

30 June 2010

## **Assessment of banks' transparency in their 2009 audited annual reports**

### **Executive summary**

The present report is the latest installment in a series of efforts CEBS has carried out, since the start of the global financial crisis in 2007, to assess banks' transparency. This reflects continued interest in the way banks communicate the impact of the crisis on their activities and financial situation.

The findings in this report deal with the disclosures banks provided in their 2009 audited annual reports. A similar report analysing the disclosures provided under Pillar 3 is published in parallel.

This report reflects the outcome of CEBS's assessment of the 2009 year-end disclosures of a sample of European (mainly EU) banks – and, in certain areas, of non-European banks – and reveals, overall, that the CEBS June 2008 good practices, which form a large part of the benchmark used for the analysis, have been covered in rather satisfactory manner.

This is notably the case for the disclosures on business models and risk management and to some extent for the disclosures on activities directly affected by the sub-prime crisis (exposures, results and the impact on institutions' financial position) even if there is still room for improvement in this latter area (granularity, explanation of evolution between periods and comparability).

However, as in last year's report, CEBS has identified particular areas, where some banks' disclosures offer room for improvement. These include:

- *Disclosures on fair values:* Due to the proportion of instruments measured at fair value in the balance sheets of the banks in the sample, disclosures related to fair valuation are of particular importance. However, despite an overall improvement following the mandatory application of the amendments to IFRS 7 issued in March 2009, further room for improvement has been identified. For some of the banks, the disclosures lack clarity as to the detailed criteria used for classifying instruments in the different levels of the fair value hierarchy and as to the boundary for classifying instruments between level 2 and 3, and also – as in last year's report – regarding disclosures on valuation techniques (including sensitivity analyses), on methodologies used to determine the impact of own credit risk spreads and to account for day one differences;
- *Impairment disclosures* have been assessed with particular scrutiny this year given the evolution of economic conditions and the resulting impact on credit risk. Banks could be more specific as regards the methodologies related to collective impairment. The disclosures in this area were also observed to be particularly heterogeneous, both in terms of presentation and content;

- *Disclosures on reclassifications*: in particular, the disclosures on the reasons for the reclassifications are often very generic, notably for those banks that have reclassified instruments in 2009;
- *Disclosures on consolidation or non-consolidation of special purpose entities* could be further developed notably in relation to how the risks and rewards test is conducted and with regard to its results;
- *Disclosures on other activities under stress*<sup>1</sup>: The disclosures on specific activities under stress (e.g. some lending activities, such as consumer lending and specialised lending) could in a number of cases be more accentuated and be more detailed.

CEBS's assessment also covered disclosures on remuneration issues and the report noted that this was another area where significant improvements could be made. This applies, in particular, to quantitative disclosures on remuneration schemes for staff whose professional activities have a material impact on the risk profile of a bank, as set out in the Financial Stability Board's April 2009 paper 'Principles for Sound Compensation Practices'. In that context, it has to be noted that in many countries these principles are only on the point of being implemented.

It has been observed that the disclosures of the banks included in the sample are quite heterogeneous; not only in terms of the level of detail, but also as regards structure and presentation. While different levels of granularity often reflect differences in banks' activities and in the way banks have been affected by the crisis: structural and presentational heterogeneity, at times, creates comparability issues. CEBS also observed that the quality of the disclosures is not always linked to the quantity of the disclosures, with examples of good practice appearing in more concise reports as well as in longer reports.

Finally, the report also discusses some findings about the presentation and structure of disclosures, which are intended to assist banks in improving the quality of their disclosures.

More generally though, the improvement of the disclosure quality led CEBS to identify, in all areas, examples of best practice disclosures. These best practice examples are meant to be neither exhaustive nor exclusive. Rather, they are considered to be particularly useful and conducive to increasing comparability.

In addition, CEBS refers – where appropriate – to its 'Principles for disclosures in times of stress (Lessons learnt from the financial crisis)' issued April 2010, which capitalise on the previous work carried out in that area with the objective of assisting institutions in improving the quality of their public disclosures.

Although a comparison has not been performed for all areas, the disclosures of the European banks are comparable to those of a number of non-European banks. Where diversity has been observed, it is often as a result of differences in accounting disclosure requirements.

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<sup>1</sup> CEBS analysed not only banks' disclosures about activities and exposures affected by the sub-prime crisis but also looked at disclosures on areas that have been affected by more recent developments of the crisis. These areas vary from bank to bank.

CEBS has discussed the findings of the report(s) with the industry at a public hearing held on 28 June.

CEBS will continue to monitor banks' disclosures in the future.

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## **I. Introduction**

1. In this report CEBS discusses the findings and conclusions of its renewed assessment of banks' transparency in their 2009 annual reports. It marks the continuation of a series of assessments carried out since the beginning of the market turmoil in the summer of 2007.

2. Past efforts led to i) the good practice disclosures identified in the '[CEBS Report on banks' transparency on activities and products affected by the recent market turmoil](#)' published on 18 June 2008, ii) the related [follow-up report](#) published in October 2008 assessing how the good practices identified in CEBS's June 2008 report had been implemented, iii) the '[Follow-up review of banks' transparency in their 2008 4<sup>th</sup> quarter and preliminary year-end results](#)' published in March 2009, and lastly iv) the '[Follow-up review of banks' transparency in their 2008 audited annual reports](#)' published in June 2009.

3. While the June 2009 report formed part of the work the EU institutions agreed to carry out in response to the November 2008 G20 Declaration and also reflected a commitment made in a previous report to analyse banks' 2008 year-end disclosures, this latest effort reflects a continued interest in banks' disclosures and in the assessment of how they have evolved, as the crisis has developed and changed both in intensity and scope.

4. To that end, CEBS analysed not only banks' disclosures about activities and exposures affected by the sub-prime crisis, but also looked at disclosures on areas that have been affected by more recent developments of the crisis.

5. In addition, given the conclusions of the June 2009 assessment report, CEBS also focused on the analysis of specific accounting-related disclosures that had been identified as offering room for improvement and that would be of relevance in the current economic context.

6. This work is closely related to CEBS's analysis of disclosures provided under Pillar 3, which is included in a separate report (published together with this document).

## **II. Background**

7. In its assessments CEBS analysed not only disclosures on the impacts of the market turmoil on exposure levels and on results (as in the recommendations of the Senior Supervisors Group and put forward in the April 2008 [Report of the Financial Stability Forum \(FSF\) – now Financial Stability Board \(FSB\) - on Enhancing Market and Institutional Resilience](#)), but also information on business models, risk management practices, accounting and valuation practices. The findings of past reports highlighted a number of weaknesses in the disclosures made by banks, particularly with regard to business models, risk management practices, accounting and valuation practices.

8. For the previous assessment, which covered 2008 annual report disclosures, the findings of the analysis (performed on 23 large banks with cross-border activities) show that the CEBS good practices, published in June 2008, have been covered quite extensively by many banks.

