Consultation: Basel 3 – Draft Rulebook Module PD

Conventional Retail Banks
March 2015

Industry Comments			
Specific Comments:			
Proposed rule	**Comments**	**Ref.**	**CBB's Response**
PD-A.2.8 Non-compliance with these disclosure requirements is likely to lead to an additional capital requirement such as not allowing the subject bank to apply a lower weighting for a particular portfolio or increasing a particular risk weight for a specific portfolio(s), and/or a fine imposed by the CBB.	A bank noted that PD-A.2.8 stipulates that non-compliance with these disclosure requirements would require additional capital requirement through possible punitive risk weights. It is suggested that banks be given a caution for inadequate disclosures for 1st two disclosure periods before implementing any punitive measures. Further, increasing risk weights could lead to inconsistency within the banking industry and hence a monetary penalty should be deterrent used for the purposes.	1	The guidance will be amended as follows: Non-compliance with these disclosure requirements may lead to enforcement actions as outlined in Module EN (Enforcement).
PD-A.2.10 **With effect from January 2015, Bahraini conventional bank licensees must follow a 3 step approach to provide a full reconciliation of all regulatory capital elements back to the published financial statements.**	A bank noted that as per the new disclosure guidelines the quarterly consolidated Financial Statements needs to be expanded to include three appendices. Since Financial Statements strictly follows IFRS requirements, the inclusion of these detailed disclosures may increase the complexity element for the reader. It is suggested that such detailed disclosures be made mandatory as part of the Basel PD disclosures on a bi-annual basis, with the first disclosure requirement starting from 30th June 2015. The PD document contains the detailed risk related financial information and hence is a more suitable portal for the disclosure of such detailed regulatory capital details, as opposed to the quarterly financials.	2	The required frequency of the capital elements as per Basel June 2012 Rules depends on each jurisdiction's frequency of their financial statements (i.e. either quarterly or half yearly). For example, Central Bank of Kuwait as well as SAMA require their banks to disclose quarterly. For consistency purposes in the region, quarterly reporting is to be maintained. Agreed to start imposing disclosure requirements starting for 30th June 2015.
PD-A.2.12 **With effect from January 2015, Bahraini conventional bank licensees must disclose the full terms**	A bank noted that given that the PD rulebook consultation has been launched by the CBB on 11 December 2014, with the response deadline of 15 February 2015, and given that the completion of the consultation process will stretch	3	Agreed to start imposing disclosure requirements starting for 30th June 2015.

and conditions of all outstanding regulatory capital instruments on their website.	into Q2 2015. It is recommended that the disclosure requirement should be applicable only from [30 June 2015].		
PD-1.3.8	A bank noted that the remuneration related disclosures are done only on an annual basis, particularly considering that variable remuneration & allotment of shares as a part of employee remuneration are decided at year-end. Hence it will not be relevant to disclose these details on semiannual basis.	4	PD-3.1.6 allows to dispense with the semi-annual disclosure for PD-1.3.8 in dealing with remuneration. This is only required annually.
PD-1.3.8C **The disclosure of remuneration practices must cover approved persons and material risk-takers and must be broken down as follows:** **(a) Members of the board of directors;** **(b) Approved persons in business lines;** **(c) Approved persons in risk management, internal audit, operations, financial controls, internal Shari'a review/audit, AML and compliance functions; and** **(d) Material risk-takers not falling under categories (a) to (c).**	A bank noted that the inclusion of all Approved Persons in the disclosure related to shareholding is too exhaustive. In addition, it is not in line with the disclosure made to Stock Exchange which lists only Key Persons. Hence it would be more appropriate to retain the current disclosure or alternatively include only Key Persons.	5	Not part of this consultation process and the requirement for remuneration disclosure is in line with the BCBS July 2011 requirements.
PD-1.3.9 **All banks must disclose on their website summary information on the terms and conditions of the main features of all outstanding regulatory capital instruments listed below in Paragraphs PD-1.3.10 and PD-1.3.11, including innovative, complex or hybrid capital instruments. Full details of the required disclosures are given in Appendix PD-3.**	A bank noted that the terms and conditions of all capital instruments are subject to the prior CBB approval. However, for regulatory capital raised on a private placement basis, the coupon to be paid on the capital instrument is confidential commercial information between the Issuer and its Investor (s). Disclosure of such confidential commercial information may potentially be disadvantageous banks. It is therefore recommended that banks should not be required to disclose information on coupons to be paid on capital instruments raised on a private placement basis. However, banks should be making all other required disclosures for the outstanding regulatory capital instruments except the ones which are either proprietary or confidential and disclosing these information in publically may impact goodwill or lenders' confidentiality or aid	6	Disagree, this is a Basel requirement and the main features of all outstanding regulatory capital instruments must be disclosed as per the required template.

