

February 14, 2020

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



Re: BCBS Consultative Document on Voluntary Disclosure of Sovereign Exposures

Dear Ms. Rogers:

The Institute of International Finance (the IIF) welcomes the opportunity to provide comments on the Basel Committee on Banking Supervision (the “Committee” or “BCBS”) Consultative Document on *Voluntary Disclosure of Sovereign Exposures*.¹ We highly value the opportunity to provide our feedback on this important issue as well as the ongoing dialogue that the BCBS has conducted with the industry on this topic.

General comments

The IIF strongly endorses the importance of transparency and would be pleased to contribute to the development of a more simple, effective and meaningful disclosure framework. However, the regulatory treatment of sovereign exposures is quite sensitive and involves economic, fiscal, monetary, and even political matters that are well known by all participants in this discussion and on which there are wide ranges of opinions, both within the private and public sectors. As pointed out in the Consultative Document, “the Committee has not reached a consensus to make any changes to the regulatory treatment of sovereign exposures at this stage”, and thus the proposed disclosure templates are voluntary in nature and are mandatory only when required by national supervisors.

The IIF believes that disclosed information can become more effective and meaningful when it is comparable² and that inconsistent information across banks may mislead users of information. For this reason, we are concerned about setting an international standard of voluntary disclosure of sovereign exposures at this stage without any consensus at the global level. Such voluntary requirements may also result in unintended consequences, including inconsistent disclosures across banks in different jurisdictions, confusing users of information and hampering the utility of disclosures. In addition, it is quite important to avoid any unnecessary regulatory fragmentation³. Regulatory requirements that are mandatory only when required by national supervisors will exacerbate the issue of market fragmentation.

¹ Basel Committee on Banking Supervision. “Consultative Document: Voluntary Disclosure of Sovereign Exposures” November 2019.

² “Disclosures should be comparable among banks”. See a report of the Enhanced Disclosure Task Force (EDTF), 29 October 2012.

³ IIF report on market fragmentation can be found here <https://www.iif.com/Publications/ID/3222/IIF-Report-on-Market-Fragmentation-and-Need-for-Regulatory-Cooperation>

The treatment of sovereign exposures is a delicate and complex topic that needs thoughtful discussion and analysis. Although the Consultative Document says that the Committee evaluated the merits and demerits of the disclosure measures, these merits and demerits as well as the expected value to end users of each disclosure item in the templates has not been explained in the Consultative Document. Moreover, no ex ante cost-benefit analysis has been done.

The need for hastening to set an international standard is highly questionable when it is left at national discretion and when there is still a room for discussions and analyses. The preparation and compliance around such disclosures could also require significant operational and system improvements at banks that do not have the required currency breakdowns, reconciliation to the accounting classifications and identification of indirect exposures in place. Given the challenges around market fragmentation, the disproportionate impact on banks and the inconsistent disclosure to investors, the IIF would support not introducing voluntary disclosures of sovereign exposures until there is a clear consensus among the authorities themselves.

In the following section, we wish to provide more detailed comments to the proposed templates.

Additional comments

Complexity and the risk of misinterpretation - The proposed templates are complex and may be misunderstood by users of disclosed information. The application of the disclosure requirements for international banking groups at the consolidated level will create confusion by making it unclear whether banks' sovereign holdings are foreign or domestic exposures. Exposures that seem to be foreign exposures at the consolidated level may in fact be domestic exposures for the entities in which they are held. The risk of misinterpretation will be exacerbated when it comes to disclosures of risk-weighted assets as regulatory capital treatment of sovereign exposures differs across jurisdictions and depending on whether banks' sovereign holdings are foreign or domestic sovereign exposures. This will overcomplicate the templates and confuse users.

Comparability of disclosed information - The proposed templates will gather pieces of information that may not be comparable, reducing the utility of information for final users. It is important to be aware that the nature and type of instruments of sovereign exposures can vary significantly and are therefore difficult to compare to each other. For example, banks may hold sovereign debt to meet local regulatory requirements, to promote the functioning of local financial markets (acting as a market maker), or to meet the minimum mandatory reserves in central banks. Disclosing these exposures together would add complexity, reduce comparability and misrepresent banks' risks from sovereign exposures rather than give a clear picture of the sovereign exposures of an entity. The scope of disclosure requirement is also unclear and there could be confusion about what type of exposures to include. For example, we would expect that the definition of the countries/jurisdiction to be used for the breakout of the sovereign exposure relates to the "country of domicile" of the counterparty in line with all other regulatory reporting and disclosures. It would be helpful for further clarification around these issues.