9. That report also noted an increase in the level of disclosures compared to the previous analyses CEBS carried out with regard to both the 2008 last quarter and preliminary year-end, and the interim results. At the same time CEBS identified a number of areas where disclosures could be further improved, in particular, disclosures related to fair value measurement, disclosures on valuation models, and disclosures on consolidated and unconsolidated entities (and assets). For that assessment CEBS has also focused on disclosures related to credit impairment given the evolution of economic conditions and its potential impact on the quality of banks' loans portfolios.

10. The crisis led CEBS to look in that exercise beyond its June 2008 good practices. This expanded view allowed CEBS to identify aspects that institutions should pay particular attention to, in particular impairment of financial instruments, goodwill and 'new' areas or exposures affected by the crisis.

11. Based on the findings of these assessments CEBS decided to capitalise on this work and develop a set of disclosure principles that would reflect the lessons learnt from the financial crisis and would assist institutions in improving the quality of their public disclosure. Following a public consultation on a draft set of disclosure guidelines published in October 2009, CEBS issued in April 2010 revised and refined ['Principles for disclosures in times of stress \(Lessons learnt from the financial crisis\)'](#).

### **III. Objective and methodological remarks**

#### **i) Objective**

12. The objective of this year's analysis was to assess how banks' audited 2009 annual report disclosures have compared against benchmark disclosures which are largely based on the good practices put forward in CEBS's June 2008 report.

13. The scope of the assessment for some topics is limited. Such a limited scope - on activities under stress, including sub-prime and toxic activities, as well as areas that have in the course of the crisis come under stress (e.g. wholesale banking, consumer credit, private equity investments, structured credit exposures and certain regional activities) - has been chosen for:

- exposures levels and types;
- results; and
- impact on financial position.

14. All other categories, in particular, disclosures on business models and on accounting issues have been reviewed from a general point of view. As regards accounting issues, a particular focus has been put on fair value measurement issues and credit impairment.

15. Given the wider nature of the crisis the analysis looks also at a number of specific areas that became particularly relevant during 2008 and 2009. As a result of these developments the discussion addresses issues such as liquidity risk management, state interventions and other measures such as recapitalisations, and also disclosures relating to remuneration practices.

16. The analysis also provides a discussion of how the disclosures in the 2009 audited annual report compare to previous disclosures, particularly with regard to

areas that, in CEBS's June 2009 report, were identified as providing scope for improvement.

ii) Methodological remarks

17. The analysis is based on a similar approach to those applied in previous reports – i.e. the disclosures of a sample of banks were compared against a benchmark list of disclosure items (originally based on the good practices set out in CEBS's June 2008 report). The modified scope of some topics and the introduction (or refocusing) of elements has led to a number of changes to the benchmark (included in Annex 1).<sup>2</sup>

18. To ensure comparability with the previous exercises, the analysis uses a similar sample of banks to the previous exercise<sup>3</sup>. The report has been based on the 2009 annual reports of 24 (previously 23) large European banks with cross-border activities.<sup>4</sup> 23 of these (previously 18) have their headquarters in the EU, with one bank located in Switzerland.

19. The findings also discuss how the European banks in the sample compare to a small number of non-European counterparts, more particularly three US institutions, although this comparison has been performed on some specific areas, notably: fair value disclosures (including level 3 disclosures and sensitivity analysis, valuation techniques and own credit risk), consolidation and derecognition, and exposure level and types.

20. Banks' disclosures were assessed by national supervisors. These individual assessments were subsequently reviewed and cross-analysed – by topics - by small teams, who provided input and feedback on the original assessments, and helped develop an overall view of the quality of disclosures on a particular topic. The outcome of this exercise formed the basis of the findings included in this report.

21. This approach also aimed to increase the consistency and relevance of the findings and moreover to identify best practice examples.

22. The assessment was carried out using the scores set out below:

- NA = item is not applicable;
- 0 = no information disclosed;
- 1 = insufficient information provided;
- 2 = disclosure could be improved; and

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<sup>2</sup> Amendments to the tables in comparison to last year's exercise have been underlined in the annex.

<sup>3</sup> The list of banks has been included in annex 2. The sample changed in comparison to the previous assessment to align the sample with that used for the Pillar 3 exercise and to accommodate suggestions from certain supervisors. This led to the addition of a number of institutions.

<sup>4</sup> At the time of the finalisation of the report, one bank had not yet published its report in English. As a result this bank could not be included in all parts of the cross-analysis and be included in all comparisons.

- 3 = disclosure adequate.<sup>5</sup>

23. The assessments identified some disclosures as particularly clear and understandable. In these cases, these examples of best practice identify relevant and useful disclosures that go beyond what is required in a standard or in a regulation. However, it should be noted that the purpose of CEBS's analysis has been to compare the quality of the disclosures provided by banks against a benchmark, not to assess the accuracy of the disclosures.

24. Where best practice disclosures have been identified, this does not mean the examples are exhaustive and that others do not exist. Also, these best practice examples do not imply that these constitute the only way of providing certain disclosures; rather, they are considered to be particularly helpful or conducive to increasing comparability.<sup>6</sup> It is, however, important to note that the nature of the exercise implies a certain amount of judgement.

25. National supervisors have agreed to discuss, as far as possible, the individual assessments and scores with the institutions covered in the exercise to provide banks with direct and immediate feedback on the outcome of CEBS's analysis, as well as an opportunity to understand any specific issues particular banks are facing.

26. Bilateral exchanges that have been carried out for this purpose following last year's assessment were well received, but CEBS's work is not only helpful to institutions covered in the assessment: through the provision of best practice examples (similar to the practice of the Senior Supervisors Group and put forward in the April 2008 '[Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience](#)'), the report delivers useful guidance for all institutions.

#### **IV. Main findings of the analysis of the audited annual reports**

27. The following paragraphs discuss the main observations stemming from the analysis of the disclosures of the banks included in the sample and identify areas for which disclosures could be enhanced.

28. In addition, the discussion provides, for certain areas, disclosures that are considered to be best practice examples.

##### **1) General perspective**

###### ***a) Business models***

###### *i) Assessment of disclosures*

29. The assessment of the disclosures on business models has been summarised in the following table:

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<sup>5</sup> These scores are different to the scores used for the assessment of 2008 annual reports in that they assess the adequacy (but not accuracy) of the disclosures rather than the level of detail.

<sup>6</sup> It should also be noted that banks identified as best practice examples for a specific area might need to improve in other areas. A conclusion on a specific area should not be generalised to all the disclosures of an entity.



Assessment of disclosures	N/A	No disclosures	Insufficient	Room for improvement	Adequate
% of banks	0%	0%	8%	21%	71%
Compared to previous AR, the disclosures are			improved	similar	less detailed
% of banks			18%	82%	0%

30. Most annual reports assessed generally contained adequate descriptions of banks' business models, which were also clear and easy to read. There were some examples of banks adopting an educational approach, as encouraged by CEBS's high-level disclosure principles. We also noted improvement in some banks' disclosures compared to those produced last year.

31. Only a few banks provided significantly less detail than their peers in this area. More broadly, we also noted potential for improvement among some banks in the following areas:

- implications for the bank's activities or business models of withdrawal of government support measures;
- types of products used by the bank to generate revenues in particular areas, as well as the need for qualifying criteria for investments to be described with more granularity.

