



# Pillar III

British Banker's Association

22 January 2009

# The Three Pillars

## BASEL 2

PILLAR

### PILLAR I

#### Minimum capital requirements

New risk- based capital requirements to:

### PILLAR II

#### Supervisory review process

Overall assessment of risk by the bank covering the Pillar 1 risks as well as the following:

### PILLAR III

#### Market disclosure

New disclosure requirements regarding risks and capital

PRINCIPLE

- Better alignment of regulatory capital with economic risk
- Different levels of sophistication in the requirements both for credit and operational risk

- Risks not adequately covered in Pillar I e.g. concentration risk
- Risks not in Pillar I e.g. interest rate risk in the banking book
- Use of stress testing
- Assessment of capital needed to cover the risks
- Review by the supervisor of the adequacy of this capital figure

- Effective disclosure of:
  - Banks' risk profiles
  - More information on risks in the banking book
- Specific qualitative and quantitative disclosures
- Scope of application
- Composition of capital
- Risk exposure assessment

# Why focus on disclosure?

## Disclosure to contribute to a safe and sound banking environment



Support new capital regime where internal methodologies give greater discretion in assessing capital requirements

# Key original goals – June 2004

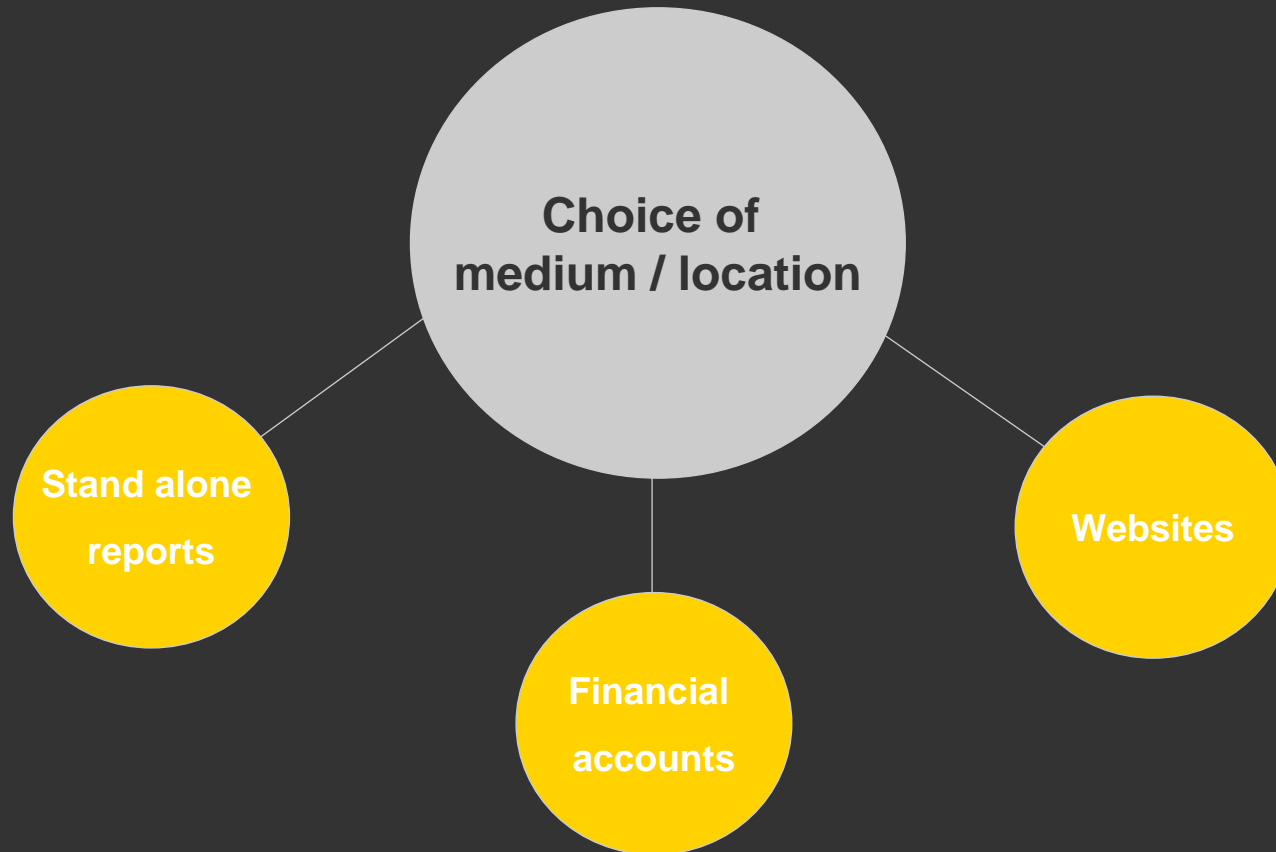
---

- ▶ Banks' disclosures should be consistent with how management / board assesses and manages risks.
- ▶ Pillar I common framework “will give consistent and understandable disclosure.”

