

April 2010

## **Feedback to the public consultation on**

### **Disclosure guidelines : Lessons learnt from the financial crisis (CP30)**

1. In October 2009 CEBS published a consultation paper (CP30) Disclosure guidelines: Lessons learnt from the financial crisis and invited interested parties to comment on the set of guidelines. The consultation period lasted for 3 months and ended on the 15 January 2010.
2. CEBS received 12 responses during the consultation, all of which were published on CEBS's website. A public hearing took place on 26 January 2010 where many of the comments raised in the consultation have been reiterated. This section only provides a brief summary of the general comments which have been received.
3. First and foremost, many respondents are supportive of CEBS's endeavours to help financial institutions improve their risk disclosures. In particular, respondents welcomed the fact that CEBS resorts to high-level principles, and that these are not compulsory.
4. There were also, however, comments raising concerns that the guidelines are too detailed and more worryingly increase the already significantly large amount of disclosures.
5. In addition, some commentators saw a need for clarification in a number of areas. These included the guidelines' interaction with other disclosure requirements, their scope and objective and what is considered a situation of "stress".
6. Moreover it was questioned whether some of the principles go beyond what is requested in existing disclosure requirements and, thus, go against one of the underlying premises of CEBS's initiative. It was also noted that some of the proposed principles already exist in some form in other disclosure requirements.
7. Further to the general reactions, respondents submitted detailed comments on the various principles. The most frequently cited are only mentioned here for information purposes and are discussed in detail in the main table of the feedback statement.
8. They include the following:
  - forward-looking information;
  - comparability issues;
  - the involvement of supervisors;
  - the role of internal and external auditors;
  - the level of detail;

- the disclosure for positive statements on whether an entity is involved in activities under stress (or not).

9. CEBS agrees with many of the comments made by respondents during the consultation or during the January 2010 public hearing although this is not always the case. At the same time, not all the commentators presented the same views.

10. In developing its final views CEBS took into account the comments received, own considerations and high-level cost-benefit considerations.

11. While cost-benefit considerations have been made, it should be noted that CEBS has not carried out a detailed impact analysis. Nevertheless, based on high-level considerations, CEBS is of the view that – in addition to the clear observations and conclusions made in our previous assessments of disclosures banks made in the financial crisis – the publication of these principles is also justified by the existence of market failures as set out in the context of the 3L3 guidelines on impact assessment<sup>1</sup>, including externalities and information asymmetries.

12. Whereas the discussion about externalities and information asymmetry support interventions from supervisors, addressing needs for increased coordination or comparability (by providing standardised formats) could imply significant costs.

13. CEBS has not carried out a quantitative analysis of benefits or cost. Nor has quantitative evidence been received during the consultation.<sup>2</sup> Still it is believed that the benefits of addressing the failures identified above will outweigh the compliance costs of the disclosures and the cost of the impact of information that would otherwise not be available.

14. The feedback table in Annex 1 reproduces – albeit in a slightly restructured and summarised manner - the comments received during the public consultation and additionally provides CEBS's related responses.

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<sup>1</sup> The [April 2008 Impact Assessments guidelines for EU Lamfalussy Level 3 committees](#) discuss the different steps in detail and furthermore provide further explanations on the most common types of market failures.

<sup>2</sup> As part of CP 30 respondents were invited to provide information regarding the impact of the implementation of the draft guidelines.

## Annex 1

### Feedback table on CEBS's consultation paper (CP30) on draft Disclosure guidelines : Lessons learnt from the financial crisis RENAMED PRINCIPLES FOR DISCLOSURES IN TIMES OF STRESS

|                         | Topic, reference                              | Comments received (and commentator)   | CEBS' response             | Amendments to the text              |
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| <i>General comments</i> |   |   |                            |                                     |
| G1                      | General – support of high-quality disclosures | <p>One commentator noted that disclosure, measurement and recognition of financial instruments were key issues for attention for financial reporting and auditing in 2009 year end financial statements, and had noted this in its latest Policy Statement. (FEE)</p> <p>Another commentator recognises high quality disclosure as a crucial component of maintaining market confidence and expresses commitment to achieve this in their financial statements and to continually re-evaluate disclosures with this objective. Constituents' disclosures reflect guidance by the IASB and its Expert Advisory Panel and of the Senior Supervisors Group and the European competent authorities as well as the UK Financial Reporting Council (on going concern and liquidity risk disclosures).</p> <p>This commitment is also reflected by decision of seven institutions to comply with a new BBA Code for Financial Reporting Disclosure for their 2009 year-end financial reports.<sup>3</sup></p> <p>Four commentators agree / support with a review of bank disclosure policies and guidelines, especially in the light of the financial crisis. ( Deloitte AT, FEBELFIN, ICAS, WKO,)</p> <p>Of these two note that there is a need for attention regarding the practical application of disclosures around financial instruments and increased</p> | CEBS welcomes these views. | See new introduction and objective. |

