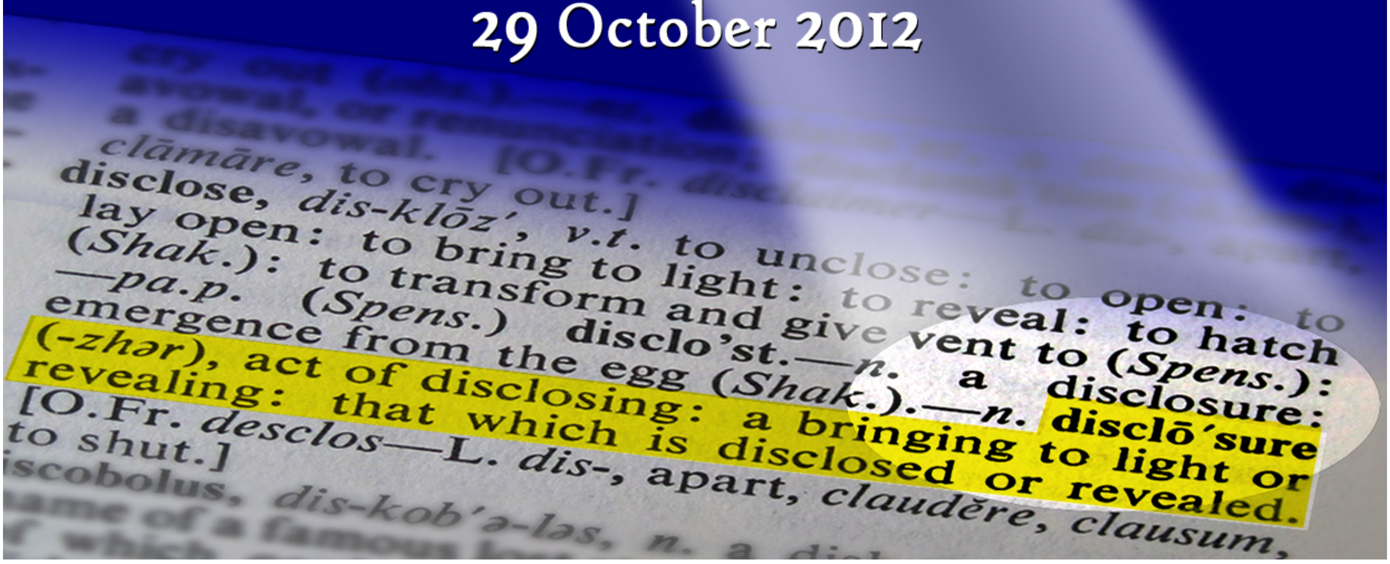
# Enhancing The Risk Disclosures Of Banks

Report of the

**Enhanced Disclosure Task Force**

(Version excluding Appendix B)

29 October 2012



# ENHANCED DISCLOSURE TASK FORCE

29 October 2012

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

Dear Mr. Carney,

On behalf of the Enhanced Disclosure Task Force (EDTF), we are pleased to present you with our report, *Enhancing the Risk Disclosures of Banks*.

The EDTF was established at a critical time for the global financial system. Investors' faith in banks and their business models has yet to be restored in the wake of the global financial crisis. Rebuilding investors' confidence and trust in the banking industry is vital to the future health of the financial system – and responding to their demands for better risk disclosures is an important step in achieving that goal.

International regulators and standard setters, as well as individual banks and groups thereof, have made efforts to improve banks' risk disclosures. Our report is different because it is the product of a unique collaboration between users and preparers of financial reports. It has benefited greatly from the collective expertise of asset management firms, investors and analysts, global banks, credit rating agencies and external auditors and, as a result, it focuses on areas where investors seek better information about banks' risks and the banks agree that improvements to their risk disclosures are needed.

Our report identifies seven fundamental principles for enhancing the risk disclosures of banks. These principles provide a firm foundation for developing high-quality, transparent disclosures that clearly communicate banks' business models and the key risks that arise from them. As well as underpinning the recommendations in our report, we believe that the principles provide an enduring framework for future work on risk disclosures and a benchmark by which banks can judge the quality of their current and future disclosures.

The recommendations in our report arise from the collaborative efforts of the diverse EDTF membership and are the result of significant discussion, deliberation and debate. Our recommendations are not meant to suggest that current disclosure requirements are inadequate or that banks are not applying such requirements properly. Rather, they enhance existing requirements to better meet users' needs. While the recommendations cover all areas of risk, we highlight those areas where users have expressed particular concern and where enhanced risk disclosures could be especially helpful. Specifically, our recommendations should enable users to better understand the following key areas:

- a bank's business models, the key risks that arise from them and how those risks are measured;
- a bank's liquidity position, its sources of funding and the extent to which its assets are not available for potential funding needs;
- the calculation of a bank's risk-weighted assets (RWAs) and the drivers of changes in both RWAs and the bank's regulatory capital;

- the relationship between a bank's market risk measures and its balance sheet, as well as risks that may be outside those measures; and
- the nature and extent of a bank's loan forbearance and modification practices and how they may affect the reported level of impaired or non-performing loans.

We also highlight a number of examples of leading or best practice disclosures to assist banks in adopting the recommendations in this report, and provide illustrations of particular instances where investors have suggested that consistency of presentation would improve their understanding of the disclosed information and facilitate comparability among banks.

The fundamental principles are applicable to all banks. However, we have developed the recommendations for enhanced risk disclosures with large international banks in mind, although they should be equally applicable to banks that actively access the major public equity or debt markets. We believe that many of the recommendations may be adopted in 2012 or 2013. However, some recommendations, especially those affected by the timing of regulatory pronouncements, will take longer to develop and implement so we envisage enhancements to risk disclosures continuing after 2013. We would expect that smaller banks and the subsidiaries of listed banks will adopt only those aspects of the recommendations that are relevant to them.

We believe that the adoption of the recommendations in this report can make a significant and enduring contribution to restoring investors' confidence and trust in the risk disclosures of banks. However, the ultimate success of this report will be judged on the willingness of large international banks to enhance their risk disclosures proactively by implementing our recommendations.

We understand that the Basel Committee on Banking Supervision is reviewing its Pillar 3 disclosure requirements for banks and that other standard setting bodies are undertaking work related to the risk areas discussed in this report. We hope that our report will inform their processes in a practical manner.

We would like to express our gratitude to all EDTF members and the secretariat, Del Anderson, Liz Figgie and Sondra Tarshis, for their extraordinary contribution and commitment to this report. In addition to those directly involved with the EDTF work, we wish to thank Gerald A. Edwards, Jr. and Hirotaka Inoue of the FSB Secretariat for their participation in the EDTF meetings and their involvement in bringing the report to completion. We would also like to thank the Financial Stability Board for its encouragement and support of the EDTF's work.

Sincerely,

Hugo Bänziger　　Russell Picot　　Christian Stracke

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## Appendices

# 1. Background

It has been five years since the beginning of the financial crisis and the public's trust in financial institutions has yet to be fully restored. Investors today are more sensitive to the complexity and opacity of banks' business models and credit spreads for financials remain persistently higher than for similarly-rated corporates. Moreover, in some markets, banks still need significant liquidity support from the public sector. Many banks are now trading at market values below their book values, which is in marked contrast to the past. Investors and other public stakeholders are demanding better access to risk information from banks; information that is more transparent, timely and comparable across institutions.

In response, international regulators and standard setters have taken a range of steps to improve the quality and content of the financial disclosures of banks, including initiatives by the Financial Stability Board (FSB)[1] in 2011 and the Senior Supervisors Group[2] in 2008. Banks have also made efforts to improve disclosures, both individually and collectively.[3] This report differs in one crucial respect: it has been developed among private sector stakeholders as a joint initiative representing both users and preparers of financial reports. By bringing together the perspectives of leading global banks, investors, analysts and external auditors, this report seeks to establish a benchmark for high-quality risk disclosures, with specific emphasis on enhancements that can be implemented in the short term, particularly in 2012 and 2013 annual reports.

High-quality risk disclosures should be viewed as a collective public good given the systemic importance of banks and the contingent liability they represent for taxpayers. Poor quality disclosures can result in higher uncertainty premiums, and this can undermine the extension of credit needed to support employment and productive investments in struggling economies, and affect its price.

Disclosures that describe risks and risk management practices transparently help to build confidence in the firm's management, which is particularly important in attracting debt and equity investors and may in turn support higher equity valuations. By enhancing investors' understanding of banks' risk exposures and risk management practices, high-quality risk disclosures may reduce uncertainty premiums and contribute to broader financial stability. For well-managed firms, the benefits of proactively enhancing risk disclosures are clear.

[1] Financial Stability Board, *Thematic Review on Risk Disclosure Practices: Peer Review Report,* March 2011.
[2] Senior Supervisors Group, *Report on Leading-Practice Disclosures for Selected Exposures*, April 2008.
[3] For example, *Industry Good Practice Guidelines on Pillar 3 Disclosure Requirements for Securitisation* published in December 2008 by the European Banking Federation, the London Investment Banking Association, the European Savings Banks Group and the European Association of Public Banks and Funding Agencies or *Risk disclosure: Principles and Case Studies* published by Eurofi in March 2012.

## 2. Objectives and process

The Enhanced Disclosure Task Force (EDTF) was established by the FSB in May 2012 following an FSB roundtable in December 2011 of eighty-two senior officials and experts from around the world. The roundtable outlined broad goals for improving the quality, comparability and transparency of risk disclosures, while reducing redundant information and streamlining the process for bringing relevant disclosures to the market quickly.

With the goal of improving the risk disclosures of banks and other financial institutions, the primary objectives of the EDTF were to:

i. develop fundamental principles for enhanced risk disclosures;
ii. recommend improvements to current risk disclosures, including ways to enhance their comparability; and
iii. identify examples of best or leading practice risk disclosures presented by global financial institutions.

Membership of the EDTF had wide geographical representation and included senior executives from leading asset management firms, investors and analysts, global banks, credit rating agencies and external auditors. To organise its work and the resulting recommendations, the EDTF established six workstreams reflecting banks' primary risk areas, and each task force member was allocated to a workstream so that they comprised both users and preparers of financial reports. The workstreams were as follows:

i. risk governance and risk management strategies/business model;
ii. capital adequacy and risk-weighted assets;
iii. liquidity and funding;
iv. market risk;
v. credit risk; and
vi. other risks.

Each workstream analysed current disclosures in its risk area by reviewing a sample of banks' recent annual and interim reports, Pillar 3 reports and other publicly available information, such as media releases and presentations to investors.[4] On the basis of that analysis, and following extensive discussion among its members, each workstream developed recommendations for enhancing disclosures in its respective risk area, and presented them to the EDTF plenary for further consideration.

The task force had plenary meetings in London, New York, Singapore and Frankfurt, and held two additional meetings by telephone. During those meetings, the EDTF thoroughly debated and challenged each recommendation proposed by the workstreams. As a result, the recommendations in this report represent the collective views and expertise of the EDTF membership.

Also, at key stages in its work, the Co-chairs of the EDTF engaged in dialogue with securities and banking regulators and supervisors, accounting standard-setters, banking associations and other stakeholder organisations located in Europe, North America, Latin America, the Middle East and Asia. Minutes of these meetings were circulated to EDTF members and, during the plenary meetings, the Co-chairs gave oral accounts of these stakeholder

[4] For example, each workstream reviewed between 12 and 25 annual or interim reports from 2011 and 2012.

organisations' views on risk disclosure issues, including any initiatives underway to address risk disclosure issues.

Prior to its finalisation, a draft of the report was circulated by the EDTF to key stakeholder organisations, including the International Banking Federation and the Institute of International Finance, and feedback was solicited on its content. Working within the EDTF's compressed timetable for providing comments, these international organisations expeditiously distributed the document to their respective memberships and provided the EDTF with invaluable feedback. The task force considered the input received from its extensive outreach programme as well as the views of the EDTF membership in the development and finalisation of this report.

## 3. Scope and other considerations

### Scope of the recommendations in this report

The fundamental principles are applicable to all banks. However, the EDTF has developed the recommendations for enhanced risk disclosures with large international banks in mind, although they should be equally applicable to banks that actively access the major public equity or debt markets. Some of the recommendations, therefore, are likely to be less applicable to smaller banks and subsidiaries of listed banks and the EDTF would expect such entities to adopt only those aspects of the recommendations that are relevant to them. This report was not specifically developed for other types of financial services organisations, such as insurance companies, though the fundamental principles and recommendations contained herein may provide some appropriate guidance.

Banks will need to continue to comply with the relevant securities laws and reporting requirements applicable to their activities, and will also need to assess any relevant confidentiality and other jurisdictional legal issues. In addition, all banks, including the large international ones, will need to assess factors specific to their circumstances such as the materiality, costs and benefits of each recommendation in this report. In making these assessments, banks should consider their users' needs and expectations and may wish to speak directly to their key stakeholders as they begin to implement changes. The EDTF acknowledges that existing jurisdictional differences in accounting and regulatory requirements may affect how banks implement the recommendations, and may make it difficult to achieve full comparability between banks across jurisdictions.

### Timing of implementation

The EDTF believes that many of the recommendations can be adopted in 2012 or 2013, for example, those that involve only the re-ordering or aggregation of existing disclosures in banks' reports to enable users to find and assimilate information more quickly, or those that are based on information that is already reported to management. However, other recommendations may take longer to develop and implement, particularly where banks need to create new systems and processes to ensure that the information required to support the enhanced disclosure is of high quality, and thus the EDTF envisages enhancements of the risk disclosures of banks continuing after 2013. The EDTF also recognises that banks have other commitments with similar timelines, such as implementing Basel II or Basel III and the Globally Systemically Important Banks (G-SIB) data template. Some of the recommendations are dependent on the finalisation or implementation of particular regulatory rules and, thus, cannot be adopted until then.

### Frequency of disclosures

This report has been produced in the context of the existing legal and regulatory requirements for banks' public reporting. Banks produce annual reports, which contain audited financial statements and management commentary (including risk commentary), and interim reports. Some banks also produce preliminary announcements before their annual or interim reports are available. Interim reports and preliminary announcements are intended to provide users with timely updates on the bank's last annual report. The recommendations do not suggest changing the requirements for interim reporting, which vary from market to market. However, the EDTF thinks that several areas in the report should be disclosed more frequently than in annual reports, and thus that more risk disclosures would be included in interim reports than is currently the case. Banks should consider whether their interim reports contain relevant risk information to support the financial information presented and whether such reports provide a sufficient update on top and emerging risks.

## Location of disclosures

In making its recommendations, the EDTF generally does not specify where any new disclosure should be made, nor does it suggest that banks change the current location of their reported information when adopting the enhancements. Banks should retain flexibility in what they choose to disclose in their annual reports and other filings, such as their Pillar 3 reports. However, the EDTF expects many of the detailed regulatory capital disclosures will remain in or will be added to the Pillar 3 report. Consistent with the FSB's recommendation in 2011[5], the task force advocates, as part of the fundamental principles, that annual reports and Pillar 3 reports should be published at the same time, and believes that this would provide users with complete and timely reporting across the key areas of interest.

It is not the intention of this report to create a checklist of all possible risk disclosures or to reproduce existing disclosure requirements set forth in accounting and regulatory standards.[6] Banks will need to assess the recommendations in this report in the light of how they apply the existing disclosure requirements in their jurisdictions. Indeed, those extensive existing requirements may contribute to both preparers' views that financial reporting is a compliance exercise and users' difficulties in navigating long annual reports. This can be a particular concern for international banks that must meet varying and sometimes overlapping disclosure requirements in different jurisdictions. As a result, some banks may question whether the benefits of increased transparency justify the additional investment in resources, management attention and the potential risks involved in making forward-looking statements. This report addresses these concerns by recommending ways for banks to communicate important disclosures to users more effectively and efficiently.

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[5] Financial Stability Board, *Thematic Review on Risk Disclosure Practices: Peer Review Report,* March 2011.

[6] For example, existing disclosure requirements can be found in IFRS 7 '*Financial Instruments: Disclosures*'; Basel Pillar 3 requirements as brought in, for example, by FSA BIPRU 11 in the UK; SEC Industry Guide 3; EU Accounting Directives as brought in, for example, by UK Companies Act 2006 section 417 and 7 Schedule; and Hong Kong listing rules appendix 16. In addition, there are other disclosure recommendations such as those set out in the Senior Supervisors Group April 2008 report.

# 4. Fundamental principles for risk disclosure

The EDTF has collectively identified seven principles for enhancing risk disclosures, which both underpin the recommendations set out in this report and provide an enduring framework for future work on risk disclosures. These principles provide a firm foundation from which to achieve transparent, high-quality risk disclosures that enable users to understand in an integrated manner a bank's[7] business and its risks, and the resultant effects on its performance and financial position.

The seven fundamental principles for enhanced risk disclosures are:

1. Disclosures should be clear, balanced and understandable.
2. Disclosures should be comprehensive and include all of the bank's key activities and risks.
3. Disclosures should present relevant information.
4. Disclosures should reflect how the bank manages its risks.
5. Disclosures should be consistent over time.
6. Disclosures should be comparable among banks.
7. Disclosures should be provided on a timely basis.

## Principle 1: Disclosures should be clear, balanced and understandable.

- Disclosures should be written with the objective of communicating information to a range of users (i.e. investors, analysts and other stakeholders) rather than simply complying with minimum requirements. The disclosures should be sufficiently granular to benefit sophisticated users but should also provide summarised information for those who are less specialised, along with clear signposting to enable navigation through the information. Disclosures should be organised so that key information and messages are prioritised and easy to find.

- There should be an appropriate balance between qualitative and quantitative disclosures, using text, numbers and graphical presentations. Fair and balanced narrative explanations should provide insight into the implications of the quantitative disclosures and any changes or developments that they portray.

- Disclosures should provide straightforward explanations for more complex issues. Descriptions and terms should fairly represent the substance of the bank's activities. Terms used in the disclosures should be explained or defined.

## Principle 2: Disclosures should be comprehensive and include all of the bank's key activities and risks.

- Disclosures should provide an overview of the bank's activities and its key risks. They should include a description of how the bank identifies, measures, manages and reports each risk, highlighting any significant internal or external changes during the reporting period and the key actions taken by management in response.

- Disclosures should include informative explanations of important processes and procedures – as well as underlying cultures and behaviours – that affect the bank's business and its risk generation or risk management. Disclosures of such items should

[7] In this report, the term 'bank' refers to the consolidated group, unless otherwise specified.

enable users to obtain an understanding of the bank's risk management operations and the related governance by the bank's board and senior management.

- When appropriate and meaningful, disclosures should be complemented with information about key underlying assumptions and sensitivity or scenario analysis. Such analysis should demonstrate the effect on selected risk metrics or exposures of changes in the key underlying assumptions, both in qualitative and quantitative terms.

**Principle 3: Disclosures should present relevant information.**

- The bank should provide disclosures only if they are material and reflect its activities and risks – and can be prepared without unreasonable cost. Accordingly, disclosures should be eliminated if they are immaterial or redundant. Disclosing immaterial information or information on situations that do not apply to the bank reduces the relevance of its disclosures and undermines the ability of users to understand them. However, when exposures receiving significant current market attention are either immaterial or non-existent, the bank should acknowledge this fact to reduce uncertainty among users. Moreover, banks should avoid generic or boilerplate disclosures that do not add value or do not communicate useful information.

- Disclosures should be presented in sufficient detail to enable users to understand the nature and extent of the bank's risks. Where period-end information may not be representative of the risks, consideration should be given to providing averages and high and low balances during the period. The type of information, the way in which it is presented and the accompanying explanatory notes will differ between banks and will change over time, but information should be reported at the level of detail that users need in order to understand the bank, its risk appetite, its exposures and the manner in which it manages its business and risks, including in stress conditions.

