DEUTSCHE BÖRSE GROUP

Deutsche Börse Group
Response

on BCBS consultative document d356

'Pillar 3 disclosure requirements - consolidated and enhanced framework''

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A. Introduction

Deutsche Börse Group (DBG) welcomes the opportunity to comment on BCBS consultative document 'Pillar 3 disclosure requirements - consolidated and enhanced framework' issued in March 2016.

DBG is operating in the area of financial markets along the complete chain of trading, clearing, settlement and custody for securities, derivatives and other financial instruments and as such mainly active with regulated Financial Market Infrastructure providers.

Among others, Clearstream Banking S.A., Luxembourg and Clearstream Banking AG, Frankfurt/Main, who act as (I)CSD[1] as well as Eurex Clearing AG as the leading European Central Counterparty (CCP), are classified as credit institutions and are therefore within the scope of the European Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) which transposed i.a. the Basel III rules into European law. Clearstream subgroup is supervised on a consolidated level as a financial holding group.

However, the business model of both CSDs and CCPs as financial market infrastructures (FMIs) is completely different from the business of ordinary banks. There is no proprietary trading, only minor maturity transformation, very limited financial risk due to tight additional rules based on the CPSS-IOSCO principles on financial market infrastructures[2] as implemented in EU regulations (EMIR and CSD-regulation) and dedicated business limitations. As such, several parts of the Basel framework are not applicable and other elements are not meaningful in the context of FMIs. The latter is in particular true for the NSFR and the Leverage ratio.

The document at hand contains our general comments to the disclosure requirements and the related framework in Part B and detailed response to certain items of the Pillar 3 framework in Part C.

[1] (International) Central Securities Depository;

[2] http://www.bis.org/cpmi/publ/d101a.pdf.

B. General comments

The Pillar 3 disclosure requirements have increased over time significantly, Moreover, in an attempt to harmonise the disclosure templates have been set up which need to be disclosed regardless if the contained information is relevant (i.e. the underlying subject is applicable) or not. We appreciate some exemptions based on the principle of proportionality but especially in the context of our limited business the disclosure of templates mainly consisting of empty cells is not deemed appropriate.

The increased disclosure requirements are enhanced by means of various additional requirements being developed one by one and are published as individual standards. We clearly support the approach to concentrate all disclosure requirements in one single standard or in a dedicated chapter of the wider Basel IV framework hopefully soon to be issued for consultation.

In general, we value the increase of disclosure requirements over time very critical. The Pillar 3 disclosure requirements are amended in a way that they are becoming more and more voluminous and despite all attempts to harmonise the context (which in our view is making the matter even worth [see above]) is rather creating disinformation than transparency to the public. Like financial statements only a limited number of experts will understand the disclosures and as such, the intended target will not be reached. Supervisors get the contained information by different means in the course of Pillar 1 reporting and additional Pillar 2 measures and reports as well as in the course of ongoing supervision. The public receives very dynamic data (e.g. on liquidity) with an inherent substantial delay of several months and in a granularity which is not really useful. We cannot see the real benefit from the increase of information and the ongoing race to disclose more and more information. It is neither useful nor advisable to further increase the information in the disclosure requirements. We therefore urge the BCBS to substantially reduce the disclosure requirements, make the disclose of a view key figures mandatory within the financial statements (i.e. above the minimum as set out e.g. in IAS 1; e.g. publishing the year and month-end average LCR) and limit the disclosure report to a descriptive report on risk management details and key regulatory figures on an aggregate level without detailed disclosures of numbers which is only a number graveyard.

Beside the clarity and readability of the required disclosures we do not see the respective benefit of the required details in many cases. Consequently, the additional massive workload and the necessary resources in order to fulfil the disclosure requirements are excessive. The relation between input and output or rather benefit is not balanced at all.