<sup>3</sup> The Code includes a number of specific commitments under a high-level, overarching principle that requires the institutions to provide high quality, meaningful and decision-useful disclosures to the users of their financial statements to help them understand the financial position, performance and changes in the financial positions of their businesses. There is a high degree of congruence between the code and the draft CEBS guidelines. [Link to BBA Code](#)

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|    |                                | <p>diligence both in preparation and use of the information. This may also involve an increase in financial literacy. As this does not relate only to financial institutions, it is considered useful to broaden this discussion to all financial statements and related disclosures. (WKO and Deloitte AT)</p> <p>One commentator notes that financial institutions providing clear, transparent and above all more informative disclosures will certainly assist in the rebuilding of both public and market confidence in financial institutions. This commentator is generally supportive of the six general principles outlined in the guidance. The financial crisis has demonstrated that the quality of the disclosures for financial institutions, especially in the area of risk, was insufficient and that anything to enhance this is a positive step. (ICAS)</p> <p>One commentator supports the encouragement for a more enhanced quality of these disclosures and notes that most of these principles are already applied. (FEBELFIN)</p> <p>One commentator notes that institutions should not merely pay attention to respecting disclosure requirements but, in doing so, provide the user with a comprehensive picture along the lines indicated in CP30. (FBE)</p> <p>One commentator welcomes CEBS work to help institutions fulfil the recommendations made by the Financial Stability Forum on transparency and to identify ways of enhancing the form and content of disclosures. (BBA)</p> <p>One commentator noted that the recognition that the business models of financial institutions as well as having an understanding of the key risks they face are important areas of focus for the auditors of financial institutions and will help to increase their understanding and should hopefully lead to a better awareness of these issues by the public as well as investors. (ICAS)</p> |   |                                     |
| G2 | Support of high-level approach | <p>Three commentators welcomed the high levelled principles-based approach the guidance takes to address both the form and content of their disclosures and their non-mandatory character. (ICAS, FBE, FEE)</p> <p>One commentator believes that the draft guidelines will be helpful to institutions when preparing their disclosures and that they will lead to an increase in the comparability of disclosures between institutions; they are</p>  | Comment appreciated. Revision of the document and the introduction of principles (instead of guidelines) make high-level nature even clearer. | See new introduction and objective. |

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|    |                                      | <p>mostly drawn at the right level to provide a sufficient level of detail without being overly prescriptive. (BBA)</p> <p>Another commentator believes that the proposed high-level principles, when effectively implemented by the financial institutions, will significantly enhance the quality of public disclosures regarding their - current and future - financial position and risk exposure. More timely public disclosure of comprehensive and comparable information, including on areas of uncertainty, will enable better assessments by market participants and will, therefore, contribute to maintaining market confidence. (ECIIA)</p>  |  |                                     |
| G3 | Support of non-compulsory principles | <p>One commentator considers the guidelines in CP 30 not compulsory, but rather as a call for banks to take responsibility and exercise self-discipline. This respondent feels that accounting matters and specifications and/or interpretations of standards addressed in the paper are reserved to the IASB and IFRIC. Therefore the non-obligatory character of the principles should be further emphasised. (ZKA)</p> <p>Another commentator asked for clarification as to how CEBS plan to monitor compliance with their disclosure guidelines for financial institutions. Is there any mechanism for this and what sanctions, if any, would be taken on any financial institution that fail to act in accordance with the disclosure guidelines. (ICAS)</p> <p>However, one commentator agrees that they provide a clear and strong message to institutions that they are expected to adopt them on a voluntary basis concerning disclosures that they will make from 2010 onwards. (FBE)</p> | <p>In the revised principles CEBS clarifies that the principles are NOT binding guidelines.</p> <p>At the same time CEBS strongly encourages institutions to apply the principles.</p> <p>CEBS plans to consider how institutions have responded to these guidelines as part of its review of 2009 annual reports.</p>                           | See new introduction and objective. |
| G4 | Concern about information overload   | <p>One commentator considers that the current information that is facilitated to the Supervisor is wide enough, and that an increase could provoke an incompatible situation with the global vision of the entity. This information, due to the Supervisor requirements, it is being increased and adjusted in accordance to the changes in the scenarios. In addition, and as a consequence of the entrance of Basel II, the informational requirements to the markets are too wide as well.</p> <p>This commentator fears that if more information, more analysis and more depth are required by the Supervisors, this situation could be incompatible with the global vision of the entity (AEL)</p> <p>One commentator who – despite agreeing with CEBS that disclosures of high</p>  | <p>These principles are about public disclosure, not disclosure to supervisors.</p> <p>Furthermore the principles do not intend to increase the number of disclosures but rather to improve their quality by encouraging better application of existing requirements.</p> <p>The principles do not over-rule existing requirements, nor does</p> | See new introduction and objective. |

