

June 9, 2016

Secretariat of the Basel Committee
on Banking Supervision (BCBS)
Bank for International Settlements
CH-4002 Basel, Switzerland

Dear Sir/Madam:

Re: CBA¹ Comments on the BCBS consultative document: *Pillar 3 disclosure requirements – consolidated and enhanced framework*

We thank you for the opportunity to provide comments on the BCBS's consultative document, *Pillar 3 disclosure requirements – consolidated and enhanced framework* ("consultative document"). We also appreciated the opportunity to participate in the industry outreach session that was organized by the BCBS's Working Group on Disclosure on April 15th. In our letter, we provide overall comments on the proposal, with specific comments on the Pillar 3 tables and templates included in the attached appendix.

We agree that consolidation of all existing and prospective BCBS disclosure requirements in a separate Pillar 3 report should be pursued as it puts all disclosure requirements under one framework. We also appreciate that signposting has been allowed where certain criteria are met as noted in the consultative document, as some of the required disclosure may be in other locations. We also agree with the goal of improving comparability across banking institutions; however, we note that these disclosure requirements do not factor in differences in national implementation driven largely by differences in accounting standards and regulatory definitions.

We are concerned that the second phase of Pillar 3 has introduced additional disclosure requirements, which thereby adds to our concern that investors may experience information overload. The volume of additional disclosure also places significant burden on the banks' ability to meet external reporting timelines required by investors and securities regulators (i.e. given that most banks in Canada report within 30 days of quarter-end). Additional costs (e.g. information technology), time, and resources may also be incurred given the more rigorous internal review required for publicly disclosed information.

¹ The Canadian Bankers Association works on behalf of 59 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 280,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions and works with banks and law enforcement to help protect customers against financial crime and promote fraud awareness. www.cba.ca.

With the above in mind, we are concerned with the proposed implementation date of 2017 year-end for certain tables and templates in Phase 2, which translates to October 31, 2017 year-end for most Canadian banks, including the Domestic Systemically Important Banks (D-SIBs). We are preparing for a significant amount of new disclosure related to Pillar 3 Phase 1, and substantial work is underway related to IFRS 9 implementation. Additional disclosure under Pillar 3 Phase 2 for Q4 2017 (i.e. Prudential valuation adjustments, Countercyclical buffer) adds to the process changes/developments and to the cost. For such new disclosures that are scheduled to be implemented in Q4 2017, we recommend deferral until Q4 2018 due to other competing priorities.

We also note that the BCBS policy frameworks related to certain Pillar 3 disclosures (i.e. IRB and standardized approaches for credit risk), including from Phase 1 are under consultation although the related disclosure templates were finalized under Phase 1. We recommend that sufficient time be permitted for the implementation of both new and potentially updated Pillar 3 disclosures following the finalization of such policy frameworks.

We thank you in advance for your consideration of our comments, and we would be pleased to discuss our submission at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Dawn Hamel". The signature is fluid and cursive, with a long horizontal stroke at the end.

cc: Karen Stothers, Senior Director, Accounting, Accounting Policy Division, OSFI
Ken Leung, Director, Accounting Policy Division, OSFI

**CBA Comments on BCBS's Consultative Document
'Pillar 3 disclosure requirements – consolidated and enhanced framework'**

CBA Members' Comments and Requests for Clarification

Overall Comments and Key Issues

We note that since TLAC is still evolving, Q4 2017 may still be too early for the implementation of certain disclosure (i.e. Template CC1, Table CCA).

Part 1: Proposals for revised and new disclosure requirements (p. 3)

1. Enhancements to the revised Pillar 3 framework (p. 3-4)

The proposed document would require banks to disclose hypothetical RWA calculated according to the SA for credit risk (including counterparty credit risk), market risk, and securitization framework. This could lead to a misleading interpretation that an A-IRB Bank is not adequately capitalized. We would recommend that the word "hypothetical" be replaced with something of the form "Under Standardized Approach if applied to these exposures" with the Internal model reference being amended to "Internally modelled exposures". This will be more readily understandable by readers. [reference: HYP1, HYP2].