- The bank should explain its business model to provide context for its business and risk disclosures. In many cases, disclosures will focus on the consolidated group. However, understanding the risks relative to returns embedded in key operating subsidiaries and business divisions – and the way that risks are shared or assets, liabilities, income and costs are allocated across the group – can be key to users' understanding of the risks to which the group is exposed.

**Principle 4: Disclosures should reflect how the bank manages its risks.**

- Disclosures should be based on the information that is used for internal strategic decision-making and risk management by key management, the board and the board's risk committee. Approaches to disclosure should be sufficiently flexible to allow banks to reflect their particular circumstances in both narrative and quantitative terms.

- The bank should explain the risk and reward profile of its activities. Disclosures should be representative of risk exposures during the period, as well as at the end of the period.

- If disclosure of particularly commercially sensitive or otherwise confidential information would unduly expose the bank to litigation or other risks, the level of information provided will need to balance confidentiality and materiality. If material, a bank should assess what information should be provided to ensure users are aware of important issues without disclosing potentially damaging confidential details.[8]

[8] Please also see the considerations on scope set out in Section 3.

**Principle 5: Disclosures should be consistent over time.**

- Disclosures should be consistent over time to enable users to understand the evolution of the bank's business, risk profile and management practices. Core disclosures should not change dramatically but should evolve over time, allowing for inter-period comparisons.

- Changes in disclosures and related approaches or formats (e.g. due to changes in risk practices, emerging risks, measurement methodologies or accounting or regulatory requirements) should be clearly highlighted and explained. Presenting comparative information is helpful; however, in some situations it may be preferable to include a new disclosure even if comparative information cannot be prepared or restated.

**Principle 6: Disclosures should be comparable among banks.**

- Disclosures should be sufficiently detailed to enable users to perform meaningful comparisons of businesses and risks between different banks, including across various national regulatory regimes. Disclosures that facilitate users' understanding of the bank's exposures compared with its competitors are of particular importance in building users' understanding and confidence as well as reducing the risk of inappropriate comparisons.

**Principle 7: Disclosures should be provided on a timely basis.**

- Information should be delivered to users in a timely manner using appropriate media (e.g. annual and interim reports, websites, news releases, or regulatory reports). The bank should seek to release to the market all relevant and important risk-based information at the same time (e.g. the annual report and Pillar 3 disclosures). Equally important are regular updates of financial information; users need more frequent updates than just the annual report. This can be accomplished through various means and media; thus banks should endeavour to provide frequent updates to their users to ensure financial information remains up to date.

The EDTF acknowledges that in some cases there will be tension between two or more fundamental principles. For example, under Principles 4 and 5, disclosures are most useful if they provide information that reflects how the bank manages its risks and are consistent over time while, under Principle 6, disclosures should enable users to perform meaningful comparisons between banks. Similarly, there can be tension within a single principle. For example, Principle 1 states that disclosures should be clear, balanced and understandable, but users have differing views on the level of detail that is needed to achieve that objective. Even sophisticated users find that some granular disclosures, which may be provided to comply with particular regulatory or accounting requirements, are difficult to use or understand unless they are accompanied by summarised information. Tension may also arise if investors seek information that is too commercially sensitive for banks to disclose.

The EDTF believes that these tensions do not reflect a fault or weakness in the fundamental principles but are inevitable given the varying, and sometimes competing, needs of users, preparers and regulators. Banks should endeavour, both individually and collectively, to find an appropriate balance among the principles, and indeed within particular principles, without creating excessive disclosures that will overwhelm users. Users should provide ongoing feedback to banks about whether they are achieving an appropriate balance. Section 6 of this report discusses these inherent tensions more fully in the context of particular risk areas. It is acknowledged that the applications of the principles will differ between risk areas and may change over time.

The aim of the fundamental principles, and the recommendations that follow from them, is to address investors' concerns about the quality and transparency of banks' disclosures. However, users already have considerable knowledge of topics such as general business risks, finance and current economic conditions, and a bank's disclosures are not the sole source of information available to them. This report builds on that existing knowledge and information, and seeks to avoid developing disclosures that would duplicate information that should already be known, apparent or readily accessible from other sources.

# 5. Recommendations for enhancing risk disclosures

The EDTF has identified the following recommendations for enhancing risk disclosures.

Additionally, there are eight examples in the appendix to this section that illustrate how particular recommendations could be adopted to produce clear and understandable disclosures.

Section 6 provides additional commentary that expands on these recommendations.

## General

**1:** Present all related risk information together in any particular report. Where this is not practicable, provide an index or an aid to navigation to help users locate risk disclosures within the bank's reports.

**2:** Define the bank's risk terminology and risk measures and present key parameter values used.

**3:** Describe and discuss top and emerging risks, incorporating relevant information in the bank's external reports on a timely basis. This should include quantitative disclosures, if possible, and a discussion of any changes in those risk exposures during the reporting period.

**4:** Once the applicable rules are finalised, outline plans to meet each new key regulatory ratio, e.g. the net stable funding ratio, liquidity coverage ratio and leverage ratio and, once the applicable rules are in force, provide such key ratios.

## Risk governance and risk management strategies/business model

**5:** Summarise prominently the bank's risk management organisation, processes and key functions.

**6:** Provide a description of the bank's risk culture, and how procedures and strategies are applied to support the culture.

**7:** Describe the key risks that arise from the bank's business models and activities, the bank's risk appetite in the context of its business models and how the bank manages such risks. This is to enable users to understand how business activities are reflected in the bank's risk measures and how those risk measures relate to line items in the balance sheet and income statement. See **Figure 1** in the appendix to this section.

**8:** Describe the use of stress testing within the bank's risk governance and capital frameworks. Stress testing disclosures should provide a narrative overview of the bank's internal stress testing process and governance.

## Capital adequacy and risk-weighted assets

**9:** Provide minimum Pillar 1 capital requirements, including capital surcharges for G-SIBs and the application of counter-cyclical and capital conservation buffers or the minimum internal ratio established by management.

**10:** Summarise information contained in the composition of capital templates adopted by the Basel Committee to provide an overview of the main components of capital, including capital instruments and regulatory adjustments. A reconciliation of the accounting balance sheet to the regulatory balance sheet should be disclosed.

**11:** Present a flow statement of movements since the prior reporting date in regulatory capital, including changes in common equity tier 1, tier 1 and tier 2 capital. See **Figure 2** in the appendix to this section.

**12:** Qualitatively and quantitatively discuss capital planning within a more general discussion of management's strategic planning, including a description of management's view of the required or targeted level of capital and how this will be established.

**13:** Provide granular information to explain how risk-weighted assets (RWAs) relate to business activities and related risks.

**14:** Present a table showing the capital requirements for each method used for calculating RWAs for credit risk, including counterparty credit risk, for each Basel asset class as well as for major portfolios within those classes. For market risk and operational risk, present a table showing the capital requirements for each method used for calculating them. Disclosures should be accompanied by additional information about significant models used, e.g. data periods, downturn parameter thresholds and methodology for calculating loss given default (LGD).

**15:** Tabulate credit risk in the banking book showing average probability of default (PD) and LGD as well as exposure at default (EAD), total RWAs and RWA density[9] for Basel asset classes and major portfolios within the Basel asset classes at a suitable level of granularity based on internal ratings grades. For non-retail banking book credit portfolios, internal ratings grades and PD bands should be mapped against external credit ratings and the number of PD bands presented should match the number of notch-specific ratings used by credit rating agencies. See **Figure 3** in the appendix to this section.

**16:** Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type. See **Figure 4** in the appendix to this section.

**17:** Provide a narrative putting Basel Pillar 3 back-testing requirements into context, including how the bank has assessed model performance and validated its models against default and loss.

## Liquidity

**18:** Describe how the bank manages its potential liquidity needs and provide a quantitative analysis of the components of the liquidity reserve held to meet these needs, ideally by providing averages as well as period-end balances. The description should be complemented by an explanation of possible limitations on the use of the liquidity reserve maintained in any material subsidiary or currency.

## Funding

**19:** Summarise encumbered[10] and unencumbered assets in a tabular format by balance sheet categories, including collateral received that can be rehypothecated or otherwise redeployed. This is to facilitate an understanding of available and unrestricted assets to support potential funding and collateral needs. See **Figure 5** in the appendix to this section.

[9] Computed as RWAs as a percentage of EAD.
[10] For the purposes of this disclosure, 'encumbered assets' are defined as assets that have been pledged as collateral or that the entity believes it is restricted from using to secure funding, for legal or other reasons.

**20:** Tabulate consolidated total assets, liabilities and off-balance sheet commitments by remaining contractual maturity at the balance sheet date. Present separately (i) senior unsecured borrowing (ii) senior secured borrowing (separately for covered bonds and repos) and (iii) subordinated borrowing. Banks should provide a narrative discussion of management's approach to determining the behavioural characteristics of financial assets and liabilities. See **Figure 6** in the appendix to this section.

**21:** Discuss the bank's funding strategy, including key sources and any funding concentrations, to enable effective insight into available funding sources, reliance on wholesale funding, any geographical or currency risks and changes in those sources over time.

### Market risk

**22:** Provide information that facilitates users' understanding of the linkages between line items in the balance sheet and the income statement with positions included in the traded market risk disclosures (using the bank's primary risk management measures such as Value at Risk (VaR)) and non-traded market risk disclosures such as risk factor sensitivities, economic value and earnings scenarios and/or sensitivities. See **Figure 7** in the appendix to this section.

**23:** Provide further qualitative and quantitative breakdowns of significant trading and non-trading market risk factors that may be relevant to the bank's portfolios beyond interest rates, foreign exchange, commodity and equity measures.

**24:** Provide qualitative and quantitative disclosures that describe significant market risk measurement model limitations, assumptions, validation procedures, use of proxies, changes in risk measures and models through time and descriptions of the reasons for back-testing exceptions, and how these results are used to enhance the parameters of the model.

**25:** Provide a description of the primary risk management techniques employed by the bank to measure and assess the risk of loss beyond reported risk measures and parameters, such as VaR, earnings or economic value scenario results, through methods such as stress tests, expected shortfall, economic capital, scenario analysis, stressed VaR or other alternative approaches. The disclosure should discuss how market liquidity horizons are considered and applied within such measures.

### Credit risk

**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.

**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.

**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. See **Figure 8** in the appendix to this section. 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.

## Other risks

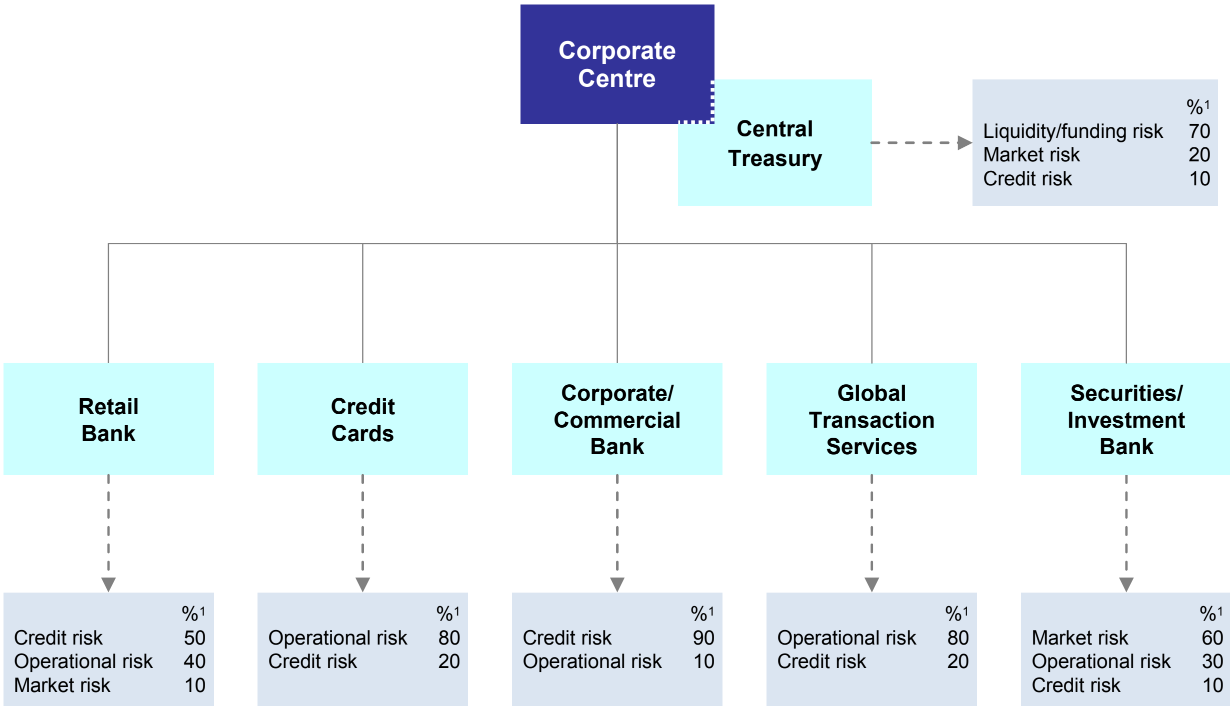
**31:** Describe 'other risk' types based on management's classifications and discuss how each one is identified, governed, measured and managed. In addition to risks such as operational risk, reputational risk, fraud risk and legal risk, it may be relevant to include topical risks such as business continuity, regulatory compliance, technology, and outsourcing.

**32:** Discuss publicly known risk events related to other risks, including operational, regulatory compliance and legal risks, where material or potentially material loss events have occurred. Such disclosures should concentrate on the effect on the business, the lessons learned and the resulting changes to risk processes already implemented or in progress.

## Appendix to Section 5

The following appendix includes eight examples of possible disclosure formats to assist banks in adopting the recommendations in this report. These examples reflect instances where investors have suggested that consistent tabular presentation is particularly important to improving their understanding of the disclosed information and facilitating comparability among banks. All numbers included in the Figures are for illustrative purposes. It is understood that differing business models, reporting regimes and materiality will affect how banks provide such information.

### Figure 1. *Example of a business model and the key risks*




This example reflects a bank that addresses all funding and hedging needs in the Central Treasury.

*Note:*

1 *The aim is to provide an indication or relative measure of each key risk for each major element of the business model based on management's view of the risk profile of the business area. Therefore, this indication will vary for each bank. Possible ways of providing the indication or relative measure are based on an allocation of RWAs, regulatory or economic capital.*

## Figure 2. *Example of a flow statement for regulatory capital*

| | 2012 US$m | 2011 US$m |
|---|---|---|
| **Core tier 1 (CET1) capital**[1] | | |
| Opening amount | 1,000 | 931 |
| New capital issues | 20 | 10 |
| Redeemed capital | (10) | (15) |
| Gross dividends (deduction) | (21) | (16) |
| Shares issued in lieu of dividends (add back) | 1 | 1 |
| Profit for the year (attributable to shareholders of the parent company)[2] | 100 | 80 |
| Removal of own credit spread (net of tax) | (40) | (14) |
| Movements in other comprehensive income[3] | 30 | 20 |
| – Currency translation differences | 10 | 10 |
| – Available-for-sale investments | 10 | 4 |
| – Other | 10 | 6 |
| Goodwill and other intangible assets (deduction, net of related tax liability) | (5) | (5) |
| Other, including regulatory adjustments and transitional arrangements[4] | 25 | 8 |
| – Deferred tax assets that rely on future profitability (excluding those arising from temporary differences) | 10 | 2 |
| – Prudential valuation adjustments | 10 | 4 |
| – Other | 5 | 2 |
| Closing amount | 1,100 | 1,000 |
| **Other 'non-core' tier 1 (additional tier 1) capital** | | |
| Opening amount | 295 | 300 |
| New non-core tier 1 (Additional tier 1) eligible capital issues | 5 | 30 |
| Redeemed capital | (15) | (35) |
| Other, including regulatory adjustments and transitional arrangements[4] | – | – |
| Closing amount | 285 | 295 |
| Total tier 1 capital | 1,385 | 1,295 |
| **Tier 2 capital** | | |
| Opening amount | 500 | 440 |
| New tier 2 eligible capital issues | 100 | 120 |
| Redeemed capital | (20) | (15) |
| Amortisation adjustments | (15) | (35) |
| Other, including regulatory adjustments and transitional arrangements[4] | (15) | (10) |
| Closing amount | 550 | 500 |
| Total regulatory capital | 1,935 | 1,795 |

*Notes:*

1 *The statement is intended to be based on the applicable regulatory rules in force at the period end.*
2 *Profit for the year (attributable to shareholders of the parent company) is intended to reconcile to the income statement.*
3 *Movements in other comprehensive income: all material movements would be disclosed as separate line items.*
4 *Other, including regulatory adjustments and transitional arrangements: all material movements, as per applicable regime, should be disclosed as separate line items. A non-exhaustive list of possible adjustments is set out on the next page.*

**Core Tier 1 (CET1) Capital**
In addition to those items illustrated on the previous page, the line item 'other, including regulatory adjustments and transitional arrangements' may include (as per applicable regime):

- common share capital issued by subsidiaries and held by third parties;
- other movements in shareholders' equity;
- reserves arising from property revaluation;
- defined benefit pension fund adjustment;
- cash flow hedging reserve;
- shortfall of provisions to expected losses;
- securitisation positions;
- investments in own CET1;
- reciprocal cross-holdings in CET1;
- investments in the capital of unconsolidated entities (less than 10%);
- significant investments in the capital of unconsolidated entities (amount above 10% threshold);
- mortgage servicing rights (amount above 10% threshold);
- deferred tax assets arising from temporary differences (amount above 10% threshold);
- amounts exceeding 15% threshold; and
- regulatory adjustments applied due to insufficient additional tier 1.

**Other 'non-core' tier 1 (additional tier 1) capital**
The line item 'other, including regulatory adjustments and transitional arrangements' may include (as per applicable regime):

- other 'non-core' tier 1 capital (additional tier 1) instruments issued by subsidiaries and held by third parties;
- unconsolidated investments deductions;
- investments in own additional tier 1 instruments;
- reciprocal cross-holdings;
- significant investments in the capital of unconsolidated entities;
- other investments in the capital of unconsolidated entities;
- grandfathering adjustments;
- regulatory adjustments applied due to insufficient tier 2 capital; and
- currency translation differences.

**Tier 2 Capital**
The line item 'other, including regulatory adjustments and transitional arrangements' may include (as per applicable regime):

- tier 2 capital instruments issued by subsidiaries and held by third parties;
- unconsolidated investments deductions;
- investments in own tier 2 instruments;
- reciprocal cross-holdings;
- significant investments in the capital of unconsolidated entities;
- other investments in the capital of unconsolidated entities;
- collective impairment allowances;
- grandfathering adjustments; and
- currency translation differences.