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|    |                                     | <p>quality information on the retention of or increase in market confidence is necessary - feels that the quality of the disclosure does not depend on the amount of the information disclosed, but on the content thereof. This commentator feels that users already receive an abundance of information about the business activities of the institute, albeit with little differentiation to clarify the economic importance of the individual divisions to the institute and which opportunities and risks are connected with them.</p> <p>This commentator also believes that the quantity of information to be disclosed should generally be reduced. They support the intention of CEBS not to expand the disclosure requirements, although they doubt that the present paper actually does justice to this intention. It is felt that nearly all of the detailed proposals contain disclosure obligation that go beyond the previous disclosure requirements. (ZKA)</p> <p>The same commentator notes that reporting obligations should be critically reviewed regarding their benefits for decision-making in particularly relevant areas . The guidelines should therefore clarify that disclosure must focus on the core business activities and risk profile of an institution. (ZKA)</p> <p>Another commentator noted that stakeholders aren't served by making more detailed disclosures, just for the sake of disclosing. More detailed disclosures will lead to an increase in complexity, which is just the opposite effect of what disclosures are designed to do. Furthermore, experience has shown us that there is little interest for the current Pillar III disclosures, let alone a demand for more disclosures. (NVB)</p> | <p>CEBS believe that they (implicitly or explicitly) require institutions to disclose new items of information that are not covered in other disclosure frameworks. They aim at organising and presenting the requested information in a way that would enhance the clarity of the message passed on to users in times of stress. The principles referring to comprehensiveness and granularity of the information are underpinned by existing requirements.</p> <p>In the revised principles CEBS clarifies that the objective is to increase the quality of the disclosure not the quantity.</p> |                                     |
| G5 | Interaction with other requirements | <p>One commentator supports CEBS' aim of encouraging enhanced quality of disclosures without amending, duplicating or adding to existing disclosure requirements. (FEE)</p> <p>One commentator suggests that in order to avoid duplication of requirements, CEBS should be more precise how the guidelines relate to other requirements. (Euroclear).</p> <p>Similarly a commentator noted that the different principles sometimes have overlapping (and slightly different) disclosure requirements. This leads to confusion about the scope and applicability of the draft guidelines for the preparers and the users of disclosures (NVB).</p> <p>It was also noted that there would have to be consideration as to how these</p>   | <p>The principles should be applied within the context of other disclosure requirements and therefore do not overlap or are in contradiction with other requirements.</p> <p>The principles are fundamentally intended to guide financial institutions in providing adequate disclosures in times of stress, with the underlying content anchored in other</p>   | See new introduction and objective. |