2. Further revisions and additions to the Pillar 3 framework arising from ongoing reforms to the regulatory policy framework (p. 4-6)

3. Consolidation of all existing and prospective BCBS disclosure requirements into the Pillar 3 framework (p. 7-11)

CCA: Although table CCA should be "updated on a bank's website whenever the bank issues or repays a capital or TLAC instrument or whenever there is a redemption, conversion, write-down or other material change in the nature of an existing instrument", in practice, Canadian banks have only been publishing table CCA on a quarterly basis at the disclosure date. The rationale for this decision is that line 8 (amount recognized in regulatory capital) is only available at the disclosure date and also some items are derecognized as capital as soon as the redemption announcement is made. Thus, an instrument redeemed in Q1-16 but whose redemption had been announced in Q4-15 should be taken out of the list in Q4-15 rather than at the redemption date, as it can no longer be considered as capital. Is the transition phase required until 2017 year-end or 2019? (page 8)

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Part 2: Overview of risk management, key prudential metrics and RWA (p. 17)

Template KM1: Key metrics (at consolidated group level) (p. 17-19)

- Line 9: We note that countercyclical buffers would be defined by our regulator on a bilateral basis and be confidential. As such, we request that this information not be disclosed under Pillar 3.
- Line 12: The purpose of this line is unclear (see also CC1: line 68). Would it be equal to line 5 minus line 11? We request that the BCBS add a formula for this line.

Template KM2: Key metrics – TLAC requirements (at resolution group level) (p. 20)

Please clarify the criteria for the determination of the “resolution groups” (within the consolidated banking group) to which the new TLAC disclosure requirements are applicable. Is there a materiality threshold which would ensure only material resolution entities are subject to this disclosure requirement within the consolidated banking group’s Pillar 3 disclosures?

Template OV1: Overview of RWA (p. 22-23)

The minimum capital requirement is 8% of RWA only for Canadian D-SIBs, or even higher if we consider an eventual countercyclical buffer. Other non-D-SIBs have a minimum capital requirement of 7% only. Why should this usually be equal to 8% as highlighted in the template?

Template HYP1: Hypothetical RWA calculated according to the standardised approaches as benchmarks to internally modelled RWA (p. 24-25)

We would recommend that the wording “hypothetical” be replaced with something of the form “Under Standardized Approach, if applied to these exposures” with the Internal model reference being amended to “Internally modelled exposures”. This will be more readily understandable by readers.

Line 2 – Counterparty Credit Risk – Internally modelled – we would like to clarify that we could use SA-CCR EAD with A-IRB RWA? The definition seems to only refer to IMM.

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Accompanying narrative – the main difference is going to be the use of internal models vs. prescribed risk weights. What value would this be expected to provide? The details of internal models and how they are determined is disclosed in the MD&A managing risk section.

Template HYP2 – Hypothetical RWA calculated according to the standardized approach for credit risk (excluding counterparty credit risk) at asset class level (p. 26-27)

We would recommend that the column b heading “hypothetical RWA under SA” be replaced with something of the form “Standardized Approach RWA, if applied” This will be more readily understandable by readers.

Will the BCBS be aligning the disclosure requirements with the new asset class category of Real estate (i.e. residential, commercial and ADC exposures) proposed under the Revised Standardized Approach for credit risk framework?

Accompanying narrative – the main difference is going to be the use of internal models vs. prescribed risk weights. What value would this be expected to provide? The details of internal models and how they are determined is disclosed in the MD&A managing risk section.

Part 3: Linkages between financial statements and regulatory exposures (p. 28)

Template PV1: Prudent valuation adjustments (p. 29-30)

"Investing & Funding Cost" and "Unearned Credit Spreads" – Adjustments related to credit risk and funding cost are calculated at a counterparty level and not allocated to a trade level. Is there a requirement to disclose these two adjustments at a product level?

