5th Annual Accounting Conference

CEBS Disclosure Requirements: Lessons Learnt from the Financial Crisis

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CEBS

Committee *of* European Banking Supervisors

Outline

- The role of CEBS
- The new financial supervisory framework
- Overview of CEBS's work on disclosure and transparency
  - Driver and objectives
  - Approach
  - Targets
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  - Current work

The role of CEBS

Objectives:

Promote efficient and effective supervision and the safety and soundness of the EU financial system through:

- Good supervisory practices
- Efficient and cost-effective approaches to supervision of cross-border groups
- Level playing field and proportionality

Main tasks:

- Give advice to the Commission
- Promote consistent implementation/application of the EU banking legislation
- Promote convergence of supervisory practices
- Promote information exchange and supervisory cooperation
- Regular risk assessments from a supervisory perspective

The new financial supervisory framework

An enhanced European financial supervisory framework composed of two new pillars

- European Systemic Risk Board (ESRB) -> *macro-prudential supervision*
- European System of Financial Supervisors (ESFS) -> *micro-prudential supervision*

- In this context, the existing 3L3 Committees will be replaced by three new European Supervisory Authorities (ESAs)

- **European Banking Authority (EBA)**
- European Insurance and Occupational Pensions Authority (EIOPA)
- European Securities and Markets Authority (ESMA)

Driver and objectives

Driver for the first assessment (June 2008 report)

- ECOFIN Roadmap on financial market situation and November G-20 Declaration

Objective of CEBS approach

- CEBS's output aimed to influence banks' behavior
- Disclosures should primarily be market driven

Approach

Initially, comparison of existing disclosures on areas affected by the (sub-prime) crisis (basis: 2007 Q4 and annual reports)

Efforts resulted in development of good practice disclosures, covering:

- Qualitative disclosures (on business models, risk management and accounting policies)
- Quantitative disclosures (on levels of exposures and impacts)

Targets

CEBS Good practice disclosures provide guidance to achieve:

- comprehensive information on business model and risk management;
- meaningful information on exposures and impacts, with appropriate levels of granularity;
- useful disclosures on accounting policies; and
- improved presentation of the disclosures.

Follow up work

Since then CEBS has embarked on substantive follow-up work

⇨ Assessment of disclosures against ‘Good practices’ benchmark

- 1st follow-up assessment published in October 2008 (basis: 2008 interim results)
- 2nd follow-up assessment published in March 2009 (basis: 2008 Q4 and preliminary YE results)
- 3rd follow-up assessment published in June 2009 (basis: 2008 annual reports)

⇨ Analysis of banks’ Pillar 3 disclosures end 2008 (published June 2009)

The latest results

Assessment of 2008 annual reports (sample: 23 cross border banking groups)

- Improvements made:
  - CEBS good practices have been covered quite extensively
  - Significant increase of disclosures
  - Quantitative disclosures are detailed and satisfactory
- Improvements needed:
  - Accounting-related disclosures (incl. FV measurement)
  - Disclosures on other areas affected by the crisis need to be developed
  - Coherence and readability of annual report disclosures should be improved

The latest results

Assessment of financial institutions' Pillar 3 disclosures at the end of 2008 (sample: 25 large banks, mainly European)

⇨General findings:

- Broad diversity in Pillar 3 disclosures
- There is no prescriptive requirements of the CRD with regard to timeframe for publication, location of information and presentation -> leading to the heterogeneity observed
- A part of the information required by the CRD is lacking
- A part of the information is difficult to understand

Current work

CEBS draft disclosure guidelines: lessons learnt from the financial crisis (CP30)

- 16 high-level principles that reflect the findings and conclusions of the assessment of banks’ disclosures that CEBS has carried out.
- Useful guidance to banks with a view to improving the quality of their disclosures.
- No intention to amend, duplicate or add to existing disclosure requirements.
- Comments are sought on all aspects of the proposed guidelines (CP30). Responses to cp30@c-ebs.org by 15 January 2010.
- A public hearing to be held at CEBS’s premises, in January 2010.
- New assessment of disclosures planned for 2010.

Current work

CEBS also works in bringing convergence on Pillar 3 disclosures

- Bilateral discussions have been organised to discuss the analysis of their Pillar 3 disclosures with banks covered in the report
- Findings of CEBS report were also discussed with users
- A roundtable gathering preparers and users took place on 9 December 2009
- A new assessment of banks Pillar 3 disclosures is planned for 2010 (based on 2009 Pillar 3 reports)

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