Enhanced Disclosure Task Force
2015 Progress Report

26 October 2015

Mr. Mark Carney
Chairman of the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Mr. Carney,

As requested, the Enhanced Disclosure Task Force ('EDTF') is pleased to present its fourth report having undertaken a further assessment of the level and quality of application of the recommendations of our first report, 'Enhancing the Risk Disclosures of Banks' that was published in October 2012.

This report consists of two parts: a survey of global systemically-important banks ('G-SIBs') and certain domestic systemically-important banks and a review by a group of the investor members of selected EDTF disclosures. The EDTF as a whole, and in workstreams, held meetings and conference calls to discuss the results of the assessment, to build on the experience of two years of implementation and to agree upon the key messages included in this report.

The bank survey results confirm that additional progress has been made towards implementing the EDTF recommendations in 2014 disclosures. Overall, participating banks report disclosure of 82% of the information recommended by the EDTF. This represents an increase of 7% from the level achieved in 2013 disclosures and a 48% increase from disclosures prior to the release of the original EDTF report in October 2012. Implementation is increasingly broad-based with 55% of banks reporting implementation of over 85% of EDTF recommendations in 2014 annual reports. This represents a gain of 15% from 2013 disclosures and 50% from 2012 disclosures. On a regional basis, banks from Canada and the U.K. reported implementation of nearly all EDTF recommendations and are followed by banks from Spain and Italy (89%) and Continental Europe (87%). Progress made on quantitative disclosures outpaced progress on qualitative disclosures for the second year in a row. Quantitative disclosures generally require more time to develop due to the lead times for making the necessary system changes, but are generally viewed by investors as more critical.

One of the unique and most powerful features of the EDTF continues to be the active participation by a range of investors, analysts and rating agencies who are active users of the financial information published by banks. Consistent with that approach, user members of the EDTF (the 'User Group') conducted their own assessment of banks' implementation of the EDTF recommendations related to credit risk. Users recognized that the introduction of a new Expected Credit Loss (ECL) approach to provisioning by the International Accounting Standard Board and the approach expected to be announced by the U.S. Financial Accounting Standards Board will have a significant impact on banks' credit risk reporting in the coming years. Users noted that significant opportunity remains for banks to improve credit risk disclosures before the transition to the new standards. The User Group review this year also focused on identifying leading practice credit risk disclosures under current accounting standards.

The User Group assessed 97% of banks' credit risk disclosures as either Fully (62%) or Partially Implemented (35%) across the banks that participated in the survey. Banks reported that they had Fully Implemented 85% of credit risk recommendations, a difference of 23 percentage points between the two reviews. Although a gap persists between bank self-assessments and the assessments of the User Group, it should be noted that the majority of the recommendations reviewed this year had not been reviewed in previous years, making a year over year comparison of implementation progress less relevant. Users generally agreed with banks' self assessments about disclosures related to on-balance sheet lending activities, but a meaningful gap exists for disclosures about derivatives and off-balance sheet exposures. Differences in disclosures for these recommendations drove the bulk of the difference in Users' and banks' assessments.

The User Group also noted that implementation rates for credit risk disclosures vary significantly across countries with the highest implementation rates for banks in the U.K. (92%), Canada (75%), Central Europe (68%), the U.S. (65%) and Italy / Spain (58%). By contrast, the User Group assigned lower implementation rates to banks in France (25%) and Asia-Pacific (37%). Users noted that banks in the U.S. and Canada provide strong credit risk disclosures in general, but that several of the largest institutions have not yet addressed specific aspects of the EDTF credit risk recommendations such as a summary of the credit quality of collateral held or the use of mitigants to manage credit risk arising from market exposures (Recommendation 30). Members of the User Group highlighted additional opportunities for banks in Asia-Pacific, France, Italy and Spain to accelerate implementation of the EDTF recommendations in the coming years in advance of the implementation of IFRS9 / CECL.

Although implementation of the EDTF recommendations has seen significant progress and is nearly complete in some jurisdictions, the FSB and the EDTF both believe there is still a role to play in supporting this disclosure initiative including keeping the banking sector alert to risks and emerging issues which may benefit from revised or additional disclosures in the future. The EDTF co-chairs and members have also been active in helping create opportunities for investors, banks and other interested parties to gather to discuss disclosure, to the benefit of increased communication between all those involved.

Sincerely,

Ralf Leiber	Russell Picot	Christian Stracke
Deutsche Bank	HSBC	PIMCO

Background

In October 2012, the Enhanced Disclosure Task Force ('EDTF'), a private sector group established by the Financial Stability Board ('FSB') and composed of members representing both the users and preparers of financial reports, released a report that included 32 recommendations for improving bank risk disclosures in the areas of report usability, risk governance and risk management, capital adequacy, liquidity and funding, market risk, credit risk and other risks. Each year after the release of the EDTF report, the FSB requested the EDTF to produce a report providing an update on how the recommendations are influencing risk reporting and whether they have proved helpful in meeting users' needs. Therefore, in 2015 the EDTF, with the support of PwC, again carried out a survey to identify which of the report's recommendations were implemented in 2014 annual reports[1], the 'Bank Survey'. In addition, a group of EDTF investors and analysts, the 'User Group', reviewed a sample of 2014 Annual Report disclosures of those banks participating in the survey to assess implementation, the 'User Review.'

Bank Survey

The EDTF received 40 self-assessed responses from banks in Europe, North America, Asia and Australia, including responses from 28 of the 30 G-SIBs[2] designated by the Financial Stability Board. Highlights from the bank survey include:

- **Banks continue to make steady progress:** A key theme of last year's Progress Report was the significant increase in implementation in 2013 year-end reports. Banks continued to make progress in 2014, reporting an 82% overall implementation rate, up 7% from 2013
- **Quantitative disclosures drive progress:** Progress on quantitative disclosures outpaced progress on qualitative disclosures for the second consecutive year. In 2014 implementation of quantitative disclosures was three times greater than the implementation of qualitative disclosures (9% versus 3%, respectively). As indicated by the User Group, many of the most critical EDTF disclosure recommendations are quantitative in nature
- **Broad-based adoption:** Nine banks reported full implementation of all recommendations and an additional thirteen reported full implementation of over 85% of the recommendations in 2014. Only three banks reported full implementation of less than 50% of the recommendations during 2014, down from seven in 2013

Bank Survey Approach

The EDTF, with the support of PwC, conducted a survey[3] of G-SIBs and other domestic systemically important banks in Europe, North America, Asia and Australia to understand banks'

[1] 2014 annual reports refers to annual reports and Pillar 3 documents relating to the annual reporting for years ending three years after the issue of the issue of the EDTF's first report in October 2012, e.g. for banks with calendar year ends, 31 December 2014 annual reports and Pillar 3 documents.
[2] The updated G-SIBs list is available at http://www.financialstabilityboard.org/wp-content/uploads/r_141106b.pdf. All G-SIBs participated except the Agricultural Bank of China and Industrial and Commercial Bank of China Limited
[3] Each of the 30 G-SIBs was invited to participate, along with those banks represented on the EDTF and other domestic SIBs (e.g. top 6 Canadian banks). Of 45 banks contacted, 40 banks submitted a response and are included in the survey results.

