



14 February, 2020

Ms Carolyn Rogers
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Dear Ms Rogers

BCBS Consultative Document on Revisions to market risk disclosure requirements

The Global Financial Markets Association ('GFMA'), the Institute of International Finance ('IIF') and the International Swaps and Derivatives Association ('ISDA'), hereafter referred to as the 'Joint Associations' and their members welcome the opportunity to comment on the BCBS Consultative Document on Revisions to Market Risk Disclosure Requirements.

The Joint Associations support the policy objective of encouraging market discipline through the development of regulatory disclosure requirements that enable market participants to access key information relating to banks' regulatory capital and risk exposures. We recognise the improvements to the Market Risk disclosures incorporated in the 2017 version of the standards¹, and the present need to update these in light of the ongoing reforms to the regulatory policy framework.

The 2017 amendments addressed concerns we had at the time about the potential for the disclosure of proprietary information and where metrics proposed were considered unnecessarily detailed and unlikely to be comparable across banks. However, we think more could be done to better align the contents of the proposed revised Market Risk templates to the stated aims and objectives of the Pillar 3 disclosure framework.

In particular, we would continue to highlight our over-arching concern that the disclosure requirements do not align with the BCBS Guiding Principles for banks' Pillar 3 disclosures², including those in relation to meaningfulness and usefulness, comparability and clarity. There also continues to be a significant risk that sensitive or proprietary information might be disclosed in turn creating new risks to the financial system, including for example by smaller and less sophisticated banks that have less sight of a particular market owing to the limited nature and scale of their activities. We would also suggest that templates are aligned with how senior management typically assess and manage the market risks and regulatory capital requirements of a bank.

Our comments are offered therefore with the aim of continuing to contribute constructively to the development of these disclosure standards. We would be very pleased to engage with the BCBS further and in more detail on this important field and remain available at your request.

¹ BCBS Pillar 3 disclosure requirements – consolidated and enhanced framework, March 2017

² BIS Pillar 3 framework – Executive Summary, June 2019.



We have organised our response into two sections. The first seeks to convey our overarching and general comments on the proposals and covers in particular our thoughts in relation to the potential usefulness of the disclosures including: the likely comparability of disclosures across firms; the protection of proprietary and confidential information; and, the continued need for national discretion. In relation to the proposed application of the changes from 1 January 2022, we would note the importance of aligning dates for disclosure with the timings for implementation of the Fundamental Review of the Trading Book (FRTB) standard in different jurisdictions and allowing a sufficient period of time for requirements to become established before disclosure commences.

The second section of the response contains more detailed and technical observations in relation to the specific proposed disclosure templates which includes comments where relevant on clarifications needed and apparent inconsistencies. One of our overarching recommendations is to combine and simplify tables MR2 and MR3, and to delete table MRC.

1) Overarching and General Comments

Meaningfulness and likely usefulness of proposed disclosures:

Based on our analysis and from discussion with analysts and investors, we do not consider that the proposed disclosures align with the BCBS guiding principle of ‘usefulness’ and we would note that they do not provide insight into the level or type of risk to which a bank may be exposed. Moreover, there is a risk that, as drafted, disclosures could be misinterpreted or lead to confusion, potentially disadvantaging firms through misleading capital narratives. We recommend therefore a reduction in the granularity of the information requested.

In particular, we consider that the proposed disclosures on (1) the structure of trading desks, (2) the scope of positions on trading desks not subject to Internal Model Approach (‘IMA’), and (3) descriptions of desks subject to IMA and the standardised approach (‘SA’) to not be particularly useful to the investor or analyst community. As mentioned, the information currently solicited also risks the disclosure of sensitive and/or proprietary information.

While the proposed granularity is intended to provide enhanced visibility of risks and, to some extent, of the risk management practices of banks, accurate interpretation of disclosures necessitates a deep understanding of each bank’s business and trading strategies, strategic priorities, and operating costs. For instance, the selection of SA versus IMA is unlikely to be based purely on a bank’s technological and modelling capabilities, and is likely to be a function of management’s strategic priorities. In other words, the granularity of the information requested introduces possibilities for users to assign unsubstantiated meaning to specific information.

