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FBF Comments on BCBS Consultative document:

Review of the Pillar 3 disclosure requirement

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

The French Banking Federation welcomes the opportunity to respond to the Basel Committee's consultation on standards for the future Pillar 3 disclosure regime. We understand that the BCBS is undertaking a two-phase project, with the first phase focused on disclosure requirements in the areas of credit risk, market risk, counterparty credit risk, equity risk and securitization, as outlined in the consultative document. The scope of phase 2 will be remuneration, disclosure of hypothetical standardised approach capital, the IRRBB, operational risk, the composition of capital, global systemically important banks, the liquidity coverage ratio and the leverage ratio.

I. General comments:

1. Disclosure should be meaningful to users

In general, we support the main objectives of the proposal made in the consultation paper: improved disclosure comparability and enhanced transparency. Since 2008, the banks have made significant efforts to improve the transparency and quality of their disclosure. The banks are in favor of more stringent market discipline. The EDTF recommendations were developed in 2012 with this in view by the industry, investors and analysts, credit risk agencies and external auditors. Besides, it should be highlighted that financial analysts have not raised many questions concerning the Pillar 3 document issued by banks. In this context, an increase in the requirements is of questionable value to users, and the usefulness of disclosures should be placed at the forefront. In this sense, we support Principle 3 in the consultative document, which states that disclosures should be meaningful to users.

2. Granularity level should be relevant

Under the Pillar 3 proposal, banks would have to significantly deepen granularity. However, high granularity does not provide the “big picture”. It creates a great complexity for non-specialist readers. The relevancy of data at this level of granularity, provided to this audience, is highly questionable. It will cause confusion. Furthermore, the granularity of the information being disclosed should neither lead to loss of competitive advantage, nor generate confidentiality issues. We are concerned about the numerous templates proposed: this will not facilitate understanding, and some templates could be merged (for example, CR8 (credit risk) with CCR3 (counterparty credit risk) and CR9 with CCR4; see details in section 2).

3. Coordination of supervisors’ and regulators' requests is needed

The banks urge regulators and supervisors to make efforts to combine their initiatives and develop a single comprehensive set of requirements. The EBA has started to issue standards (RTS, ITS and guidelines) on disclosure and benchmarking requirements which are binding for European banks.

4. Single common reference framework

To avoid misleading the reader, the first issue to be dealt with is the use of a common reference framework. For example, a consistent definition of “exposure value” is needed throughout the Basel proposal, as well as within the other regulatory requirements. The use of regulatory data should ensure sound comparability and would avoid pointless IT development to build up completely new tables with new data

5. More flexibility is required in templates

The current conceptualization of the report is too rigid, and more flexibility is required for some tables in order to provide the market with a fair and accurate representation. Templates should be able to accommodate the bank’s business models, risk management policy or jurisdictional differences. Comments to the table should not be mandatory. We strongly believe that relevance can be best achieved through flexibility, for example in templates CR7 and CR10.

6. Frequency should be adapted

Regarding the frequency issue, the Pillar 3 publication should be synchronized with financial statement disclosure planning as decided by the bank according to the IFRS requirement. According to article 431.3 CRR, the banks shall assess the appropriateness of their disclosures, including their frequency. Systematic quarterly disclosure is not relevant. Quarterly disclosure should remain exceptional, only if some material event occurs. The materiality and reliance principle should be included.

7. Implementation date should be realistic

We are concerned about the proposed implementation date, which is the first reporting period on or after April 1, 2016. This appears unrealistic and not manageable, given the significant IT system changes involved. Moreover, the major changes in the regulation until 2018 should be taken into consideration, with the implementation of other regulatory requirements such as COREP/FINREP in Europe, IFRS9 (effective date 2018), the Fundamental Review of the Trading Book (effective date 2018), and phase 2 of the Pillar 3 consultation. The proposed timeline is ambitious, given that the new proposals will need to be transposed into domestic legislation. For these reasons, we recommend that adoption of the Pillar 3 proposals be required by no earlier than 2018.
Furthermore, a mid-year start date is awkward since many qualitative disclosures are made in banks' annual reports. We would suggest that the new Pillar 3 requirements should start with the bank's first annual report after the effective date.

