



## RESPONSE OF IRISH BANKERS FEDERATION TO CEBS CONSULTATION PAPER (CP05) ON THE FRAMEWORK FOR SUPERVISORY DISCLOSURE

24 June 2005

### **1. INTRODUCTION**

- 1.0 Irish Bankers Federation welcomes CEBS' proposal for a common European framework for supervisory disclosure and is satisfied that the proposed framework encompasses the requirements as set out in Article 144 of the proposed Capital Requirements Directive (CRD) as well as the proposal for supervisory disclosure submitted by the European Banking Federation in their response to the European Commission's Third Consultation Paper. Irish Bankers Federation fully supports CEBS' stated aims of promoting the legitimacy and credibility of supervisors by making supervisory practices more transparent. However, it is the view of Irish Bankers Federation that superseding the aim of improved transparency, the principal objective of the framework should be supervisory convergence and the promotion of a level playing field throughout Europe.

### **2. SPECIFIC COMMENTS**

#### Section III: Basic Principles

- 2.0 The first basic principle applicable to the disclosure framework states that the framework aims at simply recording and transmitting factual information, without seeking to interpret or validate the disclosures. Although standardised templates have been proposed for the purposes of comparability, to ensure this comparability, we are of the view that validation of the information is needed and given CEBS' co-ordinating role in this framework, the validation should be conducted by CEBS.
- 2.1 The second basic principle applicable to the disclosure framework states that the information displayed on the CEBS website will be disclosed in English and information on the national websites of non-English speaking countries will be displayed in English on a best-efforts basis. This is welcomed by Irish Bankers Federation.
- 2.2 The fourth basic principle applicable to the framework states that supervisory disclosure should be resource-efficient and avoid excessive burden on supervisors. Irish Bankers Federation welcomes the commitment made by CEBS that the framework is based on currently available information and no additional reporting requirements should be required on the part of supervisors or institutions. This is a very important feature of the framework. While we recognise that the framework is likely to evolve and the data reported by supervisors may change, it is imperative that this principle is adhered to. The reporting requirements of institutions must not increase as a result or consequence to the proposed framework.
- 2.3 The fifth basic principle states that the framework will be monitored regularly by CEBS and an annual report will be provided to the Commission to enable the Commission to assess whether the objective of meaningful comparison has been achieved. Clarity is sought as to



whether the users of the framework will be consulted as part of this report? It is imperative that the views of users of the framework are considered when assessing whether the framework facilitates meaningful comparison. Furthermore, it is the view of Irish Bankers Federation that an annual review of the framework is insufficient during the initial years of operation. As stated in our response to Question 2 below, it is important that ongoing feedback is sought from users, particularly during the initial phases of implementation and resulting amendments and improvements are made to the framework in a timely manner.

#### Section IV (B): Content of Disclosure

- 2.4 It is stated in paragraph 60 of the consultation paper that CEBS is currently considering the possibility of requiring national authorities to release either lists or the general criteria relating to governments and local authorities risk-weighted like central governments, a list of public-sector entities risk-weighted like institutions and a list of core market participants referred to in Annex VII of the CRD. Extending the framework to incorporate this data would be very useful to the users of the framework. Irish Bankers Federation is of the view that both lists and the general criteria applied should be disclosed if supervisory convergence is to be achieved in this area.
- 2.5 With regards to the “*Options and National Discretions*” Section, Irish Bankers Federation is of the view that supervisors should also provide an explanation as to why certain options have been implemented. The supervisory disclosure framework is a very important first step to promoting a level playing field in the European banking industry. A longer-term goal in the context of a level playing field is the reduction and eventual elimination of national discretions. Creating transparency with regards to national discretions will assist this process.
- 2.6 One of the tables included in the *Statistical Data* Section of the Supervisory Disclosure Framework requires supervisors to disclose data relating to credit risk. As part of this table, supervisors are required to report the value of exposures to each asset class as a percentage of risk weighted assets. The asset classes are defined in line with the classification provided in the CEBS Common Reporting Framework. As raised in the response to the European Banking Federation to the CEBS Consultation Paper, “*The New Solvency Ratio: Towards a Common Reporting Framework*”, the exposure classes correspond to the IRB approach to credit risk only. Institutions applying the Standardised Approach may have difficulties assigning exposures based on this classification.

#### Section IV (C): Implementation & Updating

- 2.7 It is stated in paragraph 100 of the Consultation Paper that the guidelines for implementing the framework will be finalised by year-end 2005. It is further stated however that implementation of the framework is likely to be delayed until a later time. Irish Bankers Federation appreciates that CEBS may be reluctant to propose an implementation timeline given that the CRD is not yet finalised. However, we are of the view that if the CRD is finalised prior to completion of the guidelines for implementing the supervisory disclosure framework, an implementation date should be proposed. Although, Irish Bankers Federation recognises that the data to be disclosed may not be available in its totality on a specific date and it is possible that the disclosure requirements may be phased in, the value of this supervisory disclosure to users will be at its peak in the period prior to implementation of the CRD.
- 2.8 It is stated that in order to keep the disclosure framework up to date, competent authorities will update their disclosures at least once a year. The value of the framework is derived from the accuracy of the information disclosed. For this reason, Irish Bankers Federation recommends that the information disclosed is kept up-to-date. Regulators should be required to assess the accuracy of the data at minimum, on a quarterly basis. Confirmation of this assessment should also be made available on the website.



### **3. COMMENTS TO QUESTIONS**

#### **Question 1:**

- 3.0 Although a website demonstration of the framework is provided, it is difficult to assess in terms of accuracy and effectiveness whether the framework allows for a meaningful comparison across the EU of approaches to implementation of the Basel-2 related provisions of the CRD until the framework is actually working in practice. For this reason, it is important that ongoing feedback is sought from users and resulting amendments and improvements are made to the framework in a timely manner.

#### **Question 2:**

- 3.1 One of the basic principles applicable to the supervisory disclosure framework states that no supervisory decisions directed at specific institutions are to be disclosed. Irish Bankers Federation supports this principle of confidentiality. However, with regards to additional disclosures, the members of Irish Bankers Federation would find it useful if an overview of the grounds for non-acceptance of applications to advanced approaches were provided. We recognise that regulatory authorities will provide this information to individual applicants. However, in the context of a level playing field, it is important that there is consistency in the approaches adopted and basis for decisions taken by regulatory authorities. Disclosing a high-level overview of reasons for non-acceptance without providing specific details would assist this process.

#### **Question 3:**

- 3.2 As a representative body of both domestic and international banks, Irish Bankers Federation often compares the approaches of EU regulatory authorities in the context of numerous banking issues. This can often be a very time consuming exercise. The supervisory disclosure framework therefore provides a very quick and efficient means of obtaining this information. Our member banks intend to use the framework to examine the implementation of legislation across different EU member states and for the purposes of comparing regulatory approaches to issues such as model validation and national discretions. Also of particular interest to banks will be the statistical data relating to approaches to credit risk and operational risk adopted by banks across Europe.

#### **Question 4:**

- 3.3 As stated in our response to Question 1, it is difficult to assess the mechanics of the website in detail until such time as the framework is actually working in practice. However, Irish Bankers Federation supports CEBS's approach of using the internet to allow users access to disclosures. We find the demonstration user-friendly and easily navigated. It is important however that the information disclosed can be easily extracted by users. For this reason, it would be welcomed if the information is also available in a format such as Excel which can be easily used for banks' internal processing.