Usefulness and utility – As mentioned above, it is unclear from the current consultative document what specific usefulness and utility the proposed disclosures seek to address. Given the complexity and the risk of misinterpretation, as well as the lack of comparability of disclosed

information, investors and market participants are unlikely to gain additional utility from these disclosures beyond what is currently already being made publicly. Specifically, we question the value added of the template “SOV2: Exposures to sovereign entities – currency denomination breakdown”. Breakdown of sovereign exposures by currency is not a materially meaningful indicator of risk as a semiannual disclosure, if exposures are already disclosed by jurisdiction, with domestic currency separated out, as required by template “SOV1: Exposures to sovereign entities – country and currency breakdown”.

Competitive and proprietary information – Detailed information about the sovereign exposures and risk-weighted assets by jurisdictions of banks - including breakdowns by country and currency, currency denomination and accounting classification – could in some cases include sensitive and propriety information that would reveal outstanding positions and portfolio investment strategies of banks which could lead to a competitive disadvantage. It would not only lead to competitive issues between banks that have to disclose and those that don’t, but it would also create an unlevel playing field between banks and non-bank institutional investors. Furthermore, as many sovereign issuers are among the largest clients of banks, it would be requiring banks to make client information publicly available.

Commercial banks also hold banks reserves at central banks to meet central bank requirements. These reserves can come in the form of demand deposits, automatic transfer accounts, and share draft accounts. In some cases, disclosure of commercial banks reserves at central banks may impede the flexibility of central banks to engage in open market operations.

Clarity on treatment of exposures on Internal Ratings Based approaches – the templates “SOV1: Exposures to sovereign entities – country and currency breakdown” and “SOV2: Exposures to sovereign entities – currency denomination breakdown” are based on the exposure classification under the Standardized Approach. This is not aligned with the Internal Ratings Based (‘IRB’) approaches. Under the IRB approaches, the asset classes non-central government Public Sector Entities and Multilateral Development Banks do not exist, and they may be mapped to either sovereign exposures or other asset classes. In the Capital Requirements Regulation applied in the European Union Europe, there are further standardized asset classes (International Organizations and Regional and Local Authorities) which also may be mapped to sovereign exposures when the IRB approach is followed. Consequently, the reporting would not be consistent across Standardized and IRB portfolios without clear guidance on how these exposures should be disclosed.

Similarly, the requirement in these templates to disclose the trading book exposures for jump-to-default positions is based on the future market risk requirements following the implementation of the Fundamental Review of the Trading Book of the Standardized Approach. The treatment of exposures under the internal models approach will need to be clarified.

Accounting classification - In addition to the variances arising at different levels of consolidation, we consider the proposed template “SOV3: Exposures to sovereign entities – accounting classification breakdown” as a potential source of misinterpretation. The basis of the accounting information is very different from the information which the banks produce to meet the prudential requirements. Consequently, we question the rationale for the inclusion of the template based on the accounting classification. Moreover, SOV3 template requires information that is not generated for accounting purposes: direct and indirect exposures in derivatives and splitting of those exposures by maturity bucket. Given all these reasons we would consider that disclosures of accounting information are best left to the International Accounting Standards

Board (IASB) to develop at an international level and we therefore ask the Committee to consider removal of this template.

Administrative and operational costs - It is important to be aware that some regions have already been conducting disclosure exercises of sovereign exposures⁴. Where regional public disclosures already take place, the necessity of setting an international standard that is mandatory only when required by national supervisors is highly questionable. At least, it is recommended to harmonize international and local rules where appropriate to avoid unnecessary fragmentation and to avoid unnecessary administrative and operational costs. As mentioned above, the preparation and compliance needed for these disclosures could also require significant operational and system improvements at banks that do not already have in place the required currency breakdowns, reconciliation to the accounting classifications and identification of indirect exposures.

We would also point out here that the market risk requirements are not based on treatment by counterparty, given that the risk is managed by product type. Consequently, banks would have to undertake additional development work to source information by counterparty. We recommend that the Committee considers carefully the costs and benefits of the information requested.

Given the challenges noted above, the disproportionate impact on banks that are volunteered to disclose, and the inconsistent disclosure to investors, the IIF would support not introducing voluntary disclosures of sovereign exposures until there is a clear consensus among the authorities themselves.

On behalf of the IIF and our members, thank you for taking our views into consideration around this initiative. We look forward to continuing to contribute constructively to your work in this and other areas. If you have any questions in the meantime, please do not hesitate to contact me directly at +1 202 857-3636 or mboer@iif.com.

Yours sincerely,



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⁴ The 2019 EU-wide transparency exercise. See here <https://eba.europa.eu/risk-analysis-and-data/eu-wide-transparency-exercise>