	competition and adversely impact future strategic plans, with prior CBB approval.		
PD-1.3.12 **From 1st January 2015, all banks must disclose a full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements as required under Appendix PD-2.**	A bank noted that as per BR-1.1.3 (g), banks are required to provide a reconciliation statement between the audited financial statements and the relevant prudential returns within 3 months of their financial year end. It is recommended to remove BR-1.1.3(g), given that the new requirement already addresses this in detail.	7	Module BR refers to reporting requirements to the CBB while Module PD are reporting requirements to the public – these serve two different purposes and should therefore be retained in both Modules.
PD-1.4.3 **Without prejudice to any other requirement of Bahrain law (or any other direction of the CBB), the Directors' Report Section of the annual audited financial statements of banks should contain details of the interests of Approved Persons in the shares of such banks. Such details should include:** **(a) Total interests in the shares of such banks by individual persons mentioned above; and** **(b) Changes in such interests from the previous financial year to the current financial year.**	A bank recommended replacing the word "annual audited financial statements" with "annual report" as it essentially is dealt through corporate governance section under PD 1.3.8.	8	Agreed PD-1.4.3 will be amended and reference will be made to 'annual report' instead of "annual audited financial statement".

General Comments on Appendices:	Ref.	CBB's Response
A bank noted that the disclosure templates suggested as part of the Module are very detailed and lengthy. While this enhances transparency, it is requested that the CBB also consider the fact that decision usefulness of the disclosure may be undermined by the sheer volume and level of granularity of the requirements. Hence, it is requested that the template design be reviewed for a balance between enhanced transparency and ease of understanding.	9	This is the template used in Basel, the purpose of the detailed disclosure template is to have more transparency and be consistent with Basel

A bank noted that under the draft regulation, it is proposed that the Composition of Capital related disclosures be made each quarter. Considering the fact that these disclosures are principally linked to Basel requirements under Pillar-3, it is suggested that the reporting frequency be made semi-annual; thus harmonizing these reporting requirements with the other Pillar-3 disclosures.		requirements. Please refer to comment 2 above.

Specific Comments on Appendices:

Appendix 1 Post 1 January 2019 disclosure template	**Comments**	**Ref.**	**CBB's Response**
Row no. 67: **of which: G-SIB buffer requirement (N/A)**	A bank noted that in Bahrain context, should the clause read as relating to D-SIB and not G-SIB? For example, in some jurisdictions such as Canada, the template has provisions to show buffer requirements for both G-SIB and D-SIB (as their banking system has both G-SIBs and D-SIBs).	10	Agree that in Bahrain we have D-SIBs and the template will be amended accordingly This will be changed across all appendices.
Row no. 71 **CBB total capital minimum ratio (10)**	A bank noted that internationally, the total minimum capital which is shown in this row includes all buffer capital requirements also (example, Canada) and not just Tier 1 & 2.	11	Agree; a similar approach to Canada will be followed and row 71 will be amended to include CCB in total capital.
Appendix 2 Reconciliation requirements	**Comments**	**Ref.**	**CBB's Response**
Step 3: Map each of the components that are disclosed in Step 2 to the composition of capital disclosure template set out in Appendix PD-1.	A bank noted that Step 3 of Appendix PD-2 requires the components of capital to be mapped to Appendix PD-1. However, since Appendix 1 will only be used from 1st January 2019 and Appendix 4 is to be used instead of Appendix 1 during the transition phase, it is suggested that the CBB provides clarification as to whether the components of capital need to be mapped to Appendix 4 during the transition phase.	12	Agree, during the transition phase the components of capital should be mapped to Appendix 4. As it is mentioned in page 18 of Appendix 2 "It has been designed to be completed by Bahraini banks from when the new capital adequacy framework comes into effect on 1 January 2015. It

			therefore also includes disclosure relating to instruments that are subject to the transitional arrangements.”
Appendix 4 Disclosure Template during the transition phase	**Comments**	**Ref.**	**CBB’s Response**
Row 41 REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	A bank requested an elaboration on the “Regulatory Adjustments Applied to CET1 In Respect Of Amounts Subject to Pre-2015 Treatment”.	13	The column should include the portion of capital that is not eligible which is recognized during the transition period.
	A bank noted that it is unclear which amounts would be subject to or is eligible for the existing CBB Rulebook treatment. The table included in this part of the appendix, particularly rows 7-27 appear to indicate that the figures to be used will be those of the transition phase and is unclear which figures would be eligible to be put down under the “AMOUNTS SUBJECT TO PRE-2015 TREATMENT” column.	14	Please refer to comment 13.