The Corporate Reporting Users' Forum

Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Sent by email to: baselcommittee@bis.org

24 February 2012

Re: Consultative document 'Definition of capital disclosure requirements'

Dear Sir or Madam:

The Corporate Reporting Users' Forum (CRUF) welcomes the opportunity to comment on the Consultative document 'Definition of capital disclosure requirements' issued for comment by the Basel Committee on Banking Supervision (the Committee).

While CRUF has as its main focus providing input to accounting standard setters such as the IASB and FASB, CRUF participants that are involved in the analysis of reporting by banks globally also have a strong interest in the regulation of those institutions and information disclosed under regulatory requirements. We welcome the steps being taken by the Committee to consider further disclosure that may be useful not only to regulators but to the capital market investment community. Bank capital strength continues to be a key area of focus for investors and analysts, and efforts to clarify the regulatory measures that are used and how these can be understood relative to corporate reporting would give a more coherent picture, improving the ability to analyse returns and assess capital strength. We also consider that transparency of information on capital strength has a key role to play in restoring the level of market confidence that is needed to increase financial stability.

The following summarises certain general points in response to the proposals contained in the consultative document, which we expand on further in sections addressing the tables proposed in the Annexes, and the timing and location of presenting them, below. For ease of reference, throughout this letter we have referred to the tables proposed in each of the Annexes 1 - 4 of the consultative document, as Annex 1 – 4, respectively.

General points:

- We view the proposed consistency in the format of information in the Annexes, in addition to the information itself, as helpful. It would improve the ability of investors and analysts to assess and compare institutions globally. The templates proposed address complex topics where the ability to access information easily would represent a significant improvement.

- The proposed templates would take an important step toward bridging what we view as a significant disconnect between reported equity and regulatory capital, as not all banks reconcile the two, and certainly not in a comprehensive and consistent way. We offer several suggestions as to how the Committee might best bridge this gap with a few modifications to the proposed Annexes to provide more clear linkage between Annex 1 and Annex 2 and potentially to simplify Annex 2 to focus directly on the difference in equity between the consolidated financial statements and the regulatory basis of consolidation.
- We welcome the information that would be provided consistently in Annex 3. While it is theoretically available today, it can be very cumbersome and time consuming to find and compile such information with accuracy. Furthermore, we note that not all issuance documents are publicly available or easily accessible. The issuing banks are better placed to summarize this information and maintain it in a single place where it can be accessed by all analysts and investors.
- Regarding Annex 4, we strongly suggest the Committee consider adding a third column of figures that makes clear the full Basel III treatment.
- We agree with the proposed frequency of reporting the Annex information. We also consider it appropriate to consider the information to be unaudited Pillar 3 information rather than being included in the financial statements, as long as the information can be tied back to the financial statements. We suggest that banks make the information available at the same time as the financial statements are published.
- Understanding the relationship between reported assets and risk weighted assets is a significant analytical priority for us. We encourage the Committee to consider further steps on how this could be achieved.

Annex 1 and Annex 2

We believe the disclosures in Annex 1 would be very helpful. In particular, they would provide information that would improve the ability to compare bank capital across borders, and assess the components of capital and how those components are derived. Currently, information on regulatory adjustments is not widely available, and requiring them to be separately identified using common definitions and a common presentation format – even if the specific lines populated will differ by bank – would greatly assist the navigation of what can be a vast amount of information provided by banks.

We note however that some of the adjustments may raise questions and that some further explanation would be helpful for example, on item 12 'shortfall of provisions to expected losses' and other adjustments that may be particularly significant to a bank. Such explanations could be provided in non-standard notes to Annex 1.

We are somewhat unclear on the linkage between Annex 1 and Annex 2, and encourage the Committee to make both this linkage, and the purpose of Annex 2, more clear. For example, we question whether it will be clear which items are to be shown in Annex 1 as adjustments versus (or additionally) in Annex 2.

Annex 2 could be a good step toward providing an understanding of differences between the regulatory and accounting balance sheets. For example, the additional detail around goodwill and related deferred tax would be helpful in supporting the adjustment for 'goodwill (net of related tax liability)' shown on line 8 of Annex 1. However, regulatory adjustments shown on Annex 1 could be explained through notes to Annex 1 where necessary. For example, a bank that adjusted for goodwill net of tax could disclose in a note: the goodwill amount used in the adjustment and that it is included in the line 'goodwill and intangible assets' on the balance sheet, and the related deferred tax amount and that it is included in 'noncurrent deferred tax liabilities' on the balance sheet. Where applicable, it could also be noted that certain goodwill reported in the financial statements was already excluded from the scope of the regulatory consolidation. This would provide information on the components of the net adjustment on Annex 1, and relate it to the financial statements. If significant, we would expect such amounts could be found in sections of the annual and interim reports, increasing the ability to tie amounts in financial reports to regulatory reporting.

Annex 1 starts with common equity and reserve amounts that are then adjusted in lines 7-27 for a series of specific regulatory adjustments. Although the consultative document does not make this entirely clear, the starting common equity and reserve amounts seem to be those amounts that are in the scope of the regulatory consolidation in Annex 2. We view information on the regulatory scope of consolidation as being important to an understanding of entities that the bank is required to maintain capital in relation to, so showing this equity amount is helpful.

