



Virgin Money Holdings (UK) plc

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26 September, 2016

Dear Sir/ Madam,

Guidelines on disclosure requirements under Part Eight of the CRR (EBA-CP-2016-07)

Virgin Money welcomes the opportunity to respond to this consultation paper. We broadly support these guidelines and the objective of bringing increased harmonisation, consistency and comparability to Pillar 3 disclosures. Virgin Money notes that the guidance allows EU institutions to implement the revised Pillar 3 Framework in a way that is compliant with the requirements of Part Eight CRR.

However, we believe additional consideration should be given surrounding:

- the disclosure of exposure-weighted average maturity by PD grade. Although this offers some insight on certain cohorts of business, it can be difficult for users to interpret;
- the proposed scope of application of the Guidelines in order to make this clearer for institutions which do not immediately fall within its scope; and
- the presentation of the Basel I floor where it is included as a constituent element of the total RWAs, as we believe this could be misleading for readers.

Our more detailed comments can be found in the appendix to this letter.

If you would like to discuss any aspect of our response in greater detail, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read "M. Martin", with a large, stylized flourish at the end.

Marian Martin
Chief Risk Officer

Appendix 1

Question 2: 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.

VM Response: We would prefer to use a consistent breakdown across disclosures, whether that be COREP, CRR, the Transparency exercise or Pillar 3. This would encourage transparency and comparability. We would prefer to use the breakdown as per COREP.

Question 3: Do you believe information on the exposure-weighted average maturity by PD grade is useful for understanding of an institution's IRB RWA?

VM Response: We believe this can offer some insight into certain cohorts of business, it can be difficult to interpret, particularly as a measure for benchmarking institutions.

Question 4: 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?

VM Response: It would be feasible to break down provisions by PD grade. This information aids understanding around how the provisions compare across the risk segments for IRB modelling approaches. However, further segmentation may be required to improve clarity to users of Pillar 3 disclosures:

- 1) IFRS 9 staging- accounts may be allocated provisions based on a lifetime expected loss where there has been a significant deterioration in credit risk since origination of the asset. Therefore, provision levels may not rank order in line with the PD rating.
- 2) Collateral- provision levels do not necessarily increase for higher PD grades, given the impact of by collateral held.

Question 9: Do you agree with the proposed scope of application of the Guidelines?

VM Response: For those institutions that don't immediately fall within the scope of application, there is still uncertainty as to whether the guidelines will apply, depending on whether the relevant competent authority would require it. It would therefore be helpful to provide more information as to what other factors the EBA would expect competent authorities to consider when deciding on the scope of these guidelines within their own jurisdictions.

Question 10: 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)?

VM Response: We believe the following areas of risk / metrics should be covered:

- Average RWAs / blended risk weights for each asset class
- On balance sheet exposures by asset class
- On balance sheet exposures by asset class split by standardised/ advanced approach
- Consistent Pillar 2 disclosure given that there is nothing included in the guidance or templates for Pillar 2 values.

Question 11: Do you regard making available quantitative disclosures in an editable format as feasible and useful?

VM Response: *This may be useful for the reader. However, for smaller companies in particular, this involves additional cost, complexity and governance which may outweigh the benefit to the user.*

Question 12: 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?

VM Response: *A more limited set of key risk metrics, as discussed in Question 10, would be helpful to users of the disclosures to allow them to readily compare the most important risk indicators within each institution.*

Question 13: Does an early implementation of a selected set of information specified in these guidelines appear feasible?

VM Response: *Early implementation of the selected specified disclosures in the guidance (noted below) would be feasible for 2016 year end:*

- *Template EU OV 1 -A and EU OV 1-B*
- *Template EU CR 5-B*
- *Template EU CR 6*
- *Template CR 8*
- *Template EU CCR 3*

The following templates identified in the guidance for early implementation are not applicable for Virgin Money at this time:

- *Template EU CCR 4*
- *Template EU CCR 7*
- *Template EU MR 1-B*
- *Template EU MR 2-A*
- *Template EU MR 2-B*

Question 15: 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.

VM Response: *VM does not agree with the treatment of the Basel I floor in templates EU OV1-A and EU OV 1-B.*

The narratives for these templates explain that the floor adjustment should show the impact of the floor implemented in accordance with Article 500(1), so that the total row, including such adjustments, reflects RWAs in accordance with Article 92.

While we agree that it would be helpful to users to show the impact of the Basel I floor, including it as a constituent element in the only two templates showing total risk-weighted assets could be misleading.

Risk-weighted assets, as defined in Article 92 of the CRR, do not include the Basel I floor. Instead, Article 500 imposes an additional requirement to hold capital equal to the

Basel I floor. This could lead to confusion on the part of users, if the reported risk-weighted assets do not agree to the total per templates EU OV1-A and EU OV1-B.

We would suggest risk-weighted assets, excluding the Basel I floor, be shown as a subtotal. The total balance, including the Basel I floor, can be disclosed as a separate metric. Showing the Basel I floor impact like this would help investors and analysts to review banks in a similar light given that some firms with large AIRB mortgage portfolios and PiT models can have flattering ratios with a significant capital add on.