



World Council of Credit Unions, Inc.

February 17, 2012

Sent via email

Wayne Byres
General Secretary
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel, Switzerland
baselcommittee@bis.org

Re: Consultative Document: *Definition of capital disclosure requirements*

Dear Mr. Byres:

The World Council of Credit Unions (WOCCU) appreciates the opportunity to comment on the Basel Committee's consultative document regarding financial institution capital disclosure requirements. WOCCU is the leading trade association and development organization for the international credit union movement. Worldwide, there are nearly 53,000 cooperatively owned not-for-profit credit unions in 100 countries, with more than US\$1.2 trillion in savings and 188 million credit union members.

National and provincial credit union supervisors frequently apply the Basel Committee's international standards to credit unions even though the Committee in many cases develops these standards to apply to large, internationally-active banks. Credit unions in many countries are subject to prudential regulation under the Basel III capital and liquidity accords or under rules modeled on the Basel I or Basel II capital accords. In other countries, the Basel Committee's standards increasingly influence credit union supervision even when credit unions are not expressly subject to Basel Committee standards.

Summary of WOCCU's Comments

WOCCU supports the Basel Committee's proposed disclosure templates for banking institutions' capital levels. Clear and meaningful capital disclosures are especially important for large, internationally-active commercial banks that have myriad counterparties and exotic capital instruments. With respect to the proposed common disclosure templates' application to credit unions, we strongly support the inclusion of the language "and equivalent for non-joint stock companies" in the entry for directly issued qualifying common shares on row 1 of the transitional and post-1 January 2018 common disclosure templates.

We ask the Committee, however, to clarify some aspects of how these disclosures would apply to credit unions and other localized non-joint stock companies to ensure that these disclosures accurately account for cooperative capital instruments. In addition, we ask for clarification that national and provincial credit union supervisors should promulgate standardized disclosure templates—including the option of a short-form disclosure template—in order to reduce unnecessary regulatory burdens on credit unions and other smaller financial institutions.

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Credit Union Capital Instruments

As noted above, WOCCU strongly supports the inclusion of “and equivalent for non-joint stock companies” in the entry for directly issued qualifying common shares on row 1 of the proposed transitional and post-1 January 2018 common disclosure templates. We applaud the Basel Committee for continuing to recognize that credit union shares and shares of other cooperative financial institutions can qualify for inclusion in “common equity Tier 1” (CET1) for regulatory capital purposes if they meet the applicable Basel III CET1 requirements.¹

With regard to row 4 of the proposed transitional and post-1 January 2018 common disclosure templates—the line item for non-joint stock company shares that are subject to a 10 year phase out from CET1 in accordance with paragraph 95 of Basel III²—we ask the Committee to clarify how credit union shares that are initially subject to phase out from CET1 and included in row 4 are to be reclassified at a later date if the terms of these instruments change to become CET1-compliant. We anticipate that some credit union systems will adjust the terms of their share instruments in the future to conform to Basel III’s requirements for CET1 and other capital classifications.

Specifically, we ask for clarification that credit union shares initially subject to CET1 phase out and included in row 4 can, if the terms of these instruments change so as to be CET1-compliant, be immediately reclassified as CET1 shares included in row 1. We also ask for clarification that credit union capital instruments that are initially included in the rows for Additional Tier 1 capital or Tier 2 capital can be immediately reclassified to a more stringent capital classification (i.e. to CET1 if initially Additional Tier 1, or to Additional Tier 1 if initially Tier 2, etc.) on the disclosure template if the terms of the instruments change to conform to the applicable Basel III test for the more stringent regulatory capital classification.

Actions to Limit Regulatory Burden

We also ask for clarification that national and provincial credit union regulators, in order to reduce regulatory burden, should: (1) promulgate a common template for credit union capital disclosures so that smaller institutions are not required to produce such templates individually; and (2) develop a short form disclosure for credit unions and other small financial institutions that do not have complex capital positions.