## Figure 3. *Example of advanced IRB credit exposures by internal PD grade*

| Internal ratings grade (or band of grades) | PD range | Exposure at default | Average PD | Average LGD | RWAs | Average risk weighting | External rating equivalent |
|---|---|---|---|---|---|---|---|
| | 0.000% | US$m | % | % | US$m | % | |
| 1 ...................... | 0.000 to 0.010 | 500 | 0.010 | 21 | 25 | 5 | AAA |
| 2 ...................... | 0.011 to 0.020 | 1,000 | 0.018 | 22 | 90 | 9 | AA+ |
| 3 ...................... | 0.021 to 0.030 | 500 | 0.029 | 21 | 55 | 11 | AA |
| 4 ...................... | 0.031 to 0.040 | 2,000 | 0.035 | 26 | 300 | 15 | AA |
| 5 ...................... | 0.041 to 0.050 | 100 | 0.047 | 28 | 18 | 18 | A+ |
| 6 ...................... | 0.051 to 0.070 | 500 | 0.061 | 33 | 100 | 24 | A |
| 7 ...................... | 0.071 to 0.110 | 800 | 0.078 | 41 | 200 | 25 | A– |
| 8 ...................... | 0.111 to 0.180 | 750 | 0.122 | 38 | 210 | 28 | BBB+ |
| 9 ...................... | 0.181 to 0.300 | 1,000 | 0.292 | 45 | 310 | 31 | BBB |
| 10 ...................... | 0.301 to 0.500 | 1,250 | 0.400 | 48 | 475 | 38 | BBB– |
| 11 ...................... | 0.501 to 0.830 | 1,500 | 0.650 | 47 | 780 | 52 | BB– |
| 12 ...................... | 0.831 to 1.370 | 1,750 | 1.112 | 46 | 1,033 | 59 | BB |
| 13 ...................... | 1.371 to 2.270 | 500 | 2.001 | 51 | 370 | 74 | BB– |
| 14 ...................... | 2.271 to 3.750 | 100 | 2.500 | 57 | 94 | 94 | B+ |
| 15 ...................... | 3.751 to 6.190 | 250 | 4.011 | 42 | 280 | 112 | B |
| 16 ...................... | 6.191 to 10.220 | 150 | 7.020 | 47 | 204 | 136 | B– |
| 17 ...................... | 10.221 to 16.870 | 750 | 12.999 | 55 | 1,312 | 175 | CCC+ |
| 18 ...................... | 16.871 to 27.840 | 500 | 20.020 | 49 | 1,560 | 312 | CCC |
| 19 ...................... | 27.841 to 99.999 | 200 | 75.020 | 75 | 1,282 | 641 | CCC– |
| 20 ...................... | 100.000 | 200 | 100.000 | 75 | 100 | 50 | Default |
| Total ................. | | 14,300 | | | 8,798 | | |

*Note:*

*The above is for illustrative purpose only, as the number of internal rating grades, the PD range for each grade and the respective external rating equivalent will differ for each institution.*

## Figure 4. *Example of a flow statement for risk-weighted assets*

*Disclosure for non-counterparty credit risk and counterparty credit risk.*

| **Risk-weighted assets movement by key driver** | **Non-counterparty credit risk US$bn** | **Counterparty credit risk US$bn** |
|---|---|---|
| RWAs at 1 January | 600 | 40 |
| Book size | (20) | (2) |
| Book quality | 23 | 1 |
| Model updates | (36) | (3) |
| Methodology and policy | (25) | 1 |
| Acquisitions and disposals | 21 | – |
| Foreign exchange movements | (1) | (1) |
| Other | – | – |
| RWAs at 31 December | 562 | 36 |

**High level definitions**

Book size ............................... organic changes in book size and composition (including new business and maturing loans).

Book quality ........................... quality of book changes caused by experience such as underlying customer behaviour or demographics, including changes through model calibrations/realignments.

Model updates ....................... Model implementation, change in model scope or any change to address model malfunctions.

Methodology and policy ......... methodology changes to the calculations driven by regulatory policy changes, such as new regulation (e.g. CRD4).

*Disclosure for market risk*

| **Risk-weighted assets movement by key driver** | **Market risk US$bn** |
|---|---|
| RWAs at 1 January | 45 |
| Movement in risk levels | (10) |
| Model updates | (2) |
| Methodology and policy | 1 |
| Acquisitions and disposals | – |
| Foreign exchange movements and other | (2) |
| RWAs at 31 December | 32 |

**High level definitions**

Movement in risks levels ........ changes in risk due to position changes and market movements.

Model updates ....................... updates to the model to reflect recent experience, change in model scope.

Methodology and policy ......... methodology changes to the calculations driven by regulatory policy changes.

## Figure 5. *Example of an asset encumbrance table*[1]

| Asset type | Encumbered | | Unencumbered | | |
|---|---|---|---|---|---|
| | Pledged as collateral[2] | Other[3] | Available as collateral[4] | Other[5] | Total |
| | US$m | US$m | US$m | US$m | US$m |
| Cash and other liquid assets | 18 | – | 89 | 15 | 122 |
| Other investment securities | 21 | 10 | 52 | 28 | 111 |
| Loans | 81 | – | 105 | 41 | 227 |
| Other financial assets | – | – | – | 10 | 10 |
| Non-financial assets | – | 2 | 8 | 3 | 13 |
| Total assets | 120 | 12 | 254 | 97 | 483 |

*Notes:*

1 *The objective of this disclosure is to differentiate assets which were used to support funding or collateral needs at the balance sheet date from those assets which were available for potential funding needs. The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.*

*Encumbered assets are:*

2 *assets which have been pledged as collateral (for example, which are required to be separately disclosed under IFRS 7), or*

3 *assets which an entity believes it was restricted from using to secure funding, for legal or other reasons. These other reasons may include market practice or sound risk management. Restrictions related to the legal position of certain assets, for example assets held by consolidated securitisation vehicles or in pools for covered bond issuances, may vary in different jurisdictions or interpretations. Therefore it would be helpful if banks described the nature of the Other assets which are considered to be encumbered and unencumbered where such assets are material to the bank.*

*Unencumbered assets are the remaining assets that an entity owns. These comprise:*

4 *assets that are readily available in the normal course of business to secure funding or meet collateral needs. Banks need to evaluate their own circumstances as to what assets are considered to be readily available, for example banks may define 'readily available' as based on assets that are accepted by central banks or in the in repo markets at the balance sheet date;*

5 *other unencumbered assets are not subject to any restrictions on their use to secure funding or as collateral, but the bank would not consider them to be 'readily available' to secure funding or as collateral in the normal course of business. This category may include wider classes of unencumbered assets not readily accepted as collateral by central banks or other lenders in the provision of support outside the normal course of business. It would also include non-financial assets such as property that is not mortgaged.*

## Figure 6. *Example of a maturity table of assets, liabilities and off-balance sheet commitments*

| **Assets by type** *(contractual dates of maturity)* | No more than 1 month[1] US$m | Over 1 month but no more than 3 months US$m | Over 3 months but no more than 6 months US$m | Over 6 months but no more than 9 months US$m | Over 9 months but no more than 1 year US$m | Over 1 year but no more than 2 years US$m | Over 2 years but no more than 5 years US$m | Over 5 years US$m | Total US$m |
|---|---|---|---|---|---|---|---|---|---|
| Cash and amounts due from central banks | 100,250 | – | – | – | – | – | – | – | 100,250 |
| Financial assets at fair value through profit or loss – trading | 154,300 | 1,491 | 1,226 | 1,884 | 888 | 5,965 | 946 | 866 | 167,566 |
| Fixed-income securities and loans | 1,200 | 365 | 124 | 766 | 450 | 405 | 50 | 100 | 3,460 |
| Equities and other variable-income securities | 650 | 250 | 748 | 654 | 321 | 350 | 520 | 210 | 3,703 |
| Repurchase agreements | 450 | 350 | 212 | 10 | 52 | – | 30 | 10 | 1,114 |
| Derivatives | 152,000 | 526 | 142 | 454 | 65 | 5,210 | 346 | 546 | 159,289 |
| Financial assets at fair value through profit or loss – FV option | 81,110 | 15,697 | 11,261 | 17,322 | 873 | 2,347 | 9,630 | 4,687 | 142,927 |
| Fixed-income securities and loans | 36,547 | 1,254 | 6,684 | 9,872 | 423 | 963 | 852 | 147 | 56,742 |
| Equities and other variable-income securities | 44,563 | 14,443 | 4,577 | 7,450 | 450 | 1,384 | 8,778 | 4,540 | 86,185 |
| Derivatives used for hedging purposes[2] | 55,003 | 5,254 | 9,985 | 6,612 | 580 | 4,870 | 7,870 | 5,398 | 95,572 |
| Available-for-sale financial assets | 297,733 | 45,316 | 38,072 | 11,523 | 1,386 | 45,684 | 56,507 | 620 | 496,841 |
| Fixed-income securities and loans | 105,388 | 19,896 | 4,546 | 5,858 | 960 | 23,121 | – | 100 | 159,869 |
| Equities and other variable-income securities | 192,345 | 25,420 | 33,526 | 5,665 | 426 | 22,563 | 56,507 | 520 | 336,972 |
| Loans and receivables due from credit institutions | 685,230 | 12,000 | 8,553 | 52,863 | 8,564 | 1,524 | 1,102 | 5,420 | 775,256 |
| *of which: reverse repurchase agreements* | *221,120* | *2,323* | *4,873* | *43,252* | *570* | *987* | *450* | *33* | *273,608* |
| Loans and receivables due from customers | 327,763 | 34,765 | 11,099 | 6,985 | 4,498 | 6,574 | 17,873 | – | 319,557 |
| Retail[3] | 125,360 | 2,342 | 7,576 | 6,742 | 1,998 | 5,450 | 8,985 | – | 158,453 |
| Corporates and other customers[3] | 112,403 | 32,423 | 3,523 | 243 | 2,500 | 1,124 | 8,888 | – | 161,104 |
| Held-to-maturity financial assets | 92,000 | 9,131 | 3,242 | 2,123 | 3,050 | 477 | 154 | 12,563 | 122,740 |
| Total financial assets | 1,703,389 | 123,654 | 83,438 | 99,312 | 19,839 | 67,441 | 94,082 | 29,554 | 2,220,709 |
| Other assets[4] | 81,000 | 5,000 | 3,000 | 4,000 | – | – | – | – | 93,000 |
| Total assets[4] | 1,784,389 | 128,654 | 86,438 | 103,312 | 19,839 | 67,441 | 94,082 | 29,554 | 2,313,709 |
| Off-balance sheet commitments received | 180,499 | 180,686 | 79,200 | 28,109 | 8,213 | 33,548 | 41,355 | 15,185 | 566,795 |
| Credit institutions | 105,214 | 74,125 | 14,540 | 25,465 | 1,300 | 24,543 | 25,832 | 6,589 | 277,608 |
| Retail | 54,065 | 94,457 | 54,798 | 1,220 | 5,460 | 7,465 | 5,003 | – | 222,468 |
| Corporates and other customers | 21,220 | 12,104 | 9,862 | 1,424 | 1,453 | 1,540 | 10,520 | 8,596 | 66,719 |

**Liabilities by type** *(contractual dates of maturity)*

| | No more than 1 month[1] | Over 1 month but no more than 3 months | Over 3 months but no more than 6 months | Over 6 months but no more than 9 months | Over 9 months but no more than 1 year | Over 1 year but no more than 2 years | Over 2 years but no more than 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|---|---|
| | US$m | US$m | US$m | US$m | US$m | US$m | US$m | US$m | US$m |
| Financial liabilities at fair value through profit or loss – trading | 43,829 | 4,942 | 70,321 | 2,708 | 1,319 | 2,668 | 10,002 | 2,852 | 138,641 |
| Borrowed securities and short selling | 12,125 | 2,230 | 41,545 | 456 | 10 | 2,415 | 5,655 | 454 | 64,890 |
| Repurchase agreements | 17,850 | 1,250 | 5,550 | 465 | 13 | 123 | 113 | – | 25,364 |
| Derivatives | 1,520 | 231 | 12 | 1,241 | 1,200 | 121 | 4,234 | 2,342 | 10,901 |
| Other | 12,334 | 1,231 | 23,214 | 546 | 96 | 9 | – | 56 | 37,486 |
| Financial liabilities at fair value through profit or loss – F V option | 98,103 | 164,450 | 29,063 | 69,161 | 1,543 | 62,289 | 36,287 | 10,015 | 470,911 |
| Borrowings | 87,980 | 111,203 | 2,454 | 6,565 | 567 | 44,689 | 9,425 | 250 | 263,133 |
| Debt securities | 118 | 52,465 | 24,785 | 57,800 | 852 | 15,400 | 5,650 | 4,015 | 161,085 |
| Subordinated debt | 10,005 | 782 | 1,824 | 4,796 | 124 | 2,200 | 21,212 | 5,750 | 46,693 |
| Derivatives used for hedging purposes[2] | 62,150 | 5,265 | 21,150 | 85,646 | 300 | 6,565 | 9,545 | 510 | 191,131 |
| Due to central banks and credit institutions | 247,669 | 106,901 | 11,378 | 91,050 | 5,473 | 28,354 | 14,530 | 5,874 | 511,229 |
| of which repurchase agreements | 185,200 | 12,500 | 5,500 | 25,460 | 246 | 15,400 | 13,654 | 4,534 | 262,494 |
| Due to customers | 361,201 | 11,061 | 56,654 | 54,261 | 8,945 | 4,956 | 610 | 90,523 | 588,211 |
| Retail[3,5] | 281,140 | 5,551 | 4,111 | 45,420 | 8,400 | 2,100 | 100 | 82,000 | 428,822 |
| Corporates and other customers[3,5] | 80,061 | 5,510 | 52,543 | 8,841 | 545 | 2,856 | 510 | 8,523 | 159,389 |
| Debt securities | 5,111 | 887 | 4,520 | 5,551 | 513 | 150 | 105 | 81,374 | 98,211 |
| Subordinated debt | 554 | 25,458 | 544 | 5,236 | 871 | 211 | 58,741 | 7,845 | 99,460 |
| Total financial liabilities | 818,617 | 318,964 | 193,630 | 313,613 | 18,964 | 105,193 | 129,820 | 198,993 | 2,097,794 |
| Other liabilities[4] | 1,520 | 4,540 | 888 | 8,842 | 100 | 4,745 | 2,154 | 1,001 | 23,790 |
| Equity[4] | 192,125 | – | – | – | – | – | – | – | 213,350 |
| Total liabilities and stockholders' equity[4] | 1,012,262 | 323,504 | 194,518 | 322,455 | 19,064 | 109,938 | 131,974 | 199,994 | 2,313,709 |
| Off-balance sheet commitments given | 150,334 | 22,236 | 68,963 | 110,990 | 23,477 | 52,476 | 18,855 | 28,664 | 475,995 |
| Credit institutions | 120,034 | 7,870 | 4,521 | 55,110 | 4,593 | 45,421 | 8,785 | 4,540 | 250,874 |
| Retail | 20,415 | 5,454 | 54,568 | 10,220 | 4,102 | 1,405 | 5,520 | 24,124 | 125,808 |
| Corporates and other customers | 9,885 | 8,912 | 9,874 | 45,660 | 14,782 | 5,650 | 4,550 | – | 99,313 |

*Notes:*

1 *Assets or liabilities with no specified maturities could be listed in the 'No more than one month' category.*
2 *The bank could determine the categorisation of derivative contracts for purposes of the maturity analysis and provide a narrative describing their categorisation approach.*
3 *Could be detailed by product type if relevant.*
4 *Inclusion of these line items would enable a reconciliation with the balance sheet.*
5 *Amounts insured by guarantee schemes should be discussed.*

## Figure 7. *Example of cross-referencing market risk disclosures to the balance sheet*

*Where a single financial instrument generates market risks that are managed in both VaR and non-VaR measures, the bank could provide qualitative explanations for how that instrument has been presented in the table, amending the format of the table as appropriate to provide the presentation most relevant to the way the risk is managed.*

| | | Market risk measure | | |
|---|---|---|---|---|
| | **Balance sheet US$m** | **Traded risk[1] US$m** | **Non-traded risk[2] US$m** | **Non-traded risk primary risk sensitivity** |
| **Assets subject to market risk** | | | | |
| Trading assets | 348,983 | 345,550 | 3,433 | Equity, FX, Interest Rate[3] |
| Financial assets designated at fair value | 174,399 | 170,580 | 3,819 | Interest Rate[4] |
| Derivatives | 240,083 | 218,986 | 21,097 | Foreign Exchange[5] |
| Loans and advances to customers | 354,004 | – | 354,004 | Interest Rate[4] |
| Financial investments | 23,840 | 2,048 | 21,792 | Equity, Interest Rate[6] |
| Assets held for sale | 53,894 | 3,846 | 50,048 | Interest Rate[4] |
| | 1,195,203 | 741,010 | 454,193 | |
| **Liabilities subject to market risk** | | | | |
| Trading liabilities | 257,093 | 256,589 | 504 | Equity, FX, Interest Rate[3] |
| Financial liabilities designated at fair value | 73,592 | 70,590 | 3,002 | Interest Rate[4] |
| Derivatives | 358,720 | 310,642 | 48,078 | Foreign Exchange[5] |
| Retirement benefit liabilities | 4,802 | – | 4,802 | Interest Rate[4] |
| | 694,207 | 637,821 | 56,386 | |

*Notes:*

1 *Represents traded risk subject to the bank's primary risk management technique disclosed in table VV (e.g. VaR or other technique).*
2 *Represents non-traded risk subject to other risk management techniques disclosed in tables XX, YY and ZZ (risk factor sensitivities, economic value and earnings scenarios).*
3 *See tables XX, YY and ZZ.*
4 *See table ZZ.*
5 *See table YY.*
6 *See XX and ZZ.*

## Figure 8. *Example of a reconciliation of non-performing loans disclosures*

*The disclosure below could be provided separately for retail and corporate non-performing loans, and expanded to include analysis by business unit, industry and geography (or along other lines) as appropriate.*

| | 2012<br>US$m | 2011<br>US$m |
|---|---|---|
| **Impaired loan book movements**[1] | | |
| Impaired loans at 1 January | 25,400 | 28,000 |
| Classified as impaired during the year | 7,600 | 6,700 |
| Transferred to not impaired during the period | (3,800) | (4,500) |
| Net repayments | (2,000) | (1,500) |
| Amounts written off | (2,700) | (3,100) |
| Recoveries of loans and advances previously written off | 800 | 1,000 |
| Disposals of loans | (300) | – |
| Exchange and other movements | (850) | (1,200) |
| At 31 December | 24,150 | 25,400 |
| | | |
| **Impairment allowances - movements** | | |
| Impairment allowances at 1 January | 16,450 | 15,400 |
| Amounts written off | (2,500) | (2,800) |
| Recoveries of amounts written off in previous years | 500 | 600 |
| Charge to income statement | 3,750 | 4,200 |
| Disposals of loans | (100) | – |
| Exchange or other movements | (550) | (950) |
| At 31 December | 17,550 | 16,450 |

*Note:*

1 *It may be helpful to explain the treatment of collectively assessed impairment allowances for loans which are not considered to be impaired in the tables, for example, by separately identifying this element of the collectively assessed impairment allowance.*

# 6. Additional commentary on areas identified for enhanced risk disclosures

This section describes the EDTF's views on current risk disclosure practices, recognising areas of leading practice and those which could be enhanced. The section also reproduces the recommendations and provides additional explanatory guidance designed to place them in context and highlight their importance to users.

Banks will need to continue to comply with securities laws and reporting requirements relevant to their operations to ensure that they are not breached, and assess appropriate confidentiality and other jurisdictional legal issues, particularly where the disclosure of commercially sensitive information would threaten a bank's stability or possess the potential to give rise to systemic risk. They will also wish to consider factors specific to their circumstances such as the materiality, costs and benefits of disclosures.

The additional commentary accords with the fundamental principles and expands on the recommendations set out in Section 5 of this report. The enhanced disclosures emphasise relevance, consistency or comparability, depending on the importance of the principle to a particular area. Users need to understand how the bank manages risk and be able to make comparisons over time and between reporting organisations. The EDTF recognises that differences in regulatory and accounting requirements in different jurisdictions may make it difficult to achieve comparability and it will take time to improve this, but it remains an aim of enhanced disclosures.

The EDTF's recommendations are organised within the following seven broad risk areas, which are the major categories of risk for banks:

**6.1** risk governance and risk management strategies/business model;

**6.2** capital adequacy and risk-weighted assets;

**6.3** liquidity;

**6.4** funding;

**6.5** market risk;

**6.6** credit risk; and

**6.7** other risks.

Many of these risk areas are inter-related. For example, reputational risk may be addressed as part of 'other risks' but may also be a key driver of risk governance.

