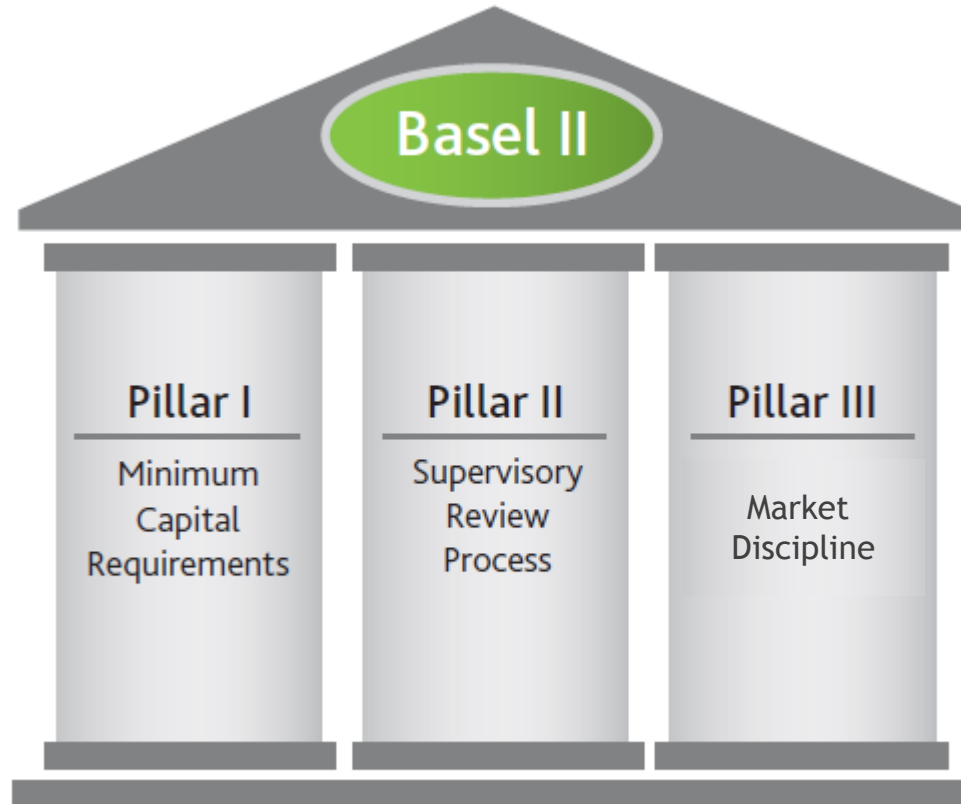


# THE DARK SIDE OF THE BASEL COMMITTEE'S PILLAR 3 FRAMEWORK

DR WILFRIED WILMS, 25 NOVEMBER 2014





# PILLAR 3 CONCEPTUAL FRAMEWORK: MAIN BUILDING BLOCKS

- Objective
- Audience
- Materiality
- Proportionality
- Protected Information
- Level of Assurance

