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BANCAIRE
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*Banking supervision
And Accounting issues Unit*

The Director

Paris, July 24th 2012

**French Banking Federation response to the European Banking Authority (EBA)
Consultation Paper on Draft Implementing Technical Standards on Disclosure for Own
Funds by institutions. (EBA / CP / 2012 / 04)**

Dear Sir,

The French Banking Federation (FBF) is the professional body representing the interests of the banking industry in France. Its membership is composed of all credit institutions authorised as banks and doing business in France, i.e. over 450 commercial, cooperative and mutual banks operating in France. It includes both French and foreign-based organizations.

We are pleased to have the opportunity to answer the EBA consultation paper on the draft ITS on Disclosure for Own funds by institutions.

- We welcome the approach consisting in disclosing uniform information and templates across jurisdictions. However, we ask the EBA to consider potential unexpected consequences of granularity and too detailed disclosures: transparency is efficient by providing relevant and insightful information to the market. It means that institutions shall disclose selected and valuable information allowing to ensure a real comparability between entities. We question the rationale consisting in achieving transparency by providing over-detailed data instead of targeting efficient and meaningful figures. It may lead to misinterpretations by the market, and potential financial harmful consequences to institutions.
- We understand that EBA intended to provide uniform templates as soon as possible without waiting for the final rules text from BCBS in order to allow European institutions to prepare for their implementation to meet the capital disclosure requirements.

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We understand also that EBA was willing to provide templates that are as close as possible not to say identical to the templates proposed by BCBS last December in the expectation that once adopted it would ensure the comparability and consistency of capital disclosure at the international level.

Shortly after the publication of this ITS, BCBS released its final rules text on capital disclosure. This explains certain misalignments between this ITS and the final rules text from BCBS.

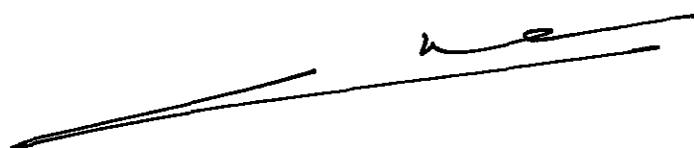
- First of all, the final text of BCBS stipulates that “National authorities will give effect to the disclosure requirements set out in this document by no later than 30 June 2013”. EBA requires the European institutions to be compliant with this disclosure from 1st of January 2013. **This ITS should be implemented by 31st of December 2013 as the level 1 text of the CRR Article 420 stipulates that “Institutions shall publish the disclosures required by this Part at least on an annual basis”.**

- Secondly, we would like to recall that on BCBS consultation last December we conveyed quite significant comments not only on the templates but also on the fundamentals of the proposed approach. Unfortunately BCBS final rules text has taken in none of our comments. **We suggest that EBA should reconsider our most important comments. The one with highest priority consists in not implementing the transitional template.** We are not opposing to public disclosure under Pillar III in the current format. **Disclosing solvency ratios in this template during transitional period will set the expectations of the markets wrongly high by making them assume the perfect comparability of the figures disclosed between different jurisdictions and institutions.**
 - **The value of transitional templates is compromised by the uneven pace of implementation of Basel III.** Unlike the Basel III transposition in the US under public consultation where the phase-in approach has been proposed to be fully respected, in the current dialogue for CRD IV/CRR, European Council has proposed a possibility of accelerating transitional arrangements at national discretion. Disclosing publicly all the details during transition implies not having any benefit of the progressive adoption of Basel III. **This will result in endorsing the “gold plating” attitude which is detrimental to single rule book.** By the way, the final rule text of BCBS unfortunately comprises specific approaches to the cases where the national implementation of Basel III applies a more conservative definition. This was not included in the consultation paper of last December. We do not understand the rationale of such provision as it seems to openly authorise the gold plating attitude and put institutions under markets’ supervision. This contradicts completely the purpose of this framework, i.e. the harmonization of capital disclosure. We highly recommend that this approach should not be adopted by EBA in its final ITS.
 - **Implementation of these templates without clear definition of each data is meaningless.** Both BCBS rules text and this ITS provide brief explanation of each row of the template. However the full standardisation/harmonisation of data definitions at international level can only be possible once the level 1 texts in different jurisdictions are reviewed and harmonised. This process is tedious and can take time but necessary to ensure any comparability.