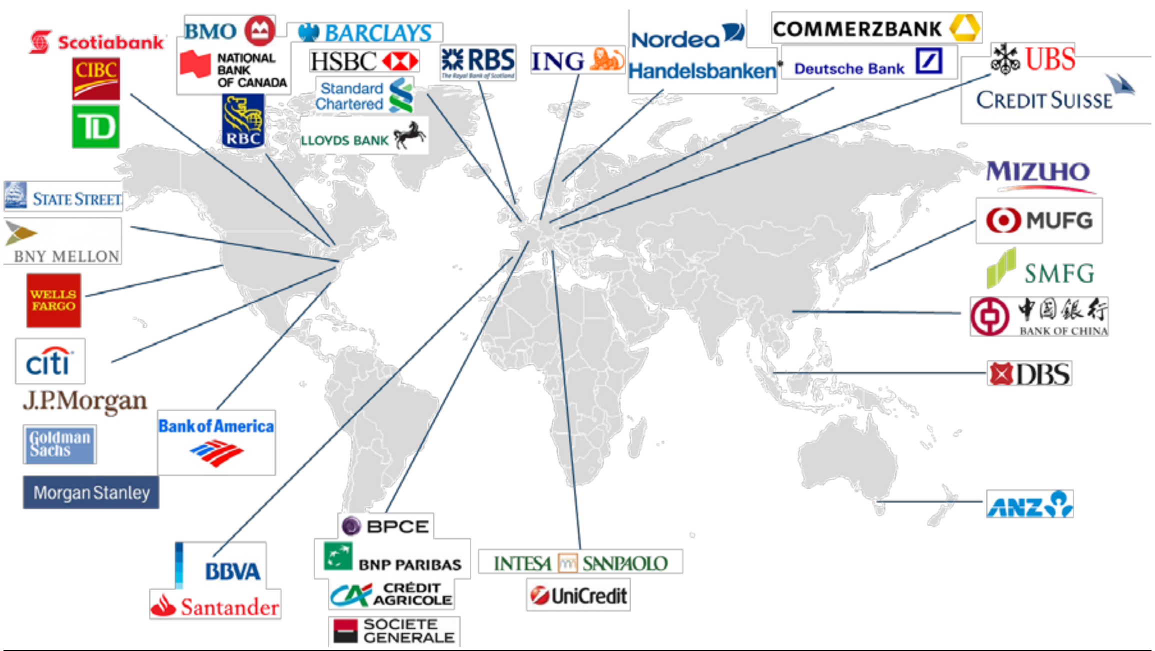
progress in implementing the EDTF recommendations and assess incremental progress made in 2014 disclosures.

The 2015 survey was streamlined to focus on progress. Banks were asked to indicate whether each recommendation was Fully, Partially or Not Implemented in 2014 year-end disclosures. Banks were also asked to specify the location of their disclosures. The survey provided space for banks to provide additional details about their disclosures.

The results that follow are based on self-reported responses from the 40 participating institutions representing a diverse mix of size, geography and accounting and regulatory regimes. The breakdown of participating banks by geography is as follows (see Exhibit 1):

- Continental Europe[4]: 7 responses
- France: 4 responses
- Spain and Italy: 4 responses
- U.K.: 5 responses
- U.S.: 8 responses
- Canada: 6 responses
- Asia-Pacific: 6 responses

Exhibit 1: Geographical breakdown of participating banks



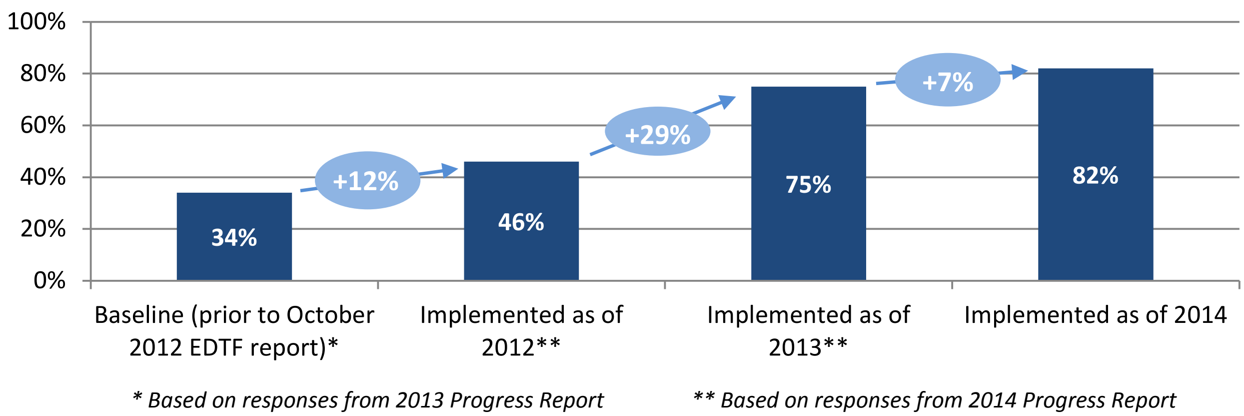
Aggregate Results

The survey results confirm that additional progress has been made towards implementing the EDTF recommendations in 2014 disclosures. As shown in Exhibit 2, on an aggregate basis, participating banks reported having implemented 82% of the recommendations. This represents a 7% increase in implementation compared to 2013 reports[5] and a 48% increase since prior to

[4] Excludes banks from France, Spain and Italy, which are broken out separately.
[5] To maintain consistency between the banks participating in the 2014 and 2015 surveys, one bank that participated in 2014 but not in 2015 was removed from 2014 results. As such, the 73% aggregate implementation rate in 2013 year-end disclosures that was previously stated in the 2014 Progress Report increased to 75%, as depicted in Exhibit 2.

the release of the EDTF report in October 2012. This progress reflects the substantial, continued efforts many banks are making to incorporate the EDTF's recommendations in their disclosures. Furthermore, the actual progress made by the participating banks in 2014 was nearly double the planned implementation as indicated in last year's survey (7% actual progress, 4% planned progress).

