptions in their preparations and so may not in all instances be able to act upon changes made by the EBA in finalising the guidelines
	+ Early adoption is premised upon a reasonable and practical interpretation being agreed as to the meaning of interim Pillar 3 disclosures being published ‘in conjunction with’ the interim Financial Statements in relation to June 2017
	+ In the case of UK headquartered banks, ‘early adoption’ will not apply to significant subsidiaries, which will continue to comply with CRR requirements.[[1]](#footnote-1)

**Salient points**

The proposal indicates that “wherever possible, the EBA had endeavoured to use the supervisory reporting framework (COREP and FINREP)” as well as “specifications of existing disclosure requirements in the CRR.” Furthermore, the EBA proposal highlights that “in particular, the revised Pillar 3 framework (RPF) focusses on improving the transparency surrounding the use of internal models for calculating risk-weighted assets”. In that regard, we would like to take this opportunity to highlight additional enhancements to align with EBA’s goals:

* CRB: credit risk templates analysing exposures to be anchored where possible on exposure measure used in the calculation of RWAs, for both standardised and modelled exposures, and to be aligned directly with COREP. Therefore, exposure value in CRB templates would be exposure at default post credit risk mitigation (‘EAD post CRM’) as reported in COREP C07/08. To align with CRR Article 442-c, we suggest including additional columns for EAD pre CRM for CRB-B template on total exposures only. The proposed approach by the EBA will provide significant data challenges as accounting adjustments will need to be disaggregated across regulatory data sets. We believe that this is an unnecessary challenge given that the differences between regulatory and accounting balances are covered by tables LI1 and LI2.

CR 1 & CR 2: the EBA proposal indicates that “The Guideline will be applicable when IFRS 9 enters into force” but “the interactions of some of the regulatory concepts in the CRR with the new accounting standards have not yet been fully confirmed at the EU level”. Therefore it would be more appropriate to delay the implementation of these templates until IFRS 9 is implemented. If implemented earlier, we recommend that the disclosures in CR 1 & 2 be aligned exactly with FINREP, both for concepts such as impaired but also exposure classes. We therefore recommend exact alignment with FINREP templates 18 and 19 for both columns and rows. This is also consistent with EBA Transparency disclosure approach.

* LI1 & LI2: to provide a logical flow amongst the disclosures, we suggest that LI 1 flows from audited balance sheet to regulatory balance sheet in FINREP which is then further analysed into risk frameworks. Not all market risk is captured by the first phase of the RPF, for example interest rate risk in the banking book is out of scope. Additionally market risk is managed at portfolio level rather than on balance sheet product basis. Therefore from a market discipline perspective we believe that it would be misleading to analyse the balance sheet into traded market risk framework as currently contemplated so we recommend exclusion in this phase of RPF. Should the Market risk framework be retained within LI1 & LI2 then significant level of clarification needs to be incorporated within the final EBA Guidelines to ensure consistency amongst banks and also more fundamentally to avoid misleading users.
* Linkages: to continue the logical flow between LI1 and LI2 through to Credit risk and Counterparty credit risk templates, we suggest that the regulatory exposure value in LI2 be EAD post CRM, the basis for templates CRB and subsequent templates.
* CCR: Metrics including ‘Average CCF’, ‘Original on Balance Sheet gross exposure’, ‘Off—balance sheet exposure pre-CCF’, ‘EL’ and ‘Value adjustments and provisions’ are required in CCR4 - these were not in BCBS template nor are they used to compute RWAs for CCR – and therefore should be removed.
* CRC - The EBA requirements on this template are significantly greater than that which is required under the CRR article 453 on credit risk mitigation. Whilst the principle of greater disclosure of factors influencing the capital numbers is understood, banks wish to understand the rationale as they are unsure of the additional benefit the reader would gain from the proposed additional requirements. In framing this, it is important to remember that advancing funds to a customer is based on lending principles and credit policies, with collateral being an additional assurance of repayment, not the reason for the lending decision. A number of the proposed qualitative additions do not seem to align with this basic premise and seek to provide information which we do not believe to be of value to the user.
* Market Risk: some elements (e.g. RWA and capital requirement changes due to foreign exchange (FX) movement, splitting out own hedging book and trading book on gross, net basis and/or splitting presentation of market risk by model, and others) either do not appropriately represent how banks operate (in these specific cases risk is managed on entire portfolio basis) or how traded instruments are valued economically (in relation to FX) Whilst it may be referenced in CRR, we do not believe settlement risk or large exposures are components of market risk and believe should be excluded from market risk templates, at least partly consistent with OV1A (Overview of RWA).
* We further point out that this set of guidelines is more granular than current CRR/CRD IV requirements. Whilst it may be feasible to implement some of these requirements, keeping new Pillar 3 disclosures as closely aligned as possible to current COREP would facilitate the implementation. This is particularly relevant if this additional detail front-runs disclosures and standards that are still to be firmed up, thus risking later change/duplication of costs in implementing them (e.g. IFRS 9).
* In relation to some of the qualitative disclosures, we observe that requirements on governance arrangements in Section C and CRC appear to adopt a prescriptive approach on CRR that may not have been anticipated by the banks. Some of the requirements in OVA such as nature, extent, purpose and economic substance of transactions within the group, affiliates and related parties; and approved limits of risks to which the institution is exposed to, go beyond current CRR requirements and may amount to disclosure of proprietary information.