Beside this, the Pillar 3 disclosure requirements are in many cases unclear or unpractical. For example, the mix of different frequencies with fixed and flexible formats is even for persons with dedicated experience in disclosure requirements confusing. The sheer number of different templates and the deviant frequencies of disclosure seem not reasonable and proportionated. Therefore, we recommend taking into account the general principle of proportionality. The frequency to disclose certain information e.g. on quarterly basis seems to be an additional burden without adding substantial value. Quarterly disclosures of key figures may be imposed as part of the interim accounts in addition to accounting standards if and only if such interim reports are mandatory to be published or published on a voluntary basis. However, this should be limited to international active banking groups on a consolidated level ("Basel banks") and the BCBS should clearly indicate that this level of detail is not intended to be made mandatory when implemented in national law also for other banks.

We propose to review and reassess the need of those detailed and high frequently disclosures against our raised concerns.

C. Detailed response to the Pillar 3 disclosure framework

Please find in the following our particular feedback to certain topics. The sequence of topics was selected by its order in the consultative document not by relevance.

<u>Part 1 Section 5, overview on page 15/16, Annex on page 91 et seqq. and footnote a) on page 93:</u>

Regarding the format of the required disclosures we see a need to precise the rules under consultation. The current wording is unclear with regards to the differentiation of "templates" versus "tables": Is the intention to have fixed formats only for templates while tables can always be used flexible?. The requested clarification should potentially also be added in the footnote a) to the overview on page 15/16 and in the Annex.

Part 2 template KM1 and KM2:

Regarding template KM1 and KM2 we have doubts that it is necessary to require a time series of five years of the prudential ratios and the available capital and risk-weighted assets respectively. To increase the required data further and further does not add substantial benefit in this context. As already described in Part B of this document at hand, the additional effort does not seems reasonable. Therefore, we propose to reduce the required time series to the actual and the previous year or limited the time series of five years to key components (equity and total risk exposure) as well as the ratio(s) as such.

Part 7 template LIQ2:

The Pillar 3 disclosure framework under consultation proposes to disclose information regarding the NSFR in template LIQ2 on a semi-annual basis. In the related BCBS d324 'Net Stable Funding Ratio disclosure standards'[3] it is stated to "publish this disclosure with the same frequency as, and concurrently with, the publication of their financial statements" (BCBS d324, number 9). We strongly support the rule as stated in BCBS d324 and kindly ask to change the final text accordingly.

Moreover, we kindly ask to check the current proposed framework against recently issued standards and avoid deviating from those recently published standards. In case a deviation is intended in order to change the standard, we would have preferred a clear hint in the consultative document and as such, we assume that any deviations occurred are done by mistake and should be removed in the final standard. However, in case changes are intended, we at least ask to clearly state this in the publication of the final revised disclosure framework.

Part 13:

We raise concerns over the application date of the not yet included disclosure requirements of the standards on interest rate risk in the banking book (IRRBB)[4] which were recently issued by the BCBS. Following the BCBS standards banks are required to implement the standards of the IRRBB framework by 2018 but banks

[3] http://www.bis.org/bcbs/publ/d324.pdf.

[4] BCBS d368: http://www.bis.org/bcbs/publ/d368.pdf.

whose financial year ends on 31 December have to provide the related disclosures (in 2018) already based on the information as of 31 December 2017. In practise it can not be reasonable to require and disclose information about provisions e.g. the bank's overall IRRBB management and strategies or the calculation of IRRBB measures which are all not yet in force and not yet implemented in the bank's risk management. Thus, we recommend to the BCBS to align the application date and the first disclosure date so that the first disclosure will be in 2019 with reference date of 31 December 2018.

Part 14 table REMA:

We have some doubts regarding the disclosure of information on remuneration. In this context, it has to be warranted that any (national) data protection rules are complied with. In cases of conflicts the (individual) privacy of data has to be secured. Therefore, we recommend to reconsider the disclosure or at least the scope and details of disclosures related to part (b) regarding reasons for changes of remuneration policies and impact of changes on remuneration system, and part (d) regarding *individuals performance metrics or bank`s criteria for "weak" performance metrics*.

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We are at your disposal to discuss the issues raised and proposals made if deemed useful.

Yours faithfully,

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