8. Use of regulatory data should be favored

Should 2018 not be acceptable, a phase-in schedule should be envisaged, starting at the end of 2016. We recommend using regulatory data that regulators and/or supervisors already require banks to provide (e.g. data from COREP/FINREP in Europe). The main advantages identified are:

- Ensuring comparability because the regulatory framework is the same. No more problems with definitions (e.g. "exposure value": see previous remark).
    - Enhancing transparency. The selected data are extracted from the ones sent to the supervisor and shared with the market.
- Using an already existing production line of reporting which will ensure immediate quality assurance (internal controls are already in place).

Please find below a list of the templates which could be replaced by adapted COREP templates:

Section	Ref	Page	QL or QN	Description	Counterproposal based on COREP (see proposal in section 2)
Credit Risk	CR3	22	QN	Protected exposures by CRM method	COREP CR SA and CR IRB (CR and CCR - need filter on CR)
Credit Risk-Std	CR7	27	QN	Exposure and CRM impact on RWA	COREP CR SA (CR and CCR - need filter on CR)
Credit Risk-Std	CR8	29	QN	Exposure by asset class and risk weight	COREP CR SA (CR and CCR)
Credit Risk-Adv	CR9	32	QN	Exposure by PD band	COREP CR IRB (CR and CCR)
Counterparty Credit-Std	CCR3	44	QN	Exposure by risk weight (standardized)	COREP CR SA (CR and CCR)
Counterparty Credit-Adv	CCR4	45	QN	Exposure by PD band	COREP CR IRB (CR and CCR)

- **<u>Specific comments:</u>**

Regarding the **linkage between the prudential and the accounting data**, in some cases this is impossible due to the divergence of fundamental principles. Accounting values are generally on-balance sheet and do not match up with regulatory exposure at default due to collateral, netting and off-balance sheet exposures. Templates CR7 and CR10 refer to **pre-CRM RWA**. This approach needs to be rethought. For example, it is hard to see how mortgages could be presented on a pre-CRM basis. Moreover, for advanced IRB exposures, CRM is commonly reflected in an LGD adjustment with non-visible impact at disclosure level.

The idea of **RWA flow statements** looks good, but each bank might use its own assumptions to fill the template, which could lead to misunderstood information, especially regarding market risks.

Several templates for **securitizations** are required to report **P&L figures**. We fail to see why credit analysts would need to see P&L numbers. We are concerned that this information may be used by competitors to benchmark individual transactions given the level of detail required and the low numbers of transactions outstanding in several asset classes. We feel that exposure amounts is the only relevant information for analysts.

The scope of **phase 2** of the Pillar 3 consultation presents a key issue related to the planned requirements to disclose a **hypothetical standardised approach**. A standardised approach does not take into account differing management controls, credit experience, and business and market conditions. It may lead investors to think that internal models are inaccurate and unreliable. Banks will have to explain significant AIRB vs. Standardised RWA variances. We urge the Committee to carefully weigh the pros and cons of imposing the mandatory disclosure of the standard method and to consider alternative approaches to the enhancement of the reliability, transparency and comparability of internal models, such as those currently devised by the Industry. The IIF project is working on a proposal to reduce unwarranted discrepancies across banks' RWAs while maintaining the principle of risk-based capital. Any changes should reflect that work.

II. Comments on templates and tables

As explained in the general comments section, regarding the **frequency** issue, the Pillar 3 publication should be synchronized with financial statement disclosure planning as decided by the bank according to the IFRS requirement. According to article 431.3 CRR, the banks shall assess the appropriateness of their disclosures, including their frequency. Systematic quarterly disclosure is not relevant. Quarterly disclosure should remain exceptional, only if some material event occurs. The materiality and reliance principle should be included.

Regarding the **accompanying narrative**, the word "always" should be removed from paragraph 49. While qualitative discussion is often essential, it may not always be necessary for quarterly reporting. It may also create overlapping statements with other disclosure requirements, such as discussions of significant changes or items.

Although the consultation document does not explicitly address the question, we assume that the intended **scope** is at the top consolidated level of each banking group, subject to limited exceptions. It may, however, be helpful to confirm this point.