**Proportionality, implementation aspects and cost benefit analysis**

Overall we are supportive of the principle of the CP, the main part of its requirements and of the proposed timeline for phase in (some UK banks feel able to attempt the core 11 for GSIIs for 2016 year end, with the remainder from 2017 year-end).

However, we would take this opportunity to highlight that:

* Ongoing pace of regulatory change agenda creates increasing demand on finite resources and significant changes require focus and time to be implemented robustly.
* Additional systems and personnel costs of implementing the change to proposed Pillar 3 disclosures, just as ongoing cost of producing the reports as per set approach are significant, and
* the significant effort needed on an ongoing basis to provide essential data quality/control and governance is material and critically dependent on time given by EBA/national regulators:
	+ to phase in the process, and
	+ for production of Pillar 3 disclosures after statutory financial reporting.

Also the time frame for the first roll-out in H1 2017 needs to give sufficient time between when banks normally finalise and publish their financial statements and Pillar 3 disclosures to allow for appropriate reconciliation, aggregation, transformation, control and governance processes which remove need/risk of restatement of Pillar 3 reports.

**Detailed comments**

We cover each of these points in more detail below (including Appendix 1) and look forward to further dialogue if that would be helpful.

**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?**

Some members are of the opinion that the end user would benefit from having overview through the use of OV1-B whilst other prefer the summary on a page offered by OV1-A.

**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.**

We prefer implementing the CRR approach until Phase 2 is implemented as it provides appropriate granularity between key segments including sovereigns and SME. To our understanding other industry associations have leaned towards COREP approach and we see this as a good opportunity to further harmonise between reporting and disclosure in view of pipeline CRR2/CRDIV developments and Phase 2 to avoid differences in approach and we request that EBA explores this further.

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

We have no objections to this approach.

**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?**

Whilst this information may have some benefit to users (although there is limited evidence of this), and whilst with material investment it may be feasible to achieve the breakdowns, in light of clear links to IFRS 9 and the fact that IFRS 9 is not yet implemented we (a) do not recommend it is implemented at this time, rather that (b) it is implemented at/or after IFRS 9 implementation (on implementation of IFRS 9 banks should be more able to draw out range of granular data enabling them to provide requested information in Pillar 3 reports 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?**

Whilst it is possible that some investors may be interested in the break-down of sources of counterparty credit risk by approach/model, members have not seen a material or increased level of such requests.

As such we believe that table CCR1 should only present on an IMM basis as risk management by banks is undertaken on overall portfolio basis and also further breakdowns would not be meaningful due to their limited materiality.

We also note concerns over the feasibility of providing this information. IMM is based on the use of probabilistic scenarios for the evolution of risk factors which are combined with pricing model outputs to determine future potential exposures. It is not feasible to attribute scenario outputs to transaction type due to their probabilistic nature and there is no practical solution to creating a meaningful breakdown.

In addition, we have noted other issues with providing a breakdown of CCR exposures by transaction type which would require a number of assumptions to be made:

* Netting assumptions – collateral used to net exposures is typically applied on a portfolio level.
* Allocation of diversification benefit - diversification benefits arise across a portfolio and assumptions would be needed to attribute them to each transaction type to ensure the total CCR exposure reconciled to the separate components in the breakdown, which would lead to inaccurate reporting at transaction type level.

**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?**

Although revenue/P&L and position/mark to market reporting would split credit derivatives at individual transaction/client level (and thus between internal hedging and client transactions), most banks manage market risk on an overall/net portfolio basis. We do not favour Pillar 3 disclosures requiring a split that does not reflect risk management and existing reporting, would not be useful, not allow easy reconciliation between this segment of Pillar 3 and actual market risk reported (given the split would remove impacts of netting, portfolio effect, adjustments, overall collateral position etc.) and would reduce the reliability of information provided to regulators and investors. We would also ask for further clarification from the EBA on what its intended outcome is so that further enhancements can be considered for phase 2 in 2019.

