December 2009

Roundtable "Fostering convergence of Pillar 3 disclosures"

London, 9 December 2009

The Committee of European Banking Supervisors (CEBS) held a public roundtable discussion on 9 December 2009 to promote convergence in the application of Pillar 3 requirements and thereby enhance comparability of related disclosures. Around 50 representatives from individual institutions, banking associations and supervisory authorities attended the meeting and contributed to the discussion.

This event took place as a result of CEBS's findings made in the context of the assessment of 2008 Pillar 3 disclosures published in its report of June 2009. CEBS noted that although progress has been made regarding the information provided to market participants, the heterogeneity, in terms of both presentation and content, reduced the usefulness of the information for users.

The aim of the roundtable was to provide a platform for dialogue between preparers and users of Pillar 3 disclosures in order to deepen the insight into the utility of and the problems related to Pillar 3 disclosures. To stimulate discussion there was first a presentation were given by the chair of CEBS Transparency Subgroup, followed by four interventions from preparers and users.

1. Introduction by CEBS

Ms. Beaudemoulin reminded participants that CEBS published a report on its website in June 2009, in which it analyses 2008 Pillar 3 disclosures of 25 large banks against CRD requirements. The report highlights the fact that although many banks have made educational efforts in the presentation of their Pillar 3 disclosures, there is a broad diversity in the information produced and part of the information required by the CRD is lacking.

The chair of the CEBS Transparency Subgroup also noted that national supervisors carried out bi-lateral meetings with the banks assessed in the report. These meetings were very fruitful and highlighted several points of views within the industry:

- Due to the limited number of questions raised by market participants, some banks questioned the level of detail and technicality of some part of the CRD requirements;
- Banks were divided on the issue of the interrelationship of Pillar 3 disclosures with financial statements. Some considered that Pillar 3 disclosures provided a different perspective from the bank's situation and hence separate disclosures were preferable in order to avoid any confusion when comparing the figures; while others viewed the disclosure requirements as a whole and strove to reconcile the figures to provide a single picture of the bank;
- Implementation difficulties were encountered, notably when Pillar 3 requirements did not match with the prudential reporting made to the national supervisor;

- Banks were divided on the need for guidance. Some feared additional burdens and costs, arguing that the guidance would arrive too late while some would welcome additional specification regarding the implementation of current requirements.

Finally, it was mentioned that CEBS also held a meeting with a panel of users including equity and fixed income analysts, investors and Credit Rating Agencies. The utility of Pillar 3 disclosure was acknowledged. However, the lack of consistency across institutions as well as inaccurate definition of concepts reduces its usefulness.

2. Presentations from preparers and users

Moody's presentation ("Pillar 3 Disclosures: The Perspective of a User") highlighted that Pillar 3 disclosures are hampered by weaknesses in implementation. The Moody's representative also listed disclosures which could be useful such as disclosures on capital structure and capital adequacy. In addition, the Moody's representative suggested an increase in transparency of risk disclosures and commented on the challenges in comparing Pillar 3 disclosures.

Standard & Poor's presentation ("Standard & Poor's view of Pillar 3 disclosures' benefits and limitations") commented on the lack of comparable data and the different level of granularity from one bank to another. The S&P representative noted that Pillar 3 offers very valuable information for market participants. However, there is a need for more factual and comparable information to support Basel 2 estimates.

EBF presentation ("Pillar 3: A preparers View") focussed on convergence and the challenges that effective convergence may hold, such as different accounting and regulatory definitions, in particular when relating to exposures and the level of consolidation. EBF concluded that disclosures will evolve by practice and market discipline. Furthermore, different stakeholders (regulators, banks and users) have important roles in market disclosures. The EBF representative welcomed CEBS review on Pillar 3 disclosures.

A fourth presentation was given by BNP Paribas dealing with the frequency, the format and the content of Pillar 3 disclosures. (This presentation is not available in electronic format).

3. Main topics discussed

The discussion addressed various topics and in particular:

- The usefulness of Pillar 3 disclosures

Though it seems clear that Pillar 3 disclosures have provided improvement to risk disclosures, the current use is reduced by the heterogeneity of the disclosures and the insufficient familiarity of some categories of users with the Basel II framework. The progressive appropriation of the concepts by users combined with convergence efforts from banks should increase the usefulness of Pillar 3 disclosures in the future.

Users mentioned that some Pillar 3 disclosures were difficult to find (notably from small banks). CEBS reiterates the importance of having Pillar 3 disclosures easily accessible.

- The timing and frequency issues

Users would like information on Pillar 3 to be published at the same time as the annual report or sufficiently close to the latter's date of publication to allow a combined analysis. Although banks understand this request, some of them raised practical issues. Nevertheless, banks acknowledge that the timing issue should be more manageable during the second and following years of implementation than it was for the first year.

Users would support more frequent information on some items such as capital and credit risk. Banks stressed that in normal times, the business model and hence risk figures are not prone to rapid changes. Besides, they would like their disclosures to be commensurate with market participants' ability to absorb information. Some compromise should be workable on most significant Pillar 3 disclosures.

- The comparability of Pillar 3 disclosures

A significant part of the discussion focused on the comparability issue which users illustrated by different examples. It was noticed that the issue was further compounded by the application of national discretions. No simple answer was given to this issue, yet it was pointed out that the lack of common definitions was part of the problem. Some clear explanation and further qualitative comments to support Basel 2 estimates could alleviate the situation. In the medium term, highlighting best practices should help foster convergence.

- The disclosures perspective

Users would warmly welcome a wide perspective of Pillar 3 disclosures encompassing for instance information on liquidity and quantitative information on economic capital. Preparers are somewhat reluctant to go too far in this direction pointing out proprietary issues and the risk of an increased heterogeneity in the disclosures. The enhancement of Pillar 3 requirements foreseen for January 2011 appears to strike a balance between these two viewpoints requiring banks to provide information on their risk's profile but keeping the restriction concerning proprietary information.

4. Next steps

In 2010, CEBS will renew its assessment exercise on 2009 Pillar 3 disclosures. The need for guidance will be reconsidered on the basis of this new assessment. In addition, CEBS intends to promote convergence by highlighting best practices.