

# ZENTRALER KREDITAUSSCHUSS

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Committee of European  
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Rei/Me100113 CP 30

**Consultation Paper 30**  
**Disclosure guidelines:**  
**Lessons learnt from the financial crisis**

Dear Sir or Madam,

Thank you for the opportunity to comment on the consultation paper "Disclosure guidelines: Lessons learnt from the financial crisis (CP30)". We<sup>1</sup> wish to make the following comments:

## **1. General comments**

We agree with CEBS that disclosure of high quality information on the retention of or increase in market confidence is necessary. However, it must be noted that the quality of the disclosure does not depend on the amount of the information disclosed, but on the content thereof. The quantity of information to be disclosed already means that the user receives an abundance of information about the business activities of the institute. However, there is very little differentiation to clarify the economic importance of the individual divisions to the institute and which opportunities and risks are connected with

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<sup>1</sup> The Zentraler Kreditausschuss (ZKA) is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks financial group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent more than 2,300 banks.

them. Thus, the user is hardly able to obtain a true and fair view of the current situation of the institute due to the wealth of information.

The reporting obligations should be critically reviewed regarding their benefits for decision-making and their quality and should be reduced if applicable. The institutes should be motivated to disclose high-quality information for the particularly relevant areas. This would facilitate identification of the possible problem areas - but also the special opportunities - of an institute for the user as specified by the principle of materiality in reporting. It should therefore be clarified in the guidelines that the type and extent of the disclosure must focus on the core business activities and its risk profile of the institute.

Furthermore, we wish to point out that accounting matters and specifications and/or interpretations of standards addressed in the paper are reserved to the IASB and IFRIC. This also applies against the background of uniform accounting rules used worldwide. Thus we consider the guidelines described in CP 30 not compulsory. Rather, we view the principles formulated in the consultation paper as a call for the banks to take responsibility and exercise self-discipline.

We believe that it should therefore be emphasised even more strongly than before that the principles proposed in the CP 30 are not obligatory rules, but merely suggestions, the goal of which is to improve the general quality of reporting. It must thereby be ensured in accordance with the consultation paper that the principles formulated are not "superimposed" on the principles of transparency anchored in the relevant disclosure regimes, but simply underpin and complement these.

## **2. Objective**

As already noted, we believe that the quantity of information to be disclosed should generally be reduced. With this in mind, we support the intention of CEBS not to expand the disclosure requirements. However, we are doubtful that the present paper actually does justice to this intention. Nearly all of the detailed proposals contain disclosure obligations that go beyond the previous disclosure requirements.

### 3. Comments on individual requirements

We view the prompt provision of up to date information, e.g. regarding special market situations, etc. outside of the regular publication periods as described in **point 1** critically. Fundamentally, it is a proven means of improving communication. However, we wish to point out that the prompt provision of high-quality and coordinated information at irregular intervals due to exogenous influences would lead to extremely high costs. This is especially true for banking groups with complex business operations.

Beyond that, we feel that the current, already established frequency of disclosure for reports and analyst information is sufficient and that no significant improvement in the above-mentioned sense would be achieved with a higher frequency of publication of disclosure statements, annual reports, quarterly reports, risk reports or other reports.

In **points 2 and 10** the use of sensitivity and scenario analyses is recommended. Such analyses are already established in most German banks and will be further expanded. They will be specifically defined via the "Minimum requirements for risk management" (MaRisk) and are subject of the supervisory review process. Furthermore, their use is already described in group reports and is thus understandable for the users of the information. Use of the expanded reporting (e.g. the detailed description of sensitivity analyses in the context of the underlying assumptions) would lead to a significant expansion of existing reporting obligations and thus simultaneously to increased complexity of the appendix. We cast doubts on the value for the users of the financial reports. Against the background of individual business models, this would also conflict with point 4 (comparability between companies).

We view critically the proposal to contact the regulatory authority when publishing sensitive information in stress situations described in **point 3**. In our opinion, coordination with the regulatory authority should not be compulsory and should therefore not be written into the guidelines. Moreover, keeping in mind the time required for the coordination process, this is hardly practical.

According to **point 4**, the disclosures should ensure comparability among the institutes. The use of standardised formats is suggested for this purpose. As already described at the beginning, we believe that the scope of disclosure should be aligned to the relevant risk profile of the institute and its business activities. For this reason we find uniform formats, as welcome as these may be from a theoretical standpoint, not very useful for the

disclosures of the institutes in practice. Against this background, we feel that standardised formats can offer merely orientation for possible disclosure and should not be compulsory.

The proposed comparisons with previous years also go well beyond the previous disclosure requirements. These would further increase the scope of the varying disclosure formats and thus the flood of information. We do not consider this useful.

In **point 5** CEBS calls for the implementation of new disclosure standards and recommendations from standard-setters and regulators as quickly as possible. In principle, we have no objections to early implementation. However, in view of the continuously and dynamically changing regulatory environment and those of commercial law regarding disclosure and the accompanying burden on the banking industry, this does not appear to be feasible. Rather, for organisational and technical reasons alone, an appropriate period must be established for the implementation.

The transition from unreviewed to reviewed information called for in **point 6** is connected with considerable time, effort and financial expense. However, the benefits for the users are limited in comparison. This requirement should therefore be omitted. Furthermore, there is the risk that information marked as unreviewed will be doubted by the market as implausible.

With respect to **point 7** we consider the requirements for crisis-related reporting to be largely fulfilled within the context of financial reporting in Germany (risk report, management report). We do not consider a detailed presentation of the information broken down by individual product and business segments, such as how strongly individual divisions of an institute are affected by the crisis, to be useful in achieving the desired goals. Furthermore, we believe that well-founded statements on the current and/or future impairment of an institute's own business operations due to the market upheavals are very difficult, as a rule. The financial crisis has shown that certain events as well as the behaviour of the market participants are not foreseeable due to a high degree of complexity, enmeshment and, not least, psychological factors - and presumably will not be in future crises, either.

The disclosure of qualitative trend information such as that called for in **point 8** conceals the risk of considerable legal problems with regard to the prospectuses. Should the forecasts provided not be fulfilled due to changes in the market situation or other

unforeseeable circumstances, investors could assert claims for compensation for damages with reference to the regulations governing the prospectuses.

The detailed cross-references called for in **point 12** should generally be subject to the discretion of the reporting company.

In summary, we wish to note that in our opinion the quantitative requirements in the various disclosure regimes are already too extensive now. A higher level of detail such as that called for in **point 13** does not appear to be sensible in view of this background and would lead to an even greater information overload of the users and further restrict the usefulness of the information in making decisions.

We would be grateful if you would take our comments into account during the ongoing consultation.

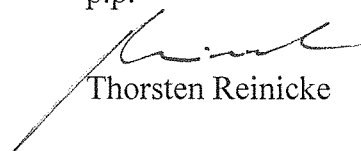
Yours sincerely,

On behalf of the

ZENTRALER KREDITAUSSCHUSS

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