*ii) Best practice examples*

32. There were several best practice examples, including:

- clear links made between group strategy and the contribution made to that strategy by individual divisions or segments, supported by a clear layout of the report and language (e.g. Rabobank, Erste Bank);
- use of cross references in the annual report to further enhance these links between group strategy and strategic priorities by division (e.g. SEB);
- discussions of initiatives to make changes in particular areas, with, for example, disclosures regarding the realignment of business models to focus on core markets for banks which had received direct government support (e.g. Dexia);
- targets and key performance measures clearly set out at the start of the report, which made it easier to understand how a strategy would be implemented (e.g. RBS, ING); and
- clear development on the macroeconomic context, the banking system and the bank's forecasts for the following year (e.g. Intesa).

33. Although several firms provided very detailed disclosures, we also found best practice examples amongst firms with more concise disclosures. This illustrates the point that the quality of the disclosures is not always linked to the quantity of disclosures in this area.

## **b) Risks and risk management**

### *i) Assessment of disclosures*

34. The assessment of disclosures on risks and risk management is summarised in the following table:

Assessment of disclosures	N/A	No disclosures	Insufficient	Room for improvement	Adequate
% of banks	0%	0%	0%	17%	83%
Compared to previous AR, the disclosures are			improved	similar	less detailed
% of banks			23%	77%	0%

35. The analysis revealed that all assessed banks identified their essential risks and gave qualitative information on the respective risk category.

36. Moreover, all banks made references to the financial crisis, in the qualitative description of the risk management report. Some banks gave information on their risk management practices introduced or modified due to the financial crisis. Examples for improved risk management methods disclosures concern the following: adaptation of lending policies, modification and enlargement of stress testing, introduction of additional risk committees and new risk governance policies.

37. The information, on internal stress testing, shows that the majority of the assessed banks mention that they conduct stress tests on a regular basis. At the same time, there is little disclosure of details on the composition (e.g. macroeconomic, idiosyncratic or combined triggers) of stress tests and on their results. CEBS acknowledges that quantitative information on stress tests conducted for internal purposes may be confidential.

38. Compared to last year, some banks have developed their disclosures on liquidity risk management by including more comprehensive qualitative information and, in some annual reports, quantitative information for the first time. A majority of banks disclosed qualitative information on liquidity risk management (objectives, internal organisation, methodologies used to manage liquidity risk such as stress tests...), while some banks have published their regulatory liquidity ratio (e.g. BNP Paribas, Commerzbank, Crédit Agricole, Société Générale). A few banks publish more extensive quantitative information that includes stress testing information (e.g. Commerzbank, Deutsche Bank).

### *ii) Best practice examples*

39. As best practice examples, CEBS identified:

- provision of clear executive summaries highlighting the key areas related to risk management (e.g. Santander)
- comprehensive discussion of each risk management including the impact of the market turmoil (e.g. HSBC).

40. As regards disclosures provided under IFRS for liquidity risk, it has been observed that several banks publish an analysis of the contractual maturity of their financial assets in the notes to their financial statement dedicated to the analysis of the contractual maturity of the financial liabilities. Even if the disclosures related to the contractual maturity of financial assets are not required by IFRS 7 (the standard only requires the information on the contractual maturity of liabilities), nevertheless, this information is useful in assessing banks' liquidity risk.

**c) Accounting policies**

41. Last year's findings led CEBS to cover again largely the same accounting-related disclosures in the present analysis, although increased focus has been put on impairment issues.

*ca) Valuation issues*

42. As regards the disclosures on valuation and other issues (fair value hierarchy, level 3 disclosures, valuation techniques, day one profits, fair value option and impact of own credit risk), the main findings can be summarised in the table below:

Assessment of disclosures	N/A	No disclosures	Insufficient	Room for improvement	Adequate
% of banks	0%	0%	4%	58%	38%
Compared to previous AR, the disclosures are			improved	similar	less detailed
% of banks			32%	68%	0%

43. As shown in the table above, 4% (which corresponds to one bank out of 24) disclose insufficient information regarding required valuation disclosures. In 58% of the assessed banks there is room for improvement, while 38% disclose adequate information.

44. In 2009, generally, an improvement has been observed compared to 2008 regarding specific areas such as disclosures on fair value hierarchy and on instruments included in level 3. This is due in particular to the mandatory application of the amendments to IFRS7 (*Improving Disclosures about Financial Instruments*) from 1st January 2009 onwards. Most banks anticipated the application of some of the amended requirements in 2008, but the information became more structured in 2009 under mandatory requirements.

45. Still, room for enhancement has been noted by CEBS, especially in areas like level 3 sensitivity analyses and valuation techniques (which are further explained below).

46. In general, IFRS permits disclosures to be omitted if they are not material. However, CEBS believes that whenever a specific disclosure required by the standard is not provided, it would be informative to specify the reason (when this is not likely to be clear to users of the disclosures).

- Fair value hierarchy

47. As required by IFRS7, all the banks within the sample have disclosed a fair value hierarchy of three levels reflecting the significance of the inputs used in making the fair value measurement. However, improvement could be made in the following areas:

- explanation of what is included in levels 1, 2 or 3: some of the banks have not provided sufficiently detailed information on the instruments included in each level of the fair value hierarchy and on the criteria used / the analysis performed to classify instruments in the fair value hierarchy, notably for instruments that are classified under levels 2 and 3; more generally banks could have also provided more specific information regarding the instruments classified in level 3; and
- as regards significant transfers between level 1 and level 2, only a few banks have disclosed information about the reasons for the transfers; similarly only a few banks explicitly specified that there were no significant transfers.

48. As examples of best practices, CEBS noted:

- disclosure of information on the fair value hierarchy has been presented by class of financial instruments (e.g. trading securities, derivatives, equity investments etc.) rather than by main accounting categories (held for trading, AFS, designated at fair value etc.), (e.g. Nordea, Crédit Agricole, Société Générale);
- most banks have disclosed some comparative information and some have explained adjustments made on 2008 figures further to the application of the IFRS7 amendment (e.g. ING, BNP Paribas);
- clear description of types of instruments included in each level (e.g. RBS, Barclays, Nordea); and
- some banks have disclosed the control environment relating to fair valuation and the use of valuation techniques (e.g. Deutsche Bank, HSBC, RBS).

- Level 3 disclosures and sensitivity analysis

49. With respect to level 3 disclosures, generally, rather detailed information has been provided by the assessed banks.

50. Nevertheless, some banks did not disclose separately some of the changes attributable to purchases, sales, issues, settlements and transfers into and out of level 3. In some cases, information regarding transfers into or out of level 3 is offset, without any information on materiality.

51. IFRS 7 requires disclosures regarding total gains or losses and information regarding where they are presented in the statement of comprehensive income or the separate income statement (if presented). This information shall also be disclosed regarding total gains or losses that are unrealised. Some banks in the study do not provide sufficient information on the latter.

52. As examples of best practices, CEBS noted:

- presentation of reconciliation by class of instrument (equities, bonds, derivatives...) in addition to the main categories (e.g. fair value through profit and loss, available-for-sale (AFS), loans and receivables);
- explanation of all significant movements of level 3 instruments,(e.g. UBS);
- clear distinction between unrealised and realised gains and losses on level 3 instruments (e.g. Nordea, Unicredit).