# CONCEPTUAL FRAMEWORK

## 1) OBJECTIVE



# CONCEPTUAL FRAMEWORK

## 1) OBJECTIVE (continued)

1) Intrusive: it regulates conduct

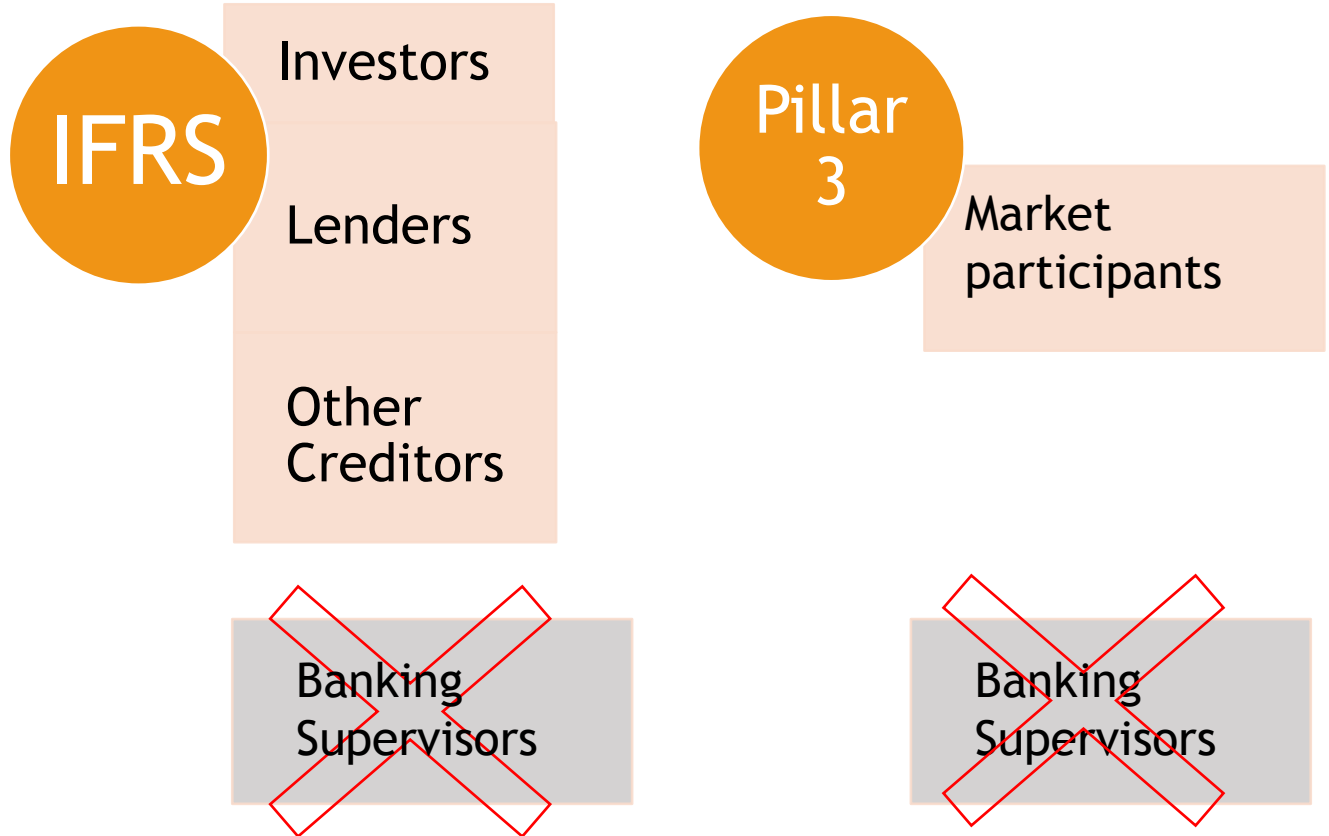


2) Efficient Market Hypothesis

3) Market reactions are not always predictable

# CONCEPTUAL FRAMEWORK

- 1) Objective
- 2) AUDIENCE



# CONCEPTUAL FRAMEWORK

- 1) Objective
- 2) AUDIENCE (continued)

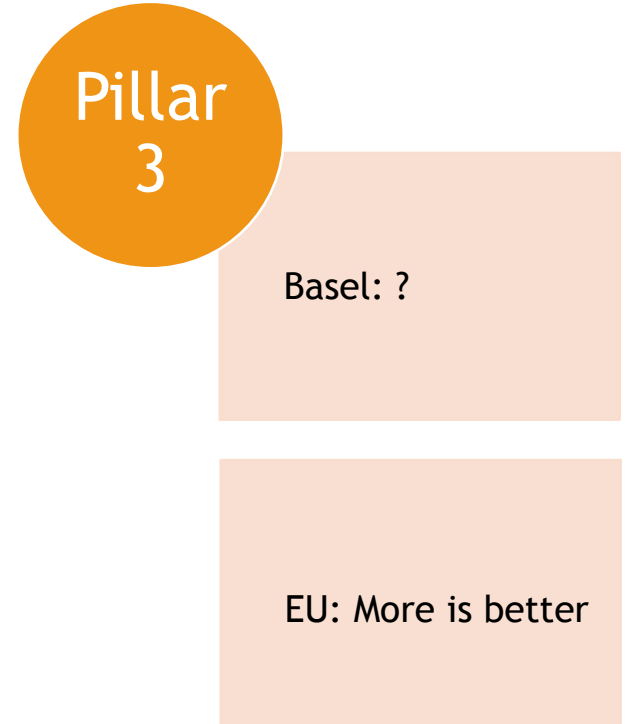
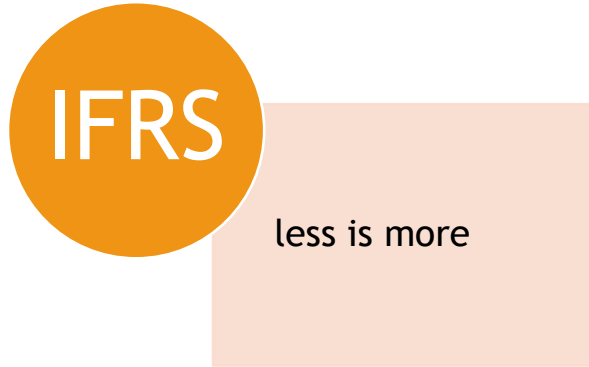
Specific disclosures maybe required to create awareness about the information itself.