**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?**

Whilst the proposed form does not create additional burden for banks, it stops short of being useful and understandable for users in current form. We therefore recommend that the template is amended to the one below and this will also align with COREP templates C18, C21 and C24:

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| **Template EU MR1-A**: Market risk Own funds requirements |   |   |   |   |   |

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|   |   | **RWA** | **Capital requirements** |
| 1 | **Internal models approach** |   |   |
| 2 | VaR |   |   |
| 3 | SVaR |   |   |
| 4 | Incremental risk charge |   |   |
| 5 | Comprehensive risk measure |   |   |
| 6 | Risks not in VaR |  |  |
| 7 | **Standardised approach** |   |   |
| 8 | Interest rate risk (general and specific) |   |   |
| 9 | Equity risk (general and specific) |   |   |
| 10 | Foreign exchange risk |   |   |
| 11 | Commodity risk |   |   |
| 12 | Specific interest rate risk of securitisation position |   |   |
| 13 | **Total** |   |   |

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**Q8. ls the separate disclosure of end of period and average values for VaR, stressed VaR, lRC and CRM useful for users?**

We agree that proposed disclosure of end of period and average values for market risk metrics could provide useful insights for the users.

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

Overall, we agree with the current proposed scope of application of these guidelines and also understand that the current guidelines do not change the scope of application of the CRR disclosure requirements. However, it seems that specific points in the guidelines may have a broader scope of application such as point 4.3 section C which seems to go beyond what is required by CRR article 13 for significant subsidiaries (including subsidiaries of material significance to their local market). Indeed, we suggest that clarification is provided that disclosure required by significant subsidiaries of EU parent institutions or parent holding companies, regardless of whether they are O-SII or not, continue to be legally defined only by article 13. Furthermore, regarding proportionality, we understand that implementation of the revised Pillar 3 Framework will eventually require a revision of the CRR in its part eight. This would seem a more appropriate route to better address the principle of proportionality.

**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 will provide a high level overview and will facilitate comparison across banks key metrics. Indeed, we believe something similar to the BCBS proposal for a Key Metrics template (KM1) published within its Pillar 3 phase 2 disclosure requirements consultation would be appropriate and as such should follow after the Basel template is finalised.

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

Separate from anecdotal interest, we have not observed a large volume of actual requests received as per member feedback. Whilst we recognise an underlying and evolving user need for disclosures in editable format, such an approach would generate significant additional governance and revalidation burden, especially if implemented in the short term. This is disproportionate to observed actual demand and thus we do not support immediate/short term roll-out of reports in editable format and recommend appropriate proportionality is applied with a phased approach from Phase 2 which would start with the 11 core templates before progressing to remaining tables. This would assure that availability of information continues to evolve in a manner that allows implementation of appropriate resources and governance to provide assurances to investors as to the accuracy of information they are receiving.

**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?**

Please refer to our response to Question 11 directly above

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

We believe adoption of the 11 templates recommended for early implementation may be feasible. We understand that one of the purposes of these guidelines is to relieve the burden of having to prepare two sets of disclosures for European institutions that need to provide the revised Pillar 3 disclosures while still legally bound to comply with CRR requirements. The timeframe for implementation of the guidelines, however, is not appropriate as the EBA has said that the guidelines will not be finalised until the end of 2016. As a consequence, mandatory application of end-2016 disclosures should not be specified, although adoption could be recommended. It therefore should be appreciated that while it may be feasible to adopt the initial 11 templates, when considering further change it should be noted that not everything can be achieved in the same way. We also recommend that any early release of further templates on a trial basis before Q4 2017 is not treated by EBA or local regulators as full operationalisation and that the obligation to provide additional tables only becomes applicable from Q4 2017.

Furthermore, we recommend that a reasonable period of time is given to banks to produce these disclosures and that the “in conjunction with” financial statements reporting timeline is defined as eight weeks after period end, which would allow for sufficient time to carry out any reconciliations and internal governance before Pillar 3 disclosures are published. To our understanding, this aligns to views of other key European banks.

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

See comments on page 2 relating to CCR and MR and Appendix 1 for detailed observations.

**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 welcome the EBA initiative to provide more specific guidance and also introduce specific formats for disclosures that are in line with both BCBS proposals and CRR requirements.

We would like to emphasise the importance of consistency and comparability of institutions’ regulatory disclosures. EBA Guidelines should provide clarifications where required as banks following their own interpretations could lead to inconsistencies, which is contradictory to the purpose of these guidelines. In the detailed comments on the templates as provided below, we have pointed out various instances where further clarification is required so as to avoid inconsistent disclosures.

**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.**

We find that the impact assessment did not factor in material personnel, IT and financial burdens that the new requirements would put on individual banks, both at launch/implementation (in view of the short period for roll-out) and on ongoing basis (in view of high frequency of reporting and proximity to key financial reporting periods). It is further our view that the impact assessment didn’t factor in the increased ongoing (and implementation) cost of additional:

* Reconciliation, transformation, aggregation and governance
* Reporting in excess of BCBS requirements or of implementing IFRS 9 related workarounds/partial solution prior to full implementation of IFRS 9 (which may lead to a further increase in cost for removal/change of solutions put in place to meet P3 timeline)
* Continuing duplication of EBA Pillar 3 and BCBS reporting for banks (and our members) that operate outside EU/EEA and who continue to be obliged to provide BCBS reports as well
* Additional cost to finance and IT departments of banks which are facing parallel roll-out of number of regulatory changes impacting similar processes and systems but with unaligned requests (IFRS 9, EBA P3, BCBS, etc)

We believe that in addition to the cost issue and material change to reporting processes mentioned above this change represents a fundamental change to how reporting is carried out and as such an initial framework consultation done prior to the detailed CP we respond to would have been beneficial for scoping out feasibility and for simplifying implementation on short timescales.