Exhibit 2: Aggregate implementation of EDTF Recommendations by Participating Banks

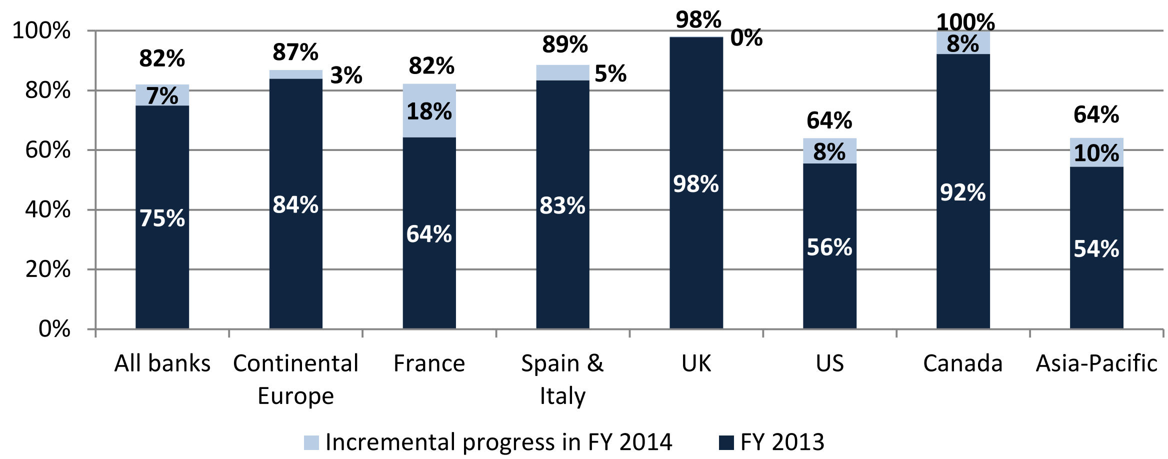


Progress in 2014 disclosures was broad-based with 55% of banks reporting full implementation of over 85% of recommendations, including 23% that reported full implementation of all recommendations. This represents increases of 15% and 8%, respectively, compared to 2013 disclosures. Just 8% of banks reported full implementation of less than half of all recommendations, a decrease of 10% from 2013. On a regional basis, the participating French banks reported the most progress, having increased their aggregate implementation of all EDTF recommendations by 18% between 2013 and 2014 disclosures to a total of 82%. As with last year's results, participating Canadian (100%[6]) and U.K. (98%) banks lead other regions in terms of aggregate implementation. Exhibit 3 provides a breakdown of adoption rates by major geography of participating banks.

Exhibit 3: Implementation of EDTF Recommendations by Geography[7]

[6] Rounded from 99.7%.

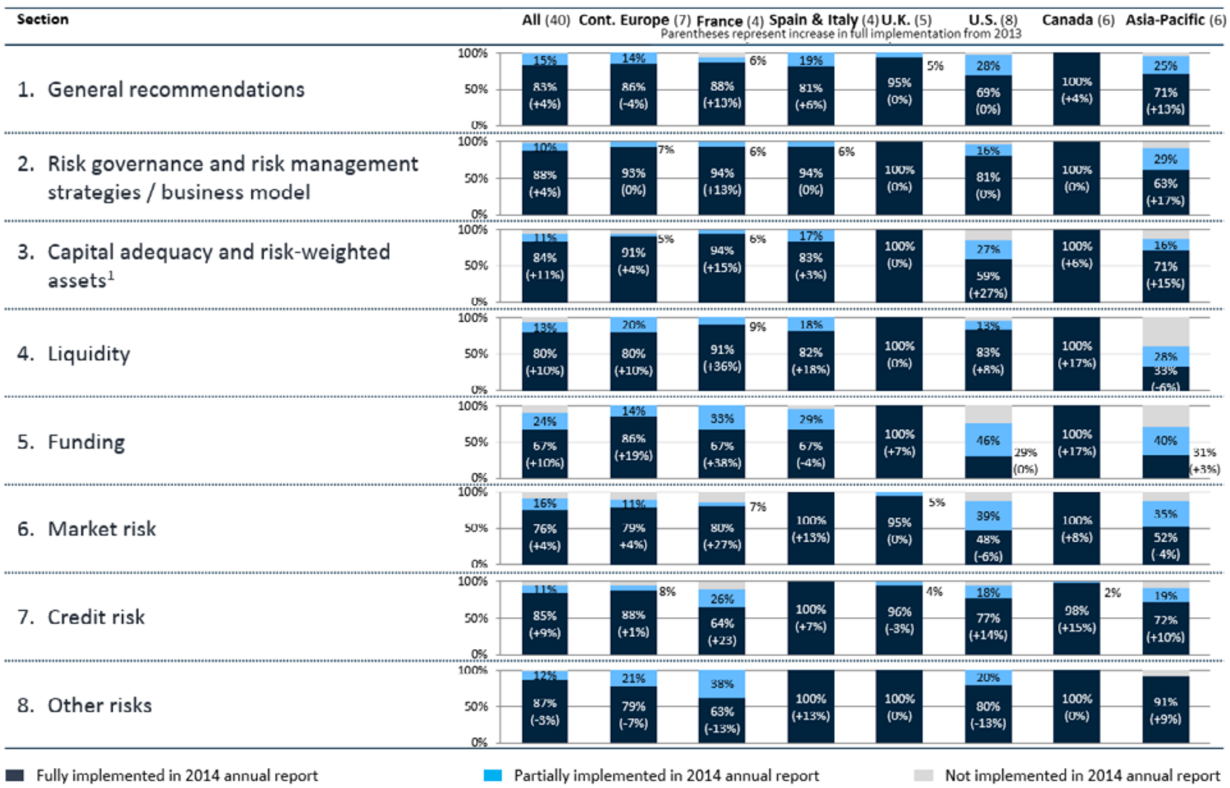
[7] Central Europe includes Germany, the Netherlands, Sweden and Switzerland. Asia-Pacific includes Australia, China, Japan, Singapore.