53. As regards sensitivity analyses and the impact of reasonably possible alternative assumptions on level 3 fair value measurements, it was noted that, similar to the practice identified by CEBS in its June 2009 report on banks' disclosures, the majority of banks have not provided detailed information.

54. IFRS 7 requires disclosures as to how the effect of a change in inputs to reasonably possible alternative assumption was calculated. Banks generally provided generic information on approaches used to calculate possible favorable and unfavorable fair value changes. Further specification of underlying assumptions and inputs as well as the scale of stressing assumptions could provide useful insight and allow enhanced comparability across entities.

55. As examples of best practices, CEBS noted:

- tabular presentation of potential impacts of sensitivity analysis of fair values on the income statement and equity, with a distinction made between favorable and unfavorable changes for each type of instrument in level 3 (e.g. Barclays);
- clear description of assumptions used (i.e. a discussion of the parameter changes that would cause the presented impacts) (e.g. UBS);
- wherever changes in unobservable assumptions do not result in significant impacts, the explicit statement of this fact (e.g. BCEE, ING).

56. Regarding non-European banks, it should be noted that unlike IFRS7, sensitivity analyses are not required for level 3 instruments under US GAAP. However, sensitivity analyses have been provided for specific instruments such as retained interests in securitization, credit card securitisations and mortgage-servicing rights.

- Valuation techniques

57. On the whole, rather generic information has been provided on valuation techniques applied to determine fair value measurements. Some banks could improve their disclosures by detailing further the methods and assumptions used in determining fair values for each class of financial assets or financial liabilities.

58. Nevertheless, CEBS has noted a number of best practices regarding disclosures of fair valuation processes and valuation adjustments.

59. These include:

- description of valuation techniques by main products whose valuation includes unobservable inputs (e.g. HSBC, Intesa);

- description of how unobservable inputs (such as credit spreads, interest rates, prepayment rates, price volatilities and correlations) are determined including the frequency of their measurement (e.g. Barclays);
- description of valuation adjustments, including the explanation of what they reflect, and to which instruments they are applied (e.g. HSBC, RBS);
- disclosure in specific tables of level 2 and level 3 financial instruments and the valuation techniques, main assumptions, main inputs used and the fair value by class and category of financial instrument. This presentation gives the reader a good overview of the treatment of financial instruments (e.g. BBVA, Santander).

60. Banks reporting under the US GAAP have provided detailed valuation sections which, in particular, disclose the valuation techniques of exposures linked to the crisis (CDOs, ABS, mortgages, and retained interests in securitisation).

- Day one profit

61. Most banks provided disclosures on the recognition of day one differences. However, for a few banks, the information is missing.

62. On the whole, the information provided is insufficiently detailed. In particular, the breakdown by class of instrument is rarely provided.

63. Moreover, no bank provided explanations on how the market situation impacts the observability of the valuation parameters and, therefore, the recognition of day one differences (including among others the impact of market conditions on the observability of parameters), as recommended in CEBS's June 2009 report. Such information would provide helpful insight to users.

64. As best practice example, CEBS noted that within the reconciliation of changes between the beginning and the ending balances of day one differences, some banks have explicitly disclosed the nature of amounts that have been recognised in profit and loss during the period for example due to amortisation, subsequent move to observability, matured transactions...(e.g. Deutsche Bank, Société Générale, Crédit Agricole, HSBC).

- Financial liabilities designated as at fair value and changes in own credit risk

65. Most banks in the study provided information on the use of the fair value option for financial liabilities and related amounts. However, descriptions of the conditions required to use the option generally remain rather generic, many banks recalling the conditions permitted by IAS 39.

66. While provided by a majority of banks, disclosures on the impact of own credit risk are often difficult to find, with some institutions providing the information as part of the discussion on the performance. Moreover few banks explain the related valuation method in detail.

67. Similarly, neither the related cumulative impact nor the method used to determine the impact is systematically disclosed. On the latter issue, when information is provided, it generally remains rather generic.

68. As best practice example, CEBS noted that some banks provided detailed explanations on the impact of the own credit risk and on the related valuation

methods. At the same time, it should be stressed that the level of detail provided in this area is generally commensurate to the impact of the own credit risk on the accounts.

69. For most non-European banks disclosures on own-credit risk are deemed rather detailed, in particular within information relating to credit valuation adjustments.

*cb) Impairment*

70. As regards the disclosures on impairment issues, the main findings can be summarised in the table below:

Assessment of disclosures	N/A	No disclosures	Insufficient	Room for improvement	Adequate
% of banks	0%	0%	4%	29%	67%
Compared to previous AR, the disclosures are			improved	similar	less detailed
% of banks			9%	91%	0%

71. Information required under IFRS 7 is covered reasonably well by most financial institutions included in the study.

- Credit impairment

72. On the whole, financial institutions provided a fair picture of the credit quality of their loan portfolios through breakdowns by rating for each main category of portfolio and through various measures of credit concentration, notably through breakdowns of portfolios by economic sector and geographical areas.

73. Most financial institutions also provided a reconciliation of the impairment allowance account with sufficient detail explaining movements from one period to the next.

74. Yet, apart from a few exceptions, financial institutions could be more specific regarding the impairment methodologies and notably the methodology used for the determination of the collective impairment allowance for Incurred But Not Reported (IBNR) losses.

75. Moreover, the disclosures on credit impairment appeared very heterogeneous across the industry regarding both presentation and content. Several semantic issues lie at the heart of that observed heterogeneity: major notions, such as write-off, collective provision, past due assets or renegotiated loans, do not have the same meaning from one bank to the next, thus potentially leading to confusion for readers.

76. Disclosures also leave room for improvement with regard to qualitative and quantitative information on collateral. Secondly, most banks do not provide information on renegotiated loans and repossession policies as required by the standard.

77. As examples of best practice, CEBS has identified:

- disclosure of synthetic measures on credit risk exposures broken down by segment of activities, including Exposure At Default (EAD), Expected Losses (EL), risk density (= EL/ EAD in basis points) and Unexpected Losses (UL) (e.g. Commerzbank);
- the use of an analytical approach through the use of percentages, indicators and their changes over time as well as analytical comments (e.g. Barclays, BBVA);
- clear specification of the scope when displaying tables with, wherever possible, a reconciliation with balance sheet and/or income statement figures;
- detailed quantitative information on secured credit exposures broken down by type of collaterals and guarantees and with distinction between exposures totally and partially secured (e.g. Unicredit).

- AFS impairment

78. CEBS noticed that only a few banks provided the quantitative triggers used to qualify the significant or prolonged decline in the fair value as recommended in CEBS's June 2009 report.

79. Similarly, only a few banks followed CEBS's 2009 best practice recommendation regarding the breakdown of unrealised gains and losses by category of AFS assets (equity instruments, debt instruments and loans).