***This is now less clear.***

# Where to disclose

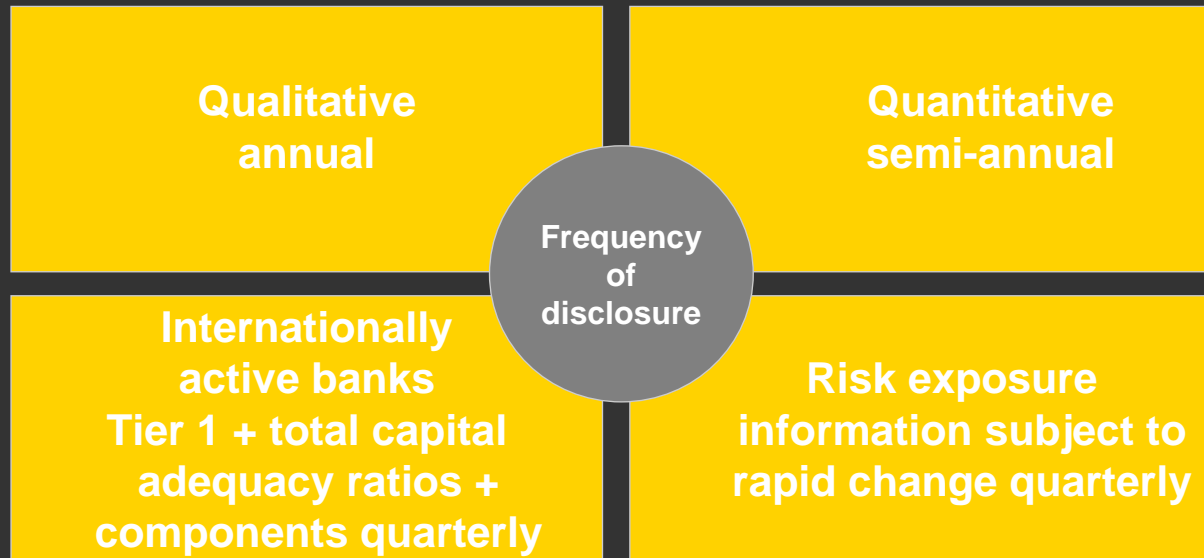
---



National discretion on local disclosure by subsidiaries. In the UK, disclosure at group level allowed if equivalent and consolidated.

# When to disclose

## Original proposals in Basel II



FSA – minimum annually for qualitative and quantitative unless the scale of operations points to the need for more frequent disclosure. Policy on disclosures must be approved by the board.

# Disclosure design evolved over new Basel II negotiations

---

**Basel Accord**

–

**Pillar III**

More  
template  
based



Less prescriptive

Format not  
prescribed

**Originally**

**Finally**

Some national regulators are requiring set formats – eg, Bundesbank.

# Credit crunch has increased focus on disclosure – G20 recommendations

---

- ▶ Improving disclosure requirements to help support international market discipline and cooperation among regulators.
- ▶ Enhancement of required disclosures and differentiated credit ratings on complex financial products.
- ▶ Complete and accurate disclosures by firms of their financial condition.

# Credit crunch has increased focus on disclosure – FSF recommendations

---

## Risk disclosures by market participants

- ▶ Strengthening of risk disclosures and improvement of disclosure requirements for Pillar III.
  - ▶ Strong encouragement from the FSF to make robust disclosures using leading disclosure practices.
  - ▶ Financial industry and auditors to work together in the future to provide disclosures that are relevant at the time of disclosure.
  - ▶ BCBS to issue guidance by 2009 to strengthen disclosure requirements for Pillar III.
  - ▶ Financial institutions should establish rigorous valuation processes and make robust valuation disclosures.
  - ▶ Also increased transparency regarding securitisation processes and markets.



# Thank you

22 January 2009

 **ERNST & YOUNG**  
*Quality In Everything We Do*