Furthermore, the correct interpretation of the results requires an understanding of technical intricacies of the underlying market risk calculations set out in the minimum capital requirements for market risk, the FRTB³.

³ For example, with US banks, it may prove difficult and/or misleading for users to attempt to compare the metrics provided in MR1 and MR2 for non-modelled and modelled equity risks with the total equities trading Value at Risk which is disclosed by US banks on the 10Q.

We note also that information collected at such a granular level is similar to that which is collected by regulators as part of the semi-annual Basel III Monitoring QIS exercise. Public disclosure of this level and form is again unlikely to be useful and is not coherent with the BCBS Guiding Principles.

We therefore recommend the simplification and combination of the MR2 and MR3 tables to reduce the number of metrics that are required to be disclosed while preserving useful information on total modelled regulatory capital.

Aggregate capital versus capital components:

Information reported in disclosures should be beneficial to end-users. Given this, it is first important to consider: who the consumers of disclosures are? and, what utility they derive from those disclosures? It is reasonable to expect that public bank disclosures are used by investors and analysts (noting that supervisory authorities and policy makers have separate confidential processes for obtaining other data and qualitative information).

Investors tend to focus on aggregate figures, i.e. total capital and total risk weighted assets, RWA. This is because investors do not typically invest in individual trading desks of a bank or asset classes, but are interested in the capital and/or debt instruments of the bank itself.

The total market risk capital requirement is an indicator of relative risk and can easily be compared across industry participants as well as with other components of a bank's portfolio.

We generally support providing the disclosure of market risk RWA and capital figures which we believe strikes the right balance in terms of usefulness, comparability across the industry, and consistency with other parts of regulatory disclosures. We would recommend a simplification that consists of disclosing aggregate RWA that includes broad-based splits between standardised and advanced measures as this is likely to be more useful to investors and analysts than the current proposals.

Trading desks structure:

The structure of trading desks inevitably varies across banks and the proposed grid in the table in MRC could lead to spurious attempts at comparisons on the part of the reader. Moreover, in relation to columns 'f' to 'n' in the proposed template, banks' trading product taxonomies could run to hundreds of instruments depending on base product, sub-product, transaction type and/or settlement type etc. These grids will be time-intensive and complex to produce and maintain, with no discernible value added for the user.

We recommend the deletion of Table MRC, as the ticking of boxes as required by the template will, at best, provide generic risk type and product information, which will be of little value for users.

Protection of proprietary and confidential information:

The level of granularity will cause banks to exercise the provision on the protection of proprietary and confidential information (Consultation Document, Section 3, page 2⁴). Invoking this provision could lead to the disclosure of sensitive information by requiring banks to provide, in general terms,

⁴ <https://www.bis.org/bcbs/publ/d484.pdf>



information about proprietary and confidential activities and an explanation for not providing a detailed disclosure.

For example, providing more information as to why a bank has excluded a certain desk from its model-based capital computations, and the reasons why, could itself provide information to the market in ways that could be damaging to the firm. Or, if a bank were to choose not to provide the narrative required in template MR2 (semi-annual) around outliers on the basis that this could lead the bank to disclose sensitive profit and loss data on specific positions, then it is not clear how this could be explained without providing readers with an indication of a significant loss event in a particular asset class on a particular desk.

Disclosures that are proprietary and confidential should not be included in requirements. We recommend therefore that the BCBS provisions are made clearer to explain that general information required in place of specific disclosures should not inadvertently lead to the disclosure of sensitive market information.

National discretion:

We continue to support discretion for national supervisors in making the decision to implement Pillar 3 regulatory disclosure requirements in accordance with their broader regulatory reporting requirements, so as to minimise the risk of ambiguity for end users⁵.

If proposed Pillar 3 reports do not align, there could be some confusion among end users which would undermine, rather than promote market discipline. This could also impose an additional burden on reporting firms, since providing explanations to users as to the relationship between all the various metrics made public could be very time consuming.

Risk versus regulatory capital:

We question whether more granular disclosures help end users better determine the quality of risk management at individual banks. For example, it is not clear how the market will perceive banks with a greater number or coverage of desks under IMA compared to those with a lower number or coverage.