## General commentary

### Scope

This section addresses the structure of banks' reports and issues which are relevant to more than one type of risk.

### Current disclosures

Users face a number of challenges in forming a clear and comprehensive understanding of the individual risks faced by banks and their overall risk profiles. It can also be difficult to assess the major risks and whether they have changed during the reporting period. Some of the factors contributing to these challenges are listed below:

- banks currently provide significant quantities of risk information and the volume can, in itself, obscure the clarity of the message;
- risk information is often presented in a disjointed fashion in a variety of places. Different aspects of risk are disclosed separately through sources as diverse as interim and annual reports, investor presentations, Pillar 3 reports and risk reports, and they sometimes appear in different places within these documents. For example, risk is frequently described in both the narrative reporting section of the annual report and the financial statement footnotes on financial instruments, but it also arises in less obvious places such as the financial statement footnotes on pensions;
- limited implementation guidance combined with non-prescriptive disclosure requirements can result in quantitative disclosures that are inadequately supported by meaningful and contextual qualitative information;
- many banks use general language to describe their risk identification and measurement methodologies. This level of detail does not necessarily provide sufficient information for users to understand the quantitative measures that banks disclose;
- it can also be difficult to understand entity-specific terms and determine whether they mean the same thing to different banks if they are not clearly defined;
- risk factor disclosures are sometimes written in a protective, legalistic manner, which can fail to highlight management's key concerns; and
- changes in regulatory requirements, in particular the introduction of new regulatory ratios, sometimes leave users needing help in understanding the bank's plans for implementation and the potential impact on the bank.

## Recommendations for enhanced risk disclosures

Enhanced disclosures along the following lines would help users better understand the risks faced by the bank.

| **Recommendations** | |
|---|---|
| **1:** | Present all related risk information together in any particular report. Where this is not practicable, provide an index or an aid to navigation to help users locate risk disclosures within the bank's reports. |
| **2:** | Define the bank's risk terminology and risk measures and present key parameter values used. |
| **3:** | Describe and discuss top and emerging risks, incorporating relevant information in the bank's external reports on a timely basis. This should include quantitative disclosures, if possible, and a discussion of any changes in those risk exposures during the reporting period. |
| **4:** | Once the appropriate rules are finalised, outline plans to meet each new key regulatory ratio, e.g. the net stable funding ratio, liquidity coverage ratio and leverage ratio and, once the appropriate rules are in force, provide such key ratios. |

### *Navigation*

Banks' financial reports are often long and contain detailed risk commentary and data. To help users navigate and understand this material, it is important for banks to consider carefully the way in which the information is presented. This would include keeping the format and layout of their reports under constant review, ensuring, where possible, that all risk disclosures addressing a particular topic appear together rather than being itemised and scattered throughout the report. If this is not possible, clear indexing of risk information could usefully be provided. Summaries can also help in making risk commentaries more accessible. In addition, disclosures which are immaterial or no longer relevant to current circumstances or which do not meet users' needs could be removed to help ensure that the sheer volume of disclosure does not impair its usefulness.

### *Terminology*

Clear explanations of risk terminology and definitions of risk measures used enhance the understanding of risk reporting and comparability between periods and banks: e.g. without further explanation, the term 'duration' can have several different meanings. It is also helpful to explain the key parameters underpinning the risk reporting. For example, VaR disclosures can be made much more useful by including the confidence intervals or holding periods assumed.

A glossary of terms is helpful and could be provided.

### *Top and emerging risks*

Users may not be able to determine what has changed during the reporting period in respect of the bank's risk profile, control processes or risk models. Banks could help by identifying and providing information about their 'top' or 'emerging' risks and changes in these risks over time. A top risk may be defined as 'a current, emerged risk which has, across a risk category, business area or geographical area, the potential to have a material impact on the financial results, reputation or sustainability or the business and which may crystallise within a short, perhaps one year, time horizon'. An emerging risk may be defined as 'one which has large uncertain outcomes which may become certain in the longer term (perhaps beyond one year) and which could have a material effect on the business strategy if it were to occur'. Banks could be proactive in disclosing and explaining their exposure to top and emerging risks, such as those recently experienced with the sub-prime debt and Eurozone crises. Banks could also organise their risk disclosures so that top and emerging risks receive due prominence.

There are significant changes to regulatory and accounting requirements expected in the near future which will affect the key regulatory ratios and capital calculations of banks, either directly or indirectly. It could be helpful to disclose the implications of these changes on the organisation, particularly in the context of top and emerging risks, as the requirements are finalised. For example, a discussion of recently issued accounting standards that will become applicable in the future could cover not only the direct changes expected to the financial statements, but the potential consequences for regulatory ratios and capital calculations, if significant.

### *Regulatory ratios*

The Basel Committee is developing a standard template for the disclosure of banks' leverage ratios, which should ensure this information is presented in a consistent manner. The Basel Committee proposed that this disclosure should commence with effect from January 2015 (during the 'parallel running' period from 1 January 2013 to 1 January 2017). The composition of the leverage ratio, as well as its calibration, is subject to change until the end of the parallel run period. The timing of and the requirements for the disclosure of liquidity ratios have not progressed as far and are subject to an observation and calibration period. Banks will comply with disclosure requirements for all these new ratios in accordance with the requirements of their jurisdictions.

As a result, the EDTF does not propose that banks disclose these regulatory ratios while the rules remain uncertain, but rather that they should wait until the requirements are finalised and in force. Nevertheless, banks may wish to consider outlining their plans to meet each new key regulatory ratio once the respective rules are finalised. In addition, comprehensive information to support a consolidated and, where appropriate, a more granular understanding of the bank's leverage, liquidity risk and funding activities could be beneficial.

## 6.1 Risk governance and risk management strategies/ business model

### Scope

This section covers the disclosure of processes by which the bank identifies, monitors and manages risks in order to provide background and context to disclosures by risk type.

The remuneration of banks' executives is a major area in its own right and has been, and continues to be, the subject of extensive consideration in a number of countries. This report does not seek to repeat that work. Instead, it covers the topic of remuneration as part of the discussion of risk culture by addressing the linkage between the bank's risk governance and its compensation policies.

### Current disclosures

Although the level of detail varies, banks currently provide substantial amounts of information on their overall risk governance structure, risk management practices, major risk categories and applied risk measures, including descriptions of risk appetite[11] and associated management processes.

In the view of the EDTF, more could be provided on risk culture.[12] Currently, risk disclosures may not be as effective as they could be in helping users to understand how, in earning revenue, a bank takes risks in accordance with its risk appetite and then manages and reports these risks. An emphasis on greater clarity would highlight the most relevant aspects of risk governance and management processes, helping users to understand the risk culture of banks and assess its influence over how they operate. This would help build confidence in the processes by which the disclosures are created as well as in the risk-management processes themselves.

### Recommendations for enhanced risk disclosures

In the analysis and implementation of disclosure practices, the concept of business models has been subject to increasing focus, although the term can be used in different ways and is not always clearly defined. A carefully articulated business model can serve as bridge between management's understanding of the business and the market's understanding. This is particularly so where the business models of banks are changing markedly and are under strain in some areas.[13]

In explaining the nature and features of a bank's strategy to its stakeholders, a description of the business model which provides a clear and explicit account of how value is created by the bank, and the interaction between its operational and tactical strategies, would be useful.[14] A good description of a business model can help put the bank's risk management and risk disclosures into context, and frame the subsequent risk disclosures.

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[11] Risk appetite means 'the amount and type of risk that a bank is able and willing to accept in pursuit of its business objectives.' For a further discussion of risk appetite as a process, see: Institute of International Finance, *Implementing Robust Risk Appetite Frameworks to Strengthen Financial Institutions,* June 2011, definition at p. 10. Available at http://iif.com/press/press+1h94.php. While other definitions are available, in this report the term uses this definition.

[12] 'Risk Culture' means, 'the norms and traditions of behaviour of individuals and of groups within an organisation that determine the way in which they identify, understand, discuss, and act on the risks the organisation confronts and the risks it takes.' For a further discussion of development and management of risk culture, see: Institute of International Finance, *Reform in the Financial Services Industry: Strengthening Practices for a More Stable System*, December 2009, at p. 31-2 and Appendix III, Risk Culture. Available at http://www.iif.com/press/press+125.php. While other definitions are available, in this report the term uses this definition.

[13] Centre for European Policy Studies: 'Business Models in European banking. *A pre- and post-crisis screening' – 20 (http://www.ceps.eu/book/business-models-european-banking-pre-and-post-crisis-screening).*

[14] Aalborg University, Department of Business Studies: *'What constitutes a business model: the perception of financial analysts' – Working Paper n. 8 2008 (http://www.business.aau.dk/wp/08-04.pdf).*

The following enhancements to risk disclosures are recommended to improve the reporting of risk governance and culture:

### *Risk governance and culture*

| **Recommendations** | |
|---|---|
| **5:** | Summarise prominently the bank's risk management organisation, processes and key functions. |
| **6:** | Provide a description of the bank's risk culture, and how procedures and strategies are applied to support the culture. |

### *Risk management organisation*

Users will generally expect banks to have in place a governance process that allows them to meet the fundamental principles for disclosure, as defined by this report.

Risk disclosures could describe the responsibilities and accountabilities of the risk organisation along with how its independence from the business is ensured. They could explain the risk mandates granted to specific business units and the extent to which the business units are responsible for their own risk management under the oversight of the risk organisation.

### *Risk culture*

Risk culture is increasingly recognised as a critical factor in the success or failure of a bank's risk management, and issues relating to risk culture are consequently of interest to investors and other users of banks' disclosures.

While the assessment of risk culture is likely to be subjective, the descriptions of risk procedures and strategies could be used to illustrate how risk awareness and management is embedded in the bank's overriding values, and how risk culture is communicated, developed through training and monitored through performance assessment.

Listed below are examples of elements that could be included in descriptions of risk culture:

- the Board's role in the oversight of corporate culture;
- a statement of the organisation's objectives for the risk culture it wishes to develop and nurture;
- the inclusion of risk culture goals in key policies such as the organisation's:
  - code of conduct;
  - code of ethics; and
  - employee manual;
- how risk culture is communicated, through both formal and informal channels and how management defines and communicates its desired 'tone from the top';
- risk training;
- examples of challenge mechanisms used by members of the organisation to raise risk issues such as review processes, committee structures, escalation procedures and interactions between business lines and risk officers;
- a description of how the accountability for risk at all levels is promoted within the organisation;
- the treatment of violations or breaches of risk limits, risk tolerance or risk appetite, or of failures to meet risk-culture expectations, and description of the escalation procedures;
- how risk-based compensation policies are used to reinforce the organisation's risk culture; and

- how risk-based Key Performance Indicators (or personnel evaluation criteria) may be used to measure culture, and which types of employees are covered.

| **Recommendations** | |
|---|---|
| **7:** | Describe the key risks that arise from the bank's business models and activities, the bank's risk appetite in the context of its business models and how the bank manages such risks. This is to enable users to understand how business activities are reflected in the bank's risk measures and how those risk measures relate to line items in the balance sheet and income statement. See **Figure 1** in the Appendix to Section 5. |
| **8:** | Describe the use of stress testing within the bank's risk governance and capital frameworks. Stress testing disclosures should provide a narrative overview of the bank's internal stress testing process and governance. |

*Risk management strategies/ Business model*

A business model describes how an organisation creates, delivers, and captures value (economic, social, or other forms of value). The essence of a business model is that it defines the manner by which the business enterprise delivers value to customers and converts that value into profit. It describes how an enterprise is organised to best meet customer needs, be paid for doing so and make a profit.

Harvard Business School,[15] for example, has identified six components of the business model which it believes may be relevant in the context of a turbulent and competitive business environment:

- *Value proposition* – a description of the customer's needs, the value the customer places on those needs and the products or services that address them.
- *Market segment* – the group of customers the bank wishes to target, recognising that different market segments have different needs. This would include an account of for whom the bank is creating value and who it considers to be its most important groups of customers.
- *Value chain structure* – the bank's position and activities in the provision of value to the customer and how the bank will capture the value that it creates in the chain. This would include a summary of its key activities, resources, partners and suppliers, and the channels through which the targeted customer segments are reached.
- *Competitive strategy* – how the bank plans to create a sustainable competitive advantage, for example, by means of cost savings and pricing, product differentiation or a market niche strategy. This would include identifying the main competitors.
- *Revenue streams* – how revenue is generated (interest income, fee income, trading revenues, sales, leasing, subscription, etc.) and its link to with the value that customers are willing to pay for.
- *Cost structure* – a description of the most important costs inherent in the business model linked with key resources and key activities.

Regulatory requirements, statutory obligations and, possibly, accounting standards may influence the business model that a bank chooses to adopt. Regulations may create

[15] Harvard Business School (Henry Chesbrough and Richard S. Rosenbloom – *'The Role of the Business Model in Capturing Value from Innovation')* – (http://www.hbs.edu/research/facpubs/workingpapers/papers2/0001/01-002.pdf).

incentives or disincentives which affect one or more components of a business model, such as:

- competitive strategy (if regulatory rules differ between jurisdictions, favour certain activities over others, and encourage or discourage growth and acquisitions);
- market segment (if a complete business activity is run down or demised because it is no longer cost effective);
- revenue generation and margins (the viability of different funding models or the volatility of reported profit and loss or capital may be affected by accounting standards); and
- regulators may consider banks' responses to external factors relevant for disclosure purposes, for example, if business models change or banks' capital allocation is adjusted as a result of changes in regulations or accounting standards.

An important element in this respect is to describe the business model through the eyes of management, explaining how the risks arising from the business model are reflected in the bank's financial statements and other risk disclosures.

The general description could state how the risk organisation and the process of agreeing the bank's risk appetite are embedded in and support the business model. Reference may be made to individual business models for different activities conducted by the bank, depending on its organisational structure, which could include (but are not limited to) retail banking, corporate and commercial banking, securities business and investment banking, private banking and insurance businesses.

By setting out the risks arising from the general business model, the description could provide links into the financial structure and reporting of the bank, including the income statement, balance sheet, and, where appropriate, disclosures of material contingent liabilities. It might refer to material unconsolidated structured entities where necessary to understand the ongoing business of the group. The description could address other elements of the general business model, including the funding mix, asset mix, business mix, geographic span, regulatory requirements and restrictions, to the extent that they generate risks.

The linkage between a business model and how the key risks associated with it are managed might be illustrated as set out in **Figure 1** in the Appendix to Section 5.

When a bank has a central treasury function, users would be interested in understanding the extent to which, for example, funding and liquidity risk, market risk and credit risks are transferred to it, the ways in which transfers are carried out, the nature of financial instruments the central treasury function is permitted to hold and whether the treasury is managed as a profit or a cost centre. They would also be interested in understanding the nature of the risks not transferred but retained within the other business units. The governance framework for risk management both within, and outside, the central treasury function could be described.

The discussion of a bank's risk appetite could be linked to its business model disclosures in order to indicate how the implementation of its business model is influenced by its chosen risk appetite. An explanation might be provided of how the overall risk appetite is allocated to the businesses, for example by describing the allocation of economic capital within the bank.

In summary, the discussion would include, but not be limited to, the following:

- risk strategy in the context of overall business strategy;
- risk appetite and budgeting;
- management oversight and the delegation of authority;
- board, organisation and committee structures, including major events or decisions affecting risk management;
- the organisational independence of risk management;

- the measurement, allocation and usage of risk, economic capital (to the extent it is used by the bank) and/or regulatory capital; and
- limit and control structures, including escalation and remediation practices.

This approach would facilitate clarity and accessibility by allowing users to clearly see the entire landscape of a bank's liquidity, credit and market risk exposures, as well as how risks are identified, managed, and controlled.

*Stress testing*

Regulators and investors have significantly increased their focus on enterprise-wide stress testing in recent years, both to assess the capital adequacy of individual banks under adverse scenarios and to evaluate the potential systemic impact that such a downturn could have on the banking system. For example, in the United States (US), the Federal Reserve conducts annual stress tests of the largest banks to determine their ability to maintain a target capital level throughout a stress period. Similarly, the European Banking Authority (EBA) has conducted stress tests of major banks throughout the European Union (EU) to assess the resilience of EU banks against an adverse but plausible scenario. In 2011, the results of these stress tests were made available to the public at an institution-specific level by the Federal Reserve in the US and by the EBA in the EU.

In addition to the standardised stress tests conducted by regulators, most global banks also perform regular stress tests of their own portfolios. The quantitative results of these stress tests are generally not published externally and, if they were, it would be challenging for investors to compare the results across banks. Investors have a deep interest in understanding the stress testing process and scenarios adopted by banks and any material vulnerabilities that are identified therein. The EDTF suggests that banks, at a minimum, provide narrative disclosures of aspects of their stress testing programmes, including explanations of aspects such as:

- stress testing methodologies;
- the process for integrating stress testing with the bank's risk governance and capital frameworks;
- scenario selection, including key assumptions related to macroeconomic drivers;
- material portfolios subject to review and portfolio-specific factors subject to stress testing; and
- high level qualitative indication of the results of stress scenarios on the bank's capital ratios (e.g. with a statement such as 'Common equity tier 1 capital levels remained above our regulatory minimum target level in our severe case stress scenario').

The EDTF notes that, as a matter of emerging leading practice, a number of banks have begun to incorporate discussions of stress testing in their annual reports, including high level discussions of regulatory and management scenarios and management frameworks. Some examples of the subject matter for these disclosures are suggested below:

- Banks could describe stress testing scenarios and assumptions across risks, the treatment of large, concentrated exposures, economic value and capital measures, and how these measures are used within the risk governance and economic capital frameworks. Banks could provide such information at a level of detail that is sufficient to convey financial performance under extreme, but plausible events without disclosing commercially sensitive or confidential information.
- Banks could discuss methodologies and the impact of any comprehensive enterprise-wide risk-based stress tests performed simultaneously across all positions (traded, non-traded, pension, other) and interrelated risk categories (funding, liquidity and credit).
- Banks could provide an index or link to the results of the EBA, Federal Reserve or other regulatory stress tests along with their related disclosures under Pillar 3.

## 6.2 Capital adequacy and risk-weighted assets

### Scope

This risk area addresses disclosures of a bank's regulatory capital and RWAs as defined by its lead banking regulator.

### Current disclosures

*Capital*

Existing capital disclosures follow guidance imposed by national regulators based on the definitions of capital under the Basel I and Basel II Capital Accords. Investors and other stakeholders face a number of problems in performing analyses and making comparisons among banks, both within and across jurisdictions, due in part to the fact that national authorities have interpreted and implemented the Basel capital definitions in different ways and require different disclosures. Moreover, many of the world's banks – including those in the US – have not yet adopted Basel II. In addition, it is difficult for users to reconcile regulatory capital to the published financial accounting balance sheet.

The Basel Committee recently published the final version of its templates for capital disclosure ahead of the implementation of Basel III. These templates cover the features of individual capital instruments, the calculation of own funds, and a reconciliation with the published balance sheet. Although the adoption of these templates is not required until the beginning of 2018, there is a transitional template that applies from June 2013. National regulatory authorities are already planning to require their banks to use these templates.

*Risk-weighted assets*

The current reporting framework for RWAs is governed by national disclosure requirements, based on the Basel Capital Accords. However, similar to regulatory capital, the national guidance differs significantly between jurisdictions and the Internal Ratings Based (IRB) models in Basel II for calculating RWAs have not been adopted globally, which makes it difficult for investors to make meaningful comparisons among banks.