- **We oppose to disclosing the accounting/prudential reconciliations of the whole balance sheet. The level 1 text of the CRR Article 424 only requires the full reconciliation strictly limited to the elements of own funds¹.**
ITS in essence is not supposed to set more restrictive rules than the level 1 text but to provide necessary specifications. We are against this enhanced requirement especially as this ITS' scope is related to Article 424 of the CRR related to the disclosure for own funds by institutions. We are also very doubtful whether the reconciliation of the whole balance sheet is of any use to the public and provides the clearest information. Focus should be put on the reconciliation between accounting and regulatory basis of consolidation related to the only capital account.
- We urge that EBA should also reconsider if this level of granularity and details is justified by the markets' need. **We caution against the limited readability and risk of misinterpretation.** The transitional and post-2018 templates require disclosing in details sensitive information especially with regards to deductions which may affect the pricing of strategic transactions that institutions should usually keep confidential. We are not pleading against providing the same level of information to our regulators or rating agencies upon their request as we always have been. **We do not believe that this level of granular complex information is relevant for the markets and are anxious about potential consequences of misinterpretation of this sensitive information by markets.**
- Finally we suggest EBA should conduct its proper cost/benefit review in the European context. Whereas the Basel III transposition proposal in the US currently requires the disclosure to be applicable only to "top-tier banking organisations with \$50 billion or more in total assets", in Europe all institutions are subject to CRR and therefore to this ITS. **The impact assessment to be conducted involves a completely different scale and needs specific consideration of small institutions. The operational burden for producing detailed reporting should be assessed in combination with the new remit date requirements.** In effect, the level 1 text (article 420 of CRR) currently under dialogue discussion shortens dramatically the remit date to "in conjunction with the date of publication of the financial statements" from "as soon as practicable" in CRD III. We have proposed amendment to revert to CRD III on this. If this amendment is not taken in, this change will require quite a significant IT investment. The highly granular complex data reported in such short time entails huge efforts of automating process.

You will find in the annexe our answer to the questions raised in the consultation paper. We thank you for the consideration of our remarks and remain at your disposal for any question or additional information you might have.

Yours sincerely,



Jean-Paul Caudal

¹ *Article 424 Own funds*

1. Institutions shall disclose the following information regarding their own funds: (a) a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 29 to 32, 33, 53, 63 and 74 to own funds of the institution and the balance sheet in the audited financial statements of the institution;

Annex

Q01: Are the provisions included in this draft ITS sufficiently clear? Are there aspects which need to be elaborated further?

The overall framework should be revised taking into account our comments.

Q02: Are the provisions provided for the balance sheet reconciliation methodology sufficiently clear?

We do not adhere to the concept of making available to the public the whole balance sheet reconciliation. Disclosing the accounting/prudential reconciliation of elements of own funds can be useful but at a relevant level of granularity.

Q03: Are the instructions provided in the template on the main features of capital instruments, in the general own funds disclosure template and in the transitional disclosure template sufficiently clear? Should the instructions for some rows be clarified? Which ones in particular? Are some rows missing?

We will be only able to answer this question once the level 1 text is voted and also all the RTS on own funds are finalised by EBA. Some articles in CRDIV/CRR are still under discussion. Also, as specified in our response to the first part of RTS own funds, some definitions need to be further clarified.

Q04: Our analysis shows no impacts incremental to those included in the text of the Level 1 text are likely to materialize. Do you agree with our assessment? If not please explain why and provide estimates of such impacts whenever possible.

We do not understand this question clearly. However if this question is about identifying any discrepancy between level 1 text and this ITS, we draw attention to the issue that we have developed in our general comments regarding the reconciliation of the whole balance sheet to which we strongly oppose. Apart from that, this ITS seems to be in line with the details required in the level 1 text.