For further information on this submission please contact Nemanja Eckert, Director, BBA.

**Appendix 1: technical points on specific templates**

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| **11 G-SIB templates** |  |
| OV 1-A and OV 1-B | * Templates EU OV1-A and EU OV1-B include comparative figures for the previous reporting period.
* Large exposures are better positioned as ‘of which’ within Credit risk and should be excluded from Market risk.
* Preference for sub-totals rather than of which generally from a user / reader perspective.
* **Proposed changes to OV1** – A template – Inclusion of sub-row (6a?) to cover Securities Financing Transactions (SFT) under Counterparty Credit Risk.
* **Proposed changes to OV1** – B template:
	1. Inclusion of row for settlement risk (included within OV1-A)
	2. Inclusion of row for Securities Financing Transactions (SFT) under Counterparty Credit Risk
	3. Inclusion of row for Risk exposure for contributions to CCP other than default fund.
* **Other technical review points include**:
	1. Confirmation on a working assumption to report risk exposures within row 3bx for counterparties treated under the specialised lending (slotting) methodology if exposure (specifically undrawn) is derived a modelled CCF.
	2. Clarification that risk exposures reported on “amounts below threshold (row 23) should not be allocated to the underlying exposure class Sovereign, DTA or equity
	3. There is significant overlap between templates EU OV1-A and EU OV1-B. We suggest that banks publish EU OV1-A at March and September, and template EU OV1-B at June and December.
	4. For both EU OV1-A and EU OV1-B, please confirm that the comparative information in column b ‘(T - 1)’ is not required the first time this template is published.
	5. For both EU OV1-A and EU OV1-B, please confirm that the data linkage (defined in BCBS Phase 1) is still valid – EU OV1-A:row2 = EU CR4:17h (same for EU OV1-B)

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| EU CR5 A & B STD approach –by asset classes and risk weights | * Neither EU CR5 A or B seem to fulfil the requirements laid out in CRR 444(e) to split exposure (pre and post credit risk mitigation) across Credit Quality Steps (CQS). In addition, credit quality step methodology does not apply to the retail exposure classes.
* Other technical review points include:
	1. Confirmation “unrated” column relates to where no ECAI rating is available and should represent an “of which” summary of values within the template with a standardised risk-weight. [likely to be made up of 35% mortgage, 75% retail and 100% corporate]
	2. Further clarity on what has to be input in deductions column
* Confirmation on the following risk weights:
	1. RW 250% (CRR 133), Std approach to Equity exposures
	2. RW 370% (CRR 471) likely relates to transitional measure for exemption from deduction of equity holdings in insurance companies from CET1 items.
	3. RW 1,250% or deductions likely to relate to CRR 36(k) including items over threshold.
* Banks would attempt this template based on original BCBS if they are unable/to not receive clarity on the new columns
 |
| EU CR6 IRB – Credit risk exposures by portfolio and PD range | * CR6 template has value adjustments and provisions ‘greyed out’ for allocation across PD split, and banks have stated a preference to not provide any detailed split until IFRS 9 has been implemented.
* Further clarity on linkage to LI2 for ‘Original on-balance sheet exposure’ to be reported with the exception of credit risk mitigation & off-balance sheet netting.
* Preference to source information from existing COREP or FINREP templates, but not bothsimultaneously
 |
| CR8 RWA flow statements of credit risk IRB | * A different presentation is possible if based on top-down (portfolio) or bottom-up (transaction level, leading to material differences between approach.
* Similar comment extends to all RWA flow statements.
 |
| EU CCR3 STD approach of CCR by regulatory portfolio and risk weights | * As per CR5, further clarity on “Unrated” (believe to be an ‘of which’) and “deducted” columns are required.
* It is unclear whether exposures to specialised lending under the CCR framework should be disclosed in CCR3, a template designed for standardised approaches. This is an IRB exposure class but does not fit the design of the CCR4, whose granularity is presented at PD scale level.
* Confirmation required on the scope of the template as page 143 of the CP makes reference to Article 92.3 (f) which relates to trading book only
 |
| EU CCR4 IRB – CCR by portfolio and PD scale | * Members believe there are a few data fields on the CCR4 template which captures measures not relevant for the computation of CCR RWAs and are also excluded from the corresponding BCBS template, These are:
	+ Original on-balance sheet gross exposure
	+ Off-balance sheet exposures pre CCF
	+ Average CCFEL
	+ Value adjustment and provisions
 |
| EU MR1-B Market risk STD approach | No comment |
| EU MR2-A Market risk under the internal models approach) | * Concern that disclosure of rows 1(b) and 2(b) could lead to proprietary and confidential data being disclosed with regards to the VaR multiplier.
* Clarity required on whether Risks not in VaR (RNIV’s) would be included within existing table or should be provided as memorandum table.
* Recommend additional ‘3c’ line to calculate true capital Incremental Risk Charge (IRC) to compensate for differences in capitalisation of IRC at legal entity level.
* The template is aligned with COREP C 24.00.
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| EU MR2-B (RWA flow statements of market risk exposures under an IMA | * It is misleading, unfeasible and impractical to compute RWA and capital requirements changes due to ‘Foreign exposure movements’. We suggest that this row is removed, as per comments on BCBS proposal.
* We do not think row 1b and 8a are needed for the purpose of facilitating reconciliation of this template. Also, explanatory notes would be helpful for investors to understand what constitutes regulatory adjustments. We therefore propose the alternative table below:

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | a | b | c | d | e | f | g |
|  |  | VaR | SVaR | IRC | CRM | Other | Total RWA | Total capital requirements |
| 1 | RWA at previous quarter end |   |   |   |   |   |   |   |
| 2 | Movement in risk levels |   |   |   |   |   |   |   |
| 3 | Model updates/changes |   |   |   |   |   |   |   |
| 4 | Methodology and policy |   |   |   |   |   |   |   |
| 5 | Acquisitions and disposals |   |   |   |   |   |   |   |
| 6 | Other |   |   |   |   |   |   |   |
| 7 | RWA at end of reporting period |   |   |   |   |   |   |   |

* Concern that disclosure of ‘regulatory adjustment’ would lead to proprietary and confidential information to be disclosed with regards to VaR multiplier.
* Analytical review of RWA movements over time period can see outcome vary significantly due to the analytical approach used, and order of parameters tested. The upcoming FRTB implementation could represent optimum opportunity for harmonisation at that time (Phase 2 of BCBS review).
* Whilst we welcome the proposed approach to isolate changes in RWA from unwinding of averages, we are concerned that this level of complex detail may go directly against the principle of clarity, understandability and transparency.
* In case template proposed above is not accepted, note small typo in row 8a which we believe should read “RWA at end of day current quarter/period”. Additionally p43 of CP in the illustration table we believe a typo for rows ‘1b’ & ‘1c’ should read ‘1a’ & ‘1b’.
 |
| **Other templates** |  |
| EU CR1- 3 (8 templates) | See “Salient points” section in main part of this document. Although we have noted points below the overriding factor on these templates is that they should be delayed until IFRS 9 has come into force. If these templates are brought in before this date, they should be fully aligned to the FINREP returns.Technical review comments:* **EU CR1-A** (Credit quality of exposures by exposure classes and instruments - page 100)
* The granularity of the defaulted/Non-defaulted exposures (unimpaired, of which past due, impaired, of which past due) by asset classes goes beyond existing FINREP/COREP reports.
* Column headings are similar to FINREP Template 18.0, however, row headings are regulatory risk classes and no such harmonisation exists between the two.
* The formulae of ‘Net Values’ in column M refers to a1, b1, c1, c2 and c3 that are not present in the table. Clarification required.
* **EU CR1-B** (Credit quality of exposures by industry or counterparty types – page 104):
* Similar to CRB-D the industrial sector classifications would need to be updated as they exclude “Central Govs” and “Institutions” which are most banks 1st & 3rd biggest industrial classes. This would otherwise leave “Other Services” as the largest industry class which seems an unintended consequence.
* It is likely to be easier for banks to use COREP rather than the suggested FINREP particularly as FINREP F06 excludes “Central Govs” or “Institutions”.
* The granularity of the defaulted/Non-defaulted exposures (unimpaired, of which past due, impaired, of which past due) by Counterparty type or industry goes beyond existing FINREP/COREP reports and is certainly above and beyond the requirements of CRR.
* The formulae of ‘Net Values’ in column M refers to a1, b1, c1, c2 and c3 that are not present in the table. Clarification required.
* **EU CR1-C**
* Column headings are similar to those reported in FINREP Template 18.0, however, row headings ae countries to be specified by the reporting entity, but the majority of Template 18.0 is not collated by country.
* We suggest region rather than individual country would make data more comparable across the industry and would give better alignment with the current CRR text.
* The granularity of the defaulted/Non-defaulted exposures (unimpaired, of which past due, impaired, of which past due) by geography type or industry goes beyond existing FINREP/COREP reports)
* The formulae of ‘Net Values’ in column M refers to a1, b1, c1, c2 and c3 that are not present in the table. Clarification required.
* **EU CR1-D** (Ageing of past-due exposures – page 110):
* Data is available in FINREP F07 but then also requires STD/IRB split which is only available from COREP which is a key example of assumed data interchangeability (which is not the case).
* **EU CR1-E** (Non-performing and forborne exposures – page 111):
* Data can mostly be sourced from FINREP F18 but “of which forborne” will not necessarily be available in this data set as not required under F18.
* **EU CR2-A** (Changes in stock of general and specific credit risk adjustments – page 113)
* Data is available in FINREP table 12 to populate this table except row 12 (direct partial or total write-off) and 13 (recoveries of direct partial or total write-off).
* **EU CR2-B** (Changes in stock of defaulted and impaired loans and debt securities – page 115)
* No FINREP source available
* **EU CRC** (Qualitative disclosure requirements related to credit risk mitigation techniques – page 116)

