



GUIDELINES ON DISCLOSURE REQUIREMENTS IN PART EIGHT CRR

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The EBA and Transparency

- Ensuring proper market discipline via adequate and sound disclosures by institutions is essential for the EBA
 - The EBA sees transparency as both a crisis-prevention and a crisis-management tool
 - ▶ allows users to identify risks before crisis takes place and dynamically adjust their exposures
 - ▶ dissipates rumours on risks once crisis has unfolded and allows markets to discriminate between the sound and less sound institutions
 - ▶ over time transparent institutions whose risk appetite and risk management are aligned on those of investors are rewarded by lower cost of capital and lower cost of funding
 - Policy responses to the challenges the banking sector is facing should always include a transparency component
 - ▶ Stress-tests since 2011 and Transparency Exercises since 2013 have led to the release of a significant amount of consistently presented data for each institution – 16,000 data points per institution in 2016
 - ▶ RWA variability: the EBA called for improvements in the granularity and consistency of disclosures on IRB models (cf 2013 First assessment of RWA report and 2016 report on the future of the IRB approach)
- The EBA has been monitoring the compliance of institutions' disclosures with the requirements since 2010
 - Over time reports (2010, 2011, 2012, 2013, 2015) have identified real improvements but always a need for more comparability and consistency of disclosed information
- The EBA has already been providing consistent format and guidance for disclosure
 - Technical standards on own funds, leverage ratio, countercyclical capital buffer, GSII, encumbrance
 - Guidelines on materiality, confidentiality, frequency, liquidity, GSII, encumbrance

The Basel revision of Pillar 3

- Overhaul of the Pillar 3 disclosure requirements from Basel II
 - General principles for disclosure
 - Templates for the presentation of quantitative information and more detailed tables for qualitative information
 - Enhance the comparability of information to restore markets confidence in RWA
- Phased-in work towards a comprehensive Pillar 3 package
 - Phase 1 issued in January 2015 (final version)
 - ▶ Capital requirements, linkages with financial statements, credit risk, counterparty credit risk, securitization, market risk
 - Phase 2 under re-deliberation after consultation
 - ▶ Own funds, TLAC, key metrics, benchmark RWA, liquidity, leverage ratio, remuneration, prudent valuation, interest rate risk in the banking book, revised market risk
- Phase 1 requirements mandatory from 31 December 2016
- Phase 2 requirements mandatory from end-2017 or later, depending on whether they are currently in force or hang on the implementation of new Pillar 1 requirements

Transposing the revised Pillar 3 into the CRR

- EBA consultation on the future of the IRB models (2015)
 - transparency fosters greater understanding of internal models and that more transparency should be part of an overall solution aimed at restoring confidence and repairing IRB models
 - Improvements to take place via the implementation of the Basel proposals and alignment on supervisory reporting
- Part Eight CRR does not include templates for areas covered by the Basel Phase 1 – and requirements do not always exactly match and cannot be substituted
 - Thematic study of the 2015 EBA Report on the assessment of Pillar 3 disclosures: misalignments in terms of levels of details, or different requirements (credit risk, linkages with financial statements, governance....)
 - Market pressure on major institutions to comply with the revised formats in Basel while only the CRR is binding – burden of double disclosure
- Two-step approach for the implementation of the revised Pillar 3 into the CRR
 - Short-term: Own initiative Guidelines in accordance with Article 16 of the Regulation (EU) 1093/2010
 - Longer-term: amendment of the CRR

The Guidelines on disclosure requirements (1)

- The EBA Guidelines intends to enable institutions to comply with the CRR while implementing the revised Pillar 3 but also cover other requirements in Part Eight CRR where relevant
 - Cover all the disclosure requirements in the scope of the Phase 1 except securitisation
 - ▶ Wait for the implementation of the revised securitisation framework in the EU
 - A legal basis (CRR requirement to specify) was found for each of the template/element of the tables
 - Extra guidance on limited number of additional CRR requirements where inconsistent implementation has been noticed in previous assessment of disclosures
 - ▶ Breakdown of IRB parameters, insurance participations, consolidated entities, NPE and FBE
- Making the revised Pillar 3 consistent with the CRR requirements has rendered some adjustments necessary
 - 21 new and 28 amended templates and tables out of 39 in the revised Pillar 3
 - ▶ Re-naming of columns/rows to fit with CRR concepts
 - ▶ Additions of columns/rows or templates to match with the CRR requirement to be specified
 - ▶ Deletion of elements of the tables that were entirely duplicative with the CRR text (in some instances, these elements were replaced by new guidance)
 - Incorporation of clarifications stemming from the recently published Basel FAQ on Phase 1
- Whenever possible the changes to the revised Pillar 3 build on existing information in supervisory reporting (FINREP and COREP)