Example: Asset Encumbrance

# CONCEPTUAL FRAMEWORK

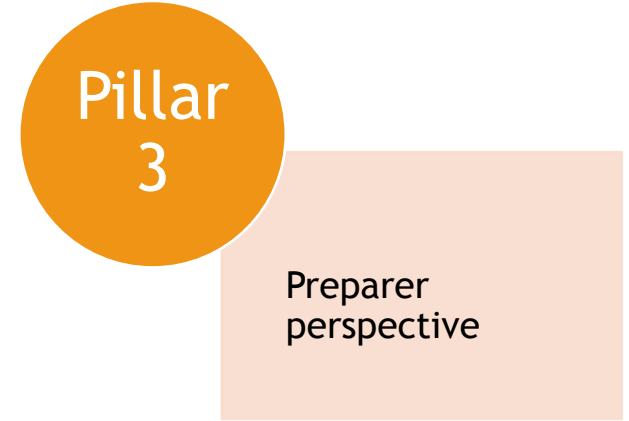
- 1) Objective
- 2) Audience
- 3) MATERIALITY





# CONCEPTUAL FRAMEWORK

- 1) Objective
- 2) Audience
- 3) Materiality
- 4) PROPORTIONALITY



# CONCEPTUAL FRAMEWORK

- 1) Objective
- 2) Audience
- 3) Materiality
- 4) Proportionality
- 5) PROTECTED INFORMATION



national  
legislation  
decides

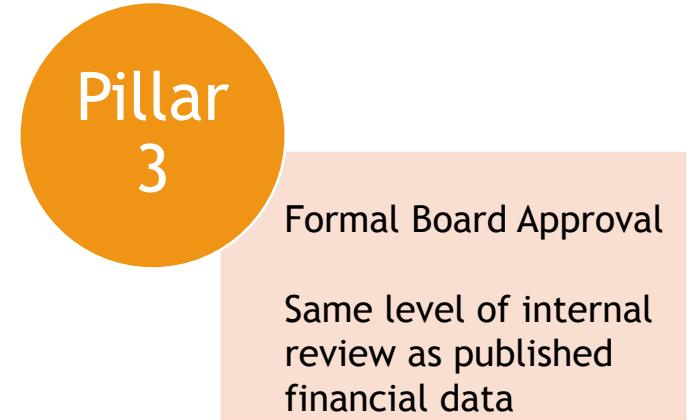


Basel: national  
legislation decides

EU: more stringent

# CONCEPTUAL FRAMEWORK

- 1) Objective
- 2) Audience
- 3) Materiality
- 4) Proportionality
- 5) Protected Information
- 6) LEVEL OF ASSURANCE



# HOW TO MAKE BOTH RISK FRAMEWORKS MEET?

## ■ Two different worlds:

- Measurement – Scope of consolidation - Netting Rules – etc
- Provision of information versus Market Discipline / Audience
- Other building blocks: not always in sync

## ■ Two camps:

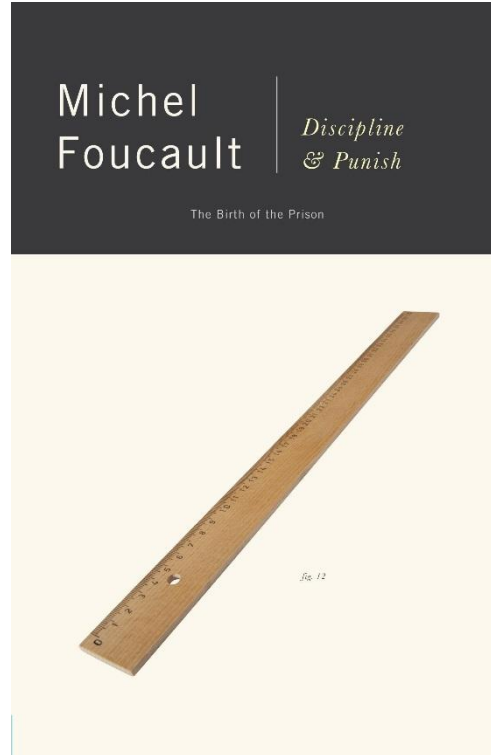
- 1) Pillar 3 should become the benchmark
- 2) The information needs of investors should be at the forefront

# HOW TO MAKE BOTH RISK FRAMEWORKS MEET? (continued)

## ■ Compromise Solution

- 1) The information needs of investors must be met.
- 2) The regulatory view on risk has merits in its own right
- 3) Need for a dialogue
- 4) Necessity to involve users and prepares

# WELCOME TO OUR DISCIPLINARY SOCIETY!



## WELCOME TO OUR DISCIPLINARY SOCIETY (continued)

- Power is dispersed and no longer visible
  
- It is now the subject that has to be seen
  - Continuous measurement
  - Fields of continuous documentation
  - To distinguish between “normals” and “abnormals”

# Market Discipline and the Rule of Law

- Freedom of Speech

*“Everyone has the right to freedom of expression. This right shall include freedom to hold opinions and to receive and impart information and ideas without interference by public authority and regardless of frontiers.”*

- US Jurisprudence:

Disclosure of purely factual and uncontroversial information which is meant to prevent deception of consumers is not protected.

- Pillar 3 not merely factual but also normative.



# THANK YOU !

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