

Enhanced Disclosure Task Force (EDTF)

*Presentation to
The International Accounting Standards Board*

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Outline

1. Background and objectives
2. Main investor concerns
3. Main principles and recommendations, with key examples
4. Next steps

EDTF Membership

- EDTF established in May 2012
- Task Force has 3 co-chairs, 27 members
 - Investors/investor representatives/analysts 10
 - Rating agencies 2
 - Accounting firms 4
 - Banks - risk 9
 - finance 3
 - Trade associations 2
- Has met four times in London, New York, Singapore and Frankfurt
 - work has focused on large international banks
- Conducted significant outreach programme
- Report published late October 2012

List of banks on the EDTF

BNP Paribas

Commonwealth Bank of Australia

DBS

Deutsche Bank

HSBC

ING

JPMorgan Chase

Mitsubishi UFJ

Royal Bank of Canada

Santander

UBS

Structure of the report

- Report of the EDTF contains
 - 7 fundamental principles
 - 32 recommendations

Supported by additional commentary, examples of recommended disclosures and leading or best practice disclosures

- Fundamental principles are expected to be enduring and to provide a firm foundation from which to achieve transparent, high-quality risk disclosures

Main areas of investor concern

- Difficulty in understanding a bank's business model and how it relates to its risk measures and financial statements
- Density and scattered location of risk disclosures
- Lack of timely reporting of both risk and financial information
- Basel 2 capital and risk-weighted assets
- Liquid assets, availability of funding and level of unencumbered assets
- Lack of granular disclosures on credit exposures
- Effect of forbearance activities on reported impaired loans

The fundamental principles

1. Clear, balanced and understandable
2. Comprehensive, covering all of the key activities and risks
3. Present relevant information
4. Reflect how risk is managed
5. Consistency over time
6. Comparable among banks
7. Provided on a timely basis

Summary of recommendations

General	4
Risk governance and risk management strategies/ business model	4
Capital adequacy and RWAs	9
Liquidity	1
Funding	3
Market risk	4
Credit risk	5
Other risks	2
	<hr/>
	32

Main recommendations

1. Present all related risk information together
7. Describe the key risks that arise from the bank's business models, the bank's risk appetite in the context of its business models and how the bank manages such risks (Figure 1)
- 11/16. Present flow statements on regulatory capital and RWAs (Figure 2)
- 14/15. Provide information on RWA density and model parameters for main portfolios (Figure 3)
18. Provide a quantified analysis of liquid assets

Main recommendations *(continued)*

19. Provide a summary of encumbered and unencumbered assets (Figure 4)
22. Provide high level map of main market risk measures to the balance sheet (Figure 5)
24. Provide information on risk of loss outside main reported market risk measures
26. Provide 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 the portfolio by relevant factors
- 27/28. Describe forbearance, impaired loan definitions and policies together with quantified movement analysis

