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European Banking Authority
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United Kingdom

31st July 2012

Dear Sir or Madam,

We are pleased to provide our response to the European Banking Authority's ("EBA") consultation paper on "*Draft Implementing Technical Standards on Disclosure for Own Funds by institutions*" (EBA/CP/2012/04). We recognise the need for improved and consistent disclosure standards for own funds and are broadly supportive of the EBA's efforts in this area, but have a number of reservations with the proposed approach including the degree of granularity being prescribed, the need to produce a full reconciliation / comparison between the accounting and regulatory balance sheets, and the very short timeframe before disclosure is expected to commence. We set out below our views on the key issues which we believe need to be addressed before these new disclosure requirements can be finalised.

Proposed disclosure templates

We believe that the proposed data templates are too prescriptive and many of the new data items would not be of particular use to investors and other stakeholders. During the financial crisis, concerns were raised about the quality and quantity of banks' own funds and the extent of losses that could be absorbed. Basel III / CRD IV will substantially increase the quality and quantity of banks' own funds and help increase the resilience of the banking industry. Whilst disclosure can play a supporting role in raising capital standards, we believe that the focus should be on quality rather than quantity. Pillar 3 has demonstrated that simply imposing a requirement for detailed technical disclosures to be made will not necessarily result in market discipline being the force for good envisaged by the Basel Committee on Banking Supervision when it developed Basel II. It is noteworthy and somewhat surprising that we have received virtually no queries from investors on our Pillar 3 disclosures since the requirement was introduced.

In addition, a materiality concept similar to that used for preparing audited financial statements should be adopted so that small balances within a category need only be reported in

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aggregate. Ultimately, the most important information that investors and other stakeholders will rely on are the amounts of the various levels of regulatory capital (post deductions) held by banks, relative to their risk weighted exposures. We would argue that details of the capital deductions and filters applied would be of limited value, particularly the less material items, and would not enhance the quality of disclosure. A more abbreviated form of presentation would not hinder the comparability of capital adequacy of banks across the EU and internationally. We would encourage the EBA to seek views from investors on the additional capital information that they would like to see disclosed if suitable responses are not received to this consultation.

It is important that capital disclosure requirements set by the EBA are aligned with the COREP requirements and any other supervisory reporting requirements to ensure that banks can meet them all without having to make wholesale changes to systems and processes.

Reconciliation requirements

We are supportive of the intention to disclose a reconciliation of the key components of own funds to their corresponding balance sheet amounts. This is already being disclosed by UK banks. However, we do not believe that there is a need for a comparison of the full balance sheet with a regulatory equivalent, as these are not truly comparable concepts. Certain balance sheet items may be included or excluded for the purposes of assessing capital adequacy, and these should form part of the Pillar 3 disclosures already. However, whether or not included in the “regulatory balance sheet”, the risks associated with such balance sheet items are incorporated within the capital adequacy calculation through the recognition of risk weighted assets under Pillar 1. It should also be noted that any risks not adequately captured under Pillar 1 should be addressed under Pillar 2.

The proposed disclosure of the comparison between the full accounting balance sheet and a regulatory equivalent goes well beyond the principle of providing users of these disclosures a clear understanding of the differences between own funds and accounting capital. The disclosure of the comparison / reconciliation of the non-capital parts of the balance sheet risks confusing users of this information, particularly as there is no direct linkage to risk weighted assets. Thus we support the disclosure of a reconciliation of own funds to accounting capital, but are strongly opposed to any additional reconciliation requirements.

Disclosure of capital instruments’ main features

We are generally supportive of the proposal for banks to complete a ‘main features template’ to include summary disclosures for each capital instrument issued. The proposed items appear reasonable and we would like to see this standardised template adopted on a consistent basis to facilitate international comparison and keep the preparation of the summary manageable.

Timing of implementation and frequency of disclosure

There is insufficient time to implement the new disclosure requirements from 1 January 2013, particularly given the delays in the passage of the CRD IV package through the European parliamentary process. We would propose that the EBA seeks to pursue improved capital disclosure standards by EU banks from 2013 by promoting the adoption of current best

practices using a more principles-based approach. UK banks are already disclosing fairly detailed breakdowns of their own funds as well as reconciliations of their accounting capital to own funds within their financial statements. We believe that it is appropriate for all EU banks to adopt similar disclosures from 2013, if they do not already do so. This should go a long way to meeting the improved transparency objective being sought in CRD IV and by the EBA. An ongoing review of capital disclosures could then identify whether additional, more prescriptive disclosures are required.

Concluding remarks

We are generally supportive of the proposals made by the EBA in its consultation but believe that the level of prescription should be reduced so that banks focus on disclosing the more material components of their own funds, rather than every single data item. It is helpful for banks to provide a reconciliation between accounting capital and own funds, but we see no value in extending this to a full reconciliation of the balance sheet. We believe that a less prescriptive approach would still meet the aims of the consultation, provide a more appropriate reporting burden to banks across the EU, and give rise to more effective disclosures for investors and other stakeholders. This would be a good outcome rather than placing undue reliance on disclosure to achieve what arguably supervision is intended to do.

Yours faithfully,



Pam Walkden
Group Treasurer