Possible inferences that one bank with more IMA desks is better at risk management and maintains more stringent and better quality risk management standards than another bank that is more reliant upon the SA would be misleading. It could be misleading, also, to conclude that a bank with a lower IMA charge invests less in risk management – since, for example, a bank that has heavily invested in risk management which has had the effect of reducing its Non-Modellable Risk Factor ('NMRF') charge owing to an improved quality of data feeds, and therefore obtains a lower internal model capital charge, may reflect superior risk management. Another example of where information could be misinterpreted is where a bank receives a high NMRF charge as a result of a bank being active in emerging

⁵ For example, in the US the FRB requires BHCs to produce detailed reports with respect to the balance sheets and income statements, including supporting schedules for regulatory capital, exposures, and RWAs. Much of this is publicly available and accessed by investors, analysts and others today. In addition, the Securities and Exchange Commission (SEC) requires risk and capital management disclosures as part of the *Management's Discussion & Analysis of Financial Condition and Results of Operations* (MD&A) along with financial statement disclosures.



markets or in new/emerging products where there are fewer available 'real prices' but this would not be a reflection of a lower quality risk management processes.

While, today, banks disclose information about movements in Value at Risk ('VaR') (max, low, average) – which can reasonably be understood to reflect actual levels of market risk, under the FRTB disclosing movements in Expected Shortfall ('ES'), Default Risk Capital ('DRC'), Stressed Expected Shortfall ('SES'), and RWAs may not reflect movements in market risk that we measure and monitor internally (via VaR, stress, and other risk management tools).

The differences between risk measures computed for regulatory capital and disclosure purposes, e.g. varying Liquidity Horizon Expected Shortfall, in relation to other measures that are used internally for strategic decision-making, could hinder users' understanding of each bank's risk management.

Should a more significant restructuring of the templates not be undertaken, we would suggest that the Pillar 3 disclosures should be labelled more clearly, for example, perhaps re-named "Market Risk Regulatory Capital disclosures" (rather than "Market Risk disclosure requirements") so as not to confuse with risk management models and metrics at banks.

2) Specific comments on the proposed templates

Table MRA

There appear a number of areas of uncertainty and inconsistency in relation to Table MRA which could be addressed through re-visiting some of the reporting requirements and instructions. These areas are set out as follows:

- 1) It is not clear how the "general description" of the trading desk structure (as defined in MAR12) compares to the requirements in MR1 for a description of non-IMA desks, and those in MRC, for IMA banks only, to provide "an overview of the banks trading desks relevant for the IMA". It would seem appropriate that the annual MRA disclosure would meet the semi-annual MRC requirement for those SA and IMA desks that are in-scope of both the other templates.
- 2) MAR12 defines a trading desk as the level at which model approval is granted, which could imply that for non-IMA desks the MAR12 requirements for a desk would not apply, and yet Table MRA is intended to cover both IMA and non-IMA desks. We would note also that Table MRA is to be completed also by SA-only banks where the concept of a trading desk is less relevant, since the non-IMA capital charges do not depend on a desk level calculation or supervisory application process.
- 3) If banks were to provide a description of all the types of instruments that are covered positions but not on IMA desks, then this could potentially lead to exponential increases in the volume of market risk Pillar 3 disclosures, as this could involve hundreds of different types of traded products.

- 4) “Stale positions” are not defined in FRTB and are not required to be defined, since covered positions by definition need to be held for one of the purposes listed in RBC25.5⁶ and yet banks are required to disclose a definition for these. The rationale for this is not clear.
- 5) We note the proposed qualitative information that is suggested in relation to policies for determining whether a position is designated as trading under the fourth bullet point under point (a). We are of the view that quantitative information should not be provided under this bullet point and that the schedule should remain of a qualitative nature only. This is particularly concerning in instances where we diverge from the presumption as this could reveal proprietary trading strategies with respect to certain positions. Also, it is unlikely to be useful to describe instances where a bank had to move a position across the boundary outside its control, e.g. following the delisting of an instrument.
- 6) We have also noted that point (c) includes an “and/or” with regards to either risk reporting or measurement systems but the reason for this is unclear.