In this section, we will analyze the proposed requirements template by template. We will make comments or seek clarification, suggest counterproposals based on existing regulatory data when appropriate, and refer to the IIF's response to avoid redundancy.

Part 3: Overview of risk management and RWA: Table OVA.

- **OVA: Bank risk management approach**

No comment.

- **OV1: Overview of RWA**

Area for clarification: Why is the cell a7 (RA operational risk) in grey?

Part 4: Linkages between financial statements and prudential exposures

- **Template LI1: Differences in financial and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories**

Difficulty of implementation: High
Areas for clarification:

- We seek confirmation that LI1 solely reports carrying values, whereas LI2 presents the bridge between accounting and regulatory exposures. Moreover, it should be stressed that it is challenging to compare accounting exposures to risk exposures (EAD).
- The reconciliation could be performed at a macro level and not at this level of detail. In the consultation, the granularity (rows) must strictly follow the balance-sheet presentation. It could be useful to introduce more flexibility in order to allow each bank to comply with this requirement according to its information system.
- The liabilities and the off-balance sheet received side are not relevant on our opinion. They should be deleted. Reconciling items "off balance sheet amounts recognized in regulatory exposures" should be included in Template LI2. Row related to liabilities would be reported substantially under column (h).

Suggestion for modification or counterproposal: We are aligned with the IIF's proposed template (Exhibit 1).

- **Template LI2 Main sources of differences in regulatory exposure amounts compared with amounts in financial statements**

Appropriateness of format: More flexibility is required (i.e. number of the rows and nature of the main drivers).
Difficulty of implementation: High
Area for clarification: We seek confirmation on the purpose of the template. Does it intend to explain the main drivers of the regulatory exposure (EAD) computation?
Suggestion for modification or counterproposal: We are aligned with the IIF's proposed template (Exhibit 2).

- **Table LIA Qualitative disclosures of differences from financial to regulatory exposures**

No comment.

Part 5: Credit risk

To avoid misleading of the reader a first issue should be tackled: the use of a **common referential**. For example, a consistent definition of the **'exposure value'** throughout is needed within the Basel proposal but also with the other regulatory requirements.

Templates CR7 and CR10 make reference to **pre-CRM RWA**. This approach needs to be rethought. For example, it is hard to see how mortgages could be presented on a pre-CRM basis. Moreover, for advanced IRB exposures, CRM is commonly reflected in an LGD adjustment with non-visible impact at a disclosure level.

I. General information about credit risk

- **Table CRA: General qualitative information about credit risk.**

Difficulty of implementation: Medium, may involve disclosure of confidential information.
Comments:

- The requested description in (a) is already disclosed according to the EDTF recommendations.
- The information required in (b) is too vague, the notions of credit risk approach and limits need to be detailed. This information should remain qualitative and not too granular. Quantitative information on credit risk limits should not be made public.
- The information required in (e) is also difficult to interpret. Disclosing the scope and main content of reporting is too granular. The added value of this information is questionable for users.

- **Template CR1: Analysis of exposures by products**

Difficulty of implementation: Medium. This requirement would result in overlap in current financial disclosures.
Areas for clarification:

- First of all, we seek clarification on the values to report. Carrying values or regulatory exposure amounts?
- What about exposures that recovered in the performing status after a partial write off? Should the current net outstanding be reported or the pre restructuring exposure?
- Please confirm that only write off for credit risk should be reported (write off for commercial dispute should not be reported).

Comments:

- This table is confusing and sustains the vision according to which the 'Gross Value' is the initial value and that the write-offs are still to be encountered.
- We wonder why the list of products subject to credit risk differs from accounting standards those qualifying for the IFRS 7 disclosure "Maximum Exposure to Credit Risk".
- We wonder why in column c "non-defaulted exposures" the impaired amount is required.
- Past due: The number of days past-due disclosure for already defaulted exposures is questionable. For wholesale activities, the vast majority of defaults are triggered by the unlikeliness to pay. Is it expected that defaults migrate from the column "other" to the column "more than 90 days past due" with the passing of time and as unlikeliness to pay is confirmed and missed payments occur? We propose to follow the EBA requirements
- 'Revocable loan commitments must not be included' in the net value computation: this definition should be explicitly indicated (is it 'uncommitted'?) and the purpose of this exclusion clarified. What about loans revocable with conditions?
- Write offs/ Net value: The template brings confusion to the reader, as the filled Net value should already include the write off impact. Like it is presented, some readers may understand that a write off would be applied on the indicated Net value.

