Committee of European Banking Supervisors

23 June 2010

Discussion note for the
28 June Public hearing on Transparency

The public hearing on Transparency London – scheduled for 28 June 2010 (from 10:30 to 12:30) in the CEBS offices in London –. – aims at presenting the main conclusions and findings of the work carried out by CEBS to assess banks' transparency through the analysis of a number of mainly European banks' 2009 Annual Report and Pillar 3 disclosures.

At the hearing, will also seek the industry's views on these conclusions prior to the reports' publication at the end of June.

This work reflects CEBS continued interest in the banks' communication about the impact of the crisis on their activities and financial situation and will continue in the future.

Concerning 2009 annual reports, the study of 24 European banks' annual reports (and, in certain areas, of 3 non-European banks) reveals, overall, that the CEBS June 2008 good practices, which form a large part of the benchmark used for the analysis have been covered quite extensively, especially for disclosures on business models and risk management.

The following areas were however identified by CEBS as offering room for improvement:

- Disclosures on fair values: despite of an overall improvement following the mandatory application of the amendment to IFRS 7 issued in March 2009, further room for improvements has been identified (disclosures on fair value hierarchy, on so-called level 3 instruments, on day on profit, on own credit risk…).
- Disclosures on impairment: banks could notably be more specific regarding the methodologies used for collective impairment of instruments measured at amortised cost.
- Disclosures on reclassifications: disclosures on the reasons for reclassification could be less generic.
- Disclosures on consolidated or non consolidation of special purpose entities: disclosures on the way the risk and rewards test is conducted could be further developed.
- Disclosures on activities under stress : for the disclosures on activities directly affected by the sub-prime crisis, CEBS good practices have been implemented in some areas (exposures, results and impact on institutions' financial position) even if there is still room for improvement in other areas (granularity, explanation of evolution between periods, comparability). Disclosures on other activities under stress could also be improved.

There is also room for improvement regarding quantitative disclosures on remuneration issues even though CEBS keeps in mind that the Financial Stability

Board's April 2009 'Principles for Sound Compensation Practices' are in many countries only on the point of being implemented.

Regarding Pillar 3 disclosures, the study reveals that the 24 European banks covered in the analysis have maintained their efforts to provide market participants with information allowing a better assessment of their risk profile and their capital adequacy. CEBS has noted some welcome improvements compared to last year's disclosures, and that some banks have followed some of the best practices promoted in its last year's report, especially concerning economic capital, exposure to counterparty credit risk and to operational risk.

As for the degree of compliance with the CRD, qualitative and quantitative improvements are still needed in the following areas:

- Detailed information on the composition of own funds;
- Quantitative back-testing information for credit risk;
- Clearer information on credit risk mitigation techniques supplemented by adequate quantitative information on their impacts;
- Valuation methodology used and detailed quantitative information on credit derivative instruments;

In terms of presentation, CEBS observed a shift towards the publication of a separate, all-inclusive Pillar 3 report in preference to a report integrated within the annual report or with extensive cross-references to the latter, but no reduction of the publication timeline has been observed, contrary to what CEBS expected.

CEBS is of the view that banks should be able to publish their Pillar 3 report close to that of the financial statements since both the annual report and the Pillar 3 disclosures are necessary for the market discipline mechanism to operate effectively.

More generally, in order to improve the disclosure quality for both annual and Pillar 3 reports, CEBS was led to identify in all areas examples of best practice disclosures. These best practice examples are not intended to be exhaustive or exclusive. Rather they are considered as being useful and potentially conducive to increasing quality and comparability of annual reports and Pillar 3 disclosures. Through these best-practice examples ALL banks - not only those that are covered in the work (and that will receive a direct feedback) – will be able to benefit from CEBS's analysis.

Similarly to its findings of 2008, CEBS observed this year some variations in the presentation and the content of Pillar 3 disclosures (such as the definition of particular concepts or the structure of the breakdowns). These differences may raise comparability issues for users.

CEBS observed also that the quality of the disclosures is not always related to the quantity of the disclosures, with examples of good practice appearing in more concise reports as well as in longer reports.

This note only sets out main findings. At the hearing the findings will be presented in more detail.