

10 June 2016

Secretariat
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
SWITZERLAND

Dear Secretariat

BCBS: Consultative Document: Pillar 3 disclosure requirements - consolidated and enhanced framework

The Australian Bankers' Association (**ABA**) appreciates the opportunity to provide comments on the Basel Committee on Banking Supervision (**BCBS**) Consultative Document: *Pillar 3 disclosure requirements – consolidated and enhanced framework* (**Consultation Paper**).

With the active participation of its members, the ABA provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services. The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

Consolidated and enhanced Pillar 3 framework

The ABA is supportive of the proposed enhancements and the consolidation of all existing and prospective BCBS disclosure requirements into the Pillar 3 framework.

To the extent these disclosure requirements cover aspects of the Basel framework, which are still under consultation (e.g. operational risk, Standardised Approach to Credit Risk), the ABA recommends that sufficient time be permitted for the efficient implementation of both new and potentially updated Pillar 3 disclosures following the finalisation of such standards.

Disclosure of hypothetical risk-weighted assets calculated according to the standardised approach

The ABA is concerned with the proposal to disclose hypothetical capital requirements calculated according to the standardised approach. The aim of this proposal is to reduce the opacity in internal ratings-based (**IRB**) banks' internally modelled risk-weighted assets (**RWAs**) and to enhance comparability across banks.

Our concern is that this will not yield a meaningful or comparable measure for users, and precedes the finalisation of a number of regulatory reforms to the risk-based capital framework that is focused on addressing variability in RWAs.

There is concern that, over time, users of the Pillar 3 disclosures will take the RWAs calculated under the standardised approach as the 'de facto' measure of RWA, which undermines the risk-based capital framework. The benchmark would be a misleading metric that could lead to market volatility were this hypothetical metric be used, by markets, as more than its original benchmark purpose.



Strong banks – strong Australia

Also, this disclosure will now require banks to build, run and resource two separate processes to calculate RWAs under the IRB and standardised approach. This is a significant additional burden for IRB banks already faced with an enormous implementation task as the Committee finalise their reform agenda by the end of 2016.

The ABA supports the IBFed recommendation that the Committee waits until the revised regulatory framework, as well as the implementation of Pillar 3 Phase 1, are put into effect before considering any additional disclosure measures to address comparability of RWAs.

Disclosure frequency

The new Pillar 3 Phase 2 disclosure requirements require a number of metrics (e.g. LR1 and LR2) to be disclosed quarterly. In Australia, detailed disclosure occurs on a semi-annual basis. There is currently limited disclosure on the off quarters (including the non-disclosure of detailed financial statements) and disclosure of detailed information on a quarterly basis would be inconsistent with current disclosure regimes. Therefore the ABA recommends that quarterly disclosures become semi-annual.

Implementation timeframes

The ABA is concerned about the ambitious 2017 timeframe the Committee has proposed for the implementation of parts of Pillar 3 Phase 2. Australian banks are concerned that the proposed timeframes are insufficient to implement the required disclosures, particularly given that a significant amount of disclosures are new and will require system changes in order to produce the data, this is in addition to the work currently being undertaken to address Pillar 3 Phase 1 requirements. The ABA asks the Committee to facilitate a longer implementation timeframe which will allow all disclosure reforms to be finalised as one, thus allowing jurisdictions to implement new and potentially updated Phase 1 requirements once and in the most efficient and cost effective manner possible. Such flexibility would be most welcome given the existing significant program of other interconnected and concurrent regulatory reforms already scheduled for implementation.

Specific comments on certain Pillar 3 tables and templates

Operational risk - The ABA believes, for consistency, that Table OR 3 on page 86 of the Consultation Paper should be aligned with the elements of the Standardised Measurement Approach (**SMA**). The table contains loss information disclosed under a different basis which is not aligned to the SMA, which is likely to confuse the reader.

Conversion of EU thresholds - For a number of reforms (in particular operational risk) the frameworks have various thresholds denominated in Euros. To ensure consistency, principles need to be clarified on how these thresholds are converted to the local currency.

Thank you in advance for your consideration of our comments.

Yours faithfully

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