- The write off items are already deducted in the accounting gross value (columns a, b, c and d). In order to fulfil the template, we would have to add the write off elements in the gross value and then disclose the write off amounts in the dedicated column. In conclusion we have to disclose information neither according an accounting approach or a Basel compliant approach as write off amounts are deducted from exposures and accounted for in the P&L.
- The c and d columns are not relevant and consistent. The non-defaulted amounts are by definition not impaired. The general provision used to not cover specific exposures but all non-defaulted exposures. The split (columns c and d) is not relevant.

- **Template CR2: Changes in Defaulted Loans and Debt Securities**

<u>Difficulty of implementation:</u> High level of information which lead to heavy workload and IT developments. This information is not required neither by FINREP nor COREP.
<u>Areas for clarification:</u>

- The clarification areas are similar to those on Template CR1 (carrying values vs exposures values and the definition of the gross exposure).
- Line (2) is for new loans and debt securities originated in the year and also defaulted in the year. How shall we treat the renewable loans (new or existing exposure)?

- **Table CRB: Additional Disclosure Related to Assets subject to Credit Risk Treatment**

<u>Comments:</u>

- These qualitative disclosures will need to be done on a jurisdiction basis as the (accounting, regulatory and restructured exposures, and consumer protection) rules are different between jurisdictions.
- Rows a, b, c and d are already disclosed in the accounting policies within the financial statements. The restructured exposures definitions are in line with the EBA and IFRS requirements.
- Row e: today, geographical areas and industry segments are disclosed separately in Pillar 3 and FINREP. The combination of geographical areas, industry segments and maturities are possible but this leads to massive volume of information to be analyzed.
- The breakdowns proposed line (f) – by geography and industry are too granular. The breakdowns should not be combined together as it would result in very granular data, almost at counterparty level (that could be regarded as confidential information). Data should only be reported through one given axis. Which geographical areas are expected? Same clarification needed for industry segments and maturity buckets.
- Row g is redundant with financial statements.

<u>II. Protections available for credit risk exposure</u>

In order to avoid confusion and to foster broader understanding of how risk management under the Basel framework is conducted, it should be acknowledged that guarantees can be taken into account in various ways in banks' capital calculations: by way of rating upgrades, by way of PD substitution or LGD substitution. Failure to take this into account makes the resulting requirement both much more difficult to produce and potentially confusing for users.

The amalgamation of different forms of what are called here "protections" or CRM is potentially confusing.

- **Table CRC: Qualitative Disclosure Requirements Related to Protections.**

Difficulty of implementation: Medium. This requirement would result in overlap in current financial disclosures.

- **Template CR3: Protections – overview**

Appropriateness of format: A flexible format is preferred in order to re-use the regulatory data from the COREP.
Difficulty of implementation: High, but medium if the counterproposal is accepted.
Suggestion for modification or counterproposal:
Here below an adapted template from COREP: template on the Standard Approach (CR SA with a filter on Credit Risk)

		EXPOSURE NET OF VALUE ADJUSTMENT S AND PROVISIONS	CREDIT RISK MITIGATION (CRM) TECHNIQUES WITH SUBSTITUTION EFFECTS ON THE EXPOSURE				NET EXPOSURE AFTER CRM SUBSTITUTION EFFECTS PRE CONVERSION FACTORS	CREDIT RISK MITIGATION TECHNIQUES AFFECTING THE EXPOSURE AMOUNT: FUNDED CREDIT PROTECTION. FINANCIAL COLLATERAL COMPREHENS IVE METHOD	FULLY ADJUSTED EXPOSURE VALUE (E*)
			UNFUNDED CREDIT PROTECTION: ADJUSTED VALUES (Ga)		FUNDED CREDIT PROTECTION				
			(-) GUARANTEES	(-) CREDIT DERIVATIVES	(-) FINANCIAL COLLATERAL: SIMPLE	(-) OTHER FUNDED CREDIT			
		040	050	060	070	080	110=040	120	150 = 110 + 120
010	TOTAL EXPOSURES								
070	On balance sheet exposures subject to credit risk								
080	Off balance sheet exposures subject to credit risk								
	Of which Defaulted								