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

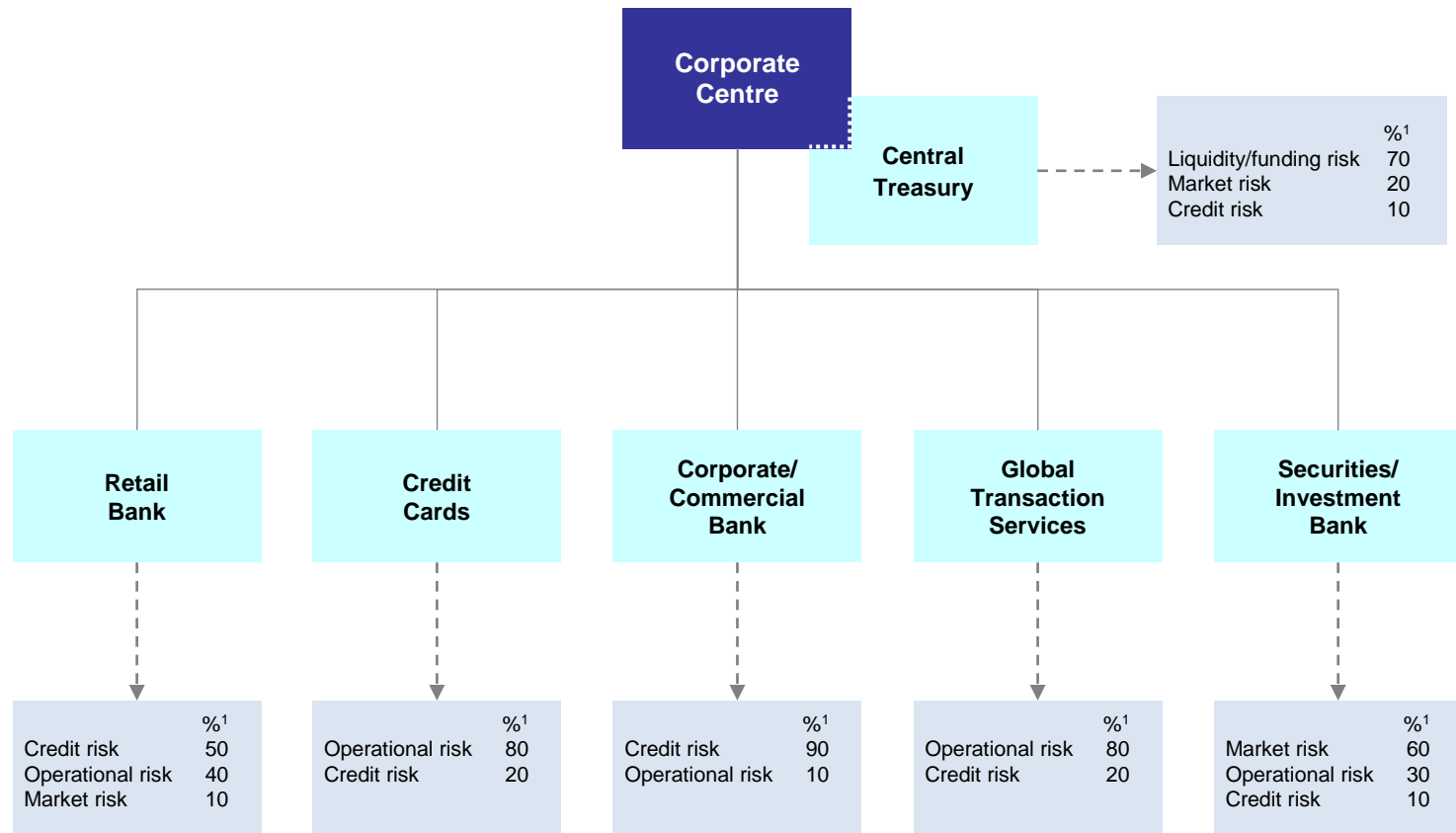


Figure 2. *Example of a flow statement for risk-weighted assets*

All numbers are for illustrative purposes only.

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
Opening RWAs	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	–	–
Total movement	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.
- Model updates updates to the model to reflect recent experience in PD and LGD, change in model scope or the introduction of a revised model within the same Basel 2 approach (Standardised, IRB, etc).
- Methodology and policy methodology changes to the calculations driven by regulatory policy changes, such as new regulation (e.g. CRD4), approval to use new models, or moving from a Basel 2 Standardised approach to an Advanced approach and vice versa.

Figure 2. *Example of a flow statement for risk-weighted assets (continued)*

Disclosure for Market risk

Risk-weighted assets movement by key driver	Market risk
	US\$bn
Opening RWAs	45
Movement in risk levels	(10)
Model updates	(2)
Methodology and policy	1
Acquisitions and disposals	–
Foreign exchange movements and other	(2)
Total movement	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 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 an asset encumbrance table*

Asset type	Encumbered		Unencumbered		Total US\$m
	Pledged as collateral ²	Other ³	Available as collateral ⁴	Other ^{3,5}	
	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	51	237
Other financial assets	–	–	–	–	–
Non-financial assets	–	2	8	3	13
Total assets	120	12	254	97	483

Figure 5. *Example of cross-referencing market risk disclosures to the balance sheet*

	Balance sheet US\$m	Market risk measure		Non-traded risk primary risk sensitivity
		Traded risk ¹ US\$m	Non-traded risk ¹ US\$m	
Assets				
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
Total assets	1,195,203	741,010	454,193	
Liabilities				
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
Total liabilities	694,207	637,821	56,386	

Figure 5. *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	2011
	US\$m	US\$m
Impaired loan book movements		
Impaired loans at 1 January	25,400	28,000
Classified as impaired during the year	5,600	5,200
Transferred to not impaired during the period	(3,800)	(4,500)
Net repayments	–	–
Amounts written off	(2,700)	(3,100)
Recoveries of loans and advances previously written off	800	1,000
Disposals of loans	–	–
Exchange and other movements	(850)	(1,200)
At 31 December	24,450	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	–	–
Exchange or other movements	(650)	(950)
At 31 December	17,550	16,450

Areas of particular interest to the IASB

- EDTF consistent with paragraphs 7 and 31 of IFRS 7
- Disclosure can be made in audited accounts, MD&A or Pillar 3
- Principles and recommendations build on existing GAAP and other disclosure requirements
- Reflects current risk issues focussed on banks

Areas of particular interest to the IASB (cont'd)

- Recommendation to describe the policy for identifying impaired loans, including how the bank defines impaired, restructured and cured loans as well as explanation of the loan forbearance policies
- Reconciliation of movement in impaired loans
- Maturity analysis of assets and liabilities on a residual contractual maturity basis
- Encumbered assets table
- Package of liquidity and funding recommendations and usefulness of consolidated cashflow statement

Public expressions of support

G20 Finance Ministers and Central Bank Governors communiqué:
“We support measures to strengthen the transparency of financial institutions and recognise the contribution of the Enhanced Disclosure Task Force”

FSB

“The Financial Stability Board (FSB) welcomes the publication of the Report of the Enhanced Disclosure Task Force (EDTF) and views it as a valuable step to improve the quality of risk disclosures ... The FSB encourages banks to continue to strive to improve risk disclosures”

Private Sector public expressions of support

HSBC

“.... the ultimate success ... will be judged by the extent and pace of steps taken proactively by the largest international banks to enhance their risk disclosures through implementing its recommendations, and is committed to making significant progress in 2012 and continuing beyond”

Also support from:

PIMCO

Deutsche Bank

Santander

IIF

IBFed

EBF

BBA

Big 4 accounting firms

PGGM

CRUF

Fitch

IASB

FASB

PUBLIC

Building momentum

- Industry meetings:
 - IBFed
 - IIF
 - BBA
- Investor roundtables:
 - London November 15 and 20
 - New York November 30
- Outreach by PIMCO, M & G and others