- Goodwill impairment

80. On the whole, key disclosures on goodwill impairment have been included in banks' annual report in accordance with IAS 36 requirements. Yet, in view of the current context and the necessity for some banks to record high impairment charges against their goodwill, more detailed information could have been provided on the determination of Cash Generating Units (CGU) and on the assumptions used to determine the cash flows stemming from these CGUs, as well as on the sensitivity analysis conducted by the bank.

*cc) Reclassification issues*

*i) Assessment of disclosures*

81. As regards the disclosures on reclassification issues, the main findings can be summarised in the table below:

Assessment of disclosures	N/A	No disclosures	Insufficient	Room for improvement	Adequate
% of banks	25%	0%	0%	25%	50%
Compared to previous AR, the disclosures are			improved	similar	less detailed
% of banks			9%	91%	0%



82. Since the publication in 2008 of the amendments to IAS 39 related to reclassifications, it appears that 12 out of 24 banks made use of these provisions in 2009 (as compared to 20 out of 23 identified in the 2008 report). The majority of transfers have been made from the trading and AFS portfolios to the loans and receivables category.

83. Institutions that did not make use of the reclassification provisions explicitly disclosed that fact.

84. In most cases only generic information has been provided to explain the reasons having led to new reclassifications in 2009. Generally, explanations relate to reduced market liquidity for some instruments and a change in management intent from a willingness to trade them in the short term to a willingness to hold them in the foreseeable future.

85. Some banks have specifically indicated which types of instruments were reclassified in 2009: collateralised loan obligations, syndicated leveraged loans and securitization assets, syndication transactions, debt securities issued by government and public entities.

86. Besides, as in the previous exercise, the presentation of the impact of the reclassifications was not homogenous among banks, with some banks presenting the impacts including information on the economic impacts (details of income statements components), and others only disclosing the impact relating to changes in fair value of reclassified assets.

*ii) Best practice disclosures:*

87. CEBS identified a number of best practice examples such as:

- provision of information on the capacity and intent to keep reclassified instruments until maturity or in the foreseeable future. Even though this is not explicitly required under IFRS 7, this information is helpful in assessing whether reclassifications are justified;
- furnishing of a detailed description of the type and nature of the reclassified assets (and the related granularity) in order to ensure clarity about the assets that were subject to the reclassifications; and
- supply of specific information on the impairment amount recognised on transferred assets. This disclosure is meaningful for users in that it enables them to obtain knowledge regarding the evolution of reclassified assets.<sup>7</sup>

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<sup>7</sup> Information related to the impact of impairment-related reclassified instruments was not always easy to understand for instruments previously classified under the AFS category (e.g. impact of the reclassification of the previous AFS reserve to profit and loss).

*cd) Consolidation of Special Purpose Entities (SPEs)*

*i) Assessment of disclosures*

88. As regards the disclosures on the consolidation of SPEs, the main findings can be summarised in the table below:

Assessment of disclosures	N/A	No disclosures	Insufficient	Room for improvement	Adequate
% of banks	8%	0%	4%	38%	50%
Compared to previous AR, the disclosures are			improved	similar	less detailed
% of banks			0%	100%	0%

89. Half of the banks covered in the sample have provided adequate information on the consolidation of special purpose entities (SPEs). Just over one third of the reports contained information that is regarded as sufficient, but leaves room for improvement. While information regarding the consolidation of SPEs is provided by each bank, in two cases, the role of SPEs was negligible and, therefore, considered as not applicable.

90. Comparing the 2009 annual reports to the previous ones, CEBS has come to the conclusion that the information provided is similar. In general, the relevant disclosure requirements are applied reasonably well, although the level of disclosure could be further developed.

*ii) Best practice disclosures:*

91. To help institutions, CEBS has identified some examples of best practices. In particular, improvement could still be achieved by providing:

- information about the reasons why SPEs are not consolidated: more in-depth information about the way the risk and reward test is conducted and its results;
- more detailed information on structures that are not consolidated (or that have been derecognised) on corresponding assets, existing links (such as credit enhancement, liquidity lines or other type of guarantee or involvement) and potential associated risks.

92. For non-EU banks, it has been observed that the disclosures relating to special purpose entities are part of specific notes to the financial statements. Information has notably been provided on the potential impacts of the new FASB guidance on consolidation<sup>8</sup>, for example, on their accounting assets and resulting risk-weighted assets.

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<sup>8</sup> Effective for periods beginning after November, 15 2009.

## **d) Remuneration**

93. The 'CEBS high-level principles on remuneration' and the European Commission 'Recommendation on remuneration policies in the financial services sector' set out a number of principles in this area, including disclosures. The principles are further specified in the proposed CRD III amendments (which are currently pending at the level of the EU institutions) and widely reflect the FSB paper of 25 September 2009 (paragraph 15).

94. As a result banks will be expected to disclose a report on compensation on an annual basis, which should include the decision making process used to determine the compensation policy and the characteristics of the compensation system. In addition, the report should include aggregate quantitative information on compensation, broken down by senior executive officers and by employees whose actions have a material impact on the risk exposure of the firm.

95. From a general standpoint, most of the banks included in the sample provided detailed qualitative information on compensation or remuneration schemes used in the bank even if the information about the decision-making process used to determine the compensation policy could be enhanced. Only a few banks referred directly to the Financial Stability Board recommendations and only some banks mentioned explicitly that they are working towards implementing the G20 recommendations.

96. The majority of banks elaborate on quantitative information for executive management by cash, non-cash, variable and fixed, but there is no focus on staff whose professional activities have a material impact on the risk profile of the bank.

97. In that regard, at the date of preparation of this report, few countries have already set-up specific rules regarding disclosure requirements on compensation, in particular those granted to employees whose actions have a material impact on the risk profile of the firm. Therefore, few banks have disclosed this information in a detailed manner for year-end 2009.

98. While 13 (out of 26 responding) CEBS members and observers have indicated measures have been taken in their respective countries to implement the European Commission's recommendation on remuneration policies or the FSB principles, the disclosure requirements resulting from these new measures did not always come into effect for the 2009 annual reports. Comprehensive disclosures for 2009 have notably been provided by BNP Paribas, Crédit Agricole, Société Générale, Commerzbank, Deutsche Bank. The other 13 countries indicated that the implementation is currently under way or under discussion.

99. These findings seem to be similar with the findings of the FSB's Thematic Review on Compensation Peer Review Report which notes that, although there has been progress, this is not the case for all countries or areas.

## **2) Limited scope**

100. The focus is essentially on toxic instruments as mentioned in the FSF report and in the SSG recommendations of April 2008 and, in addition, on other areas that banks have specifically identified as areas that are under stress (although it should be noted that these may vary from one bank to another).

101. According to their disclosures, all but three banks included in the sample seem to be exposed to sub-prime crisis-related risks, or are directly affected by an activity under stress. In addition, the current economic context is likely to put pressure on banks' financial performance.

**a) Disclosures on exposure levels for activities under stress**

*i) Assessment of disclosures*

102. As regards the disclosures on the exposure levels and types (activities directly affected by the sub-prime crisis such as structured products, real estate and other activities under stress) the findings can be summarised in the following table:

Assessment of disclosures	N/A	No disclosures	Insufficient	Room for improvement	Adequate
% of banks	13%	0%	0%	46%	42%
Compared to previous AR, the disclosures are			improved	similar	less detailed
% of banks			9%	91%	0%

103. As mentioned before, the banks that are directly exposed to the sub-prime crisis related exposures or are affected by any particular activity under stress are rather evenly split between those providing adequate disclosures and those whose disclosures leave room for improvement.