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| * This detail in this template has increased significantly from BCBS and goes well beyond the current CRR requirements.Examples of this can be seen in references to all parts of Article 453 (a) to (e). The quantitative information referred to in Article 453 (c) will pose a significant challenge, credit institutions could breakdown the accepted financial collateral according to type of credit operations collateralized, and point out the rating and residual maturity of collateral’s’ and it is not actually clear what is meant by "according to the type of credit operations collateralised’’
* Article 453 (e) also poses a similar challenge as above. Quantitative information relating to concentrations by type of instrument used as collateral, entity (concentration by guarantor type and credit derivative providers), sector, geographical area, currency, rating or other factors. It is unclear what is really required from this statement. For example, a bank may have a large concentration of property collateral a certain country, but unsure as to what additional insight this would give the reader of a Pillar 3 document. Breaking it down to region may be useful, but then the Pillar 3 document moves away from being a capital and risk related document and starts being more Annual Report & Accounts or analyst presentation. Please provide additional clarification.
* **EU CR3** (Credit risk mitigation techniques: overview – page 118):
* The exposure classes should be aligned to those within template OV1-B ‘Overview by exposure class’.
* Suggest removal of the analysis for ‘Before on or off-balance sheet netting’.
* Please clarify how to report an exposure which has multiple types of credit risk mitigation and is over-collateralised. For example, a loan of 100 with land collateral of 120 and also guarantees of 50. We propose that in this case credit risk mitigation is allocated to columns c, e and g in order of quality and up to the total value of the loan. Please confirm our understanding that the value to ascribe to the collateral, guarantees and CDS is the latest available value with no adjustments for costs to sell or any other form of haircut.
 |

 |
| EU CR4 STD approach – credit risk exposure and CRM effects)(p.124) | * This template includes three additional columns which go beyond CRR requirements: (c) CRM techniques with substitution effects, (d) CRM techniques affecting the exposure amount, and (e) Value of off-balance sheet items by conversion factor.

However the additional data are available in COREP. If there is sufficient demand from users, disclosures can be feasible but we recommend that this be captured as part of Phase 2 enhancements.  |
| EU CR5-A/B STD approach – exposures by asset classes and risk weights | * EU CR5-A disclosure of a breakdown of exposures before both the application of conversion factor and before the application of risk mitigation techniques.
* EU CR5-B disclosure of exposures post conversion factor and post mitigation techniques.
* We have concerns that template EU CR5 does not fulfil either the requirements of CRR article 444(e), as this article is specific on the use of credit quality steps, or the BCBS template, as this is risk-weighting categories.  In addition, credit quality step methodology does not apply to the retail exposure classes.
* Additional clarification would be useful for the columns  the columns “deducted” and “unrated”, e.g. it is not clear from the guidance provided whether the newly inserted unrated column should be an ’of which’.
* At a minimum, the correct relevant CRR articles need to be referenced for this template.
* We recommend that the exposure classes should align to the standardised exposure classes presented in template OV1-B -‘*Overview by exposure class*’.
* Report all exposures, including those unrated, in the relevant risk-weight column. This will enable users to calculate RWAs from the data presented. Separately (to the right hand side of the ‘*Total*’ column), present a column ‘*Of which: unrated exposures*’.
 |
| EU CR7 IRB – Effect on RWA of credit derivatives used as CRM | * Sourcing data for pre-credit derivatives is expected to present a challenge in the short-term for disclosure purposes.
* The numbers are unlikely to change significantly over a 6-month period, so recommend changing this to an annual disclosure, if retained.
* We note that this an additional disclosure requirement beyond the CRR requirements and the granularity required on RWAs pre-credit derivatives will be a challenge.
 |
| EU CR9 IRB – backtesting of PD by portfolio | * Possible areas for clarification:
* **Annual default rates (ADR):** We recommend and prefer use of average of 5 annual ADRs and NOT 5 year average of default rates ODR
* **PDs**– banks should disclose the PDs used to calculate regulatory capital and indicate whether these estimates are point-in-time (PiT) or through-the-cycle (TTC) so readers can understand which default rate it is appropriate to compare model estimates with. Also, where TTC is used it would be inappropriate to compare 5 year ADR with PiT PD
* **Reporting 3 years back** - Due to portfolio changes (core vs non-core) across members we do not see reporting 3 years backwards from start as giving insightful information and recommend to start reporting from year of implementation and build the “3 years back” view from this point forward
* **Mapping to ECAI ratings (column C)**:
	+ We do not see any benefit in adding mapping to Experian or similar retail ECAI as investors will not be familiar with these,
	+ To give investors best comparison we recommend that mapping is done from average weighted PD for the exposure class to the appropriate rating on the ECAI scale,
* **Default** **reporting**,
	+ Column G should present all obligors that defaulted in the 12 months,
		- Column H – we need more clarity from EBA on what this column should disclose. Alternatively we recommend that it should be an “of which” column relating to column G and showing number of obligors that defaulted in the last 12 months that had a facility drawing prior to default (regardless of when the facility was originated). Also agreement /clarification needed on interpretation of the term ‘facility drawing’, particularly for revolving facilities such as credit cards and overdrafts. For example, credit card customers who pay off monthly should not be reported as new customers or other similar aspects relating to overdraft facilities
* **Models** **reported on** – as some models (especially in non-core portfolios) cover very small number of exposures (both number and Limit wise) we recommend that reports are produced only for material models i.e. models that account for material portfolios,
* **Reporting** **on Period Start vs Period End** – we recommend that PD is Period Start.

