

FINANCE, RISK AND COMPLIANCE

POLICY FRAMEWORK REFORM: COMPREHENSIVE PILLAR III DISCLOSURES

The next wave of change – disclosure challenges for banks. The European Banking Authority (EBA) propose changes to the Pillar III Disclosure Framework.

BASEL CAPITAL ACCORD

Pillar III of the Basel Framework strives to enhance market discipline through public disclosure, the framework allows the banking system to support the economy and addresses deficiencies in the pre-crisis regulatory framework, building a robust foundation for a resilient banking system with the capability to circumvent systemic vulnerabilities.

SUMMARY

The updated Pillar III disclosure requirements published in 2018 by the Basel Committee on Banking Supervision (BCBS) and revisions to the Leverage Ratio Disclosure requirements published in June 2019 complete the BCBS Pillar III Framework.

The Capital Requirements Directive and Capital Requirements Regulation (referred to as CRD V and CRR II) strengthens micro prudential regulation and supervision in the banking sector, the publication in the Official Journal (OJ) in June 2019 (EU Regulation 2019/876) of CRR II mandates the EBA to devise draft Implementing Technical Standards (ITS) stipulating disclosure requirements under Title II and III of Part Eight of the CRR.

Following this mandate, the EBA has revised its strategy in relation to the EBA Pillar III policy framework.

PROPOSAL

On Wednesday 16 October 2019 the EBA issued a [public consultation](#) on a new comprehensive ITS for financial institution disclosures.

The proposal seeks to address silo-based reporting and alignment of disclosures under an all-inclusive ITS whilst implementing regulatory changes introduced by CRR II and the BCBS revised Pillar III disclosure framework, therefore affiliating the disclosure framework with international standards.

The consultation is the first roadmap on disclosure requirements aiming to improve clarity for the users of the information. The disclosure ITS will enable consistency in reporting and mapping between quantitative disclosure data and supervisory reporting, fostering greater transparency, comparability and compliance.

The EBA Roadmap on Pillar III Disclosures will be published in Q4 2019 outlining major areas of reform:

- EBA Pillar III Strategy
- Delivery Timeline
- Requirements and Guidelines (Titles II and III Part Eight of the CRR)
- Deliverables for implementation.

PILLAR III REFORM

Optimizing the Pillar III policy framework provides a single comprehensive package. The proposal draws on commonalities between information disclosed to regulators and that which is disclosed publicly. Consistency and enhanced quality through an integrated approach to supervisory and quantitative disclosure shall be realised following the reform to the Pillar III Framework, facilitating compliance with both elements of reporting and disclosure requirements for firms.

The EBA Pillar III Policy framework covers a variety of regulatory products, the reform seeks to standardise the policy on disclosures. The EBA is currently developing several all-inclusive regulatory disclosure products encompassing the comprehensive draft ITS on public disclosures by Investment firms and a draft ITS on Total Loss Absorbing Capacity (TLAC) and Minimum Requirement for Own Funds and Eligible Liabilities (MREL) disclosure reporting under a single package.

To support the disclosure and reporting reform under the new Pillar III Framework, the EBA mapping table aids firms with integrating supervisory reporting and disclosure requirements.

The Framework aligns with requirements under CRR II regarding the proportionality of reporting for small and less complex firms, with disclosure requirements primarily focusing on key prudential metrics. Whilst imposing more detailed requirements on large and listed institutions, a new threshold is being introduced triggering additional disclosure requirements for large institutions based on their risk profile.

Inclusion of thresholds pertaining to the disclosures on credit risk quality, encumbered and unencumbered assets is a further step towards achieving comparability of information in the assessment of reporting firms risk profiles.

KEY CHANGES

Fundamentally, the components of the comprehensive Pillar III disclosure ITS aim to drive consistency with international standards on disclosures and facilitate clarity and comparability of information to users.