104. The quality of the disclosures appears rather similar to last year's for the majority of the banks included in the sample and enhanced for a limited part of the sample.

- Exposures directly affected by the sub-prime crisis

105. The level of disclosures is rather heterogeneous, ranging from very detailed information on each type of exposure (split by accounting category, breakdown by rating, comparison to previous year, credit quality of underlying assets for hedged exposures when the creditworthiness of protection providers has deteriorated...) to rather brief information, yet often partly commensurate with the lower level of exposure of the institutions concerned.

106. On the whole, CEBS noticed room for improvement with regard to movement schedules from beginning of the period to the end and with regard to disclosures on the initial / nominal fair value structured products in order to enable users to assess the extent of the loss incurred.

107. For most of the banks, it was felt that the information provided on the quality of underlying assets for structured products covered by monoline insurers or other credit risk protection providers could be enhanced.

108. Similar to the findings for the European banks in the sample, the granularity of disclosures provided by non-European banks is heterogeneous, but generally, information on activities affected by the sub-prime crisis is rather detailed.

*ii) Best practice examples*

109. In terms of best practice examples, the assessment identified the following:

- provision of a summary table on overall exposures related to the sub-prime crisis and a clear interrelationship between the information on structured products and the information set out in the balance sheet and the income statement (ie: accounting classification of structured products, unrealised gains and losses on structured products disclosed separately from write-downs...) (e.g. Barclays, Intesa)
- breakdown of net exposures of asset backed securities by sufficiently granular rating grades (e.g. Commerzbank)
- granular information on the underlying assets of banks' asset backed commercial paper programmes (so-called "ABCP conduits") in accordance with FSF recommendations (e.g. BNP Paribas, Société Générale, Crédit Agricole).

- Other activities under stress

110. Given the evolution of economic conditions, most of the banks are under pressure in relation to some specific parts of their activities (e.g. some lending activities, such as consumer lending, specialised lending...). The information provided against this particular background appears rather satisfactory, even though information on activities under stress is sometimes buried in other disclosures and could, thus be better emphasised and be more focused and more granular.

111. As regards the latter, the 'CEBS principles for disclosures in times of stress: Lessons learnt from the financial crisis' in particular, provide useful guidance for institutions. In that context, institutions are encouraged to provide comprehensive information on the activities under stress. The information should also be provided at an appropriate level of granularity.

**b) Disclosures on results for activities under stress**

*i) Assessment of disclosures*

112. As regards the disclosures on the impact of the crisis on results the findings can be summarised in the following table:

Assessment of disclosures	N/A	No disclosures	Insufficient	Room for improvement	Adequate
% of banks	0%	0%	4%	50%	46%
Compared to previous AR, the disclosures are			improved	similar	less detailed
% of banks			18%	82%	0%

113. Generally, banks provide rather comprehensive disclosures about their results, especially on the usual business activities; however the granularity of the

quantitative information on activities linked to the crisis or under stress is varying as some banks provide more details than others or use pre-determined formats - such as the tables in the April 2008 [Report of the FSF](#), which help the comparison between banks.

114. In general, it appears important to stress that the disclosures about the results/performance analyses are made in a balanced way, with enough explanation of the overall results (the group's profit or loss) and the influencing factors, before going into more details, such as an analysis of contributions and risks by line of business or by geographical area.

115. Disclosures on breakdowns of results related to investments at risk (or under stress) vary, however, in terms of granularity and clarity. In this regard, some banks use the FSF tables and mention this explicitly.

116. Another observation is that it is not always clear whether the disclosures discuss the risks/losses for all the activities under stress.

117. It is not always easy to assess the cumulative overall losses related to investment at risk since the beginning of the crisis and also from one period to the other.

118. Disclosures distinguishing between realised/unrealised losses are not usually explicitly provided, although often the information can be determined by combining information in different tables or descriptions. For certain items, the information can, indeed, be determined on the basis of the IFRS notes such as the ones on AFS.

119. While maximum exposures are usually well disclosed (with detailed tables), sensitivities to further downturns are less so. In its principles for disclosures in times of stress, CEBS encourages institutions to make use of sensitivity analyses and to discuss the related assumptions and probabilities of occurrence to enable users to form an opinion on the potential impact of changes in expectations.

120. Where FSF standardised tables are not used, the banks use their own breakdowns, terminology etc. While this is helpful in conveying a "management view", it raises extra challenges regarding comparability between banks.

#### *ii) Best practice examples*

121. Best practice examples of disclosures come from banks that provide a top down analysis: from group level to business lines or types of activities, with analyses of activities and their link to the banks' performance (e.g. ING, RBS, HSBC).

122. Best practice examples are those where FSF standardised tables are used (and explicitly mentioned). This facilitates the comparison and understandability of the information (e.g. Société Générale, Crédit Agricole, BNP Paribas).

**c) Disclosures on impact on financial position for activities under stress<sup>9</sup>**

*i) Assessment of disclosures*

123. The assessment of the disclosures on the financial position has been summarised in the following table:

Assessment of disclosures	N/A	No disclosures	Insufficient	Room for improvement	Adequate
% of banks	0%	0%	0%	29%	71%
Compared to previous AR, the disclosures are			improved	similar	less detailed
% of banks			9%	91%	0%

124. Overall, the assessment reveals that the disclosures regarding the impact of activities under stress on financial positions are rather satisfactory.

125. Where applicable, institutions provide satisfactory information about re-capitalisations. Similarly, the impact of the activities in question on the level of capital and on the resulting solvency ratio is also provided in a satisfactory manner.

126. A number of banks provide more extensive disclosures than others on some of the aspects (such as a detailed comparative description of changes in capital recourses and solvency ratios between 2007-2008-2009, a description of the impact of joining Government Asset Protection Schemes on capital position, an explanation of the impact of the rights issue on core tier 1 capital ratio) and, in some cases, even specifically mention that these issues are not applicable.

127. As regards the impact of activities under stress on the institutions' liquidity position, the differences are more pronounced. Banks provide qualitative explanation, but few banks also disclose quantitative information. (See section IV. b) Risks and risk management).

*ii) Best practice examples*

128 Several best practice examples have been identified:

- qualitative description and comparative presentation of changes in capital recourses for the periods 2007-2009 (e.g. Barclays, BBVA), and even from 2005 (RZB);
- a description of the general situation of the markets, and the measures that the institution has adopted to improve and deal with liquidity problems (e.g. BBVA);
- the discussion of the implementation of the transformation plan (e.g. Dexia).

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<sup>9</sup> The impacts targeted here include, the level of capital, solvency ratio and the liquidity position.

