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BASEL III COMMITTEE PROPOSES PILLAR 3 DISCLOSURE REVISIONS

Under the Basel III capital rules provisions of the Bank for International Settlements (BIS), banks are required to comply with capital framework protocols for the measurement, assessment, and disclosure of capital levels as they relate to financial risk. New rules have been proposed to enhance the consistency of the disclosures both from reporting period to reporting period and as among different reporting banks. It is intended that the disclosure revisions will significantly improve the disclosure standards for internationally active banks.

Three Pillars of Compliance

The Basel Committee on Banking Supervision (BCBS) utilizes three "pillars" that regulated financial institutions must comply with as part of the "European Dodd-Frank," as Basel III is often referred to: Pillar 1 mandates detailed capital requirements for credit and operational risk, Pillar 2 establishes supervisory requirements, and Pillar 3 the disclosure requirements. Pillar 3 reporting establishes market discipline and was enacted to promote transparency of financial data. However, the use of varying internal models has hampered the ability of both regulators and investors to accurately compare an institution from period to period or to compare between institutions. The new disclosure rules address the inconsistency and transparency issues.

Material Risks Not Timely Identified

In announcing the proposed revisions, the BCBS stated, "The review was prompted by concerns that the Basel framework's existing Pillar 3 disclosure regime failed to promote the early identification of a bank's material risks and did not provide sufficient information to enable market participants to assess a bank's overall capital adequacy. A particular goal of the proposed revisions is to improve the transparency of the internal model-based approaches that banks use to calculate minimum regulatory capital requirements."

Examples of Proposed New Parameters

The following are a few of the new disclosure proposals under consideration by BCBS:

More prescriptive disclosures. The proposal contains 12 disclosure tables and 35 disclosure templates for a total of 47 disclosure sets. Of these 47 sets, 19 must be presented in a standardized format by all banks, and the remaining 28 can be presented in a per-institution flexible format. Key definitions to be used in disclosure documentation is also standardized by the proposal

Greater emphasis on narrative and qualitative disclosures: Banks may make greater use of narrative in explaining key changes to disclosed numbers between reporting periods.
Making financial statements user-friendly: The proposal aims to facilitate user understanding of the link between financial statement data and regulatory capital disclosures.

Disclosure of standardized capital requirements: BCBS is considering requiring banks that use internal models to also disclosure their standardized (non-internal model) capital requirements for credit risk to enhance transparency and comparability.

Comments on the proposals may be submitted by October 10, 2014.

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