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|    |               | <p>guidelines would interact with any local requirements and also whether or not they are consistent with the current reporting requirements of either the International Accounting Standards Board (IASB) or the local practice of the individual jurisdictions. (ICAS)</p> <p>One commentator adds that the lack of sufficient focus and clarity of the proposed recommendations is a cause of confusion to preparers as their meaning may be different depending on the answer to their objective and scope. CEBS should therefore provide for more clarity as to the precise objective and scope of each guideline (like the Industry Good Practices Guidelines on Pillar 3 Disclosure Requirements for Securitisation). (EBF)</p> <p>Another commentator also supports the aim of encouraging enhanced disclosures via good practice guidelines as these avoid the need to amend, duplicate or add to existing disclosure requirements set out in International Financial Reporting Standards (IFRS) and in listing requirements ; it is vital that the benefits of IFRS are not eroded by additive EU-only requirements; also an important point for institutions that prepare financial statements to meet the requirements of more than one jurisdiction (level playing field perspective). (BBA)</p> | <p>relevant disclosure requirements.</p> <p>CEBS deems these principles to be particularly important and conducive to achieving high-quality disclosures and therefore deems it important to highlight these principles in a free-standing document.</p>  |                                     |
| G6 | Precise scope | <p>One commentator suggested that CEBS clarifies what is considered to be a situation of “stress”. In particular, there the principles should distinguish between type of information needed on a regular basis and that which is only required in case of stress, as many principles seem to be valid both for regular disclosures and ad hoc disclosures. (Euroclear)</p> <p>Two other commentators also think that the guidelines are also deemed to be overly focused on extreme situations. As a consequence, it is not always clear if they need to be taken into account in times of exceptional or stressed events only, if they need to be implemented in general, or otherwise. The paper should be clearer on this. (EBF, NVB)</p> <p>One commentator notes that the proposed guidelines have the merit of guiding public disclosures to be made by institutions in stressed circumstances. (FBE)</p> <p>However, another commentator noted that these principles should be useful in relation to any activities that warrant particular attention, irrespective of the economic environment. (ECIIA)</p>  | <p>During its initial discussion leading up to the CP, CEBS decided not to define a situation of stress. Given the comments received, this will have to be considered further in order to clarify the scope of the guidelines.</p> <p>In the final principles CEBS has clarified this to read: For the purposes of this work a situation of stress is deemed to be one where an event or activity of risk – irrespective of whether it takes its origin in a single entity, in one particular event, or in market or economic</p> | See new introduction and objective. |

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|    |   |  | developments - has or could have a material adverse effect on a financial institution's financial position (including the level of capital, the solvency ratio and the liquidity position).  |                                     |
| G7 | <p>Others:<br/>Disclosures adapted to audience</p> <p>Structure of the document</p> <p>Link with P3 disclosures</p> <p>Communication, location, assurance</p> | <p>One commentator is of the view that the quantity (and granularity) of information disclosed should depend on the targeted audience. This will depend on the particular stakeholders of each institution. (Euroclear)</p> <p>Another commentator believes that the second section (on content) is too detailed: it is not believed necessary or appropriate for to stipulate five headings under which disclosures should be presented. The explanatory text provided in support of principles 8 to 11 is sufficient to ensure high-quality, consistent disclosures which reflect the business models and mixes of individual firms. (BBA)</p> <p>One commentator expressed concern that only a very limited number of stakeholders appear to have gone through the effort of consulting Pillar 3 disclosures — notwithstanding educational efforts which have been undertaken by the industry and supervisors. They believe that it would be useful for the supervisory community to enter into a dialogue with the investor community to try and find out how this can be explained. (EBF)</p> <p>One commentator is interested to learn how the disclosure requirements proposed by CEBS are envisaged to be communicated, where such disclosure needs to take place and what type of assurance is envisaged to be placed on the disclosures. It is the responsibility of management to prepare financial statements, but we believe that all parties in the financial reporting chain have a contribution to make in order to enhance the transparency of financial statements. (FEE)</p> <p>One commentator notes that in terms of the content, in the annual reports as well as in the “Informe de Autoevaluación de Capital –IAC-” wide information is facilitated regarding the current financial situation and the possible evolution of the financial entity in case of diverse stress situations. (AEL)</p> | <p>CEBS agrees that institutions should bear in mind the audience for their disclosures when preparing disclosures.</p> <p>The introduction to section II has been modified to clarify that CEBS does not intend to prescribe a specific structure for disclosures</p> <p>CEBS is aware of this issue and its efforts on enhancing convergence reflect this. As part of these efforts CEBS has organised exchanges of views with preparers and with users.</p> <p>In terms of communication and location the principles should be applied within the context of other disclosure requirements, although in certain cases ad hoc statements may be justified.</p> <p>Similarly the principles do not intend to amend or affect existing requirements in terms of assurance.</p> <p>CEBS does not share this view and the fact that CEBS is carrying out this work is proof of the fact that its members</p> | See new introduction and objective. |