### **3) Presentation issues**

129. As regards presentational and structural aspects of the disclosures, CEBS made the observations below, aimed at assisting banks in improving the quality of the information they provide. In addition, it is felt that the 'CEBS principles for disclosures on activities under stress (Lessons learnt from the financial crisis)' will provide useful guidance to banks:

#### *a) Description of disclosure policies and principles*

130. The description of disclosure policies and of the principles that are used for disclosures and financial reporting varies from bank to bank. There are four banks out of 24 which do not provide any description, whereas the disclosure of information on the part of the remaining banks is, in general, satisfactory. These banks provide information on financial communication governance with varying levels of detail.

#### *b) Structure of the disclosures*

131. Similar to the previous exercise, disclosures are provided in various parts of the annual reports. In most cases information on the business model is included in the strategic part, whereas information on impacts and on exposures is disclosed in the performance discussion. Disclosures on exposures and on write-downs are also given in the risk and risk management disclosures and, at times, repeated in the notes to the financial statements.

132. Some banks discuss most of the aspects (with the logical exception of the accounting policies) in one section dedicated to the financial crisis.

133. CEBS does not advocate one specific form for presenting the disclosures, as long as the information is clearly traceable and adequately cross-referenced. Although there have been some noticeable improvements in terms of structure and cross-referencing, this was still a problem in a few cases where information was scattered over the annual review. In general, institutions should carefully consider the structure of the reviews rather than adding more information.

134. Banks are still encouraged to take extra care to ensure that the different parts of their reports are clear and consistent and allow readers to find easily the information they are interested in.

#### *c) Clarity of disclosures*

135. Most banks' disclosures disclose a good balance between quantitative and narrative information. The descriptions are mostly combined with illustrative tables, figures, data and percentages. Disclosures are provided throughout the reports and for the most part there are specific references if the topics are covered in more detail in other chapters. Nevertheless, in some cases, it was not always easy to link the narrative information with the quantitative data provided in the tables.

136. In general, the language is comprehensible. It appears to be user-friendly and easy to understand for non-expert readers giving a clear idea of the financial situation of the banks. There are, however, cases where the disclosures provide



some room for improvement in terms of clarity. This is especially the case where much of the quantitative information is provided in narrative form.

137. In most cases the disclosures are supplemented with clear explanations for the terminology used with descriptions of infrequently used terms being given. Some banks provide glossaries or even use "what we do" sections for each business, which help to develop an educational approach.

138. In some cases, the terminology used to describe complex financial instruments could be more clearly explained.

139. Compared to last year's annual reports, there have been no major changes with respect to the presentation issues, that have been assessed.

## Annex 1: Checklist - Disclosures on activities affected by the financial crisis

**Nota bene:** The assessment covers the activities directly affected by the sub-prime crisis (structured products, real estate...) and other activities under stress in the context of the financial crisis. The aim is to provide a follow-up of previous assessments rather than a overall assessment of banks' disclosures on all activities in general.

<b>Description of the activities affected by the financial crisis for the bank under review:</b>	
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<b>CEBS good observed practice disclosures/'CEBS principles for disclosures in times of stress: Lessons learnt from the financial crisis'</b>	<b>Score</b>	<b>Summary description of disclosures (w/ references) and related observations / Assessment</b>	<b>Comparison to the previous assessment</b>
<p><b>General</b></p> <ul style="list-style-type: none"> <li>• <u>Description of disclosure policies and of the principles that are used for disclosures and financial reporting.</u></li> </ul>			
<p><b>Business model</b> / <u>relates to Principle 7</u></p> <ul style="list-style-type: none"> <li>• Description of the business model (i.e. of the reasons for engaging in activities and of the contribution to value creation process) and, if applicable of any changes made (e.g. <u>to develop resilience post-crisis, actions taken or changes made to prepare for post-crisis era</u>).</li> <li>• Description of strategies and objectives.</li> <li>• Description of <u>the position and</u> importance of activities and contribution to business.</li> <li>• Description on the type of activities including a description of the instruments as well as of their functioning and qualifying criteria that products/ investments have to meet.</li> <li>• <u>Implication of the exit from extraordinary financial sector support measures (Government interventions...), if applicable</u></li> </ul>			

<b><u>CEBS good observed practice disclosures / 'CEBS principles for disclosures in times of stress: Lessons learnt from the financial crisis'</u></b>	<b>Score</b>	<b>Summary description of disclosures (w/ references) and related observations / Assessment</b>	<b>Comparison to the previous assessment</b>
<p><b>Results / <u>relates to principle 8</u></b></p> <ul style="list-style-type: none"> <li>• Qualitative and quantitative description of results, with detailed information on losses (where applicable, broken down by types of products CMBS, RMBS, CDO, ABS, LBO)</li> <li>• Description of the reasons and factors responsible for the impact incurred ('telling a story').</li> <li>• Comparison of impacts between (relevant) periods.</li> <li>• Distinction of write-downs between realised and unrealised amounts.</li> <li>• Disclosure of maximum loss risk and description how the institution's situation could be affected by a further downturn or by a market recovery.</li> <li>• Disclosure of impact of credit spread movements for own liabilities on results and on the valuation methods used to determine this impact.</li> </ul>			
<p><b>Exposure levels and types / <u>relates to principle 8</u></b></p> <ul style="list-style-type: none"> <li>• Nominal amount (or amortised cost) and fair values of outstanding exposures.</li> <li>• Information on credit risk mitigation (e.g. through credit default swaps, collateral) and its effect on exposures.</li> <li>• Granular disclosures of exposures with different breakdowns (<u>link to principle13</u>)</li> <li>• Movement schedules of exposures between relevant reporting periods and the underlying reasons (sales, disposals, purchases etc.).</li> <li>• Discussion of exposures that have not been consolidated and the related reasons.</li> <li>• Exposure <u>related to a deterioration of the guarantee received (credit quality of monoline insurers and others, changes in real estate market price...).</u></li> </ul>			
<p><b><u>Impacts on financial position</u> / <u>relates to principle 9</u></b></p> <ul style="list-style-type: none"> <li>• <u>Disclosures on recapitalisations</u></li> <li>• <u>Impact of the activities in question on the level of capital and on the resulting solvency ratio; and</u></li> <li>• <u>Impact on the institution's liquidity position.</u></li> </ul>			

<b>CEBS good observed practice disclosures / 'CEBS principles for disclosures in times of stress: Lessons learnt from the financial crisis'</b>	<b>Score</b>	<b>Summary description of disclosures (w/ references) and related observations / Assessment</b>	<b>Comparison to the previous assessment</b>
<p><b>Risks and risk management</b> / <u>relates to principle 10</u></p> <ul style="list-style-type: none"> <li>• Description of the nature and extent of risks incurred in relation to the activities and instruments.</li> <li>• Description of risk management practices of relevance to the activities, of any identified weaknesses of any corrective measures that have been taken to address these.</li> </ul>			
<p><b>Accounting policies - Valuation issues<sup>10</sup></b></p> <ul style="list-style-type: none"> <li>• Detailed disclosures on fair values of financial instruments: <ul style="list-style-type: none"> <li>• financial instruments to which fair values are applied;</li> <li>• fair value hierarchy (a breakdown of all exposures measured at fair value by different levels of the fair value hierarchy and a breakdown between cash and derivative instruments as well as disclosures on migrations between the different levels); <u>(to be checked against IFRS7 27A-27B)<sup>11</sup></u></li> <li>• treatment of day 1 profits (including quantitative information); <u>(to be checked against IFRS7 28)</u></li> <li>• use of the fair value option (including its conditions for use) and related amounts (with appropriate breakdowns); <u>(To be checked against IFRS7.B5a i- ii)</u></li> <li>• own credit risk (including valuation methods) <u>(to be checked against IFRS7 10-11)</u></li> </ul> </li> <li>• Disclosures on the modelling techniques used for the valuation of financial instruments, including discussions of the following: <ul style="list-style-type: none"> <li>• description of modelling techniques and of the instruments to which they are applied;</li> <li>• description of valuation processes (including in particular discussions of assumptions and input factors the models rely on);</li> <li>• type of adjustments applied to reflect model risk and other valuation uncertainties;</li> <li>• detailed information on sensitivity of fair values; and</li> <li>• stress scenarios.</li> </ul> </li> </ul>			