Certain Valuation adjustments indicated in the template appear unclear. Does the template cover all valuation adjustments or only those that go beyond accounting rules (“prudent VA”) (e.g. for risk management or regulatory purposes)? We would request a definition of prudent valuation adjustments. Please confirm that debit valuation adjustments (DVA) and funding valuation adjustments (FVA) are excluded.

Part 4: Composition of capital (p. 31-32)

Template CC1: Composition of regulatory capital (p. 33-39)

We would request a formula for line 68. Canadian banks have been duplicating information from line 61 into that line.

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Table CCA: Main features of regulatory capital instruments and of other TLAC instruments (p. 42-44)

- We request greater clarity on what line 3a means.
- Row 18 – Could the index be broken down from the coupon rate, as this would be easier to provide?

Part 5: Macroprudential supervisory measures (p. 56)

Template CCyB1 – Geographical distribution of credit exposures used in the countercyclical capital buffer (p. 58-59)

We find that the CCyB for exposures and RWA by country (geographical breakdown) is quite granular and proprietary.

Part 6: Leverage ratio (p. 60)

Template LR2 : Leverage ratio common disclosure template (p. 62-64)

The leverage ratio disclosure appears to be for transitional only. What about all-in? We recommend that the BCBS adopt the Canadian leverage ratio common disclosure template as it would assist those banks that have adopted all-in (i.e. there are separate lines added at the bottom of the template for presentation on an all-in basis).

Part 7 : Liquidity (p. 65)

Table LIQA – Liquidity risk management (p. 65)

- Under Quantitative disclosure requirement (g), please clarify “collateral pools” – Concentration limits on collateral pools and sources of funding.

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Part 11: Market Risk (p. 75)

Table MRA: General qualitative disclosure requirements related to market risk (p. 75)

The detailed data to be provided includes desk structure, type of instruments, and model methodology to be disclosed on an annual and semi-annual basis. This will provide a large amount of competitive information and it is unclear how this will benefit the users of our disclosures.

Template MR2: Market risk IMA per desk (p. 79-80)

The detailed data to be provided includes desk structure, type of instruments, and model methodology to be disclosed on an annual and semi-annual basis. This will provide a large amount of competitive information and it is unclear how this will benefit the users of our disclosures.

We would also request clarification on the time frame of high/mean/low metrics.

Template MR4: RWA flow statements of market risk exposures under an IMA (p. 82)

Given that details need to be provided for IMA, SBA and RWA, we note that capital multipliers will be revealed (# of BT breaches). Our recommendation is to continue only with the RWA tables, without providing this level of detail of data.

Part 12: Operational risk (p. 83)

- There may be differences in how operational losses are defined between institutions. For example, some banks would deduct severance payments from an employee lawsuit claim while others would not; and
- There may be sensitivity to disclosing certain losses. For example, legal settlements.

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Table ORA – General qualitative information about operational risk management (p. 83)

The SMA approach is currently under consultation and final standards are not yet provided. However, we request some clarity around the disclosure requirement for risk mitigation and risk transfer as the SMA proposal does not provide any guidance on them.

Template OR1 – Historical losses used for SMA calculation (p. 84)

- The table asks for the total amount of all losses. Should the data collection use the same threshold as Loss Component of the SMA calculation?
- Regarding "Total amount of losses exceeding 1m €", we request guidance on the FX application.
- We need further guidance on the losses included e.g. open events / legal cases, reference date (date of discovery, date of occurrence or date of recognition) etc.
- The loss categories do not correspond to the categories in the actual SMA calculation, which are Total, Total >10, Total >100.

Template OR2 – SMA – business indicator and subcomponents (p. 85)

- Do the interest income and interest expense categories include income / expense for financial and operating leases?
- This template is also not aligned with the new SMA. The Interest and Services components are no longer simple sums. Leases have been separated in the interest component. For the Financial component, should the actual or absolute value of the Net P&L be reported?

Template OR3 – Historical losses (p. 86)

Same comments as OR1.