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|  |   |   | consider that there is room for improvement.  |   |
| <b>Specific comments on section I. General principles (principles 1-6)</b> |   |   |   |   |
| P1   | Principle 1: Up to date information               | <p>One commentator considers that existing requirements sufficiently address this issues and that further regulatory action is, therefore, not required. (EBF)</p> <p>In addition one commentator considers that the prompt provision of high-quality and coordinated information at irregular intervals would lead to extremely high costs, especially for complex banking groups and would not achieve significant improvement but further engage banks' responsibility. (ZKA)</p> <p>One commentator is concerned that such a new requirement does not fit into the existing format of both regulatory, interim reporting requirements as per IFRS, and the existing ad-hoc reporting requirements which are not as descriptive as those laid out in section II "Content" of the discussion document.</p> <p>It is uncertain what responsibilities such a reporting may trigger both for the reporting banks and it appears impossible to have this ad-hoc reporting audited or reviewed (before it is issued) as this would undermine the short term reporting goal and there are no existing financial reporting and auditing standards for such short term disclosures. (WKO and Deloitte AT)</p> <p>Regarding the timeliness of reporting, one should take into account the internal and external processes with regards to the content of figures such as the internal control process and the possibility to involve (e.g. press releases outside the normal publication calendar). (Febelfin)</p> | <p>CEBS notes that the principles do not aim to increase the frequency of disclosure of certain reports (e.g. Pillar 3). However, in certain instances institutions may need to make targeted ad hoc disclosures irrespective of the normal publication schedule, and should be in a position to respond if necessary.</p> <p>CEBS stresses the fact that documents are not intended to replace regular reports that an institution provides in accordance with applicable regulations.</p> <p>CEBS is of the view that this principle could be met by firms considering using press releases or ad hoc reports to provide timely information where a situation is rapidly evolving but there is not an immediate opportunity to communicate using existing documents foreseen by the publication calendar.</p> | See new principle 1 and related explanations. |
| P2   | Principle 2 - Disclosures on areas of uncertainty | One commentator is uncertain how such a disclosure on areas of uncertainty can be accomplished on an ad-hoc basis. Existing annual and interim reporting requirements as per IFRS (in particular IAS 1.125 and various provisions in IFRS 7) are believed to be comprehensive and sufficient to   | CEBS notes that some IFRS already require disclosures on sensitivity analyses in certain areas and that this information  | See new principle 2 and related explanations. |

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|    |  | <p>address the desired outcome of enhancing the quality of information provided by financial institutions. (WKO and Deloitte AT)</p> <p>Whilst agreeing with the general principle, one commentator observes that providing too detailed information on sensitivity analyses would be likely to add to the complexity of disclosures, require specific knowledge of the reader and, finally, may – because of banks’ individual business models - conflict with Principle 4 with regards to inter-entity comparability. (EBF and ZKA)</p> <p>Appropriate language would be needed to differentiate between reported data and forward-looking statements which require judgment and which cannot be relied on in the same way as reported data. This could lead to cumbersome narrative and potential confusion for the reader. (EBF)</p> <p>One commentator adds such analyses are already established (and will be expanded) by local requirements. (ZKA)</p>   | <p>is deemed very useful. At the same time CEBS recognises the fact that forward-looking information (such as forecasts on results or on risk exposure-related losses) could be sensitive. Nevertheless by providing this information users should be enabled to form an opinion on the potential impact of changes in expectations</p> <p>The principle has been clarified and does not require information about the future.</p>  |   |
| P3 | Principle 3 – Fully describe the financial situation | <p>One commentator draws attention that IAS 1.9 and IAS 1.112-1.133 require a comprehensive and sufficient disclosure of all relevant financial information for general purpose financial statements. We do not believe that additional information and disclosures over and above those already required by IFRS and further elaborated in IAS 1.138 with respect to the business activity and the general disclosure clause in IAS 1.15 ff are necessary to meet the public information requirements. We are convinced that such information, if it were to be provided, cannot be tracked back to the reporting standards and may therefore not be subject to audit procedures. (WKO and Deloitte AT)</p> <p>Another commentator adds that given the complexity of the IFRS rules it is not straightforward to provide comprehensive and meaningful information for a non initiated audience. Therefore giving too much technical details can create more confusion than giving a better insight. (Febelfin)</p> <p>Another commentator notes that the proposed principle is fully in line with what is currently required under IFRS 7 and CRD Annex XII. This respondent does not believe that it would be appropriate to require institutions to publish sensitive disclosures which would have a destabilising effect on their position before they have contacted their competent authorities. (EBA)</p> | <p>As noted elsewhere, CEBS does not intend to add to existing disclosure requirements, but rather to provide guidelines that could support an increase in quality of the application of existing requirements.</p> <p>Similarly, CEBS notes the importance of tailoring disclosures to an audience’s needs, and thus would emphasise the importance of Principle 15 (developing an educational approach) in this regard</p> <p>CEBS clarifies that comprehensive and meaningful disclosures require management assessment. The information has to be of benefit to the</p> | See new principle 3 and related explanations. |