Here below an adapted template from COREP: template on the IRB Approach (CR IRB with a filter on Credit Risk)

		ORIGINAL EXPOSURE PRE CONVERSION FACTORS	CREDIT RISK MITIGATION (CRM) TECHNIQUES WITH SUBSTITUTION EFFECTS ON THE EXPOSURE			EXPOSURE AFTER CRM SUBSTITUTION EFFECTS PRE CONVERSION FACTORS	EXPOSURE VALUE	CREDIT RISK MITIGATION TECHNIQUES TAKEN INTO ACCOUNT IN LGD ESTIMATES EXCLUDING DOUBLE DEFAULT TREATMENT	SUBJECT TO DOUBLE DEFAULT TREATMENT
			UNFUNDED CREDIT PROTECTION		(-) OTHER FUNDED CREDIT PROTECTION				UNFUNDED CREDIT PROTECTION
			(-) GUARANTEES	(-) CREDIT DERIVATIVES					
		020	040	050	060	090	110	150	220
010	TOTAL EXPOSURES								
020	On balance sheet items subject to credit risk								
030	Off balance sheet items subject to credit risk								
	Of which Defaulted								

Areas for clarification:

- Please confirm that credit insurance is considered as financial guarantee.
- How shall we report transaction for which collateral is part of the structuring but where value of the collateral is not directly used for the evaluation of the LGD (e.g. project finance, LBO)?
- How should be considered pledges on all assets of a borrower?
- Should the value of collateral reported in columns c take into account the same discounts as per LGD calculation (downturn, prudence margin) or not?

- Please confirm that joint and several liabilities granted for co-borrowings should not be reported as financial guarantees.
- Should guarantees from a parent company of a client be reported as financial guarantee?
- Please confirm that potential currency and maturity mismatches are not taken into account in this table.
- Definitions: the column headings should be simplified as users may misinterpret their meaning. At least, 'Exposure unsecured' should be defined. The case of multi-collateralized exposures should also be clarified.

- **Template CR4: Protected Exposures and Coverage Ratio**

We are not sure this template would bring valuable information. Ratios are mixing protections from guarantees, mortgages, asset finance, credit derivative… This is likely to be very difficult to interpret and would certainly not be comparable between banks. Furthermore, the results depend on the business strategy and the portfolio specificities. The suggestion that "not protected exposures" are necessarily riskier than "protected" exposures is likely to be misunderstood and could have unfortunate effects on the cost of credit.

<u>Difficulty of implementation:</u> High
<u>Suggestion for modification or counterproposal:</u> To be deleted.

- **Template CR5: Protected Exposures by Guarantor Rating Class**

This information is not included as part of the supervisory reporting, which calls into question the use and relevance of this template to investors or other users.
The split between defaulted and non-defaulted disclosures is simplistic. The non-defaulted exposures will have a range of credit quality, those near default to AAA rated exposures. Giving the external rating of the guarantor without giving sense of what exposures the guarantor is guaranteeing is not meaningful.

<u>Suggestion for modification or counterproposal:</u> We are in favor of the alternative proposed which consists of producing one table split by PD band of the guarantor for IRB exposure and one table split by RW of the guarantor for assets reported in standard method.
<u>Area for clarification:</u> Please confirm that the exposure to be reported here is net of provision and write off

- **Template CR6: Exposures Protected by Credit Derivatives; breakdown by counterparty rating**

Same <u>comments</u> as CR5.
<u>Areas for clarification:</u>
- Please consider that credit derivatives cleared by CCP are to be reported separately.
- Would IRB and Standardised exposures have separate tables?

<u>III. Credit risk under standardised approach</u>

All of these templates and tables for the standardised approach appear to apply to IRB banks using the standardised approach for certain portfolios; however, as with other points, these should be subject to a materiality test: the standardised approach is often adopted for very immaterial portfolios where investment in advanced approaches is not warranted; therefore, disclosure of such immaterial portfolios would be distracting and disproportionate rather than useful. Applying a materiality filter would be in accordance with Principle 3 on meaningfulness to users.