100%
80%
60%
40%
20%
0%
82%
7%
75%
87%
3%
84%
82%
18%
64%
89%
5%
83%
98%
0%
98%
64%
8%
56%
100%
8%
92%
64%
10%
54%
All banks
Continental Europe
France
Spain & Italy
UK
US
Canada
Asia-Pacific
Incremental progress in FY 2014
FY 2013

Implementation by Disclosure Category

Progress in implementing capital disclosures led other disclosure categories during 2014 for the second consecutive year (+11% year-on-year). U.S. banks were the primary driver of the increase in implementation of capital disclosures as several began disclosing Pillar 3 reports following their exit from parallel run. Disclosures relating to funding (+10%) and liquidity (+10%) were also among those with the largest increase between 2013 and 2014 disclosures . In some instances, additional clarity on disclosure expectations provided by the User Group caused certain banks to reassess their implementation of certain disclosures (e.g., Recommendations 3 and 32) and to adjust down their self-assessed 2013 year-end implementation status in their responses to the current survey. Exhibit 4 summarises the status of participating banks' 2014 disclosures by risk area and indicates, in parentheses, progress from 2013 disclosures.

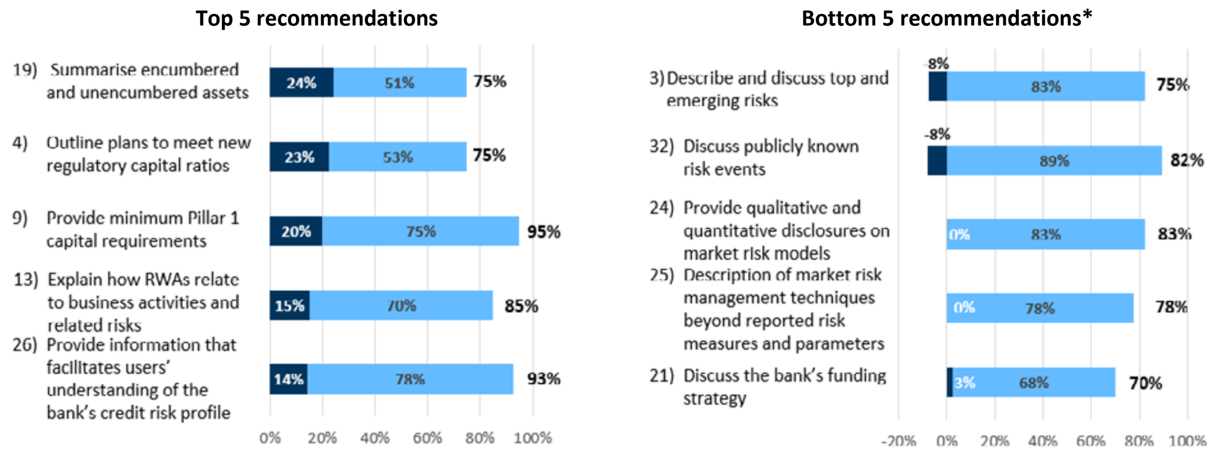
Exhibit 4: Implementation of EDTF Recommendations by Risk Area



After the release of the EDTF report in 2012, many banks noted challenges implementing recommendations with more granular quantitative components due to technology or reporting system limitations as well as extensive governance processes to approve new public disclosures. However, for the second year in a row, progress on quantitative disclosures has outpaced progress in qualitative disclosures. In the current survey, progress on quantitative disclosures exceeded progress on qualitative disclosures by a margin of 6%. This progress may be attributed both to closer communication between the User Group and banks and to the additional time that banks have had to develop and implement these disclosures. Notably, banks made progress on recommendations that investors have identified as being critical. For instance, Recommendation 19, which calls for banks to summarise encumbered and unencumbered assets, increased 26% from 2012 to 2013 reports and an additional 24% from

2013 to 2014 reports. Exhibit 5 shows the recommendations with the highest and lowest year-over-year- progress.

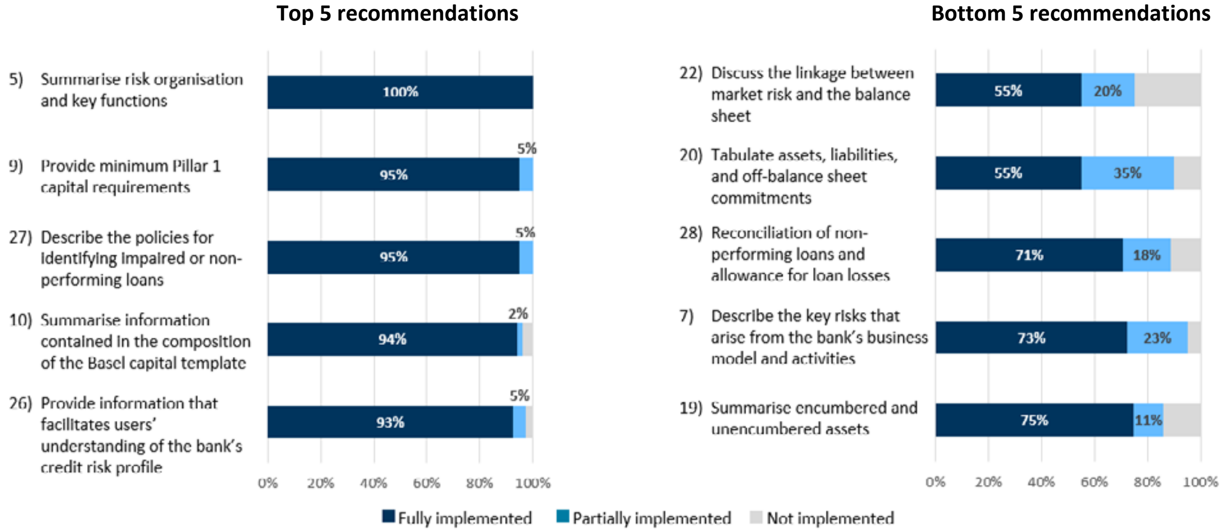
Exhibit 5: Highest and Lowest Year-over-Year Progress, by Recommendation



Implementation rates for recommendations with multiple parts are averaged
** Considers only recommendations with less than 85% implementation rate as progress was necessarily smaller for recommendations that had been implemented almost fully in the prior survey*

Although outpaced by increases in quantitative disclosure implementation in 2013 and 2014, qualitative disclosures are still more widely implemented (80% vs. 86%, respectively). Disclosures relating to risk governance (88%) and other risks (87%) are the most widely adopted disclosure categories based on banks' self-assessments. As shown in Exhibit 6, four of the five most widely implemented recommendations are qualitative in nature, while four of the five least implemented recommendations are quantitative. For the two recommendations that remain below 70%, banks have cited challenges quantitatively linking market risk to the balance sheet and income statement (Rec 22) or conflicts between the EDTF recommendation and the IFRS undiscounted contractual maturity table for liabilities (Rec 20). Banks have indicated that they will continue to make progress on Recommendation 22.