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|    |   | <p>One commentator suggests that this principle includes guidance on the criteria for classifying an item as an omission. (ECIIA)</p> <p>Another commentator believes that institutions should be allowed to assess under which conditions transparency is warranted. Disclosing temporary strains could affect an institution's reputation in such a way that it might be cut off from certain markets, which may prevent it from operating on a going concern basis. This assessment should, obviously, take into account regulatory requirements regarding the proper information to shareholders and other stakeholders. (Euroclear)</p> <p>Similarly, this commentator believes that specifically in the face of uncertainty (when unrealised losses cannot be precisely assessed) the financial situation of an institution may be difficult to assess precisely. Disclosures should therefore reflect available information, i.e. institutions should describe their situation to the best of their knowledge. Obviously, it is agreed that disclosures should be clear about assumptions taken and degrees of uncertainty related to different scenarios. (Euroclear)</p> <p>Another respondent critically views the proposal to contact the regulatory authority when publishing sensitive information in stress situations. 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. (ZKA)</p> <p>At the public hearing it was noted that where an institution faces an issue it will already be in contact with its supervisor and that there is no need for such a requirement.</p> | <p>decision-making process.</p> <p>CEBS decided against including criteria for when an item could be omitted. General materiality considerations apply.</p> <p>CEBS does not express a view on when an institution or firm should contact its supervisor in general, but acknowledges that in some very difficult situations disclosures should be raised with the relevant authority if there is any doubt.</p> |   |
| P4 | Principle 4 – Comparison over time and between institutions | <p>Two commentators agree / encourage that financial information should be comparable both over time and between institutions.</p> <p>Such a comparison is already required by IFRS to the extent that is possible for general purpose financial statements applicable to all industries and businesses of all sizes. With respect to intergroup (that is time wise and in case of changes in scope of business) such information will be made more easily available once the XBRL reporting format is more broadly used. (WKO and Deloitte AT)</p> <p>It is added that this principle should also be applicable for the supervisory</p>  | <p>CEBS believes that comparability could be improved regardless of the use of particular reporting formats. As noted elsewhere, these guidelines do not address supervisory reporting, nor is it suggested that the guidelines should result in the use of a fixed reporting format.</p>  | See new principle 4 and related explanations. |