<sup>10</sup> *The references to the IFRS requirements should not mean that the assessment is strictly limited to a compliance exercise. As supervisors, members should also think in terms of good practice. Moreover, if non-compliance with IFRS is identified, members need to consider how this could be dealt with at national level.*

<sup>11</sup> *For level 3 fair values CEBS identified some best practices in its follow up report on bank's transparency (24 June 2009) for disclosures on sensitivity analyses:*

<b>CEBS good observed practice disclosures / 'CEBS principles for disclosures in times of stress: Lessons learnt from the financial crisis'</b>	<b>Score</b>	<b>Summary description of disclosures (w/ references) and related observations / Assessment</b>	<b>Comparison to the previous assessment</b>
<p><b>Accounting policies<sup>12</sup> – Consolidation of SPEs</b> (to be checked against IAS 1 §122-123 –significant accounting policies)<sup>13</sup></p> <ul style="list-style-type: none"> <li>• <u>Classification of the transactions and structured products for accounting purposes and the related accounting treatment.</u></li> <li>• <u>Consolidation of SPEs and other vehicles (such as VIEs).</u></li> </ul>			
<p><b>Accounting policies<sup>14</sup> - Impairment</b> (disclosures at an appropriate level of granularity)</p> <ul style="list-style-type: none"> <li>• <u>Individually and collectively assessed impairment allowances; (To be checked against IFRS7 16 - look for good practices: breakdown by products, geographical areas... percentage of assets impaired to total assets, percentage of provision to non-performing assets)</u></li> <li>• <u>Methodology employed for impairment of loans and other assets at amortised cost (including collective impairment methodology) (To be checked against IFRS7 21)</u></li> <li>• <u>Methodology employed for impairment for available for sale assets<sup>15</sup></u></li> <li>• <u>Impairment of goodwill (to be checked against IAS36 126-137)</u></li> </ul>			

- 
- relevant description of valuation techniques for instruments classified in level 2 and 3 of the fair value hierarchy;
  - significant information on valuation assumptions similar to a glossary to help understand the impact of changes in significant inputs (volatility, correlation, spreads to discount rates); and
  - pertinent disclosures of underlying macroeconomic scenarios.

<sup>12</sup> See footnote 2.

<sup>13</sup> CEBS has noted some best practice disclosures, with comprehensive information on consolidation criteria and quantitative information on consolidated and not consolidated Special Purpose Entities (SPEs).

<sup>14</sup> See footnote 2.

<sup>15</sup> Good practice identified by the CEBS: a breakdown of unrealised gains and losses by asset category (equity, debt instruments, loans) to allow users to assess the evolution of the value of these instruments.

CEBS good observed practice disclosures / 'CEBS principles for disclosures in times of stress: Lessons learnt from the financial crisis'	Score	Summary description of disclosures (w/ references) and related observations / Assessment	Comparison to the previous assessment
<p><b>Reclassification disclosures (from amended IFRS 7) <sup>16</sup></b></p> <p>Disclosures on reclassification of financial assets out of the fair value through profit or loss category in accordance with paragraph 50B or 50 D of IAS 39 or out of the available-for-sale category in accordance with paragraph 50E. Points (a) – (f) (<u>To be checked against IFRS7 12A</u>)<sup>17</sup></p>			
<p><b>Other aspects</b></p> <ul style="list-style-type: none"> <li>• <u>Remuneration policy (to be checked against good practices – G20 / CRD 3 –NB CRD 3 is not applicable)</u><sup>18</sup></li> </ul> <p><u>Staff whose professional activities have a material impact on the risk profile of the institution:</u></p> <ul style="list-style-type: none"> <li>○ <u>Qualitative information concerning: the decision-making process used for determining the remuneration policy, the link between pay and performance, the most important design characteristics of the remuneration system (criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria);</u></li> <li>○ <u>Aggregate quantitative information on remuneration, broken down by senior management and members of staff, indicating: amounts of remuneration for the financial year, split into fixed and variable remuneration, and number of beneficiaries; amounts and form of variable remuneration, split into cash, shares and share-linked instruments and other; amounts of outstanding deferred remuneration, split into vested and unvested portions.....;</u></li> </ul>			

<sup>16</sup> See footnote 2.

<sup>17</sup> As best practice, CEBS identified in the 2009 report some cases where banks went beyond the minimum requirements:

- Information on the capacity and intent to keep reclassified instruments until maturity or in the foreseeable future;
- Detailed description of the type and nature of the reclassified assets (and the related granularity);
- specific information on the impairment amount recognised on transferred assets

<sup>18</sup> It was ensured that this does not interfere with the work that any other CEBS subgroups are doing, and that the relevant CEBS subgroups are comfortable with, and informed about, this assessment.

<b>CEBS good observed practice disclosures / 'CEBS principles for disclosures in times of stress: Lessons learnt from the financial crisis'</b>	<b>Score</b>	<b>Summary description of disclosures (w/ references) and related observations / Assessment</b>	<b>Comparison to the previous assessment</b>
<p><b>Presentation issues</b> / <u>relates to principles 12-16</u></p> <ul style="list-style-type: none"> <li>• Relevant disclosures for the understanding of an institution's involvement in a certain activity should as far as possible be provided in one place.</li> <li>• Where information is spread between different parts or sources clear cross-references should be provided to allow the interested reader to navigate between the parts.</li> <li>• Narrative disclosures should to the largest extent possible be supplemented with illustrative tables and overviews <u>to create an appropriate balance between quantitative and narrative information.</u> (Relates to principle 14)</li> <li>• Institutions should ensure that the terminology used to describe complex financial instruments and transactions is accompanied by clear and adequate explanations, <u>thus developing an educational approach.</u> (Relates to principle 14)</li> </ul>			

## **Annex 2: Banks covered in the survey**

Banco Santander

Barclays

BBVA

Banque et Caisse d'Épargne de l'État

BNP Paribas

Commerzbank

Credit Agricole

Deutsche Bank

Dexia

DZ Bank

EFG Eurobank Ergasias

Erste Bank

HSBC

ING

Intesa SanPaolo

Nordea

Bank Handlowy w Warszawie

Rabobank Group

RBS

RZB

SEB

Société Générale

UBS

Unicredit Group