Exhibit 6: Highest and Lowest Implementation Rates, by Recommendation



Implementation rates for recommendations with multiple parts are averaged

User Review

Scope of Work and Approach

One of the unique features of the EDTF has been the active participation of a range of investor and analyst users of the financial information published by banks. Consistent with that approach, a User Group composed of debt and equity analyst members of the EDTF from buy-side and sell-side firms, as well as rating agencies and investor groups, assessed banks' disclosures considering both the 'letter' of the recommendations as well as the 'spirit' in which they were developed.

The User Group focused its review in 2015 on recommendations relating to credit risk. Users recognized that the introduction of a new Expected Credit Loss (ECL) approach to provisioning by the International Accounting Standards Board and the approach expected to be announced by the U.S. Financial Accounting Standards Board will have a significant impact on banks' credit risk reporting in the coming years. With this in mind, the User Group review was done with a more critical focus on banks credit risk disclosures with Users noting that significant opportunity remains for banks to improve credit risk disclosures before the transition to the new standards. This review also focused on identifying leading practice credit risk disclosures under current accounting standards.

The full list of credit risk recommendations[8] reviewed by the User Group in 2015 is shown below.

Credit Risk Recommendations Reviewed by the User Group in 2015	
26a	Provide information that facilitates users' understanding of the bank's credit risk profile, including any significant credit risk concentrations. This should include a quantitative summary of aggregate credit risk exposures that reconciles to the balance sheet.
26b	Including detailed tables for both retail and corporate portfolios that segments them by relevant factors.
26c	The disclosure should also incorporate credit risk likely to arise from off-balance sheet commitments by type.
27	Describe the policies for identifying impaired or non-performing loans, including how the bank defines impaired or non-performing, restructured and returned-to-performing (cured) loans as well as explanations of loan forbearance policies.
28a	Provide a reconciliation of the opening and closing balances of non-performing or impaired loans in the period and the allowance for loan losses.
28b	Disclosures should include an explanation of the effects of loan acquisitions on ratio trends, and qualitative and quantitative information about restructured loans.
29	Provide a quantitative and qualitative analysis of the bank's counterparty credit risk that arises from its derivatives transactions. This should quantify notional derivatives exposure, including whether derivatives are over-the-counter (OTC) or traded on recognised exchanges. Where the derivatives are OTC, the disclosure should quantify how much is settled by central counterparties and how much is not, as well as provide a description of collateral agreements.
30	Provide qualitative information on credit risk mitigation, including collateral held for all sources of credit risk and quantitative information where meaningful. Collateral disclosures should be sufficiently detailed to allow an assessment of the quality of collateral. Disclosures should also discuss the use of mitigants to manage credit risk arising from market risk exposures (i.e. the management of the impact of market risk on derivatives counterparty risk) and single name concentrations.

[8] The recommendations from the EDTF report issued in October 2012 are reproduced in Appendix 1.

It should be noted that the User Group continues to view all EDTF recommendations as important, particularly the eighteen recommendations reviewed in prior years. The User Group did not repeat its review of all of the recommendations reviewed in prior years in order to focus on providing incremental guidance to banks for new recommendations that had not been reviewed before.

Each bank's self-assessment of the five credit risk recommendations was reviewed in detail by at least two members of the User Group. Differences in the individual reviewers' assessments were discussed before a final User Group assessment was established. In forming their assessment, the User Group considered the fundamental principles in the EDTF report, specifically those of relevance and comparability. In addition, reviewers focused on whether each disclosure improved their understanding of the institution. In short, the User Group considered whether the disclosures met their expectations as to the nature, quantity, quality and granularity of information.

Finally, in response to feedback received from banks, the User Group provided all survey participants with a draft of their assessments to ensure that each bank understood how Users reviewed their disclosures and to enable banks to provide references to any disclosures that members of the User Group were unable to locate. This outreach effort resulted in a number of changes to the User Group assessments.

<u>Leading Practice Credit Risk Disclosures</u>

For each of the EDTF recommendations related to credit risk, members of the User Group identified criteria essential for the disclosures to be considered Fully Implemented as well as additional elements which they considered Leading Practice. This feedback is summarised below and Appendix 4 highlights specific Examples of Leading Practice for each EDTF recommendation that may serve as a useful template for banks seeking to enhance their quantitative and qualitative credit risk disclosures.

26. Provide information that facilitates users' understanding of the bank's credit risk profile, including any significant credit risk concentrations. This should include a quantitative summary of aggregate credit risk exposures that reconciles to the balance sheet, including detailed tables for both retail and corporate portfolios that segments them by relevant factors. The disclosure should also incorporate credit risk likely to arise from off-balance sheet commitments by type.

Fully Implemented disclosures included granular breakouts of credit risk concentrations both on- and off-balance sheet, including breakouts:

- By product type and geography (more granular than Basel Corporate / Retail categories, by country not continent)
- By credit quality (FICO or similar measure for retail, LTV / DSCR for real estate, average internal or agency rating for commercial)
- By performing status (aging of non-performing loans, restructured loan and re-default tables, charge-off rates)

In addition to quantitative data, Users looked for succinct management commentary explaining key concentrations, changes during 2014 and associated risk management strategies. Leading practice disclosures of off-balance sheet exposures included breakouts of lending commitments by line of business and maturity, related provisions and reserves, as well as non-lending commitments and contingent liabilities.

27. Describe the policies for identifying impaired or non-performing loans, including how the bank defines impaired or non-performing, restructured and returned-to-performing (cured) loans as well as explanations of loan forbearance policies.

Fully Implemented disclosures included specific definitions of non-performing loans (NPLs) as well as policies for returning NPLs and restructured loans to performing status. Users noted that some banks did not define key NPL thresholds (e.g. days-past-due cut-off thresholds, impact of collateral in defining impairment) and several banks did not include specific details about forbearance policies such as criteria for borrowers to be eligible for forbearance.

28. Provide a reconciliation of the opening and closing balances of non-performing or impaired loans in the period and the allowance for loan losses. Disclosures should include an explanation of the effects of loan acquisitions on ratio trends and qualitative and quantitative information about restructured loans.