- **Table CRD: Qualitative Disclosures related to Standardised Approach**

No comment.

- **Template CR7: Standardised Approach: Credit Risk Exposure and CRM effects**

The comments on Template CR3 about the different ways guarantees can be applied also apply to this template.

Given that the overall shape of the book does not change very quickly, it is not clear why this template would need to be published on a quarterly basis. Annual publication would be sufficient.

Appropriateness of format: A flexible format is preferred in order to re-use the regulatory data from the COREP.
Difficulty of implementation: High, but medium if the counterproposal is accepted.
Suggestion for modification or counterproposal:
Here below an adapted template from COREP: template on the Standard Approach (CR SA with a filter on Credit Risk)

		EXPOSURE NET OF VALUE ADJUSTMENTS AND PROVISIONS	FULLY ADJUSTED EXPOSURE VALUE (E*)	EXPOSURE VALUE	RISK WEIGHTED EXPOSURE AMOUNT AFTER SME-SUPPORTING FACTOR
010	TOTAL EXPOSURES				
BREAKDOWN OF TOTAL EXPOSURES BY EXPOSURE TYPES:					
070	On balance sheet exposures subject to credit risk				
080	Off balance sheet exposures subject to credit risk				
BREAKDOWN OF TOTAL EXPOSURES BY BASEL ASSET CLASS					
	Central governments or central banks				
	Regional governments or local authorities				
	Public sector entities				
	Multilateral developments banks				
	International organisations				
	Institutions				
	Corporates				
	Retail				
	Secured by mortgages on immovable property				
	Exposures in default				
	Items associated with particularly high risk				
	Covered bonds				
	Claims on institutions and corporate with a short-term credit assessment				
	Claims in the form of CIU				
	Equity Exposures				
	Other items				

Comments:

- Reporting a mortgage without taking into account the guarantee is a non-sense from a conceptual point of view. Banks do not manage their portfolio on a pre-CRM basis.

- o Higher-risk categories : we recommend to align Basel definition and CRR definition as guidelines are expected from the EBA specifying which type of exposures are associated with high risk and under which circumstances (no deadline).

Area for clarification: Please confirm that uncommitted facilities should not be reported.

- **Template CR8: Standardised Approach: Exposures by Asset Classes and Risk Weights**

Appropriateness of format: A flexible format is preferred in order to re-use the regulatory data from the COREP.
Difficulty of implementation: Medium if the counterproposal is accepted.
Suggestion for modification or counterproposal:
Here below an adapted template from the COREP: template on the Standardised Approach (CR SA - CR and CCR). We suggest having only one template for the credit risk and the counterparty credit risk.

		BREAKDOWN OF TOTAL EXPOSURES BY RISK WEIGHTS:															EXPOSURE VALUE
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Other risk weights	TOTAL
010	TOTAL EXPOSURES																
BREAKDOWN OF TOTAL EXPOSURES BY BASEL ASSET CLASS																	
	Central governments or central banks																
	Regional governments or local authorities																
	Public sector entities																
	Multilateral developments banks																
	International organisations																
	Institutions																
	Corporates																
	Retail																
	Secured by mortgages on immovable property																
	Exposures in default																
	Items associated with particularly high risk																
	Covered bonds																
	Claims on institutions and corporate with a short-term credit assessment																
	Claims in the form of CIU																
	Equity Exposures																
	Other items																

IV. Credit risk under IRB

- **Table CRE: Qualitative Exposure Related to IRB Models**

Moderate qualitative enhancement should be envisaged. However, a detailed description of main characteristics of approved models might be challenging in light number of approved models.
Comments: Line (d): it is very difficult to report the expected time schedule for the approval of the model for IRBA roll out since the decision is entirely in the hand of the supervisors.
Areas for clarification:

- o What is the 'scope of the supervisor's acceptance of approach (line (c))?
- o Line (f): please clarify "the drivers for differences observed between PD and actual default rates at least for the last 3 periods (years?)". It's always difficult to explain why an observation is different from a forecast and even if there are sometimes pieces of information, they may be valid per asset class within geography, very seldom at a global portfolio level.