### Recommendations for enhanced risk disclosures

Under Basel II, the minimum Pillar 1 requirement for each bank is reasonably clear, being either the minimum 8% total capital ratio or a national variant on this (for example, many emerging market countries require a minimum 12% total capital ratio).

Going forward, the Basel Committee on Banking Supervision (BCBS) has recommended a series of buffers such as those for counter-cyclical and capital conservation under Basel III and bank-specific add-ons for global and domestic systemically important banks under a separate assessment methodology. The counter-cyclical capital buffer for a bank with exposures in more than one jurisdiction will depend on both the distribution of its exposures across jurisdictions and the capital buffers applied by each jurisdiction, so the precise magnitude of the buffer can only be calculated individually by each bank.

*Capital*

The following recommended disclosures would assist users' understanding of the regulatory capital of banks:

**Recommendations**

**9:** Provide minimum Pillar 1 capital requirements, including capital surcharges for G-SIBs and the application of counter-cyclical and capital conservation buffers or the minimum internal ratio established by management.

**10:** Summarise information contained in the composition of capital templates adopted by the Basel Committee to provide an overview of the main components of capital, including capital instruments and regulatory adjustments. A reconciliation of the accounting balance sheet to the regulatory balance sheet should be disclosed.

**11:** Present a flow statement of movements since the prior reporting date in regulatory capital, including changes in common equity tier 1, tier 1 and tier 2 capital. See **Figure 2** in the Appendix to Section 5.

**12:** Qualitatively and quantitatively discuss capital planning within a more general discussion of management's strategic planning, including a description of management's view of the required or targeted level of capital and how this will be established.

If possible, banks should consider providing information about their bank-specific capital surcharges. If, for whatever reason, it is not possible for banks to disclose their total Pillar 1 capital requirements, an alternative would be for them to publish their internal target capital ratios and how their processes ensure regulatory compliance.

Including a high level reconciliation of accounting capital to regulatory capital, a summary of instruments which form part of regulatory capital and a capital 'flow statement' in financial reporting would assist users' understanding of a bank's capital position without having to refer to the very detailed information in the Basel templates. See **Figures 9 and 10** in Appendix A.

Although many of the details of potential regulatory bail-in liabilities remain to be determined (the recent EU Recovery and Resolution Directive is the most advanced set of bail-in proposals to have been issued to date), the presumption is that banks will be required to disclose in due course the volume and characteristics of liabilities subject to bail-in under legislation as it evolves. Requirements may also emerge in certain jurisdictions for banks to hold a minimum amount of bail-in liabilities, in which case banks should disclose the volume of liabilities potentially subject to bail-in and the level of losses expected to trigger bail-in along with any regulatory determinants of the point of non-viability when losses would be taken.

### *Use of models*

Users have significant difficulty in understanding RWA disclosures. This is particularly the case for banks in the scope of Basel II.

Banks use internal and standardised models across their asset portfolios differently, which may reflect:

a) a staged roll-out of Advanced IRB approach models, so that some portfolios may be temporarily subject to less advanced approaches;

b) different approaches to using internal models such as VaR models, stressed VaR models, Incremental Risk Charge models and Comprehensive Risk Measure models;

c) supervisory restrictions on the adoption of internal models until the regulatory conditions are met for their use; or

d) deliberate choices to leave some portfolios on the standardised or Foundation IRB approach.

As a result, investors and other stakeholders can find it difficult to make meaningful comparisons between banks, particularly across jurisdictions.

Banks currently disclose very little information about the details of their internal models for computing RWAs and, as a result, users are unable to ascertain the reasons for differences in the data from the multiplicity of models, and their impact on capital, both within a single bank and among different banks.

Users also find it difficult to understand the extent to which the use of internal models has affected a bank's capital requirements and are not able to make meaningful comparisons between banks and across jurisdictions. The EDTF considered whether disclosure of the Basel III leverage ratio could assist, but decided that it would not. The disclosure of sufficient information to show how internal ratings grades and PD bands map against external credit ratings for significant non-retail banking book credit portfolios could help meet users' needs for better comparability.

*Risk-weighted assets*

Banks currently provide analysis of their RWAs, but these disclosures do not generally enable users to determine whether differences in banks' RWAs are driven by their particular business models. It is impossible to tell from most bank disclosures where the real differences between models lie, in terms of factors such as data inputs, assumptions, mathematical formulations, manual overrides, and point-in-time versus through-the-cycle assumptions. Expanded disclosures in these areas would help users to understand these differences and could improve market confidence.

Current disclosures provide brief explanations about why RWAs changed over the reporting period. However users find it very difficult to link these to the drivers, such as asset quality, ratings migration and any changes in models, at a sufficiently detailed level.

There is a strong view among investors (and indeed some banks) that enhancing disclosures to explain why RWAs have changed during the reporting period would provide useful information on the effect of using internal models, by linking together the impact on RWAs of changes in portfolio composition, model changes and shifts in the risk environment.

Therefore, the objectives of the following recommendations are to:

- better explain banks' internal models and their calculations;
- enable investors and other stakeholders to better understand the extent to which the use of internal models effects a bank's capital requirements; and
- facilitate comparability across banks and across jurisdictions.

| Recommendations | |
|---|---|
| **13:** | Provide granular information to explain how RWAs relate to business activities and related risks. |
| **14:** | Present a table showing the capital requirements for each method used for calculating RWAs for credit risk, including counterparty credit risk, for each Basel asset class as well as for major portfolios within those classes. For market risk and operational risk, present a table showing the capital requirements for each method used for calculating them. Disclosures should be accompanied by additional information about significant models used, e.g. data periods, downturn parameter thresholds and methodology for calculating LGD. |
| **15:** | Tabulate credit risk in the banking book showing average PD and LGD as well as EAD, total RWAs and RWA density for Basel asset classes and major portfolios within the Basel asset classes at a suitable level of granularity based on internal ratings grades. For non-retail banking book credit portfolios, internal ratings grades and PD bands should be mapped against external credit ratings and the number of PD bands presented should match the number of notch-specific ratings used by credit rating agencies. See **Figure 3** in the Appendix to Section 5. |
| **16:** | Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type. See **Figure 4** in the Appendix to Section 5. |
| **17:** | Provide a focused narrative putting Basel Pillar 3 back-testing requirements into context, including how the bank has assessed model performance and validated its models against default and loss. |

### *Model specification*

Banks could disclose, for material portfolios, a description of their approach to internal models, covering at a minimum the data period (through-the-cycle or point-in-time), the use of downturn parameter thresholds, LGD methodology, the use of minimum parameters or other details specified by national regulators, how models are validated, and when they were last updated.

A similar approach could be taken to disclosing the key characteristics of the models that are used to measure counterparty credit risk and market risk in the trading book (VaR, stressed VaR, specific risk and Incremental Risk Charge models).

### *Portfolio composition*

To promote greater comparability of RWA disclosures, banks could provide consistent disclosures on portfolio composition showing:

- average PD, LGD and EAD, total RWAs and RWA density for each exposure class and significant sub-portfolios, at a suitable level of granularity based on internal ratings grades;
- for significant non-retail credit portfolios, internal ratings grades could be mapped against external credit ratings, with the number of PD bands disclosed matching discrete notch-specific ratings used by credit rating agencies. This information could be disclosed for each sub-portfolio by Basel exposure class and for each external grade. The bank could also disclose its average models-based LGD, and the EAD for each grade. Being able to map the bank's own ratings to external credit ratings may facilitate comparison between banks by users; and

- the exposure classes should be based on the standard IRB classes (e.g. sovereign, institutions, corporates, mortgages and revolving credit for credit risk). Where it would help users' understanding, banks would be encouraged to disclose this information in a more detailed analysis of exposure classes, for example by industrial sector classification of corporate exposures and by geography.

Supplementing these disclosures with a discussion of market trends or events which management expect to have a significant impact on RWAs would be beneficial.

*Changes in risk-weighted assets over time*

An RWA 'flow statement' could be a good way of analysing changes in RWAs by the key drivers, though a prescriptive approach is not recommended because banks may have different key drivers and apply them in different ways. Banks could consider applying a similar approach to counterparty credit risk and market risk in the trading book.

Banks could explain in their narrative reporting the significant drivers for change in the reporting period and describe the nature of each significant driver and how it has affected the RWAs. Where relevant, banks could also provide explanations of why factors that might have been expected to lead to large changes in RWAs have not, in fact, done so. Once again, the impact of the key drivers would form an important part of the disclosure.

Banks are therefore encouraged to provide a narrative explanation of their model-based calculations of RWAs. Here, and elsewhere, narrative reporting would be flexible, and linked as closely as possible to the bank's internal management reporting.

There are examples of banks disclosing information on RWAs within exposure classes, but often users are unable to assess the reasons for the differences including, in some cases, the quality of the underlying assets. If one bank has an RWA density of 6% for residential mortgages while another has 20%, users struggle to know if the difference is driven by asset quality or by the use of a different loss history.

One potential source of information on this is to use loss and accounting impairment data to compare estimated and observed PDs, LGDs and EADs. Banks are encouraged to disclose this in a consistent way, and provide a narrative explanation of what the results mean and, if appropriate, how models have been revised in response to the results. While banks do provide some data on actual versus expected loss and accounting loan impairment charges, and on actual versus estimated PD, LGD and EAD parameters, this is usually only at a very high level in terms of asset classes, and is not consistent between banks. It is also usually only a comparison of the current year against the previous year. Few banks provide any narrative discussion of what these results reveal about how well their models are predicting losses, or about any changes to internal models undertaken as a result of these results.

Banks could therefore provide a comparison of the accounting loan impairment charge for the year with the previous year's expected loss for each major exposure class, and disclose the results of back-testing for each Basel exposure class by major business unit or for individual model parameters like PD, LGD and credit conversion factors.

They could also provide a discussion which puts these results into context, describing how they have assessed model performance and validated their models against loss and impairment data, and against the results of stress and scenario testing, and how, if appropriate, models have been revised in response to these results.

An example of advanced IRB credit exposures by internal PD grade may be found in **Figure 3** in the Appendix to Section 5, with examples of other RWA disclosures in Appendix A, as follows:

**Figure 11.** *Example for disclosure of model approaches and exposure classes.*

**Figure 12.** *Example for disclosure of model outcomes.*

**Figure 13.** *Example for disclosure of estimated and actual loss parameters.*

**Figure 14.** *Example for changes in risk parameters since last reporting date.*

## 6.3 Liquidity

### Scope

Liquidity disclosures should provide comprehensive information to support a consolidated and, where appropriate, a more granular understanding of a bank's liquidity risk. Key issues within the scope of this risk area include how the bank manages its liquidity risk, its current liquidity position and how it would measure and manage the impact of an adverse liquidity scenario.

### Current disclosures

Liquidity disclosures have evolved rapidly over the past few years and vary considerably among banks. While there are examples of leading practice among banks which provide more granular and detailed information for some of these items, it is rare to find a bank that provides such disclosure across all of them.

*Liquidity reserve, including consideration of collateral available for rehypothecation*

The format, extent and granularity of liquidity reserve disclosures vary across banks. Most banks present a qualitative description of their frameworks and approaches to managing their liquidity reserve. Some of them provide a breakdown of their liquidity reserve by types and amounts in different currencies in tabular and graphical formats. Others only disclose their aggregate liquidity reserve amounts. Liquidity reserve disclosures in some cases include estimates of the bank's borrowing capacity from various central banks.

The definition of assets included in the liquidity reserve varies, too. Most banks provide a qualitative description of liquid assets in the liquidity reserve, but some list regulatory requirements under which the assets qualify as liquidity reserve components. The latter group of banks also discloses information on securities and assets that can be used to address their liquidity needs but do not meet the regulatory definitions of liquidity reserve components.

The amount of the liquidity reserve available at major entities within their corporate structures (e.g., parent holding company, bank and non-bank entities, etc.) is provided in certain cases. The liquidity reserve is also presented by some banks on a quarterly basis to draw attention to its changes over time.

Banks currently provide liquidity reserve information in many different formats and varying levels of detail. Users have asked that the liquidity reserve disclosure include a breakdown of its components to differentiate between, for example, cash and balances at central banks, balances with other banks, securities guaranteed by sovereigns, central banks and multilateral banks, liquid bonds and other liquid assets. Users have also expressed their desire to receive liquidity reserve information for each major currency held by the bank with information on any significant restrictions on such assets held in any subsidiaries.

*Liquidity metrics used by management and proposed regulatory liquidity ratios*

Most institutions disclose liquidity ratios used internally and provide a qualitative discussion of how they are used for internal risk management purposes.

Similarly, most banks provide a high-level discussion about the liquidity coverage ratio and the net stable funding ratio (NSFR), without disclosing the metrics. The regulatory requirements for these ratios have not been finalised. Only a very limited number of banks disclose estimates of these ratios, some with tables showing the granular details of NSFR calculations.

The BCBS is currently working on its recommendations for disclosure of the Basel III regulatory ratios and the EDTF does not intend to make recommendations in advance of this work. Rather, it seeks to highlight users concerns with current disclosure and encourage banks to help users understand their internal liquidity management processes and governance.

### *Stress testing and scenario analysis*

A number of banks provide a qualitative description of stress testing methodologies, scenarios and major assumptions used in internal liquidity and funding stress testing, without disclosing quantitative stress testing results. Common scenarios used include a downgrade of a bank's credit rating, a shift in systemic market risk, interest rate changes and significant losses in equity markets. Most banks provide a high level qualitative discussion of their contingency plans and actions undertaken under various stress scenarios.

A few banks provide tables with metrics summarising stress results under specific scenarios. Examples are (i) various levels of liquidity reserves are presented under a 50 basis points movement in interest rates or a 12% drop in the equity market; or (ii) a table showing the impact of stress scenarios on the funding gap is published, along with the offsetting effect of management's planned countermeasures. A number of banks also disclose the impact of one and two-notch credit rating downgrades in the amount of collateral and termination payments they would have to make under the terms of their derivative contracts. Such disclosure is helpful.

## Recommendations for enhanced risk disclosures

| Recommendation | |
|---|---|
| **18:** | Describe how the bank manages its potential liquidity needs and provide a quantitative analysis of the components of the liquidity reserve held to meet these needs, ideally by providing averages as well as period-end balances. The description should be complemented by an explanation of possible limitations on the use of the liquidity reserve maintained in any material subsidiary or currency. |

Banks could provide a breakdown of the components of their liquidity reserve based on management's internal definition. They could provide a narrative discussion on whether or not their definitions of liquid assets are consistent with those prescribed or proposed by regulators, and their quantitative disclosures could be complemented by narrative describing the material percentages of their liquidity reserves that are maintained in significant restricted subsidiaries or in different currencies. Where relevant, it would be helpful to provide this information by line of business.

Users would appreciate this information being provided as at the period end and on an average basis, with disclosure of how such averages are derived (e.g. using daily or monthly balances).

See **Figure 15** in Appendix A.

### *Regulatory ratios*

While disclosure of regulatory liquidity ratios would aid comparability, disclosure of liquidity reserve components using regulatory definitions would be challenging given that those definitions are not final and there is uncertainty around their implementation across jurisdictions. The BCBS is currently working on its recommendations for disclosures in this area. Therefore, in common with other regulatory ratios, the EDTF does not recommend that these ratios are disclosed until the requirements are finalised and in force. Nevertheless, users find it very helpful if banks outline their plans to meet each new key regulatory ratio once finalised.

### *Stress testing*

Management could explain their liquidity stress testing practices and their linkage to the bank's broader liquidity management framework.

### *Legal entity restrictions*

Management could also discuss material liquidity maintained in subsidiaries that is not available for use in other entities and or the availability of excess liquidity at the group level.

## 6.4 Funding

### Scope

Funding disclosures should provide comprehensive information to support an understanding of a bank's funding sources at a consolidated and, where appropriate, more granular level. Key issues within the scope of this risk area include the maturity transformation model used by the bank, its funding plan and its primary funding sources.

### Current disclosures

Similar to liquidity disclosures, funding disclosures have evolved rapidly over the past few years and vary considerably among banks. In general, there is sufficiently detailed information provided on funding to meet most users' needs. However, as a result of the limited amount of information currently provided, users find it challenging to understand asset encumbrance.

*Balance sheet, including summary of wholesale funding*

A number of banks provide information on their funding, with some breaking down their asset classes and funding sources in tables and charts. The disclosures typically include a bar chart of external funding sources showing major categories such as capital markets and equity, retail, transaction banking, discretionary wholesale, secured funding and financing vehicles. Some banks disclose tables that include deposit sources (private, corporate or institutional) and types (demand deposits, saving accounts etc). Additionally, many banks publish tables with details of their securities financing activities and provide qualitative and quantitative breakdowns of securities purchased under resale agreements, securities sold under repurchase agreements, and securities borrowed or sold.

A qualitative discussion of the bank's dependence on different sources of funding is usually provided. Some banks categorise funding into short- and long-term borrowing and discuss the extent of their reliance on each type of funding. Loan-to-deposit ratios are disclosed by a number of banks. Some banks publish other ratios such as the advances to core funding ratio, which they use to monitor reliance on short-term funding. In addition, qualitative descriptions of internal metrics used to monitor funding gaps and reliance on short-term unsecured funding are provided in some cases.

*Maturity analysis of financial assets and liabilities, including currency profile and contingent items*

Some banks provide a detailed table outlining the maturity distribution of their assets and liabilities by residual contractual maturity. Different classes of assets and liabilities are categorised into from eight to 10 maturity buckets. Maturities vary from 'on demand' to 'over 10 years'. More granular maturity buckets are commonly used for the period within the first 12 months of the remaining maturity. Some banks only provide the maturity profile of their financial liabilities, without disclosing similar information for their financial assets.

A significant change in the maturity profile is of interest to users. Some banks publish a 'cumulative funding gap', defined as the total amount of assets minus liabilities within a specific maturity bucket, to draw attention to their position mismatches. Also provided, in addition to the contractual maturity distribution of assets and liabilities, are tables setting out the behavioural maturity profile based on models of customer behaviour under normal business conditions.

In addition to on-balance sheet liabilities, banks provide a maturity analysis of their off-balance sheet obligations such as securities lending indemnification, credit guarantees and performance guarantees. Information includes the definition of liabilities, their nominal amount and the events and conditions on which the liabilities are contingent.

### *Summary of encumbered and unencumbered assets*

A number of banks provide the amounts of encumbered assets, i.e. assets that have been pledged as collateral in various business activities. The amounts of assets pledged, mortgaged and otherwise subjected to lien are presented in tabular form. A ratio of the portion of encumbered assets to total assets is also provided and compared with previous periods.

Pledged assets are broken down by asset class, their corresponding liabilities, and the major entities that they are pledged to. One bank discloses the amount of pledged assets in major geographies. Some banks publish a table with a breakdown of pledged assets under various business activities, such as securities borrowing and lending, derivatives transactions, repurchase agreements and covered bonds. Also disclosed is the fair value of assets accepted as collateral that the bank is permitted to sell or repledge in the absence of default.

## Recommendations for enhanced risk disclosures

### *Asset encumbrance*

While some banks have historically used secured funding sources to fund assets, it was difficult for investors to gauge the full extent of the practice in the period leading up to the credit crisis based on bank disclosures made at the time. Since the credit crisis, the banking sector as a whole has increasingly employed assets on the balance sheet to create liquidity and obtain funding expanding, for example, the use of term repo facilities provided by central banks and covered bond programmes. Encumbered assets reduce the pool of assets available to unsecured creditors which is regarded as being a particularly important area of risk disclosure. The overall balance of secured and unsecured funding, the extent to which assets are encumbered and the amount of unencumbered assets available to support liquidity are all important factors in investors' considerations.