Fully Implemented disclosures provided granular flows of gross impaired loans and related allowances by major product line, including:

- inflows and outflows for Impaired Loans (Gross NPLs)
- provisions, including specific and collective allowances as well as provisions for lending commitments
- Impaired loans by geographic region, commercial/consumer
- Similar breakouts for allowances and provisions (e.g. by product line and geography)

Several banks noted immaterial volumes of acquired loans, suggesting that the impact of loan acquisitions on non-performing loan ratio trends was also immaterial. Leading practice disclosures explicitly noted the impact that acquired and restructured loans had on non-performing loan ratios, including such ratios excluding the impact of acquired, restructured and government-guaranteed loans, though such breakouts were not expected for banks that have not acquired meaningful loan volumes in recent years. Leading practice disclosures also provided performance and re-default details for restructured loans. Users considered Recommendation 28b to be Partially Implemented when banks did not quantify the volumes or key characteristics of restructured loans.

29. Provide a quantitative and qualitative analysis of the bank's counterparty credit risk that arises from its derivatives transactions. This should quantify notional derivatives exposure, including whether derivatives are over-the-counter (OTC) or traded on recognised exchanges. Where the derivatives are OTC, the disclosure should quantify how much is settled by central counterparties and how much is not, as well as provide a description of collateral agreements.

Fully Implemented disclosures separated gross notional derivatives exposures by counterparty and type:

- Over-the-counter (cleared / not cleared) vs exchange-traded
- Rates / Foreign Exchange / Credit / Equity derivatives
- By purpose (banking book, trading book)

While members of the User Group recognize the utility of breaking out derivatives by market value rather than by gross notional exposure, they did not consider disclosures which provided only the netted market values of derivatives to be Fully Implemented for three reasons: 1) providing market values only does not enable comparison across institutions due to different netting rules under US GAAP and IFRS; 2) valuation of bilateral, over the counter derivatives can vary between banks even under the same accounting regime; 3) the original EDTF recommendation specified that banks should quantify notional derivatives exposure. Several banks presented their derivatives exposures on a market value basis as well as on a gross notional basis. Leading practice disclosures provided fair value in addition to gross and net notional outstanding and provided a qualitative overview of the bank's approach to counterparty credit risk management for derivatives, including collateral agreements. Several banks also broke out derivatives by maturity bucket.

It should be noted that this recommendation was reviewed last year and the User Group noted that banks should provide a detailed breakdown of derivatives usage between over-the-counter and exchange-traded or cleared through central counterparties along with a description of collateral agreements; however, members of the User Group did not see incremental improvement in such disclosure in 2014 Annual reports.

30. Provide qualitative information on credit risk mitigation, including collateral held for all sources of credit risk and quantitative information where meaningful. Collateral disclosures should be sufficiently detailed to allow an assessment of the quality of collateral. Disclosures should also discuss the use of mitigants to manage credit risk arising from market risk exposures (i.e. the management of the impact of market risk on derivatives counterparty risk) and single name concentrations.

Fully Implemented disclosures were sufficiently detailed to allow an assessment of the quality of collateral, including:

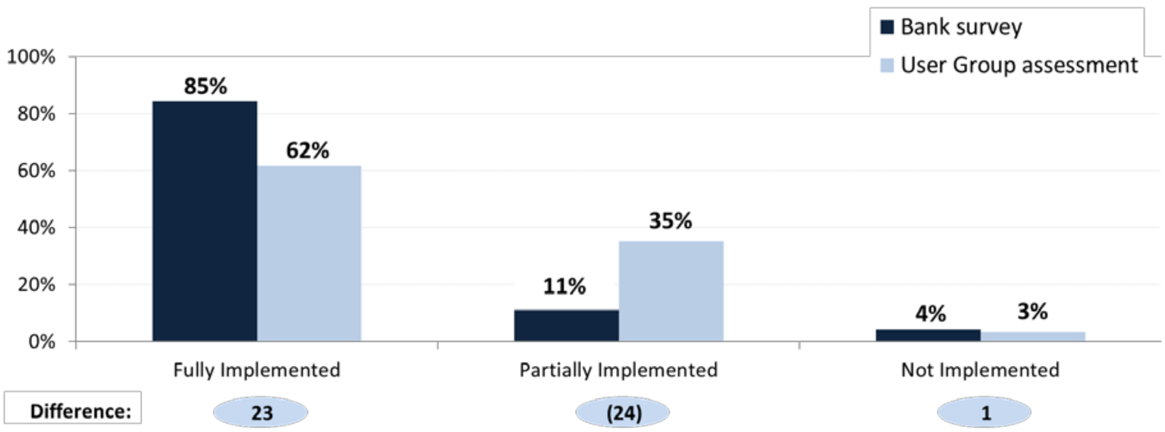
- Clearly defined standards for acceptable collateral (securities, loans), with quantification of material divergence from those standards
- Quantification of collateral credit quality by credit rating or internal grade
- Cover values or Loan-to-value ratios by product type

Leading practice disclosures discussed the bank's credit risk mitigation policies and standards in a single section rather than within the text in different sections of the report.

Comparative Results of the User Group review

The User Group assessed 97% of banks' credit risk disclosures as either Fully (62%) or Partially Implemented (35%) across all forty of the banks that participated in the survey this year, though a gap persists between banks' self-assessments and the assessments of the User Group. Banks reported that they had Fully Implemented 85% of credit risk recommendations compared to the User Group assessment of 62%, a difference of 23 percentage points between the two reviews.

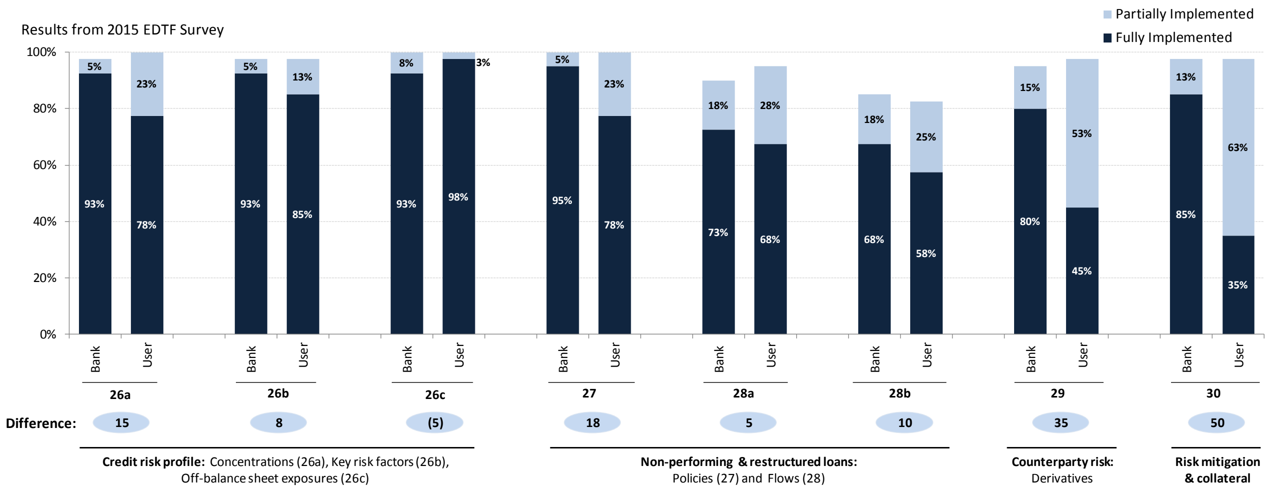
Exhibit 7: Comparison of bank and User Group Credit Risk assessments