Table MR1:

Our main concerns with Table MR1 relate to the potential usefulness of the disclosure and the potential for the disclosure of sensitive information. As a general point, it might be useful to insert general explanatory background to the template to mitigate the risk of a mis-interpretation that it provides the “correct” capital number when in fact SA was designed to be more conservative than IMA.

Our more detailed comments are presented below which could be dealt with through adjustments to the scope of the template and clarifications to the instructions:

- 1) The requirement to disclose and explain any changes in the scope of the SA, e.g. IMA desks that have recently failed the quantitative model performance tests, could lead to the disclosure of sensitive and/or proprietary information and it is also likely to provide misleading information, since model failure could be for a variety of reasons, many of which could relate to the technicalities of the revised IMA approach, e.g. the removal of risk factors failing the RFET. In addition, there are some desks for which regulators have considered IMA unsuitable and are mandated to use the SA (MAR11.9⁷) and it would be helpful if this were made clear in the disclosure requirements.
- 2) According to the instructions the capital requirement is defined in MAR20 to 23⁸ which includes the SA DRC and RRAO charges. It would be helpful to clarify that lines 1 to 7 refer to respective total SBM charges.
- 3) With respect to the narrative, the Joint Associations would welcome clarification that for a bank that does not use IMA, no description is required as it would simply calculate SA on its

⁶ https://www.bis.org/basel_framework/chapter/RBC/25.htm?tldate=20220101&inforce=20220101

⁷ https://www.bis.org/basel_framework/chapter/MAR/11.htm?tldate=20220101&inforce=20220101

⁸ https://www.bis.org/basel_framework/chapter/MAR/20.htm?tldate=20220101&inforce=20220101
https://www.bis.org/basel_framework/chapter/MAR/21.htm?tldate=20220101&inforce=20220101
https://www.bis.org/basel_framework/chapter/MAR/22.htm?tldate=20220101&inforce=20220101
https://www.bis.org/basel_framework/chapter/MAR/23.htm?tldate=20220101&inforce=20220101

entire trading portfolio. We would also seek clarification that non-IMA trading desks have to comply with MAR12⁹, which is introduced as the chapter that defines trading desks for the purposes of granting model approvals. Finally, we would note in relation to the statement ‘not including for the purpose of determining the output floor’ would not be relevant if a bank does not have any desks under IMA.

Table MRB:

We have several reservations as to the clarity, meaningfulness and usefulness of the proposed disclosure which could be addressed through a simplification and clarification of the proposals along the following lines:

- 1) The stated purpose of MRB is to provide qualitative information on the different models used in the IMA regulatory capital requirements, e.g. “scope”, “main characteristics”, “key modelling choices”, but it includes reference to SES, which 33.16¹⁰ describes as “non-modellable” and by definition are not included in any model based calculation. We consider that a high-level overview of how calculations are undertaken would be sufficient rather than any request for the potentially very large volume of SES documents themselves.

In addition, the requirement to disclose SES methodologies differs from the general description requirements for ES and DRC and it is not clear whether this is intentional.

A possible unintended consequence is that banks end up disclosing lengthy SES methodology documents, which would probably not be useful to end users, while a high-level overview of how these non-modelled calculations are devised, in line with 33.16¹¹ would suffice.

- 2) In the proposed requirement for a description of ES desks, BCBS also requires, as part of the intended disclosure, a description of those desks not included in ES due to (i) lack of historical data or (ii) model constraints – but there can be other reasons for excluding a desk from ES. The proposed disclosures on the descriptions of those desks not included in IMA are unlikely to be particularly useful to the investor community and could create a risk of banks disclosing sensitive and proprietary information.

When the Consultative Document mentions that these desks would be “treated under other measures (such as specific treatments allowed in some jurisdictions)” it is not clear what is the objective of the BCBS, as these would be the desks subject to the disclosures required in MR1. As a further observation, the meaning of the reference to ‘soundness standards’ under points (B)(a) and (C)(b) is not clear.

Table MRC:

Our principle concern with Table MRC is the lack of usefulness of the potentially very large volume of information that would need to be published as it would provide little insight into the trading activities

⁹ https://www.bis.org/basel_framework/chapter/MAR/12.htm?tldate=20220101&inforce=20220101

¹⁰ https://www.bis.org/basel_framework/chapter/MAR/33.htm?tldate=20220101&inforce=20220101

¹¹ https://www.bis.org/basel_framework/chapter/MAR/33.htm?tldate=20220101&inforce=20220101

undertaken and the associated levels of risk. In addition, in relation to the main types of instruments, we are concerned that banks may use different terms and therefore this table may not be comparable across banks¹².