Asset encumbrance information typically appears in different parts of annual reports. Users want information on the breakdown of encumbered and unencumbered assets, including a categorisation of the type of encumbrance presented, in one place in a summary format. The specific categories of assets included in potential asset encumbrance disclosures are likely to be bank specific and so not be consistent across institutions, at least in the short-term. As in other areas of disclosures, these inconsistencies are influenced by differences in regulatory, legal and accounting regimes between jurisdictions.

Encumbered assets include, for example, (i) mortgage loans pledged in favour of covered bond holders; (ii) loans on the consolidated balance sheet that are held by separate bankruptcy remote entities to back securitisation obligations; and (iii) securities pledged as collateral in financing and repo transactions.

An analysis of total encumbered and unencumbered assets by asset type would include as a minimum, cash and other liquid assets, other investment securities, loans and other financial and non-financial assets. Users are seeking to understand those assets that cannot be pledged or otherwise used as security for funding, either because they have already been so pledged, or due to some restriction which prevents this, and the quantum of assets that are not encumbered and are available for use as collateral in the normal course of business.

| Recommendation | |
|---|---|
| **19:** | Summarise encumbered and unencumbered assets in a tabular format by balance sheet categories, including collateral received that can be rehypothecated or otherwise redeployed. This is to facilitate an understanding of available and unrestricted assets to support potential funding and collateral needs. See **Figure 5** in the Appendix to Section 5. |

The objective of this disclosure is to differentiate assets that are used to support funding or collateral needs at the balance sheet date from those assets that are available for potential funding needs. The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

For this purpose, encumbered assets are:

- assets which have been pledged as collateral (for example, which are required to be separately disclosed under IFRS 7 'Financial Instruments: Disclosures'); or
- assets which an entity believes it is restricted from using to secure funding, for legal or other reasons, which may include market practice or sound risk management. Restrictions related to the legal position of certain assets, for example, those held by consolidated securitisation vehicles or in pools for covered bond issuances, may vary in different jurisdictions or interpretations.

Unencumbered assets are the remaining assets that an entity owns. These comprise:

- assets that are readily available in the normal course of business to secure funding or meet collateral needs. Banks need to evaluate which assets they consider to be readily available in the light of their own circumstances. For example, banks may define 'readily available' assets as those that are accepted by central banks or in the repo markets at the balance sheet date.
- Other unencumbered assets are not subject to any restrictions on their ability to secure funding or be offered as collateral, but the bank would not consider them to be readily available for these purposes in the normal course of business. This category may include wider classes of unencumbered assets not readily accepted as collateral by central banks or other lenders in the provision of support outside the normal course of business. It could also include non-financial instruments such as unmortgaged property.

Other information banks could disclose in this connection is as follows:

- a description of the nature of the other assets which are considered to be encumbered and unencumbered where such transactions are material to the bank, including explaining the characteristics of securities with a lien on a whole or part of a portfolio of assets, such as the Spanish 'cédulas hipotecarias';
- the ratio of encumbered assets to total assets, excluding items that may gross up such metrics such as matched-book repo transactions and grossed up derivative assets and liabilities; and
- in addition to unencumbered assets, the fair value of assets accepted as collateral that the bank is permitted to sell or repledge and the amount of any such collateral that has been repledged.

Such quantitative disclosure could provide the basis for a discussion of the assets available to support potential funding and collateral needs.

It is acknowledged that, in some circumstances, information about assets pledged to central banks as part of emergency liquidity assistance may be particularly sensitive and, as a result, would not be separately provided.

### *Additional contractual obligations*

Banks could disclose the additional amount of unencumbered assets that would be needed to meet collateral requirements in the event of downgrades by rating agencies or events under the other contractual agreements. Management could provide such information for selected scenarios which, in practice, generally include the bank being downgraded by one or two rating notches. See **Figure 16** in Appendix A.

*Maturity analysis of assets and liabilities*

Many banks provide asset and liability, or liability-only maturity information, though there are notable differences in terms of the maturity buckets and the granularity of asset and liability categories used. Users currently perform analyses on the maturity gap of assets and liabilities based on information provided by banks, but these analyses require a number of assumptions about the behaviour of certain assets and liabilities. The EDTF had extensive discussions about whether maturity information could most usefully be provided based on remaining contractual maturities or based on management's behavioural assumptions. Both banks and users recognise the limitations of using contractual maturity information in analysing a bank's funding profile. Contractual maturity information is not used to manage risk and is not considered to be representative of the risks involved. While behavioural information is used to manage the risks, some banks have highlighted commercial sensitivity around disclosing this information and some users would prefer to apply their own behavioural assumptions to the base data. Having sufficiently detailed and consistently presented information would be helpful in this regard. Therefore, the EDTF decided to concentrate its recommendation on encouraging banks to provide more detailed asset and liability maturity information based on contractual maturities. Banks may also choose to provide behavioural information, which better reflects their own risk management process.

The recommended contractual maturity analysis of balance sheet carrying amounts would be disclosed in a tabular form, breaking down the assets and liabilities by key types and showing their remaining contractual maturity by time bucket. There is an important challenge around ensuring the consistency of definitions of different types of deposits and other wholesale funding categories as well as those for the particular asset and liability categories to be used for disclosure purposes. Where necessary, it would be helpful to define the terms used.

**Recommendation**

**20:** Tabulate consolidated total assets, liabilities and off-balance sheet commitments by remaining contractual maturity at the balance sheet date. Present separately (i) senior unsecured borrowing (ii) senior secured borrowing (separately for covered bonds and repos) and (iii) subordinated borrowing. Banks should provide a narrative discussion of management's approach to determining the behavioural characteristics of financial assets and liabilities. See **Figure 6** in the Appendix to this Section 5.

It is suggested that contractual maturities are presented in at least eight maturity buckets, as follows: (1) less than 1 month, (2) 1 to 3 months, (3) 3 months to 6 months, (4) 6 months to 9 months, (5) 9 months to one year, (6) one to two years, (7) beyond two and less than five years, and (8) beyond five years.

The discussion of management's approach to determining the behavioural characteristics of the bank's financial assets and liabilities could include a description of the assumptions about customers' behaviour which apply to prepayments and renewals.

At a minimum, categories could be no less granular than the bank's primary balance sheet categories. However, investors have expressed interest in more detailed analyses, where possible, such as analyses of deposits by customer type, insured and uninsured deposits, wholesale funding sources and other details that would inform users who are assessing behavioural considerations.

The maturity table could also separate disclose the following types of liabilities: (i) senior unsecured borrowing, (ii) senior secured borrowing (covered bonds and repos separately) and (iii) subordinated borrowing.

Banks may prefer to use different assumptions for their trading assets and derivative contracts, perhaps by categorising them as on demand because they may be closed out at any time or require collateral or cash movements for any changes in value. It would help if the assumptions were supplemented with clear definitions and management's rationale for their choice of category.

While the contractual maturity table will enable users to carry out their own assessments of the balance sheet, it may also be useful if banks provide their own maturity estimates for certain balance sheet items, if applicable. This could include demand or non-maturity deposits, loans with pre-payment options and structured notes, for example. Management might also explain their assessment of the behavioural liquidity characteristics where these differ materially from the contractual basis presented.

### *Qualitative disclosures*

| **Recommendation** | |
|---|---|
| **21:** | Discuss the bank's funding strategy, including key sources and any funding concentrations, to enable effective insight into available funding sources, reliance on wholesale funding, any geographical or currency risks and changes in those sources over time. |

See **Figure 17** in Appendix A.

In addition to the quantitative disclosures discussed above, banks could provide qualitative disclosures in the following areas:

### *Funding:*

- *Funding plan*: the types of funding sources to be used and the access of the bank to each source.
- *Funding concentrations*: material concentrations in funding sources, with specific attention to wholesale funding and its distribution across different jurisdictions and different currencies.
- *Funding sources*: how the funding sources of the bank have changed over time.
- *Internal funding process*: how the bank's internal funding of legal entities operates within the bank's internal funding dynamic.

### *Stress testing:*

Management could also explain their funding stress testing practices and their link to the bank's broader liquidity and funding management framework.

## 6.5 Market risk

### Scope

This risk area addresses the effect on fair value or the future cash flows of a bank's on- and off-balance sheet financial positions as a result of changes in market factors such as:

- interest rates;
- foreign exchange rates;
- commodity prices;
- equity prices; or
- credit spreads.

This includes market risk associated with trading and non-trading portfolios.

### Current disclosures

Market risk disclosures are governed by both accounting and regulatory requirements that depend on an institution's legal jurisdiction and the financial markets and exchanges on which its equity or other securities are traded. There are differences in application or adaptation of reporting requirements in different jurisdictions which often restrict comparability between banks.

#### *Disclosure presentation*

Market risk disclosures give rise to three challenges for users:

- Because market risk measures such as VaR (the most common primary risk management approach currently used by banks to measure and disclose traded market risk) are based on economics rather than on accounting, it can be difficult for users to effectively understand the relationship between market risk disclosure information and a bank's balance sheet and income statement.
- Market risk information may be presented in a variety of locations, such as financial statement footnotes, risk reports and narrative reporting, and may appear in certain less obvious financial statement line items, such as pension obligations. This can present additional complexity for the reader trying to understand market risk holistically.
- Limited implementation guidance combined with non-prescriptive disclosure requirements result in quantitative disclosures that can be insufficiently supported by meaningful and contextual qualitative information.

#### *Market risk governance*

While banks generally provide some information about their market risk governance frameworks, more and better organised information would be helpful, especially in the areas of overall market risk governance, business strategy, risk appetite and related metrics or limits, independent risk management functions and control procedures, such as risk limit breach escalation and remediation protocols.

#### *Market risk identification and measurement*

Many banks use quite non-specific language to describe their risk identification and measurement methodologies and, as a consequence, the level of detail often fails to provide sufficient information to enable an understanding to be derived of the quantitative measures that banks disclose.

Analyses of risk factors within VaR are often limited to the primary market risk factors, interest rates, foreign exchange rates, commodity prices and equity prices. For non-traded portfolio risk measures, breakdowns vary, with some banks reporting interest rate shock results or sensitivities and others publishing more granular analyses. Some banks provide qualitative and quantitative disclosures of additional risk factors relevant to their trading and non-trading market risk portfolios (e.g. issuer specific risk, credit and debit valuation adjustment risks, prepayment/option adjusted spreads and securitised product risk) and analysis of foreign exchange and equity risk in their non-trading market risk portfolios.

Model assumptions, validation, proxies, limitations, changes and their corresponding impacts on market-risk measures are generally not described in a level of detail that would inform the user of the potential impacts of model risk, risks not modelled in VaR or any other relevant risk measures.

Disclosures also tend not to describe thoroughly back-testing, the reasons for back-testing exceptions or management actions to address any exceptions which arose.

Current disclosures generally provide only limited discussions of 'tail risk', or the potential for extreme loss events beyond reported VaR confidence intervals. For example, stress testing scenarios, assumptions, results and related management actions are not often discussed in detail. In addition, disclosures regarding assumed liquidity horizons within market risk measures are limited. The integration of market risk stress tests into comprehensive enterprise-wide stress tests across all positions subject to market risk (e.g. traded and non-traded market risk) and the interrelation with stress tests of other risk factors, such as counterparty credit risk, funding risk and liquidity risk, are also generally not provided.

Banks disclose varying levels of information related to how hedging is used to manage market risk and how hedging instruments are treated under market risk measures.

The description by banks of their economic capital methodology, usage, and allocation practices tend to overlap with limited specific accounts of how economic capital or other capital or performance measures are integrated into strategy and risk appetite.

## Recommendations for enhanced risk disclosures

### *Disclosure presentation*

Users are interested in understanding how much of the market risk arising from business activities is managed through the bank's primary risk management measures and how much is managed in other ways.

| Recommendation | |
|---|---|
| **22:** | Provide information that facilitates users' understanding of the linkages between line items in the balance sheet and income statement with positions included in the trading market risk disclosures (using the bank's primary risk management measures such as VaR) and non-trading market risk disclosures such as risk factor sensitivities, economic value and earnings scenarios and/or sensitivities. See **Figure 7** in the Appendix to Section 5. |

The linking of market risk measures to the balance sheet to identify portfolios in the balance sheet that are included in particular market risk disclosures (e.g. VaR or other primary risk management measures used for trading portfolios, risk factor sensitivities, economic value or earnings scenarios for non-trading portfolios), may be presented in the manner which is most meaningful to the bank. This could include qualitative, qualitative with numerical support, or quantitative referencing.

Quantitative linking can enhance clarity and make financial statements easier to relate to the reported risk narratives.

Qualitative and related quantitative disclosures could include a comparative analysis that explains material changes occurring between reporting periods. Qualitative discussion could identify and explain the most material differences between positions included in risk metrics and those in the balance sheet, so that users can understand the composition and completeness thereof. For example, a qualitative disclosure with numerical support could provide approximate amounts of portfolios or products included in or excluded from VaR, such as in the statement: 'Our trading VaR does not include certain credit products with a fair value of US$10 billion which are included in the trading assets line on the balance sheet.'

Providing such information will enhance comparability between banks with different reporting requirements, demonstrate the completeness of the risk coverage and put the magnitude and range of risk measures presented into context.

*Market risk identification and management*

| **Recommendation** | |
|---|---|
| **23:** | Provide further qualitative and quantitative breakdowns of significant trading and non-trading market risk factors that may be relevant to the bank's portfolios beyond interest rates, foreign exchange, commodities and equity measures. |

Banks might consider providing additional information.

Primary risk management measures, such as VaR, could be analysed into risk factors, providing:

- a breakdown of relevant trading market risk factors beyond interest rates, foreign exchange rates and commodity and equity prices to support qualitative disclosures which discuss the nature, significance, measurement and control of these and other risk factors. For example, mortgage risks such as prepayment/extension risk could be included as an additional risk factor for a bank with a significant residential mortgage portfolio. Significant issuer credit exposures, credit spread, migration and jump-to-default measures and credit and/or debit valuation adjustments could also be included to reflect trading portfolio credit risk;
- market risk factors and related measures supporting an analysis of non-trading portfolio to the extent they are relevant, including:
  - *interest rate risk in the banking book*: significant risk factors analysed, for example, by currency or benchmark curve, re-pricing risk, yield curve risk, prepayment risk and basis risks;
  - *foreign exchange risk:* significant currency exposures in non-functional currencies analysed by type, such as net investment structural exposures and non-structural balance sheet exposures; and
  - *equity price risk:* significant equity exposures analysed by core risk factor (e.g. regional or sector equity index).

Relevant shift and/or shock scenarios and their particular effects on earnings, net interest income, capital and/or other risk measures could be presented to the extent that they are consistent with the way the bank manages its risk.

A quantitative analysis showing the effect of changes in significant market risk factors on unfunded pension liabilities as well as how pension liability risk is managed over the long-term could also be presented.

Such disclosures would provide users with more specific information about a bank's exposures and enable them to evaluate how business models vary from bank to bank. This should help to improve transparency and comparability across banks.

| Recommendation | |
| --- | --- |
| **24:** | Provide qualitative and quantitative disclosures that describe significant market risk measurement model limitations, assumptions, validation procedures, use of proxies, changes in risk measures and models through time and descriptions of the reasons for back-testing exceptions, and how these results are used to enhance the parameters of the model. |

Banks might consider providing the following types of information:

*Model methodology*

- Banks could describe significant model assumptions, validation procedures, limitations and usage of proxies, along with risks not captured in VaR and other market risk measurement models such as economic capital and stress testing.
- Banks could disclose the quantitative effects of significant changes to risk models under previous and revised methodologies together with a description to help users understand the extent of the changes. Similarly, banks could describe model limitations and any model-related provisions or reserves as part of their risk management policies, procedures and practices.

*Period-on-period variance analysis*

- Banks could discuss significant trends and/or period-on-period fluctuations in risk measures. For example, a significant reduction in VaR may be the result of the disposal of a certain portfolio or line of business, changes in portfolio composition, changes in market risk factors, or a combination thereof.

*VaR backtesting*

- Banks could describe back-testing results and exceptions, including root causes and related actions. The discussion of exceptions could include both profits and losses, and focus on instances where the number of exceptions exceeds that predicted by the reported VaR confidence interval.
- Banks could describe trading revenue components such as intra-day positions, net income, fees, spreads and commissions along with the types of positions included in trading revenue. They could also describe the use of back-testing as a measure of VaR model performance. A graphical comparison of daily VaR to the related daily P&L for the period could enhance clarity and help financial statement users.

These enhancements would add context and clarity to the graphical comparison of daily VaR to daily P&L that many banks currently disclose.

| Recommendation |
| --- |
| **25:** Provide a description of the primary risk management techniques employed by the bank to measure and assess the risk of loss beyond reported risk measures and parameters, such as VaR, earnings or economic value scenario results, through methods such as stress tests, expected shortfall, economic capital, scenario analysis, stressed VaR or other alternative approaches. The disclosure should discuss how market liquidity horizons are considered and applied within such measures. |

### *Supplemental analyses*

Banks could provide other analyses that supplement their primary risk management techniques by describing the potential risk of loss beyond the reported risk measures. For example:

- *Tail risk*: Banks could provide disclosures that describe the methods for measuring tail risk through measures such as expected shortfall, stress tests, scenario analysis and Basel 2.5 stressed VaR. Banks could discuss how these measures relate to one another, as well as how they are evaluated and used by management.
- *Market liquidity horizon*: Banks could discuss how they manage illiquid positions. For example, banks could describe how market liquidity horizons are assessed and applied within market risk measures such as VaR and stress testing, with quantitative results presented as appropriate. The liquidity horizon in this context is defined as the amount of time required to hedge or otherwise neutralise the risk of loss in positions. Reported VaR figures generally assume a one or 10-day horizon, which may not correspond to the time required to neutralise the risk of large or illiquid positions. A one-day horizon may be appropriate for highly liquid positions such as spot yen/dollar, but may be inappropriate for illiquid positions such as certain structured credit instruments.
- *Other analyses*: Other analyses, such as stressed VaR and expected shortfall, could be described to the extent that they are calculated and used by management.

Banks could describe how their disclosed market risk measures relate to the methodology, usage and allocation of economic and regulatory capital, how stress testing is used within the economic capital frameworks applicable to the bank, and the underlying risk aggregation assumptions. A description of how these measures are used within the broader risk governance and capital management frameworks would further enhance disclosures.

Banks could also provide a qualitative discussion of the assumptions used for economic capital measures, including risk aggregation assumptions (e.g., correlation assumptions). This would give users a more holistic view of the bank's full market risk management programme.

## 6.6 Credit risk

This risk area addresses the risk that a bank will suffer a financial loss if its customers, clients or market counterparties fail to meet a payment obligation under a contract. Such losses result from on- and off-balance sheet items that arise from both banking and trading activities, and from wholesale, corporate and retail businesses.

This section encompasses key areas including credit risk exposures, non-performing or impaired financial assets and related impairment allowances as well as forbearance arrangements. Information about a bank's counterparties, including mitigants to credit risk, such as collateral or netting agreements, is critical to understanding a bank's exposure to credit risk.

### Current disclosures

Banks currently publish a wide range of credit risk information. The disclosure of long-established sources of credit risk, such as those arising from retail and corporate lending, and their split by industry or geographical region, is well developed and typically shown. However, credit risk arising from derivative transactions is an area where many banks could improve their disclosures. Other such areas where disclosure could be enhanced include counterparty risk concentrations and the use and value of collateral and forbearance practices. Users would also welcome information about the evolution of restructured loans and the performance of acquired loans.

Current initiatives in this area include work by the International Accounting Standards Board and Financial Accounting Standards Board to develop new financial reporting requirements for the impairment of financial instruments and the disclosure requirements of IFRS 13 'Fair Value Measurement'. These initiatives should increase the quality of credit risk disclosure, and may help improve comparability between banks. Recommendations made by the BCBS and implemented by national regulators are also a source of change in credit risk disclosure, as are separate initiatives by a number of national banking regulators. For example, the Financial Services Authority in the UK takes a close interest in the disclosure by banks of their forbearance strategies.