By Recommendation

Users generally agreed with banks about disclosures of credit risk exposures related to on-balance sheet lending activities, but a significant gap exists for disclosures about derivatives and off-balance sheet exposures. Most banks provided information to facilitate Users' understanding of the credit risk in their banking books and investment portfolios (concentrations by industry and geography, LTV and internal ratings distributions, etc.), but Users found that fewer than half of banks provided quantitative information about restructured loans (Rec 28b), counterparty credit risk from derivatives transactions (Rec 29) or details about the composition of collateral held (Rec 30). Differences in disclosures for these recommendations drove the bulk of the difference in Users' and banks' assessments (see Exhibit 8).

Exhibit 8: User Group Assessment by Recommendation



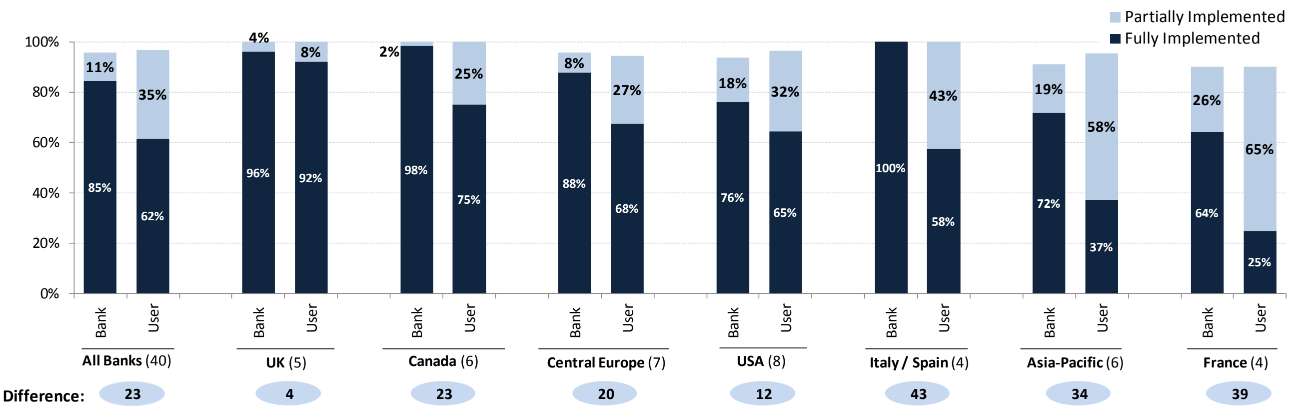
Modest progress made since prior survey

Two of the recommendations reviewed by the User Group this year had been evaluated in prior years. The User Group evaluated progress made by participating banks between the 2013 and 2014 Annual Reports and found that few banks made meaningful improvements to these disclosures. The User Group assessed 68% of banks as having Fully Implemented Recommendation 28a (non-performing loan reconciliation), up four percentage points from last year's review – i.e. two additional banks improved from Partially Implemented to Fully Implemented this year. The User Group recognized ten percentage points of improvement for Recommendation 28b (Impact of loan acquisitions on ratio trends; information about restructured loans) with 58% of banks having Fully Implemented the recommendation in 2014 annual reports. Full implementation of Recommendation 29 (Counterparty risk from derivatives) improved four points year-on-year, rising from 41% in 2013 to 45% in 2014 annual reports.

By Country / Geography

The User Group noted that implementation rates for credit risk disclosures vary significantly across countries. The User Group assigned the highest implementation rates to banks in the U.K. (92%), Canada (75%), Central Europe (68%) and the U.S. (65%) and the difference between the User Group and bank assessments was smallest in these regions. The majority of the 23 point difference between the User Group and bank assessments in Canada was due to Recommendation 30, which members of the User Group considered Partially Implemented because Canadian banks' 2014 disclosures did not specifically discuss the credit quality of collateral (20 out of the 23 point difference). Users noted that banks in the U.S. provide strong credit risk disclosures in general, but that several of the largest U.S. institutions have not addressed specific aspects of the EDTF credit risk recommendations such as a summary of the credit quality of collateral held or the use of mitigants to manage credit risk arising from market exposures.

Exhibit 9: Comparison of Bank and User Group Assessments for Credit Risk by Geography



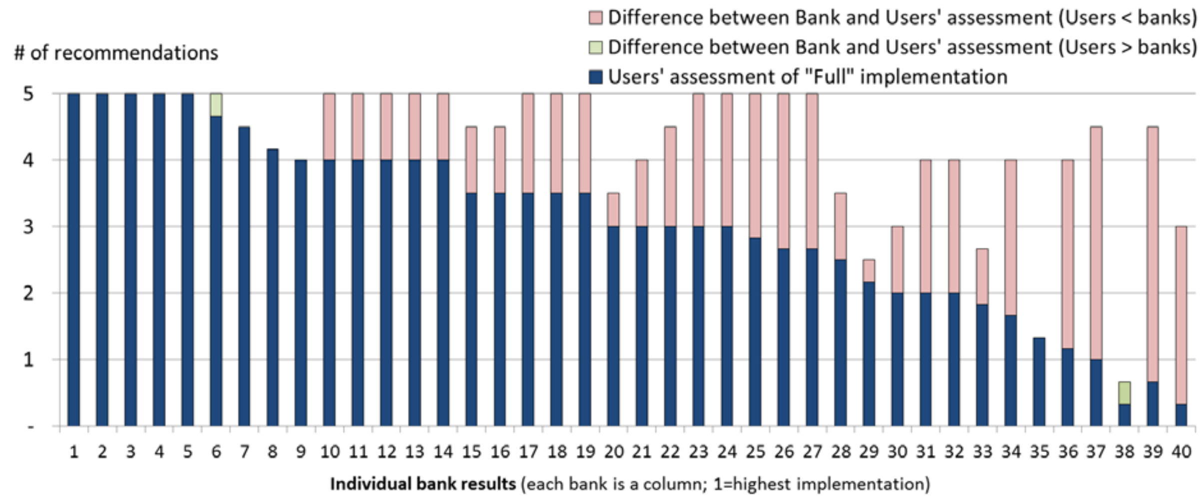
Central Europe includes Germany, the Netherlands, Sweden and Switzerland. **Asia-Pacific** includes Australia, China, Japan, Singapore.