We recommend therefore the deletion of this template.

Notwithstanding this recommendation, we would note the following technical observations:

- 1) Elements of the template lack clarity - the 50% of the total aggregate standalone capital requirement under the SA refers to the total diversified SA for all IMA eligible trading desks, and not the total requirement used in the Basel III output floor. Clearly, the IMA portion could be below 50% of total capital requirements.
- 2) We would note that once a year, Table MRA (for all banks) also requires a “general description” of the trading desk structure (as defined in MAR12), so it would seem appropriate that the annual MRA disclosure meet the semi-annual MRC requirement for those IMA desks that are in-scope of both templates. It is not clear whether there is any intended difference therefore to the narrative required to meet the disclosure requirement of MRA and MRC.

Table MR2:

The SA results in higher capital charges than IMA at both desk and asset class level due to its conservative nature. For less sophisticated investors we are concerned that the level of granularity required could lead to an incorrect conclusion that models artificially understate the risk or that the banking industry as a whole is not adequately capitalised. To avoid confusion and for the purposes of public disclosure, only the IMA capital charges should be disclosed for desks that are eligible for model recognition and only the SA charges disclosed for other desks. We would therefore recommend the simplification of Table MR2 and for it to be combined with Table MR3.

Our detailed comments on MR2 may be summarised as:

- 1) In relation to the ‘Accompanying Narrative’ it is unclear what “comparison of VaR estimates with actual gains/losses ...” might mean in practice. Any requirement to disclose back-testing exceptions against VaR could also be misleading, as such exceptions do not provide necessary insight as to whether capital requirements are impacted. We would note that in addition, generally, any detailed description of backtesting exceptions can become problematic, as it may reveal proprietary positions taken by the bank. It also appears that reports should refer to averages over both 60 days and 12 weeks, and so factor in the DRC metrics required, which are calculated weekly.
- 2) Row 1 which refers to the ES metrics should not also include column 3 for backtesting exceptions, since FRTB requires banks to backtest VaR and not ES. Additional clarity would be useful around the differences between IMA (including sovereigns) and non-IMA (zero-weighted) default charges for the purposes of Row 10. It should also be clarified whether Line

¹² For example, securitisations are not in scope for IMA and therefore securitisations in the form of asset-backed securities and mortgage-backed securities would be out of scope. Banks may, however, choose to include terms such as agency TBAs, agency securities, covered bonds or keep mortgage backed securities.

15 requires SA capital figures at the firm-wide level (inclusive of diversification) or at individual desk level.

Table MR3

As mentioned, we recommend the simplification and combination of Tables MR2 and MR3. It will be very difficult to provide exact numbers on changes and we recommend the provision of narrative only which would be less prone to be misunderstood and would be more useful. It is also relevant to our recommendation to note that RWA calculations are very often not based on 'spot' numbers but instead reflect averages over a period.

Our detailed comments on MR3 may be summarised as:

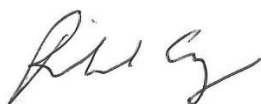
- 1) We would note that Rows 1a, 1b, 6a and 6b could be confusing given that the requirements of MAR 33.41¹³ Therefore an "adjustment item" does not seem useful. Under Table MR2 a bank is already required to disclose averages and quarter end numbers, so to highlight this difference does not appear relevant.
- 2) More widely, given that changes in RWA could come from multiple sources a table may not be the most suitable form of presentation as different banks are likely to disclose this with different levels of granularity. A qualitative discussion on the major drivers of RWAs would seem more appropriate.

As mentioned above, the Joint Associations' comments are offered with the purpose of continuing to contribute constructively to the development of the BCBS Market Risk disclosure standards. We would be very pleased to engage with the BCBS further in this important field and remain available at your request.

Yours sincerely



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¹³ https://www.bis.org/basel_framework/chapter/MAR/33.htm?inforce=20220101