

Press release

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FSB publishes peer review of risk disclosure practices in respect of exposures to structured credit products

The Financial Stability Board (FSB) published today a thematic peer review report of risk disclosure practices by financial institutions in FSB member jurisdictions in respect of exposures to structured credit products.

The recent financial crisis highlighted the importance to market confidence of firms making clear disclosures of their exposures to risks. The Financial Stability Forum (predecessor to the FSB) recommended, in its report on *Enhancing Market and Institutional Resilience* published in April 2008, improvements in disclosures about structured credit products and certain other risk exposures that were of concern to market participants in 2008.

This FSB report reviews both financial institutions' public disclosures of these risk exposures as well as the actions undertaken by FSB member jurisdictions and the private sector participants to enhance disclosure practices. The review finds that FSB member jurisdictions have successfully prompted financial institutions to improve their disclosure of exposures to structured credit products. Most FSB members have also taken steps to implement enhanced Pillar 3 disclosures regarding securitisation and related exposures published by the Basel Committee on Banking Supervision in July 2009. More generally, standard setting bodies have improved their disclosure requirements for financial institutions in these areas in the wake of the financial crisis.

Although firms' compliance with the FSF's recommended risk disclosures has generally been good, the quality of public risk disclosures varies across institutions and jurisdictions and there remains room for improvement. In particular there is room to improve disclosures on: 1) the descriptions of the use and objectives of special purpose entities (SPEs) used for securitisation; 2) off-balance sheet exposures of SPEs; 3) exposures both before and after hedging; and 4) the level of detail and granularity of the sensitivity analysis of securitisation exposures measured at fair value.

The level of external audit assurance provided on risk disclosures typically varies depending on whether the disclosures are made in financial statements, Pillar 3 reports, or management analyses in financial reports or websites, and practice varies on how that level of assurance is disclosed. The FSB recommends that the International Auditing and Assurance Standards Board review whether further guidance is needed in this area.

The FSB also recommends that banks improve their Pillar 3 disclosure practices, including by better aligning the publication of their Pillar 3 disclosures with the publication date of financial reports. They should also enable users to better compare these different types of disclosures.

The report urges follow-through on the earlier FSF recommendation that the financial industry, investors, and auditors work together to provide risk disclosures that are most relevant as

market conditions evolve, by developing principles and identifying leading disclosure practices. Tiff Macklem, Chairman of the FSB's Standing Committee on Standards Implementation, said that "the private and official sector should work together to develop principles for useful risk disclosures, and to develop leading practice disclosures". He added that "the risk exposures of current interest to markets would include: 1) concessional loan restructurings, 2) exposures to sovereign debt and to other financial institutions and 3) liquidity and funding positions".

The FSB, drawing upon its members' expertise, intends to periodically evaluate emerging risks and vulnerabilities and make recommendations as needed to enhance risk disclosures by financial institutions. Efforts involving international standard setting bodies and joint private sector initiatives will in many cases be the most appropriate manner to take those recommendations forward.

Mario Draghi, Chairman of the FSB, said "We welcome the swift actions taken by FSB members' authorities in 2008 and 2009 to promote improved risk disclosures on structured credit exposures". He added: "However, the peer review also identified areas where risk disclosures should be further improved. The FSB will organise a roundtable later this year to encourage improvements in risk disclosures."

Notes to editors

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The FSB began a regular programme of peer reviews in 2010, consisting of thematic reviews and country reviews. Two thematic peer review reports are being published today - the other report (covered by a separate press release) is a peer review of mortgage underwriting and origination practices. The reviews published before today comprise a thematic review on compensation and country reviews of Mexico, Spain and Italy. Thematic peer reviews focus on implementation of international financial standards, policies agreed within the FSB or, where such standards or agreed policies do not exist, a stock taking of existing practices in the policy area. The objectives of the reviews are to encourage consistent cross-country and cross-sector implementation, to evaluate the extent to which standards and policies have had their intended results and, where relevant, to make recommendations for potential follow up by regulators, supervisors and standard setters. They provide an opportunity for FSB members to engage in dialogue with their peers and to share lessons and experiences.

This report describes the findings of the thematic review on risk disclosure practices, including the key elements of the discussion in the FSB Standing Committee on Standards Implementation (SCSI). The draft report for discussion was prepared by a team of experts drawn from FSB member institutions and led by Ms Shyamala Gopinath, Deputy Governor of the Reserve Bank of India. In addition to information provided by FSB members, the review benefited from input from investors, standard setters, financial institutions and other stakeholders on practical experiences regarding risk disclosures, and from discussion in the FSB SCSI and in the FSB Plenary.

The next thematic peer review will follow up on the March 2010 review of compensation and will assess the progress made by national authorities and significant financial institutions in implementing the FSB *Principles for Sound Compensation Practices* and their

Implementation Standards. The report will be published in the third quarter of 2011, following approval by the FSB Plenary.

The FSB is chaired by Mario Draghi, Governor of the Bank of Italy. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.