- **Template CR9 IRB – Credit risk exposure by Portfolio and PD range**

Given its complexity and challenges as drafted, this template would be difficult to produce on a quarterly basis; moreover, it would be to show relatively little movement on a quarter-by-quarter basis.

Appropriateness of format: A flexible format is preferred in order to re-use the regulatory data from the COREP.
Difficulty of implementation: Very high, but Medium if the counterproposal is accepted.
Suggestion of counterproposal: Here below an adapted template from the COREP: template on the IRB Approach (CR IRB - CR and CCR). We suggest having only one template for the credit risk and the counterparty credit risk.

		INTERNAL RATING SYSTEM	ORIGINAL EXPOSURE PRE CONVERSION FACTORS		EXPOSURE VALUE	NUMBER OF OBLIGORS	EXPOSURE WEIGHTED AVERAGE LGD (%)	EXPOSURE-WEIGHTED AVERAGE MATURITY VALUE (DAYS)	RISK WEIGHTED EXPOSURE AMOUNT AFTER SME-SUPPORTING FACTOR	RWA DENSITY	CAPITAL REQUIREMENT	EXPECTED LOSS AMOUNT	(-) VALUE ADJUSTMENTS AND PROVISIONS
		PD ASSIGNED TO THE OBLIGOR GRADE OR POOL (%)	ON BALANCE	OFF BALANCE									
		010	020		110	300	230	250	260	-260/110		280	290
010	TOTAL EXPOSURES												
BREAKDOWN OF TOTAL EXPOSURES ASSIGNED TO OBLIGOR GRADES OR POOLS BY PORTFOLIO:													
Central governments and central banks	1												
	2												
	..												
	N												
Institutions	1												
	2												
	..												
	N												
Corporates - SME	1												
	2												
	..												
	N												
Corporates - Specialized lending	1												
	2												
	..												
	N												
Corporates - Other	1												
	2												
	..												
	N												
Equity	1												
	2												
	..												
	N												
Retail - Secured by immovable property SME	1												
	2												
	..												
	N												
Retail - Secured by immovable property non-SME	1												
	2												
	..												
	N												
Retail - Qualifying Revolving	1												
	2												
	..												
	N												
Retail - Other SME	1												
	2												
	..												
	N												
Retail - Other non-SME	1												
	2												
	..												
	N												

Comments: Column (d): For banks where CRM are taken into account in the LGD and not in the EAD in IRB method, what is the meaning of EAD post CRM?
Areas for clarification:

- Original on balance sheet gross exposure for defaulted asset: Is it the value net of write offs?
- Off balance sheet exposure pre CCF : please confirm that uncommitted or cancellable amount should not be reported

- **Template CR10: IRB Credit-Risk Mitigation Techniques**

Comments:

- Same general comment as the template CR7.
- For some asset classes which very existence is linked to a specific CRM (mortgage loans, project finance, LBO, Commodity finance, purchase receivables…), the LGD pre CRM is hardly conceivable and is never evaluated. The RWA pre CRM for such asset classes would not be meaningful.
- If this template is retained, the information is not likely to change much from quarter to quarter, annual reporting would be sufficient.

- **Template CR11: IRB –RWA flow statements**

Suggestion for modification or counterproposal: simplification: this table could be merged with table CCR7 as credit risk and counterparty risk are very close. A "of which" column could be created if the split between credit and counterparty risks is still relevant.

We are aligned with the IIF's comments:

While we *conceptually are supportive of the idea of RWA flow statements, unambiguous definitions should be provided to accommodate the definition of allocation keys and to enhance comparability. Alternatively, there needs to be an option to comment qualitatively on the directional impact especially for rows (3), (4) and (5).*

The sequence of items (2)-(8) is not obvious and could make a real difference in the reported results. Banks should be able to apply the factors in the way that makes the most sense, without distorting results. For example, a reduction in a corporate portfolio's maturity profile or a decision to increase CDS coverage could have a material effect and careful consideration would need to be given to their appropriate presentation.

We find it hard to decide whether to route changes through row (3), (4) or (5). Model updates are intrinsically linked to changes in asset quality (e.g. through rating migration) as well as to changes in internal risk policies. Model changes often are grouped together (e.g. at annual recalibration) and therefore singling out one factor (such as a change in regulatory policy, a change in the model's predictive power due to a shift in portfolio composition or time series) is not always feasible.

