



EGFI

**INDUSTRY PUBLIC HEARING ON
TRANSPARENCY – 28/06/2010 -**

**Assessment of Annual Reports and
Pillar 3 disclosures as at 31/12/2009**

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Content

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1. Background and overview of the assessment process

Background

June 2008: first assessment in the context of the crisis

↪ identification of a set of good practices for disclosures

June 2009: follow-up assessment of annual reports' disclosures

↪ tangible improvements but still room for improvement

Background

June 2009: first assessment of Pillar3 disclosures

- ↪ Diversity of Pillar 3 disclosures, both presentation and content and lack of compliance in some areas

April 2010: principles for disclosures in times of stress

- ↪ Promote good quality disclosure practices for activities under stress

Overview of the Assessment Process

2010 assessment process

- Scope

- ↪ Annual Reports: activities under stress and other sensitive issues
- ↪ Pillar 3: compliance to the CRD (Annex XII)

- Methodological approach

- ↪ Sample of 24 banks
- ↪ Two-step assessment
- ↪ Bi-lateral meetings with banks

Overview of the Assessment Process

- Scoring graduation

- NA = item is not applicable
- 0 = no information disclosed
- 1 = insufficient information provided
- 2 = disclosure could be improved
- 3 = disclosure adequate

- Identification of best practices

⇒ Promote high-quality disclosures and comparability

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2. Annual reports

Main findings on annual reports' disclosures

Main general findings

- ↪ Good quality of overall disclosures
- ↪ Heterogeneity
- ↪ Still some room for improvements

Main findings on annual reports' disclosures

Sub-prime activities

⇒ Room for improvement :

- ↪ Overview of total exposures and related impacts on results
- ↪ Reconciliation tables on the movements of the period
- ↪ quality of underlying assets for instruments covered by low-rating insurers

GPE: provision of a summary table on overall exposures with clear link to BS (Intesa; Barclays), use of standardised formats (BNPP, CASA, SG)

Main findings on annual reports' disclosures

Other activities under stress

- ⇒ Room for improvement :
- ↪ could be better emphasised,
- ↪ more focused and
- ↪ more granular

Main findings on annual reports' disclosures

Business model

- ⇒ Adequate description
- ↪ educational approach
- ↪ Yet, limited focus on activities directly affected by the crisis

GPE: clear link between group strategy and contribution by segment of activities (Rabobank, Erste bank)

GPE: targets and key performance measures clearly set out at the start of the report (RBS, ING)

Risk and risk management

- ⇒ Adequate description
- ↪ Information on practices introduced or modified due to the crisis

GPE: clear executive summaries highlighting key areas of risk management (Santander)

Main findings on annual reports' disclosures

Fair valuation

⇒ Improvements but further enhancement needed

Fair value hierarchy

- ↳ Explanation on the criteria retained for the classification notably for the distinction between L2 and L3
- ↳ Explanation on significant transfers between L1 and L2

GPE: clear information on the instruments included in each level (Barclays)

Level 3 disclosures

GPE: explanation of all significant movements of L3 instruments (UBS)

Main findings on annual reports' disclosures

Fair valuation (cont'd)

Level 3 sensitivity analysis

↳ Rather generic information on approach used and underlying assumptions

GPE: clear description of assumptions used and impacts for each type of instruments (Barclays)

Valuation techniques

↳ Rather generic information on valuation techniques not always detailed by type of instruments

GPE: description of methods, inputs and valuation adjustments (HSBC)

GPE: overview table on valuation techniques and main assumptions by class of instruments (Santander / BBVA)

Main findings on annual reports' disclosures

Fair valuation (cont'd)

Day-one profit

- ↳ Rather generic information on approach used and underlying assumptions

GPE: detailed reconciliation of changes (Deutsche Bank)

Own credit risk

- ↳ Information not always made conspicuous
- ↳ Rather generic information on the methodology applied to calculate OCR impact

Reclassification

- ↳ Variation in the presentation of the impacts of reclassification

Main findings on annual reports' disclosures

Impairment

Credit impairment

- ↳ Heterogeneity
- ↳ Method used for collective provision (IBNR losses)
- ↳ Quantitative information on collateral