The present regulatory burdens on credit unions and other smaller financial institutions have accumulated over time and impose huge costs on credit unions and other small financial institutions. It is the aggregate burden of regulatory compliance—as opposed to any particular supervisory rule or guideline—that represents a threat to the continued viability of smaller credit unions. Regulatory burden therefore is a major driver of credit union consolidation in many countries as some credit unions are forced to combine through mergers and other business combinations in order to achieve the economies of scale necessary to bear the cost of regulation in an economically sustainable manner.

¹ See Basel Committee on Banking Supervision, *Basel III: A global regulatory framework for more resilient banks and banking systems* 14 n.12 (Dec. 2010; rev. June 2011), available at <http://www.bis.org/publ/bcbs189.htm>.

² *Id.* at 29 & n.33 (“Capital instruments that do not meet the criteria for inclusion in Common Equity Tier 1 will be excluded from Common Equity Tier 1 as of 1 January 2013. However, instruments meeting the following three conditions will be phased out over the same [10 year] horizon described in paragraph 94(g): (1) they are issued by a non-joint stock company; (2) they are treated as equity under the prevailing accounting standards; and (3) they receive unlimited recognition as part of Tier 1 capital under current national banking law.”).



1. Common Disclosure Templates

We believe that capital disclosures will present the least regulatory burden on credit unions if the appropriate credit union supervisory agency designs a common template or templates. Further, the goal of this proposal is to deal with cross jurisdictional differences in accounting standards and requiring each institution to develop its own template could result in discrepancies based on each institution's own judgment.

We therefore support amending paragraph 27 of the consultative document to replace the word "may" with the word "shall," at least in the context of smaller financial institutions like credit unions, to ensure that supervisory authorities create common disclosures. Providing credit unions and other smaller financial institutions with a common disclosure for compliance purposes would significantly reduce the potential regulatory burden of the proposed capital disclosure template definition.

2. Short Form Disclosure Template

We also ask for clarification that national and provincial credit union and bank supervisors may create a short form common disclosure template for smaller financial institutions that do not have publicly traded shares or exotic capital instruments.

In general, credit union regulatory capital consists of: (1) retained earnings; (2) cooperative shares (which are not publicly traded and can be classified as CET1, Additional Tier 1, or Tier 2 capital depending the instrument's terms); and/or (3) subordinated debt. The capital positions of most credit unions are therefore relatively simple to express and do not suffer from the opaqueness which exists at larger, more complex institutions that the consultative document seeks to address.

We believe that an acceptable short form capital disclosure should include the key features of the proposed post 1 January 2018 template but be simplified to include only those rows that have applicability to credit union regulatory capital. Any potential confusion that could occur about the short form template's relevance to a non-short form common disclosure template can be easily addressed using footnotes or similar references.

Further, we believe that an acceptable short form template should combine key features of the proposed "main features template" in Annex 3 with the applicable "common disclosure template" (i.e. either the transitional common disclosure template or the post-1 January 2018 common disclosure template) in order to reduce paperwork burdens on credit unions and other smaller financial institutions. We do not believe that credit unions should be required to utilize the main features template for the relatively simple and straightforward forms of regulatory capital they use, and we believe that any necessary aspects of the main features template can be integrated into a short form template.

Conclusion

We support the Basel Committee's proposed disclosure templates and believe that this initiative is especially important for complex, internationally-active banking institutions. Credit unions in many countries, however, are also likely to become subject to these capital disclosure requirements. We therefore ask the Committee to consider seriously WOCCU's requests for clarifications and other minor adjustments to the consultative document to ensure that these disclosures present accurate information about credit unions' capital positions and also do not result in unnecessary regulatory burdens on credit unions and other smaller financial institutions.



Thank you for the opportunity to comment on the Basel Committee's consultative document *Definition of capital disclosure requirements*. If you have questions about our comments, please feel free to contact me at medwards@woccu.org or +1-202-508-6755.

Sincerely,

A handwritten signature in black ink that reads "Michael S. Edwards". The signature is fluid and cursive, with the first name being the most prominent.

Michael S. Edwards
WOCCU Chief Counsel and VP for
Advocacy and Government Affairs