  |
| EU CR10 IRB, specialised lending and equities | * Disclosure of off & on-balance sheet goes beyond CRR, although is available from COREP and should present no issue to disclose.
 |
| EU CRB-AAdditional disclosures on credit quality of assets | No comment |
| EU CRB-B Total and average net amount of exposures) | * For clarity, please change heading of column A to state ‘Net carrying value at the end of the period’.
* For clarity, please change heading of column B to state ‘Average net carrying value at the end of the period’
* See Salient points section in main part of response
 |
| EU CRB-C Geographical breakdown of exposures | * See CRB-B
* Please confirm that the row 36 total equals the net carrying value total by geographic country (column m) in template EU CR1-C
* We propose that the rows for CRB-C should be flexible and reflect individual banks’ concentrations.
* As columns are flexible and ‘should provide the significant geographical areas in which institutions have material exposure classes’, banks will continue with their existing split of geographical areas’where applicable.
 |
| EU CRB-DConcentrationOf exposures by industry or counterparty types | * See CRB-B
* As columns are flexible and ‘should provide the material industry sectors to which institutions have exposures’, banks will continue with their existing split of industry sectors where applicable..
 |
| EU CRB-EMaturity of exposures) | See for CRB-B |
| EU CCR1 Analysis of CCR exposure by approach | * Assumption made that rows 5 – 7 (SFTs, derivatives, contractual cross product netting) are a subset of row 4 (Internal Model Method, for derivatives and SFTs) as indicated in the second bullet point on page 36 of the CP.
* Grey out column c for row 4. Potential future exposure is not a relevant parameter for computing exposure or RWA under IMM.
 |
| EU CCR2 CVA capital charge | No comment |
| EU CCR5-A Impact of netting and collateral held on exposure values | * Netting is performed at counterparty level rather than contract type level hence the proposed level of granularity is not aligned to current business practice. Also it contradicts with the level of application of netting agreements.
* As above, PVA is evaluated at a more aggregated level hence disaggregation by products contemplated in the proposal may not be feasible.
* De-scope STFs from this level of disclosure goes beyond the CRR requirements.
* Propose to amend the table as follows:

|  |  |
| --- | --- |
|  | Year 20XX |
| Gross total fair values |  |
| Less: accounting offset arrangements |  |
| Total gross derivatives |  |
| Less: netting benefits |  |
| Netted current credit exposure |  |
| Less: collateral held |  |
| Net derivative credit exposure |  |