The EBA consultation on the new draft ITS for public disclosure focuses on the following key areas:

- Standardisation of disclosures
- Quantitative template reform to primarily fixed formats and flexible format qualitative templates
- Introduction of threshold triggers for large firms
- CRR II definition for large, small and less complex institutions and alignment with revised Basel standards
- Proportionality for small and non-complex firms reporting requirements and frequency
- Key Prudential Metrics including information on own funds and liquidity
- Mapping between quantitative disclosure templates and supervisory reporting
- Removal of templates following simplification of disclosure requirements
- Alignment of BCBS Pillar III requirements with CRR II and Basel IV framework changes:

- I. Disclosure of Net Stable Funding Ratio (NSFR)
- II. Leverage Ratio and G-SIIs leverage ratio buffer reporting
- III. Liquidity disclosure requirements
- IV. Disclosure package of exposures on securitisation positions
- V. Remuneration Policy amendments
- VI. Comprehensive disclosure tables and templates for Counterparty Credit Risk, Performing, non-performing forborne exposures including information on collateral and financial guarantees.

TIMELINE

2019

June 2019

- CRR II and BRRD II regulation entered the Official Journal (OJ)

16th October 2019

- EBA consultation published on new comprehensive ITS for public disclosure and reporting

2nd December 2019

- An EBA public hearing held

2020

16th January 2020

- Deadline for comments on the consultation paper

June 2020

- EBA propose to submit the final ITS to the European Commission (EC)

October 2020

- Anticipated publication date by EU Commission

2021

from June 2021 in alignment with CRR II adoption

- Pillar III revised disclosure framework applicable for reporting

2022

by 1st January 2022

- Finalised Basel III standards (Output Capital floor phase-in to 2027)

PILLAR III CHALLENGES

The Comprehensive Pillar III disclosure proposal introduces substantial disclosure requirements, significantly increasing the amount of information made publicly available by banks.

Fundamental challenges to compliantly implement the ITS include:

Reporting Challenges

- Reporting Software capability and integration with finance and risk architecture
- Increased volume of disclosures
- Reform to template formats and definitions
- CRR II impact on requirements
- Judgement and interpretation of requirements
- Disclosure triggers for large banks
- Compliance and Governance

Data and processing challenges

- Data architecture and lineage
- Legacy system capability
- Data Validation
- Data Mapping and Aggregation
- Data Quality and Availability
- Volume of disclosures.

CONSIDERATION FOR BANKS

Banks should examine what impact these changes have on the current reporting infrastructure and how to execute these mandated changes.

Existing roles, responsibilities and ownership of Pillar III reporting should be defined, and banks should be performing a gap analysis to understand their capabilities to implement the proposed changes. Additionally, a robust governance and controls framework is essential to support delivery of the enhanced disclosure requirements.

CAPCO FINANCE, RISK AND COMPLIANCE (FRC)

For financial institutions, new regulations increase complexity and cost. Through guiding and implementing FRC strategies operationally and harnessing new and emerging technologies for regtech, Capco has built a reputation of empowering clients to turn finance, risk and compliance into a competitive advantage.

To support in your understanding and assessment of how this recently announced reform impacts your business, Capco FRC is a team of experts in regulatory change execution.

CAPCO SOLUTION DELIVERY FOR CLIENTS

The continuous reform of the regulatory landscape following the global financial crisis has led to greater robustness and resilience within the banking sector but at a cost of significant time, money and effort to manage the technical implications of compliant regulatory change implementation for reporting institutions.

Here's how we can support your organization with these challenges:

- Impact analysis of the Comprehensive Pillar III requirements
- Review of operating model and internal control framework
- GAP analysis of the current reporting framework and data sources
- Independent Validation and Assurance; external reporting governance
- Integration of Pillar III Disclosure Requirements into Supervisory Reporting
- Front to back implementation support
- Support to redesign template revisions and manage compliance with new uniform disclosure formats
- Regulatory training.

TO UNDERSTAND THE FULL IMPLICATIONS OF PILLAR III FOR YOUR BUSINESS, PLEASE CONTACT ONE OF THE FOLLOWING TEAM MEMBERS.

Steve Watts, Partner

London

T: +44(0)7770 874 554

E: stephen.watts@capco.com

Tom Leach, Managing Principal

London

T: +44(0)7734 773 446

E: tom.leach@capco.com

For more information on how Capco can help you, please visit www.capco.com

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