The Guidelines on disclosure requirements (2)

- The Guidelines do not cover the CRR requirements already specified by technical standards and guidelines
 - Cross reference to existing technical standards and guidelines to build a comprehensive document
- **Guidelines are not a substitute to current disclosure requirements in Part Eight CRR**
 - **Disclosure requirements not specified by the Guidelines shall still be complied with**
 - **Institutions other than G-SII and O-SII shall still comply with Part Eight CRR**
- Scope of application of the Guidelines limited to most significant institutions in the EU
 - G-SII and O-SII
 - Other institutions on supervisory discretion or for disclosures on governance only
 - Scope of application of Part Eight unchanged – reduced requirements for consolidated O-SIIs
- Revision of GLs 2014/14 regarding the assessment of the need to disclose information more often
 - G-SII and O-SII advised to consider the frequency of disclosure of the present Guidelines
- First implementation date on 31/12/2017
 - Subset of requirements on capital requirements and RWA proposed to apply from 31/12/2016 for G-SII to align on the international implementation date of the revised Pillar 3

Issues under consultation (1)

- **Proportionality:** the focus of the scope of application on G-SII and O-SII avoids requiring small institutions to make investments to produce templates required in the Guidelines when they do not match with current practice
 - Alternative (cf Guidelines on the LCR disclosures): all institutions to disclose at least a standardised key metrics template
- **Early implementation for G-SII:** the Basel revised Pillar 3 will apply from 31/12/2016. Markets expect implementation of the templates from this date. Major institutions would be encouraged to early implement a core set of templates focused on RWA and capital requirements
 - These templates match with some of the disclosures already provided by most G-SIIs
- **Disclosures in editable format:** comparable information is most useful when it can be handled easily by users. Disclosures of all or part of quantitative information under an editable format (e.g. Excel tables provided in addition to their pdf version in a report) could help

Issues under consultation (2)

- **Breakdown of capital requirements:** Basel template OV1 provides capital requirements and RWA at the risk category level, but Article 438 CRR requires a breakdown by exposure classes
 - Two templates (OV1-A at the risk category and OV1-B at the exposure classes level) to fit with the current observed practices (information on capital requirement in a single location)
- **Breakdown by exposure classes:** Article 442 CRR does not prescribe the exposure classes to be used to break down credit exposures. A consistent breakdown throughout Pillar 3 would improve comparability
 - Different breakdowns possible in the CRR (Article 112 and 147) and COREP (C02, C07, C08, C09)
- **Information on average maturity of IRB exposures:** Basel template CR6 includes information on the average maturity of IRB exposures by PD grade. Although not required by Article 452 CRR, it is disclosed by institutions as it is available in COREP
 - kept in template EU CR6 for the sake of international comparability
- **Value adjustments and provisions on IRB exposures:** Basel template CR6 requires the total amount by exposure classes, and so does template EU CR6. Nevertheless, a breakdown by PD grade is available in COREP
 - Impact of the standardisation of the PD masterscale on the availability of information by PD grade

Issues under consultation (3)

- **Types of transactions for CCR:** Basel template CCR1 requires information for all transactions under IMM without distinction between SFTs and derivatives. Template EU CCR1 operates this distinction
 - Separate information available in COREP
- **Credit derivatives for own use and intermediation activities:** Basel template CCR6 implemented as a specification of Article 439(g) and (h) and therefore template EU CCR6 is split between own use (EU CCR6-A) and intermediation activities (EU CCR6-B)
 - No specification in the CRR regarding the split so inconsistent practices
- **Capital requirements for market risk:** Basel template MR1 for SA implemented as a specification of Article 445, which covers both the capital requirements for trading exposures under SA and Internal Models
 - Inconsistent implementation of Article 445 (comprehensive scope or limited to SA)
- **Elements of own fund requirements for market risk IM:** Article 455(e) implemented via a split of Basel template MR2 to provide consistency in the disclosure of the elements of own funds
 - Own fund requirements based on the higher of the end of period or the 60-day average which may be expected to be higher than the end of period value, though not always

Timeline

- End of consultation: 29 September 2016
- Finalisation of the Guidelines: Q4 2016
- Possible early implementation of some templates for G-SII: 31/12/2016
- Implementation date of the Guidelines: 31/12/2017



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