However, we would like to see also how this starting point reconciles back to the reported shareholders' equity amounts in the financial statements. Annex 2 could achieve this more simply by focusing just on the components of reported shareholders' equity and how they differ from the amounts taken to the top of Annex 1. This would represent a more limited way of teasing out relevant information relating to equity without the full balance sheet detail shown in the proposed Annex 2.

The differences in equity between the group accounting basis and regulatory scope of consolidation would include equity amounts for entities consolidated for accounting purposes but not subject to capital requirements, and entities brought into regulatory consolidation that are not in the consolidated financial statements. While a list of the principal subsidiaries or entities to which the differences relate is a start, we do not consider the names of entities to be sufficient. For significant amounts, the associated equity amounts and an explanation of the need for adjustment is also needed to provide an understanding of why the equity for such entities is being added or subtracted (i.e. to remove equity of insurance subsidiaries not subject to bank capital requirements, to include securitisation vehicles not consolidated in the accounts but subject to capital requirements, etc.).

In summary, our suggestions would result in Annex 2 relating to the reconciliation of reported shareholders equity to the equity of entities included in the regulatory scope of consolidation, and Annex 1 then reconciling this equity to regulatory capital, showing the regulatory adjustments that apply. Both Annexes would provide brief notes that enable an understanding of the adjustments and provide links to amounts in the financial statements where relevant.

While this approach would address the derivation of regulatory capital, understanding the relationship between balance sheet amounts and risk weighted assets is a significant analytical priority. We do not think that the proposed Annex 2 would assist in this process. We encourage the Committee to consider further steps on how this could be better disclosed

Paragraph 47 of the consultative document indicates that adjustments that increase capital would be shown as negative, and those that decrease capital would be positive; this seems counterintuitive to us. We would prefer that increases were shown as positive and decreases as negative, and that the nature of the adjustment be made clear by the line item description or additional footnote if needed.

Annex 3

While the information in Annex 3 is theoretically available today, at least for public issuance, it can be very cumbersome and time consuming to find and compile with accuracy. As such, we consider it to be more appropriate for the banks that are closest to such information to compile it and make it available publicly in a single place that all analysts and investors can access.

In terms of the detail of the disclosure, it would also be helpful to have item 16 'Coupons / dividends, Fully discretionary, partly discretionary or mandatory', either split into lines to indicate any restrictions on distributions, or to have an explanatory note detailing any currently restricted payments. Information on the relevant governing law is also important.

It would be most useful to have Annex 3 data available as standing data on the company website, updated for each change in outstanding instruments. We do not feel there is a strong need for the information to be included in published financial reports, however, it would be useful to have a summary of the amount outstanding that ties into the amount included in regulatory capital corresponding to each financial report published.

Annex 4

The attempt to bridge the amount of capital under current measures to what it would be if Basel III were fully applied, is very helpful. Currently, disclosures by banks vary widely, as do the assumptions made in presenting the information. For example, some apply Basel III requirements to the current balance sheet, and others provide estimates of future amounts. A consistent approach to this template would provide a useful baseline of similar information, without precluding additional disclosure of more forward looking estimates of the future capital position under Basel III.

We strongly suggest the Committee consider adding a third column of figures that makes clear the full Basel III treatment, and include in the second column the reversal of items that will be discontinued under Basel III but are currently included in the first column of figures.

As a result, the third column would be the simple addition of column 1 (current treatment) and column 2 (further Basel III adjustments not yet applied in the transitional phase).

Timing and Location

We agree that as proposed, the Annex information should be provided with the same frequency as the financial statements and Annex 3 information on individual instruments should also be updated when changes in the instruments outstanding occur.

The timeliness of this information is also key to analysis which attempts to relate the reported amounts to regulatory consequences. As a result, we would want the Annex information to be made available at the same time as the financial statements are published.

We agree that the disclosures should be published with the first set of financial statements relating to the balance sheet on or after 1 January 2013 (with exception of schedule 1), though we would hope that some institutions might begin providing the information prior to this as we understand that it is largely based on information that already exists and we note that some institutions already present schedules that reconcile reported shareholders' equity to measures of regulatory capital.

We are comfortable with the disclosures being reported as Pillar 3 information provided on the company's website, rather than being included within the company's financial reports. In this regard, we do not consider it necessary for the information to fall within the scope of the audit, as long as items derived from the audited or reviewed financial statements can be tied back. The link between Annex information and financial statement data could however be shown more clearly in the various notes to regulatory adjustments and other amounts on the Annexes that show their derivation from amounts in the financial statements.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF came together in 2005 as a discussion forum to help its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters such as the IASB and FASB.

CRUF participants come from all around the world, including individuals from both buy- and sell-side institutions, and from both equity and fixed income markets.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. It does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters or to the media. It would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative.

The Corporate Reporting Users' Forum

We sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum (www.CRUF.com) and not as representatives of our respective organizations. The views expressed are those of individual CRUF participants and do not necessarily reflect the views of the respective organizations where we are employed.

The participants in the Forum that have specifically endorsed this response are listed below.

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