Sovereign debt is an area where banks' credit risk disclosures have developed relatively rapidly, although users would have preferred a quicker response. In the EU, regulators encouraged better disclosure of financial institutions' exposure to Eurozone uncertainty, including potential default on sovereign debt, through public statements which set out expectations for both qualitative and quantitative disclosure, along with a review of the accounting treatment of Greek sovereign debt. In the US, in early 2012, Securities and Exchange Commission staff issued guidance on disclosure obligations for reporting issuers entitled 'European Sovereign Debt Exposures'. This was aimed at increasing the comparability of disclosures, including in the narrative reporting section of reports.

In general, current disclosures on credit risk are good in certain respects. But overall, there is a lack of consistency in the areas for which banks provide analysis and there are many areas where users find existing disclosures to be insufficiently detailed.

## Recommendations for enhanced risk disclosures

*Quantitative information on overall credit risk – both on- and off-balance sheet*

| **Recommendation** | |
|---|---|
| **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. |

A summary of aggregated credit risk exposures that reconciles to the balance sheet will help users assess the more detailed analysis.

Loans to and bonds issued by sovereigns and financial institutions may need to be presented separately, for example, where there are specific concerns about one or more sovereign borrowers in a particular region or where they represent particular concentration risks. Detailed tables of both retail and corporate exposures that segment the portfolio by relevant factors such as line of business, geography and credit quality could be provided where this helps explain the risks arising. Trading books will include both debt securities and derivative exposures that may need to be addressed separately in the risk disclosures.

It would also be helpful to provide narrative disclosures to explain changes in the bank's credit risk profile, including management's views of key credit risks in the forthcoming period, key sensitivities and how the bank intends to manage those risks.

Ensuring that more detailed tables reconcile to the balance sheet would help users understand their context. While credit risk tends to be markedly less volatile than market risk, it is nonetheless subject to change which can be significant. Investors, analysts and regulators have expressed an interest in better understanding movements in credit risk. Referring to areas of concentration or providing qualitative disclosures on how credit risk is impacted by trends in other parts of the economy may help users understand the potential for credit risk to change in the future.

This analysis could include the following:

- *Granular exposure breakouts:* detailed quantitative tables that support the summary credit risk exposure table, with an analysis of both retail and corporate portfolios (including sovereigns and financial institutions) as appropriate. These tables could segment credit risk along multiple dimensions, for example by analysing the performing, restructured and impaired or non-performing loans separately, including a breakdown by factors relevant to the portfolio such as geography, line of business, credit quality (e.g. probability of default, loan-to-value and credit score) and vintage (See **Figures 18 and 19** in Appendix A).

- *Off-balance sheet commitments:* banks could provide a quantitative analysis of the credit risk likely to arise from off-balance sheet commitments by type (undrawn overdrafts, credit card lines and guarantees) along with an indication of how this credit risk was determined.

- *Concentrations of credit risk:* these are of interest to users and could be highlighted in qualitative disclosures. Banks could specifically address higher-risk exposures of current and emerging interest to investors, even when not material. Where it would be informative, banks could consider explaining that a publicly known emerging risk is not material in their circumstances.

Where significant concentrations exist, banks could provide a quantitative analysis of the exposures. For example, many banks already publish tables of European sovereign states to which they have credit risk exposure.

- *Management's view:* as noted in Section 6.1, banks could explain management's view of the main credit risks in the reporting period, the key sensitivities and how the bank intends to manage these risks.

- *Derivatives:* banks could enhance their gross notional derivatives disclosures by quantifying their OTC derivatives and those traded on recognised exchanges. For OTC derivatives, details could be provided of collateralisation agreements by product type.

*Impaired or non-performing loans*

Banks currently provide information about impairment charges during the reporting period. However, in itself, the impairment charge does not provide complete insight into the asset quality issues that the charge is reflecting. A clear presentation of the state of a bank's asset quality is therefore necessary to help users assess the trends in the loan book in the reporting period. Explaining the bank's practices for loan forbearance and restructured loans and how the presentation of impaired or non-performing loans is affected, including the considerations which go into deciding when a loan can return to a performing status (or is 'cured'), can help users put the impairment information into context and make comparisons more meaningful across the industry. It is notable that, under US reporting requirements, there are consistent industry-wide definitions of both non-performing loans and troubled debt restructurings which help improve comparability.

**Recommendations**

**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.

**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. See **Figure 8** in the Appendix to Section 5. Disclosures should include an explanation of the effects of loan acquisitions on ratio trends, and qualitative and quantitative information about restructured loans.

Banks could provide quantitative disclosures on impaired or non-performing loans in addition to publishing movements in impairment allowances. These might segregate the banks' corporate and retail portfolios, and indicate how movements in impaired or non-performing loans differ significantly within these portfolios, for example by business, geographical region, or other factors. It may be helpful to explain the treatment of collectively assessed impairment allowances for loans which are not considered to be impaired, for example, by separately identifying this element of the collectively assessed impairment allowance.

Users would also welcome information that would help them understand the performance of restructured and acquired loans.

It would also help users understand the impairment allowance held against impaired or non-performing loans if banks provided similar flow analyses of the loan loss allowance showing the opening allowance, allowances made in the reporting period, corporate and retail charge-offs, corporate and retail recoveries, other changes and the closing allowance. Banks could aim to disclose this information for at least a five-year period, if feasible (see **Figure 20** in Appendix A).

### *Concentration risks*

The financial crisis provided a reminder that significant loan losses can arise from very different credit risk concentrations. To assess a bank's credit risk exposure properly, users need to understand concentration risks.

Significant concentration risks could be highlighted in narrative disclosures. For example, many banks already name the European sovereign states to which they have credit risk exposure and are quantifying the amounts; the continuation of this practice would be welcomed for as long as it is relevant. In addition, banks could provide commentary on management's approach to managing concentration risk.

### *Derivatives exposure and credit risk mitigation*

Some banks provide information about which types of derivative transactions are cleared through a central counterparty. The use of such counterparties, which is set to increase as new regulations require certain transactions to be dealt through them, reduces a bank's exposure to individual counterparties and disclosure about them is relevant to investors.

Investors would like to measure the progress made by banks towards moving OTC derivatives onto exchanges and, where they are not being moved onto exchanges, what progress has been made in moving them to be cleared by central counterparties (CCPs). Where CCPs are not employed, users need to know what collateralisation agreements are in place.

While users generally understand the wide variety of netting arrangements in place, it is not consistently reported under different accounting regimes, at least not on the face of the balance sheet. Banks report net exposures at the balance sheet date, which does not help users understand potential future exposures or possible outcomes in terms of potential collateralisation receipts or calls.

| **Recommendation** | |
|---|---|
| **29:** | Provide a quantitative and qualitative analysis of the bank's counterparty credit risk that arises from its derivatives transactions. This should quantify gross notional derivatives exposure, including whether derivatives are 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. |

Where CCPs are not used, investors would like to better understand the collateralisation practices a bank has in place. These disclosures could be analysed by product type in a similar manner to that currently used for derivative disclosures (interest rate swaps, foreign exchange swaps, credit default swaps (CDSs), etc) and by vintage, if possible, to illustrate progress in moving to exchanges or CCPs and thus reducing systemic risk.

Where derivatives are OTC and not cleared by a CCP, investors would like to understand the type of transaction by product type in the following categories:

- one-way collateral arrangements, setting out whether the collateral is applied in favour of the bank or the other party;
- bilateral collateral arrangements; and
- uncollateralised arrangements.

It could also be helpful to quantify these derivative disclosures by mark to market positions (positive replacement values and negative replacement values) as well as the gross notional positions.

Banks hold debt securities as part of their routine treasury management and for trading. When accounted for at amortised cost, subsequent deterioration in credit risk may not be apparent to users. Even when accounted for at fair value, the way in which impairments have arisen, and the calculation of impairment charges, is typically less well-disclosed than for impairments arising in the loan book. Accordingly, banks could make further efforts to ensure that credit risk changes affecting all types of assets held are addressed in both the qualitative and quantitative disclosures they provide.

### *Collateral*

As credit risk is so significant, the description of a bank's approach to managing it and the techniques it uses are important elements in its credit risk disclosures.

| **Recommendation** | |
|---|---|
| **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. |

The tools available to manage credit risk include hedging and sales activities, forbearance, netting arrangements, guarantees and collateral. Banks could explain how they use these and other tools with reference to their appetite for credit risk in general and to quantitative limits in particular.

Banks could disclose the use of mitigants (collateral, guarantees, swaps, insurance, etc.) to manage credit risk arising from market risk and credit risk exposures (such as single name concentrations). For example, certain risk mitigants such as CDSs can be used to reduce primary exposure to a sovereign or large corporate borrower while increasing exposure to the financial institution providing the mitigant. Where relevant, this could be discussed. Derivatives disclosure could also include a discussion of how the operational risk of collateralisation is managed.

Qualitative disclosure could address banks' practices for obtaining collateral, the frequency of valuation for different types of collateral, whether an in-house or an external valuer is employed, the use of indices and how future cash flows are estimated. Examples might be whether the collateral is property, secured against sub-prime property, real-estate development or income-producing real estate, or first or second lien, if the loan is a mortgage. Significant market risk inherent within assets held as collateral could also be disclosed.

## 6.7 Other risks

### Scope

In contrast to the risk areas that focus on financial risks – such as credit, market and liquidity risks – the 'other risks' area includes non-financial risks such as operational risk, reputational risk, fraud risk, legal risk and regulatory risk.

Financial institutions are exposed to different types of non-financial risks and frequently define them differently. For example, some banks manage legal risk as part of operational risk, while others manage it separately. As a result, it is difficult – and indeed perhaps impossible – to precisely define the boundaries of this risk area or provide an exhaustive list of the risks that are within its scope. Examples of the types of risks that could be usefully addressed in this risk area are included in the recommendations.

### Current disclosures

There are few disclosure requirements for other risks, although some jurisdictions have exchange listing or other rules that require management to provide certain information. Partly as a consequence, there is a lack of broad consensus around what should be disclosed in respect of these risks.

Leading practice generally discusses key risks such as operational risk, reputational risk, fraud risk, and legal risk in terms of the following headings:

- definition of the risk;
- governance and organisational structure;
- description of how the risk is managed;
- description of how the risk is measured (if applicable);
- use of risk mitigation techniques (e.g. insurance); and
- capital allocation, including Pillar 1 (if the risk is included).

Leading practice also clearly identifies new risks and changes in the bank's risk processes, and often separately identifies top and emerging risks. Rather than being a static list of standard risk types, these disclosures include a discussion of recent events, such as litigation, regulatory reviews of mortgage-related activities or anti-money laundering practices, and any actions taken by the bank as a result.

If a risk gives rise to a significant volume of smaller losses, such as with operational risk or fraud risk, leading practice includes aggregated quantitative information about the number of internal and external incidents and the resulting operational losses.

However, current disclosures generally lack a discussion of any lessons learned following the occurrence of a non-financial risk or any changes to its risk processes that the bank made as a result. Disclosures often fail to demonstrate a link between the discussion of risk prevention or mitigation and the consequences of losses, in terms of provisions and contingent liabilities or reputational damage.

While some non-financial risks may result in significant events that have substantial implications for the bank, predicting the possible outcomes of such events is often virtually impossible. There are examples of such events both within and outside the financial services industry, such as the Deepwater Horizon oil spill, the earthquake in Japan in 2011, the liquidation of Bernard L Madoff Investment Securities LLC, and the significant regulatory changes made as a result of the recent financial crisis.

The range of other risks that a bank is managing can, therefore, be broad and, when events occur, they may overlap with disclosures relating to the resulting provisions and contingent liabilities. The occurrence of such an event would be expected to affect a bank's risk management.

## Recommendations for enhanced risk disclosures

| Recommendations | |
|---|---|
| **31:** | Describe 'other risk' types based on management's classifications and discuss how each one is identified, governed, measured and managed. In addition to risks such as operational risk, reputational risk, fraud risk and legal risk, it may be relevant to include topical risks such as business continuity, regulatory compliance, technology, and outsourcing. |
| **32:** | Discuss publicly known risk events related to other risks, including operational, regulatory compliance and legal risks, where material or potentially material loss events have occurred. Such disclosures should concentrate on the effect on the business, the lessons learned and the resulting changes to risk processes already implemented or in progress. |

Some banks disclose operational losses from period to period. Similarly, some banks disclose the use of risk mitigation and transfer techniques (such as the use of insurance). Such information is useful and, where practical, banks are encouraged to provide it.

# Appendix A: Examples of recommended disclosures

This appendix includes examples of suggested disclosure formats which illustrate the additional explanatory guidance in Section 6. All data included in the Figures are for illustrative purposes. It is understood that differing business models, reporting regimes and materiality will affect how banks provide such information.

## Figures other than those in the Appendix to Section 5

### Capital adequacy and risk-weighted assets



### Liquidity



### Funding



### Credit risk

## Capital adequacy and risk-weighted assets

### Figure 9. *Example of a reconciliation of regulatory capital to the balance sheet – balance sheets*

| | Accounting balance sheet as in published financial statements | Decon-solidation of insurance/ other entities | Consolidation of banking associates/ other entities | Under regulatory scope of consolidation | Cross-refer to |
|---|---|---|---|---|---|
| | US$m | US$m | US$m | US$m | |
| **Assets** | | | | | |
| Trading assets | 560,005 | 6,892 | – | 566,897 | |
| Loans and advances to customers | 854,604 | (12,032) | 153,264 | 995,836 | |
| of which IRB impairment allowances | 12,000 | – | – | 12,000 | f |
| of which STD impairment allowances | 1,000 | – | 1,000 | 2,000 | l |
| Financial investments | 215,648 | (35,608) | 58,900 | 238,940 | |
| Investment in JVs and associates | 30,000 | 10,000 | (14,000) | 26,000 | g |
| of which positive goodwill on acquisition | 1,000 | – | – | 1,000 | e |
| Goodwill and intangible assets | 30,000 | (3,000) | 500 | 27,500 | c |
| Deferred tax assets | 5,000 | – | – | 5,000 | b |
| Other assets | 934,586 | (22,698) | 58,713 | 970,601 | |
| of which defined benefit pension fund asset | 1,500 | – | – | 1,500 | h |
| Total assets | 2,629,843 | (56,446) | 257,377 | 2,830,774 | |
| **Liabilities** | | | | | |
| Deposits by banks | 240,533 | (155) | 37,853 | 278,231 | |
| Customer accounts | 1,512,369 | (780) | 245,661 | 1,757,250 | |
| Trading liabilities | 369,852 | (230) | 6 | 369,628 | |
| Financial liabilities designated at fair value | 90,000 | (10,000) | – | 80,000 | |
| of which tier 1 capital instruments | 2,000 | – | – | 2,000 | k |
| of which tier 2 capital instruments | 10,000 | – | – | 10,000 | m |
| Debt securities in issue | 147,852 | – | – | 147,852 | |
| Other liabilities | 114,560 | (44,741) | (28,043) | 41,776 | |
| Current and deferred tax liabilities | 1,500 | (100) | 400 | 1,800 | |
| of which deferred tax liability on goodwill and intangibles | 300 | – | – | 300 | d |
| Retirement benefits | 2,500 | – | – | 2,500 | i |
| Subordinated liabilities | 28,000 | – | 1,500 | 29,500 | |
| of which tier 1 capital instruments | 2,000 | – | – | 2,000 | k |
| of which tier 2 capital instruments | 10,000 | – | – | 10,000 | m |
| Total shareholders' equity | 120,321 | (440) | – | 119,881 | a |
| Non-controlling interests | 2,356 | – | – | 2,356 | j |
| Total equity and liabilities | 2,629,843 | (56,446) | 257,377 | 2,830,774 | |

## Figure 10. *Example of a reconciliation of regulatory capital to the balance sheet – capital*

| | | 2012 | | Cross refer to |
|---|---|---|---|---|
| | US$m | US$m | US$m | |
| Total shareholders' equity per accounting balance sheet | | | 120,321 | a |
| Called up share capital | | | 6,772 | |
| Retained earnings | | | 84,801 | |
| Share premium | | | 6,411 | |
| Other equity instruments | | | 4,435 | |
| Other reserves | | | 17,902 | |
| | | | | |
| Regulatory adjustments to accounting basis | | | (47,965) | |
| Preference share premium | | | (1,065) | |
| Other equity instruments | | | (4,435) | |
| Deconsolidation of special purpose entities | | | (2,030) | |
| Prudential valuation adjustment | | | (1,000) | |
| Deferred tax assets that rely on future profitability | | | – | b |
| Per balance sheet | | (27,500) | | c |
| Deferred tax liability | | 300 | | d |
| Positive purchased goodwill on acquisition | | (1,000) | | e |
| Other (regulatory adjustments) | | (100) | | |
| Goodwill and intangibles | | (28,300) | (28,300) | |
| Securitisation positions | | | – | |
| IRB impairment allowances | | 12,000 | | f |
| Expected loss | | (15,000) | | |
| Other (regulatory adjustments) | | – | | |
| Shortfall of provisions to expected losses | | (3,000) | (3,000) | |
| Investment in insurance subsidiaries | | (3,440) | | |
| Per balance sheet | (26,000) | | | g |
| Reverse amount related to banking associates | 14,000 | | | |
| Reverse positive purchased goodwill on acquisition | 1,000 | | | e |
| Investment in JVs and associates | (11,000) | (11,000) | | |
| Deferred tax assets arising from temporary differences | | (5,000) | | |
| Amounts below threshold | | 11,305 | | |
| Threshold deductions | | (8,315) | (8,135) | |
| Other (items under transitional arrangements) | | | – | |
| | | | | |
| Prudential filters | | | (1,285) | |
| Asset per the balance sheet | | (1,500) | | h |
| Liability per the balance sheet | | 2,500 | | i |
| Tax | | (485) | | |
| Other (regulatory adjustments) | | – | | |
| Defined benefit pension fund adjustment | | 515 | 515 | |
| Own credit spread | | | (2,000) | |
| Cash flow hedging reserve | | | 200 | |
| Other (items under transitional arrangements) | | | – | |
| | | | | |
| Non-controlling interest | | | 1,206 | |
| Per balance sheet | | | 2,356 | j |
| Transferred to other tiers of capital | | | (150) | |
| Amount restricted in CET1 | | | (1,000) | |
| | | | | |
| **Common equity tier 1 capital** | | | 72,277 | |

| | 2012<br>US$m | 2012<br>US$m | Reference |
|---|---|---|---|
| Additional tier 1 capital | | 9,330 | |
| Preference share premium | | 1,065 | |
| Other equity instruments | | 4,435 | |
| Transfer from CET1 | | (150) | |
| Hybrid capital securities | | 3,980 | |
| Per balance sheet | 4,000 | | k |
| Reversal of own credit spread | (20) | | |
| Other (items under transitional arrangements including regulatory adjustments) | | – | |
| | | | |
| Tier 2 capital | | 20,500 | |
| Transfer from CET1 | | – | |
| Collective impairment allowances | | 1,000 | |
| Per balance sheet | 2,000 | | l |
| Reverse the amount that relates to banking associates | (1,000) | | |
| Subordinated debt | | 19,500 | |
| Per balance sheet | 20,000 | | m |
| Amortisation | (100) | | |
| Reversal of own credit spread | (400) | | |
| Other (items under transitional arrangements including regulatory adjustments) | | – | |
| | | | |
| Other (items under transitional arrangements including regulatory adjustments) | | (1,000) | |
| **Total regulatory capital** | | 101,107 | |