- **Template CR12: IRB—Back-testing of probability of default (PD) per portfolio.**

From our prospective, the key component of the back-testing disclosure should be the comparison between the estimated PD and the actual default rate.

Appropriateness of format: More flexibility is required.
Difficulty of implementation: High.
Suggestion for modification or counterproposal: Breakdown by the main models and not by portfolios.
Comments:

- The historical 5 year average annual default rate per PD range is likely to be very difficult to report in an accurate manner, in particular for retail exposures where they are reported in batch and where recalibrations of homogeneous classes are frequent. It is suggested that such average PD be reported at portfolio level.

- If the purpose of the table is to compare forecasted default rate and observed default rate, we suggest that average PD (weighted and arithmetic) be calculated at the beginning of the year and not at the end as it is inferred (this is different from what is asked in CR9).

Areas for clarification:

- Please confirm that, for new obligor defaulted in the year, the PD to take into account is the PD at the date of the first transaction within this year with this obligor (since such obligor is likely to be unrated at the beginning of the period).
- Please confirm that the arithmetic average PD should exclude the counterparties that have an EAD equal to 0.

- **Table CRF: Qualitative Disclosures related to specialized lending and equities under the simple risk weighted method**
- Area for clarification: What is the purpose of a report which associates specialized lending and equity?

- **Template CR13: IRB Specialized Lending and Equities under the Simple Risk Weight Method**

Same comments as the table CRF.

Given that the overall shape of the book does not change very quickly it is not clear why this template would need to be published on a quarterly basis. Annual publication would be sufficient

Part 6: Counterparty credit risk – Comments to come to be discussed with ISDA and GFMA

We support the IIF's response for the counterparty credit risk, but we make counterproposals for few templates.

- **Template CCR2: Credit valuation adjustment (CVA) capital charge**

No comment.

- **Template CCR3: Standardised approach – CCR exposures by asset classes and risk weights**

Suggestion for counterproposal: please refer to the template CR8.

Areas for clarification:

- Clarify that this is to be filled with exposures subject to the standard method for credit risk whatever the method used to generate the exposure (IMM or CEM)?
- It is not clear whether this table should include cleared exposures or not

- **Template CCR4: IRB - CCR exposures by portfolio and PD scale Table**

Suggestion for modification or counterproposal: please refer to template CR9.

Comments: This table is mixing a lot of information and is very hard to interpret. For example, the CCF concept is irrelevant for derivatives exposures. The template is not feasible.

Area for clarification: It is not clear whether this table should include cleared exposures or not.

Part 7: Securitization

We support the IIF's response for the securitization.

Several templates for **securitizations** are required to report **P&L figures**. We fail to see why credit analysts would need to see P&L numbers. We are concerned that this information may be used by competitors to benchmark individual transactions given the level of detail required and the low numbers of transactions outstanding in several asset classes. We feel that exposure amounts is the only relevant information for analysts.

Risks can be retained, acquired or transferred from the bank to third parties and disclosure under Pillar 3 should only be required with respect to positions in transactions where significant risk transfer has been achieved and regulatory capital released. Of course, other types of exposures (where risk transfer has not been achieved) would be otherwise disclosed in credit- and market-risk disclosures.

In principle we wonder, if the Basel 2.5 disclosure requirements that are not included in the current tables have been removed or are still existent (e.g. quantitative disclosure banking book: amount of impaired/past due assets securitized broken down by exposure type; re-securitization exposures to which credit risk mitigation is applied).

Part 8: Market risk – Comments to come to be discussed with ISDA and GFMA

As the market risk framework is expected to significantly evolve as part of the Trading Book Fundamental Review, changing significantly the disclosure requirements without factoring-in those forthcoming changes seems highly inappropriate. As stated in the introduction, the implementation date of the revised Pillar 3 requirement should be deferred to 2018 and should take into account any significant changes in the regulatory framework that are occurring in the meanwhile. In particular, the revised market risk framework is expected to be settled by mid-2015 and should therefore be fully integrated in this review.

We support the IIF's response for the market risk.