 |
| EU CCR5-B Composition of CCR collateral  | No comment |
| EU CCR6-A&B Credit derivatives | * Overall requirement seems to go beyond read of CRR 439(h), nor has there been much appetite from end-users for further detail.
* Further objective clarification required, current proposal does not clarify if the intention is to split credit derivatives by trading and banking book, or by proprietary purposes versus client hedges. Concern that the possible intention for disclosure does not match management of credit derivatives and other risk management which is transacted at an aggregate level.
* Additionally further detail on the interpretation of ‘breakdown by underlying hedged exposure class would be welcome’.
 |
| EU CCR7 RWA flow statements of CCR IMM | * As for CR 8
 |
| EU CCR8 Exposures to CCPs | * Some reporting challenges are expected to be able to be able to fully satisfy the reporting requirements, particularly segregated and non-segregated initial margin.
* We note that this is an additional disclosure requirement beyond the CRR requirements and the granularity required on exposures to CCPs will be a challenge to produce.
* In the event where this template is adopted in the final guidelines, please remove row 10 ‘Unfunded default fund contributions’ as it is only relevant for exposures to non-QCCPs in accordance with Article 309 but not to QCCPs
 |
| EU MR1-A Market risk own funds requirements: RWA; MCR | See main part of response and also see below:* 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’.
* It is unclear why settlement risk and large exposures are included in this template as they are subject to different RWA and capital requirements calculation methodologies.
* This template lacks a line for RWA and capital requirements under RNIV framework.
* We propose 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 see proposed template under answer to Question 7 in main body
* Please clarify in which table capital treatment for free deliveries should be included.
 |
| EU MR3IMA values for trading portfolios | * Clarification required whether Risks not in VaR (RNIV’s) should be included throughout the MR3 template.
 |
| EU MR4 Comparison of VaR estimates with gains/losses) | * Members support comparison of VaR estimates to actual gains and losses.
 |
| EU INS1 Non-deducted participations in insurance undertakings | * Not applicable to all
 |
| EU LI1 & LI2 Linkage between accounting and risk | * We suggest that the column ‘Items subject to Market Risk Framework’ is removed from the table. The concept of exposure amounts considered for regulatory purposes is generally applied for the credit risk and is meaningless when considered against market risk.
* Column ‘Total’ should be removed because the headings of rows 1 and 2 suggest that the content to the right will equal totals from template EU LI1, but EU LI1 includes the elements of the balance sheet that are not subject to the regulatory framework. Template LI2 is focused on assets in the regulatory scope of consolidation that are subject to the regulatory framework.
 |
| EU LI3 Differences in the scopes of consolidation – entity by entity) | * New; some UK banks already published similar disclosures in 2015 accounts as required by UK Companies Act and before 2015 in country-by-country reporting instituted by the UK Treasury; and/or solvency returns
* Practice varies across industry; some more detailed/focused than others
* Banks believe template is do-able, but not necessarily on comparable basis
* A disclosure of this sort at entity level would be significant in size and not meaningful for investors. This information should be disclosed for the major subsidiaries only.
* Definition of ‘consolidation’ entities is assumed to be the same as for the COREP Group Solvency return. Please confirm.
 |
| **Qualitative disclosures** | * Please confirm that it is not necessary to present the qualitative disclosures in the form of the (flexible) table shown in the consultation and such disclosures could be presented throughout the Pillar 3 document and other disclosures in free text format.
 |
| EU CRE IRB models | No comment |
| EU OVA Institutional risk management approach | Requirement to disclose goes beyond CRR and could lead to proprietary and confidential data being disclosed, including: * OVA(a) ‘disclose the nature, extent, purpose and economic substance of transactions within the group, affiliates and related parties. Only those transactions that have a material or reputational impact on the risk profile of the institution or the distribution of risks within the group should be disclosed.’ This could lead to proprietary and confidential information to be disclosed, and goes beyond CRR 435(1)(f).
* OVA(b)‘approved limits of risks to which the institution is exposed to’ (goes beyond CRR 435(1)(b)). Note: CRR requires information on ‘methodology for setting credit limits’, but guidelines seem to go beyond CRR.
* OVA(b)’ for each type of risk: breakdown of responsibilities between the management body, the senior management, the business lines and the risk management function ; the organisational and internal control procedures and an illustration of the risk management function from the relevant business line and from the compliance unit and internal audit. When disclosing the structure and organisation of the relevant risk management function, institutions should disclose the following: information on the overall internal control framework and how its control functions are organised (authority, resources, stature, independence) the major tasks they perform, how the performance is monitored by the management body and any actual and planned material changes to these functions’ This prescribes a significant level of granularity over and above the current CRD IV requirements with little evidence that the market actually needs this.
 |
| EU CRA Credit risk | * Further quantitative disclosure of CRM netting and Credit Derivatives (hedging, managing risk etc) will influence narrative required
 |
| EU CCRA CCR | * Additional requirement from CRR for information on CCP exposures. It is unclear why the requirement to disclose policies with respect to wrong-way risk exposures is made redundant as it is an existing CRR requirement.
 |
| EU MRA MR | No comment |
| EU LIA Linkages | * Qualitative narrative will be key to understanding the Linkages templates.
 |
| EU CRB-A Credit quality of assets | No comment |
| EU CRC CRM | This detail in this template has increased significantly from BCBS and is far more extensive than the CRR. See detailed comments on page 12 |
| EU CRD Use of external credit ratings under STD approach for credit risk | No comment |
| EU MRB-B-A Position risk measurement | No comment  |
| EU MRB-B Use of IMA | * Further clarification required on redundant requirements including those related to liquidity horizons and validation of models. The requirements remain within CRR 455 disclosure requirements. Recommend a clean version of handbook to establish intention to redundancy along with further guidance.
* The EBA proposed template makes the below CRR requirements redundant
	+ Approach used to determine liquidity horizons
	+ The methodologies used to achieve a capital assessment that is consistent with the required soundness standard and
	+ 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 Art. 455 (a)(ii).
* We question the value of providing such extensive and detailed qualitative information for market risk. Our view is that the scope of qualitative disclosures should be consistent across risk types.
* The depth and complexity of market risk qualitative disclosure significantly outweighs those for counterparty credit risk and credit risk.
 |

1. Santander UK is a significant subsidiary of an EU parent institution so it only needs to comply with a limited disclosure requirements specified within CRR. Therefore, only 4 out of the 11 core templates may be adopted by Santander UK for 2016 YE. [↑](#footnote-ref-1)