## Figure 11. *Example for disclosures of model approaches and exposure classes*

| | Total | Under standardised approach | | Under F-IRB approach | | Under A-IRB approach | | Total | Total capital |
|---|---|---|---|---|---|---|---|---|---|
| | EAD | EAD | RWAs | EAD | RWAs | EAD | RWAs | RWAs | req'ment |
| | US$m | US$m | US$m | US$m | US$m | US$m | US$m | US$m | US$m |
| Exposure class: | 1,929,639 | 519,835 | 342,327 | 13,528 | 8,330 | 1,396,276 | 524,228 | 874,885 | 69,991 |
| Sovereign ........... | 453,707 | 92,005 | 10,121 | – | – | 361,702 | 17,296 | 27,417 | 2,193 |
| (significant sub-portfolios …) | | | | | | | | | |
| Corporate ........... | 627,218 | 219,896 | 191,310 | 13,528 | 8,330 | 393,794 | 242,483 | 442,123 | 35,370 |
| (significant sub-portfolios …) | | | | | | | | | |
| Institutional .......... | 165,489 | 36,943 | 17,933 | – | – | 128,546 | 25,056 | 42,989 | 3,439 |
| (significant sub-portfolios …) | | | | | | | | | |
| Mortgages ........... | 423,044 | 90,597 | 47,110 | – | – | 332,447 | 118,614 | 165,724 | 13,258 |
| (significant sub-portfolios …) | | | | | | | | | |
| Revolving credit ... | 136,454 | 9,681 | 7,261 | – | – | 126,773 | 89,402 | 96,663 | 7,733 |
| (significant sub-portfolios …) | | | | | | | | | |
| Other .................. | 123,727 | 70,713 | 68,592 | – | – | 53,014 | 31,377 | 99,969 | 7,998 |

## Figure 12. *Example for disclosures of model outcomes*

| | Average PD | Average LGD | EAD | RWAs | RWA density |
|---|---|---|---|---|---|
| | % | % | US$m | US$m | % |
| Exposure class: | | | 1,396,276 | 524,228 | 37.54 |
| Sovereign ...................................... | 0.15 | 19.56 | 361,702 | 17,296 | 4.78 |
| (significant sub-portfolios …) | | | | | |
| Corporate ...................................... | 2.45 | 35.73 | 393,794 | 242,483 | 61.58 |
| (significant sub-portfolios …) | | | | | |
| Institutional .................................... | 0.38 | 30.32 | 128,546 | 25,056 | 19.49 |
| (significant sub-portfolios …) | | | | | |
| Mortgages ...................................... | 4.85 | 25.34 | 332,447 | 118,614 | 35.68 |
| (significant sub-portfolios …) | | | | | |
| Revolving credit ............................. | 2.35 | 85.45 | 126,773 | 89,402 | 70.52 |
| (significant sub-portfolios …) | | | | | |
| Other ............................................. | 7.85 | 34.85 | 53,014 | 31,377 | 59.19 |

## Figure 13. *Example for disclosure of estimated and actual loss parameters*

| | Average estimated PD | Actual default rate | Average estimated LGD | Actual LGD | Estimated EAD | Actual EAD |
|---|---|---|---|---|---|---|
| | % | % | % | % | US$m | US$m |
| | | | | | | |
| Exposure class: | | | | | 1,034 | 988 |
| Sovereign .................. | 0.10 | 0.01 | 10.99 | 11.20 | 151 | 150 |
| (significant sub-portfolios …) | | | | | | |
| Corporate .................. | 3.01 | 1.58 | 35.61 | 28.50 | 209 | 189 |
| (significant sub-portfolios …) | | | | | | |
| Institutional ................ | 0.50 | 0.02 | 42.03 | 30.50 | 96 | 99 |
| (significant sub-portfolios …) | | | | | | |
| Mortgages ................ | 1.85 | 2.08 | 15.10 | 16.02 | 230 | 280 |
| (significant sub-portfolios …) | | | | | | |
| Revolving credit ........ | 2.10 | 2.70 | 80.70 | 80.90 | 300 | 270 |
| (significant sub-portfolios …) | | | | | | |
| Other ........................ | 5.20 | 3.81 | 60.90 | 59.20 | 46 | 23 |

## Figure 14. *Example for changes in risk parameters since last reporting date*

| | Average PD | Average LGD | EAD | RWAs | RWA density |
|---|---|---|---|---|---|
| | % | % | US$m | US$m | % |
| | | | | | |
| Exposure class: | | | 41,331 | 1,786 | |
| Sovereign ............................................ | 0.01 | (1.56) | 22,994 | 460 | (0.19) |
| (significant sub-portfolios …) | | | | | |
| Corporate ............................................ | (0.14) | (0.37) | (12,942) | (2,588) | 1.33 |
| (significant sub-portfolios …) | | | | | |
| Institutional .......................................... | (0.01) | (0.17) | 500 | 50 | 0.04 |
| (significant sub-portfolios …) | | | | | |
| Mortgages ........................................... | (0.20) | (0.90) | 23,337 | 2,800 | 1.80 |
| (significant sub-portfolios …) | | | | | |
| Revolving credit .................................. | (1.10) | (2.32) | 5,324 | 852 | (2.39) |
| (significant sub-portfolios …) | | | | | |
| Other .................................................... | (0.45) | (5.75) | 2,118 | 212 | (2.04) |

## Liquidity

### Figure 15. *Example of a liquidity reserve disclosure*

| **Source of incremental funding or margin requirement** | **Carrying value US$m** | **Liquidity value US$m** |
|---|---|---|
| Cash and holdings at central banks | 105 | 105 |
| Deposits in other banks available overnight | 15 | 15 |
| Securities issued or guaranteed by sovereigns, central banks or multilateral development banks | 36 | 33 |
| Other[1] | 14 | 12 |
| | | |
| Liquid assets eligible at central banks (not included above) | 36 | 36 |
| Undrawn credit lines granted by central banks | 32 | 32 |
| Other assets eligible as collateral for discount[1] | 11 | 9 |
| Other liquid assets[1] | 4 | 3 |
| Total liquid assets | 253 | 245 |

1 *Narrative explanation could be provided, if relevant.*

## Funding

### Figure 16. *Example of a disclosure of additional contractual obligations*

| Source of incremental funding or margin requirement | One-notch downgrade US$m | Two-notch downgrade US$m |
|---|---|---|
| Contractual derivatives funding or margin requirements | 11 | 20 |
| Other contractual funding or margin requirements | 2 | 9 |

### Figure 17. *Example of a disclosure of the composition of wholesale funding*[1]

| | Maturity of wholesale funding | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Not more than 1 month US$m | Over 1 month but not more than 3 months US$m | Over 3 months but not more than 6 months US$m | Over 6 months but not more than 1 year US$m | Sub-total less than 1 year US$m | Over 1 year but not more than 2 years US$m | Over 2 years US$m | Total US$m |
| **At 31 December 2011** | | | | | | | | |
| Deposits from banks | 16 | 7 | 3 | 1 | 27 | 7 | 1 | 35 |
| CDs and CP | 12 | 15 | 14 | 4 | 45 | 2 | 1 | 48 |
| Asset-backed CP | 5 | 3 | 1 | – | 9 | – | – | 9 |
| Senior unsecured MTNs | – | 2 | – | 3 | 5 | 11 | 13 | 29 |
| Senior unsecured structured notes | 2 | 3 | 4 | 9 | 18 | 20 | 38 | 76 |
| Covered bonds/ABS | – | 1 | 1 | 2 | 4 | 10 | 14 | 28 |
| Subordinated liabilities | – | – | – | – | – | 1 | 20 | 21 |
| Other | 7 | 2 | 1 | 1 | 11 | 2 | 3 | 16 |
| Total | 42 | 33 | 24 | 20 | 119 | 53 | 90 | 262 |
| Of which: | | | | | | | | |
| – secured | 7 | 5 | 3 | 2 | 17 | 11 | 12 | 40 |
| – unsecured | 35 | 28 | 21 | 18 | 102 | 42 | 78 | 222 |

1 *The composition of wholesale funding for the purpose of this table would exclude:*

- *repo transactions that are included in a maturity table of assets, liabilities and off-balance sheet comitments; and*
- *financial instruments issued by the entity that have been distributed via the retail network of the entity and that are not part of the wholesale funding market.*

## Credit risk

### Figure 18. *Example table for corporate credit risk disclosure*

The disclosure below illustrates possible analyses that could be relevant

| | | 2012 US$m | 2011 US$m |
|---|---|---|---|
| Corporate | Performing | 218 | 220 |
| | Restructured | 18 | 18 |
| | Impaired/Non-performing | 9 | 9 |
| | | 245 | 247 |
| Corporate | **Geography/business units** | | |
| | Europe | 147 | 148 |
| | US | 81 | 80 |
| | Asia | 17 | 19 |
| | xxx | | |
| | | 245 | 247 |
| Corporate | **Industry** | | |
| | Oil and gas | 83 | 85 |
| | Shipping | 62 | 60 |
| | Healthcare | 45 | 42 |
| | Machinery | 55 | 60 |
| | xxx | | |
| | | 245 | 247 |
| Corporate | **PD Bands** | | |
| | <5% | 115 | 120 |
| | 5-10% | 63 | 61 |
| | 11-20% | 51 | 53 |
| | 21-50% | 6 | 4 |
| | >50% | 10 | 9 |
| | | 245 | 247 |

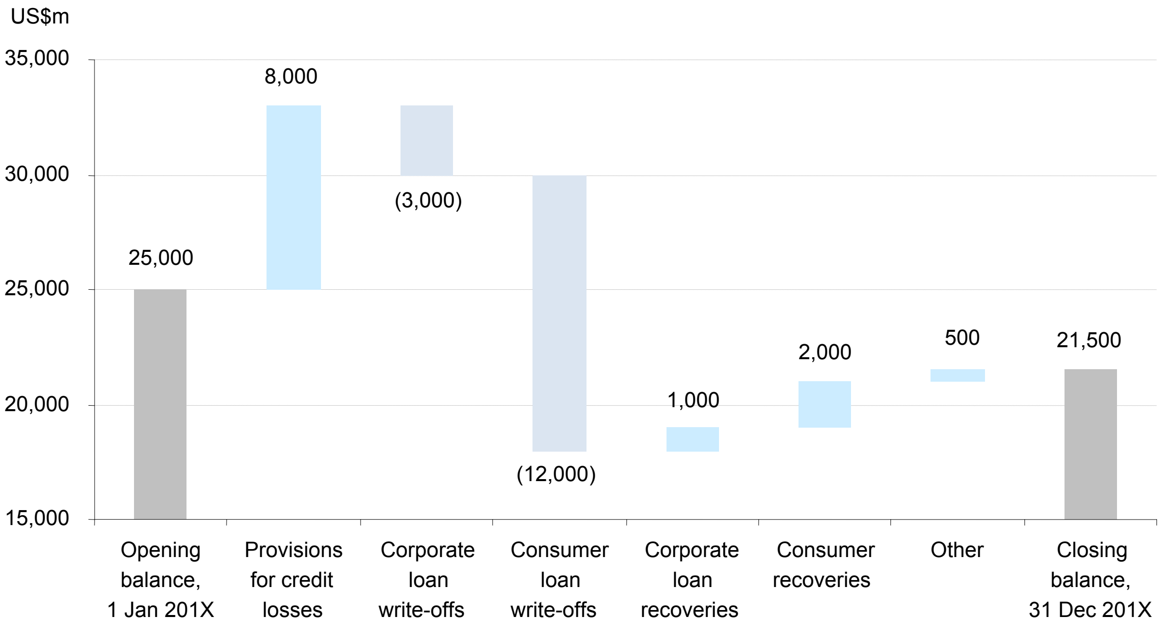
### Figure 19. *Example table for retail credit risk disclosure*

The disclosure below illustrates possible analyses that could be relevant for amortised cost loan balances.

| | | 2012 US$m | 2011 US$m |
|---|---|---|---|
| Retail | Performing | 178 | 175 |
| | Restructured | 9 | 9 |
| | Impaired/Non-performing | 16 | 16 |
| | | 203 | 200 |
| Retail | **LTV**[1] | | |
| | ≤50% | 110 | 108 |
| | >50% and ≤70% | 46 | 45 |
| | >70% and ≤90% | 18 | 18 |
| | >90% and ≤100% | 12 | 11 |
| | >100% and ≤110% | 6 | 7 |
| | >110% and ≤130% | 6 | 6 |
| | >130% | 5 | 5 |
| | | 203 | 200 |
| Retail | **Geography/business units** | | |
| | Europe | 122 | 120 |
| | US | 69 | 71 |
| | Asia | 12 | 9 |
| | xxx | | |
| | | 203 | 200 |

1 *Relevant to secured lending, e.g. residential mortgages.*

## **Figure 20*. Example of a flow statement for impairment allowances***



For Appendix B see separate file.

## Appendix C: Financial Stability Board press release (10 May 2012)

FSB FINANCIAL STABILITY BOARD

# Press release

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Ref no: 29/2012

10 May 2012

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### Formation of the Enhanced Disclosure Task Force

The importance to market confidence of useful disclosure by financial institutions of their risk exposures and risk management practices has been underscored in recent years, and the FSB mentioned, in its press release on 20 March 2012, that it will facilitate the formation of a private-sector task force to develop principles for improved disclosures.

The FSB is pleased to announce that the Enhanced Disclosure Task Force (EDTF) has been established. The co-chairs of the EDTF are: Hugo Bänziger, Chief Risk Officer and Member of the Management Board, Deutsche Bank; Russell Picot, Group General Manager and Group Chief Accounting Officer, HSBC Holdings plc; and Christian Stracke, Managing Director, Member of Investment Committee, and Global Head of Credit Research Group, PIMCO. In addition to the co-chairs, the EDTF initially has 25 senior officials and experts representing financial institutions, investors and analysts, credit rating agencies, and external auditors. Summary biographies of the co-chairs and a listing of the task force's initial participants are shown in the annex to this press release.

The primary objectives of the EDTF are (i) to develop principles for enhanced disclosures, based on current market conditions and risks, including ways to enhance the comparability of disclosures, and (ii) to identify leading practice risk disclosures presented in annual reports for end-year 2011 based on broad risk areas such as those identified in the summary of the first FSB roundtable on risk disclosures held in December 2011.

The EDTF will have dialogue with standard-setting bodies, such as the International Organisation of Securities Commissions, the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the International Accounting Standards Board, the US Financial Accounting Standards Board, and the International Auditing and Assurance Standards Board, at key stages as it develops its recommendations.

The recommendations of the EDTF are expected to be reported to the FSB and published during October 2012. The FSB will consider holding another international roundtable by end-2012 to facilitate further discussion by investors, financial institutions, auditors, standard setters, regulators and supervisors on market conditions and risks at that time and the progress toward improving the transparency of risks and risk management through relevant disclosures.

Mark Carney, Chairman, FSB, said “We welcome the formation of the Enhanced Disclosure Task Force”. He added “The FSB supports these efforts which, together with the activities of standard setters, are expected to result in improved risk disclosure practices by financial institutions that will provide timely and useful information to investors”.

**Notes to editors**

The 20 March 2012 FSB press release on Improving Financial Institution Risk Disclosures and Next Steps is available at www.financialstabilityboard.org/press/pr_120320.pdf .

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 is chaired by Mark Carney, Governor of the Bank of Canada. 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

# Appendix D: Members of the Enhanced Disclosure Task Force

## Co-Chairs

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|---|---|
| **Eurex Group** | **Hugo Bänziger**<br>Chairman of the Supervisory Board |
| **HSBC** | **Russell Picot**<br>Group General Manager and<br>Group Chief Accounting Officer |
| **PIMCO** | **Christian Stracke**<br>Managing Director, Member of Investment Committee<br>and Global Head of Credit Research Group |

## Other Members

| | |
|---|---|
| **Allianz SE** | **Tom Wilson**<br>Chief Risk Officer |
| **Barclays Capital** | **Simon Samuels**<br>Managing Director |
| **BlackRock** | **Lauritz Ringdal**<br>Managing Director and Co-head of Global Credit for<br>Model-Based Fixed Income Portfolio Management Group |
| **BNP Paribas** | **Gérard Gil**<br>Senior Advisor |
| **CFA Institute** | **Vincent Papa**<br>Director, Financial Reporting Policy |
| **Commonwealth Bank of Australia** | **Greg Mizon**<br>Chief Risk Officer, International Institutional<br>Banking and Markets Risk Management |
| **DBS** | **Elbert J. Pattijn**<br>Chief Risk Officer and Group Executive<br>Committee Member |
| **Deloitte** | **Mark Rhys***<br>Global IFRS for Banking Co-Leader |
| **Deutsche Bank** | **Ralf Leiber**<br>Managing Director and Head of Finance<br>Group Risk Control |
| **Ernst & Young** | **Karen Golz***<br>Global Vice Chair, Professional Practice |
| **Fidelity Management and Research** | **Kana Norimoto**<br>Research Analyst, Fixed Income |
| **Fitch Ratings** | **Bridget Gandy**<br>Managing Director, Co-head EMEA Financial Institutions |

* *Workstream leader*

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| **ING Group** | **Patrick Flynn**<br>Group Chief Financial Officer, Member,<br>Executive Board ING |
| **Institutional Investment Advisors Limited** | **Crispin J. Southgate**<br>Director |
| **International Banking Federation (IBFed)** | **Dirk Jaeger***<br>Managing Director – Banking Supervision, Accounting, Association of German Banks; Chairman of Accounting Working Group of IBFed |
| **International Corporate Governance Network (ICGN)** | **Paul Lee**<br>Co-Chairman, Shareholder Responsibilities Committee; Director, Hermes Equity Ownership Services Ltd |
| **JPMorgan Chase** | **Robin Doyle**<br>Senior Vice President, CFO Risk |
| **KPMG** | **Martin Wardle***<br>Partner, Financial Services, KPMG China |
| **M&G Investment Management** | **James Alexander**<br>Head of Research |
| **Mitsubishi UFJ Financial Group** | **Akihiko Kagawa**<br>Managing Director, Group Chief Risk Officer and<br>Chief Compliance Officer |
| **PGGM** | **Eloy Lindeijer**<br>Chief Investment Management,<br>Member of Executive Committee PGGM |
| **Pricewaterhouse Coopers** | **Robert P. Sullivan***<br>Global Banking and Capital Markets Leader;<br>Global Regulatory Leader |
| **Royal Bank of Canada** | **Morten Friis**<br>Chief Risk Officer |
| **Santander** | **Mr. José Corral**<br>Deputy Chief Risk Officer |
| **Société Générale Corporate and Investment Banking** | **Sebastien Lemaire**<br>Equity analyst – Banks |
| **Standard & Poor's** | **Rob Jones**<br>Managing Director,<br>Financial Services Ratings Research Group |
| **UBS/ Institute of International Finance (IIF)** | **William Widdowson***<br>CFO Wealth Management & Retail & Corporate<br>and Swiss Bank, UBS<br>Chairman, Senior Accounting Group, IIF |

** Workstream leader*

# Appendix E: Abbreviations

The following abbreviations are used in this report:

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| BCBS | Basel Committee on Banking Supervision |
| CCP | Central counterparty |
| CDS | Credit default swap |
| CET1 | Core tier 1 |
| EAD | Exposure at default |
| EBA | European Banking Authority |
| EDTF | Enhanced Disclosure Task Force |
| EU | European Union |
| FSB | Financial Stability Board |
| G-SIB | Globally Systemically Important Bank |
| IRB | Internal ratings based |
| LGD | Loss given default |
| NSFR | Net stable funding ratio |
| OTC | Over-the-counter |
| PD | Probability of default |
| RWA | Risk-weighted asset |
| US | United States of America |
| VaR | Value at risk |