GPE: disclosures of synthetic measures on credit risk exposures (Commerzbank); detailed quantitative information on secured credit exposures (Unicredit)

Main findings on annual reports' disclosures

Impairment (cont'd)

AFS impairment

- ↳ Quantitative triggers used not always provided
- ↳ Breakdown of unrealised gains and losses by category of AFS assets would be useful

Goodwill impairment

- ↳ Determination of CGU and assumptions used to determine the impairment charges could be further developed

Main findings on annual reports' disclosures

Consolidation of SPEs

- ↪ Need for more in depth information about the way the test on “risks and rewards” is conducted

Liquidity

Disclosures enhanced

- ↪ More comprehensive qualitative information
- ↪ Even quantitative information
- ↪ Breakdown by contractual maturity of financial assets

Main findings on annual reports' disclosures

Remuneration

- ↪ Qualitative information on compensation or remuneration schemes
- ↪ Quantitative information on remuneration granted to executive management
- ↪ Very few banks provided detailed quantitative and qualitative information on the remuneration granted to traders

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3- Pillar 3

Main general findings

- ↪ Second year of implementation
- ↪ Efforts maintained
- ↪ Some improvements compared to 2008
- ↪ Shift towards the publication of a separate all-inclusive Pillar 3 report

Main general findings (cont'd)

↪ No significant reduction of the publication timeline

↪ Improvements are still needed:

- ❖ composition of own funds
- ❖ back-testing information for credit risk
- ❖ credit risk mitigation techniques
- ❖ Valuation methodology and quantitative information on derivatives

Main general findings (cont'd)

- ↪ Heterogeneity in the presentation and content
- ↪ Comparative information
- ↪ Need for fine-tuning
- ↪ Omissions for materiality reason
- ↪ External verification limited to disclosures included in FS, except for a few exceptions

Main findings on Pillar 3 disclosures

Compliance with CRD

Scope of consolidation

- ↪ sometimes too generic
- ↪ reconciliation tables useful

Own funds

Improvements needed

- ↪ Aggregation of positive items and deductions
- ↪ Difference between provisions and expected losses not always disclosed

GPE: reconciliation of IFRS equity to T1 capital (UBS, DB)

Main findings on Pillar 3 disclosures

Compliance with CRD (cont'd)

Credit risk

Improvements needed

- ↳ Insufficient back-testing information
- ↳ Valuation method and quantitative information on derivatives
- ↳ Overall view on credit risk mitigation effects

GPE: comparison of effective losses versus estimated losses over a 8-year period (BBVA)

GPE: discussion on the approach retained for ratings with regard to the economic cycle (Nordea)

Compliance with CRD (cont'd)

Securitisation

Disclosures enhanced

- ↪ Yet, some information is missing
- ↪ Further educational approach may be needed
- ↪ Only few banks have applied the industry good practice guidelines and have thus provided more comprehensive information

GPE: comprehensive information about securitisation (DB)

Main findings on Pillar 3 disclosures

Compliance with CRD (cont'd)

Market risk

Generally in line with CRD requirements

↳ Yet, enhancement is needed on valuation controls and back-testing information

GPE: detailed description of valuation controls (BNPP)

GPE: comparison of the daily end-of-day VaR measures to the one-day changes of the portfolio's value (Société Générale, Intesa)

Main findings on Pillar 3 disclosures

Compliance with CRD (cont'd)

Operational risk

Satisfactory on the whole

GPE: chart setting out the breakdown of operational losses by B2 event type (Santander, BNPP)

Equity risk

↪ realised and unrealised gains / losses sometimes under the accounting scope

GPE: the quantitative breakdown of exposures by objective (HSBC)

Main findings on Pillar 3 disclosures

Compliance with CRD (cont'd)

Interest rate risk

- Information on the assumptions used for sensitivity analyses could be further developed and better explained

GPE: Presentation of interest rate gap by maturity (Nordea)

GPE: main drivers of interest rate risk by business (ING)