By contrast, in those geographies where the regulatory involvement has been less explicit (e.g. Australia, France, Italy, Spain) or where adoption of the EDTF is more recent (e.g. China, Japan), implementation rates are lower and differences between the Bank and User assessments are wider. Exhibit 9 shows that the User Group assigned lower implementation rates to banks in France (25%), Asia-Pacific (37%) and Italy / Spain (58%) with the widest differences between the User Group and bank assessments in Italy / Spain (43%), France (39%) and Asia-Pacific (34%). Members of the User Group highlighted additional opportunities for banks in Asia-Pacific, France, Italy and Spain and the U.S. to accelerate implementation of the EDTF recommendations in the coming years in advance of the implementation of IFRS9 / CECL. Appendix 4 of this report highlights specific Examples of Leading Practice for each EDTF recommendation that may serve as a useful template for banks seeking to enhance their quantitative and qualitative credit risk disclosures.

Bank by bank comparison

Exhibit 10 below shows, on a bank-by-bank basis, the number of recommendations the User Group assessed as being Fully Implemented as well as the gap between banks' and Users' views. The results are presented in decreasing order of number of disclosures assessed by the User Group as Fully Implemented.

Exhibit 10: Comparison of Bank and User Group Assessments, Ranked by User Assessment



The average difference in the number of recommendations categorised as Fully Implemented between the Users' and Banks' assessments was 1.2 out of 5 recommendations (24% difference). As noted above, the User Group has shared its preliminary assessment with each of the 40 participating banks and has discussed the results with over a dozen banks to clarify the User Group's evaluation criteria and expectations. This outreach effort resulted in a number of changes to the User Group's initial assessments.

Implementation continues to vary considerably across individual banks. Eighteen banks assessed themselves as having Fully Implemented all credit risk recommendations, though the User Group agreed with only five of these banks. Over half of banks (24 of 40) were assessed to have Fully Implemented at least three of the recommendations while eight banks were assessed to have Fully Implemented fewer than two recommendations. There were two instances where the User Group assessment exceeded the Bank assessment (in green), including one instance where the User Group considered the bank to have Fully Implemented all credit risk recommendations.

Drivers of Differences in Assessment

Members of the User Group identified the following drivers for the differences between the banks' self-assessments and the User Group review:

- **Differences in interpretation of the EDTF recommendations:** Although the original EDTF recommendations were published over three years ago in October 2012, the User Group had not specifically reviewed all of the credit risk recommendations with banks in prior years. Consequently, some banks' disclosures did not provide the depth of information expected by the EDTF. For example, in Recommendation 27 (Policies for non-performing and restructured loans), several banks noted that they believed that they had Fully Implemented the recommendation by providing general descriptions of non-performing loan categories and restructuring policies, but members of the User Group noted that such qualitative descriptions are of limited value when comparing banks across countries and over time. To be considered Fully Implemented, such policies should provide specific details such as days-past-due cut-off thresholds, the impact of collateral in defining impairment, criteria for restructured loans to be considered performing, etc. Over time, the User Group would expect such gaps to narrow through ongoing dialogue between banks and Users.

- **Users' demand for quantitative disclosures:** The User Group required quantitative disclosures for certain recommendations to be considered Fully Implemented in cases where such disclosure is crucial to users' understanding of the bank's credit risk exposure. This was especially true for this year's review given the User Group's focus on credit risk disclosures given the upcoming changes in ECL accounting standards and disclosures For example, in Recommendation 30, the User Group expected banks to provide information that is "sufficiently detailed to allow an assessment of the quality of collateral". Several banks received Fully Implemented credit by defining explicit collateral guidelines by line of business even if they did not provide a quantitative breakout of collateral credit quality. Over a quarter of banks did provide such quantification. The User Group agrees that it set a high bar, but notes that without some level of quantification such disclosures are less useful to investors

- **Immateriality:** Some banks noted that certain EDTF disclosures are not material to their business. The User Group considered a lack of disclosure in such cases to be Not Implemented unless the bank explicitly noted that such exposures were immaterial. For example, on Recommendation 28b (Impact of loan acquisitions on ratio trends), several banks noted in their annual reports that they had not made any material loan acquisitions and that the impact of acquired loans was not material to their non-performing loan ratios. The User Group noted that it is important for banks to disclose when they have no material exposure in a particular area as such information can be very helpful for analysts to remove any doubt.

Conclusions

As in prior years, the User Group members of the EDTF would like to recognise the significant effort that many banks have made in implementing the recommendations in the report. The User Group and the broader analyst community recognise these efforts and greatly value the resulting enhancements to the disclosures.

The User Group encourages banks to be mindful of the reasons behind the specific EDTF recommendations and the fundamental principles in the EDTF report including, but not limited to, relevance and comparability. The EDTF acknowledges the tensions between the fundamental principles and understands that there will always be a need to strike a balance between presenting the views of management and enabling comparability across banks. A constructive dialogue between preparers and investors will be essential to improving this balance to the benefit of all interested parties.

Members of the User Group and the broader investor community continue to expect banks that access equity or debt markets, including smaller banks and subsidiaries of listed banks, to adopt the EDTF recommendations that are considered relevant to them. Investors will benefit from a greater understanding of risks and their mitigation within group structures, particularly where securities are issued by subsidiaries or holding companies with conversion or bail-in terms. Understanding group structures and the specific risks arising within subsidiaries is likely to become increasingly relevant as recovery and resolution and ring-fencing initiatives are finalised and application of the EDTF principles and recommendations in the context of such structures will become increasingly important.

Supporting Materials

Appendix 1: EDTF Recommendations

Appendix 2: Members of the Enhanced Disclosure Task Force

Appendix 3: Summary of Bank Survey and User Group Assessments (separate document)

Appendix 4: Leading Practice Examples of EDTF Recommendations (separate document)

The EDTF has compiled a set of leading practice examples for each of the thirty two EDTF recommendations based on references to 2014 Annual reports and Pillar 3 disclosures shared by participating banks.

It is important to note that risk disclosures are complex and that presentation necessarily differs across institutions. The examples selected are meant to highlight instances of high quality disclosures that align to EDTF recommendations and are not meant to be exclusive or comprehensive.