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|  | <p>reporting within the European community. It is added, although an appropriate level of detail is required, too much details on the weaknesses of the business could put the company into a difficult situation. Also, in case this would lead to the introduction of fixed reporting formats, a sufficiently long preparatory period is needed. (Febelfin)</p> <p>On the other hand one commentator understands that the use of standardised formats is suggested. They believe the scope of disclosure should be aligned to the relevant risk profile of the institute and its business activities. For this reason uniform formats, as welcome as they may be from a theoretical standpoint, are not very useful for the disclosures of the institutes in practice. Against this background, standardised formats can offer merely orientation for possible disclosure and should not be compulsory.</p> <p>Similarly one commentator notes that allowing for comparability across institutions is more difficult to achieve as the risk profile of each institution largely depends on its risk appetite, its business model, the internal models which it uses, etc. Moreover, it should be avoided that institutions be compelled to disclose information that is not material merely for the sake of comparability. (EBF)</p> <p>Also proposed comparisons over time go well beyond the previous disclosure requirements. These would further increase the scope of the varying disclosure formats and thus the flood of information and are not considered useful. (ZKA)</p> <p>One commentator does not believe that institutions should be obliged to re-state disclosures which they have made in previous years merely to allow readers to make comparisons over time because of business developments; it should suffice that institutions provide narrative information in this respect.</p> <p>Enhancing consistency across institutions would indeed be desirable. However, the main objective should remain to provide transparency about an institution's own risk profile.</p> <p>One commentator notes that differences across institutions where Pillar 3 disclosures are concerned, may be driven by Member State requirements or legitimate differences in bank approaches. (EBF)</p> | <p>CEBS is of the view that attention must be paid to not increasing the quantity of information already required, but at the same time believes that it must be based on the criteria of usefulness which undoubtedly are satisfied in the case of comparative information.</p> <p>The principle does not advocate strict standardised formats - although in a persistent crisis situation, tables such as those developed by the FSF and the SSG proved useful. Rather, institutions are encouraged to look at disclosures of peers and to explore voluntary efforts to achieve a higher degree of comparability, notwithstanding the fact that certain situations might be entity-specific or that stressed situations might be of short duration. The revisions are intended to clarify this point.</p> <p>It was also noted that the monitoring and improvement of disclosures should be left to external auditors respectively to market discipline. CEBS does not share these views, but sees a clear role for supervisors in those areas.</p> <p>Restating previous disclosures: It is not CEBS's intention to ask</p> |  |
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|  |  | <p>The European industry has taken specific initiatives to increase the consistency of institutions" Pillar 3 disclosures and is determined to undertake further efforts to that effect. However, achieving consistency will inevitably require an iterative and evolutionary process. It would not be appropriate for CEBS to interfere with this process by issuing guidelines taking into account that Pillar 3 Disclosures form an integral part of the Basel II Framework. Against this backdrop, it is essential that guidelines from regulators aimed at improving consistency, if any, be prepared at a global level by the Basel Committee. It would in any event be unacceptable that European banking groups would be made subject to differing and/or stricter requirements. (EBF)</p> <p>CEBS should not strive for complete comparability. Leaving the disclosures requirements more flexible will lead to more and better information flows towards users of financial statements.</p> <p>Disclosures should be used to explain institution specific circumstances instead of setting generic requirements. If the disclosure requirements are set at a too general level, there is a risk that stakeholders will be tempted to compare apples and oranges, as not all disclosures made will be relevant for the individual business model of an institution and can lead to an information overkill. In such cases, additional disclosures will have no added value and will result in a list of items that needs to be checked off. (NVB)</p> <p>One commentator added that the proposed guidelines should acknowledge that the design and level of disclosures made by institutions will vary in accordance to the specific risk profile of an entity and the complexity of its business model. (FBE)</p> | <p>for comparative figures beyond existing requirements. Although they are encouraged.</p> <p>Pillar 3 disclosures: CEBS realises that this difference in national requirements is a potential issue, although not confirmed by its the findings of the <a href="#">2007 implementation study</a>.</p> <p>While Pillar 3 is part of CEBS's field of competence, the idea is not to make requirements stricter. Rather, it is CEBS's aim that banks apply the disclosure requirements in a correct manner.</p> <p>CEBS appreciates the efforts of the industry and encourages even further progress to improve the comparability of Pillar 3 disclosures. CEBS is monitoring this area closely and will consider whether specific steps are necessary as regards Pillar 3 disclosures in the light of future assessments of progress.</p> <p>CEBS agrees that some flexibility in disclosures is desirable; individual institutions will not produce identical disclosures, due to variations in risk profile, strategy and business activities. The guidelines do not aim to create a single common report.</p> |  |
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|    |                              |   | <p>Nonetheless, promoting comparability is an area where supervisors have a legitimate role and interest, since individual institutions will naturally be focused on their own disclosures. CEBS believes that increasing the extent to which market participants can make fair assessments between entities, engaged in similar activities, would be beneficial for market confidence.</p> <p>In Principle 4, the standardised formats are one of the three tools to enhance comparability between different institutions. This encourages discussion in industry fora and peer review. Whereas this principle is deemed very important, CEBS does – for the time being - not envisage developing any standardised disclosure formats. Rather CEBS realises that increased comparability is an evolutionary process.</p> |   |
| P5 | Principle 5 - Early adoption | <p>One commentator cautions that under the existing financial reporting framework interpretations to IFRS should and may only be made by the IASB and the appropriately designated interpretation committees but the task of interpreting IFRS should not be extended to regulators or enforcement authorities for that matter. (WKO and Deloitte AT)</p> <p>Another commentator notes that the principle for financial institutions to seek early adoption of new disclosure standards and best practice recommendations from standard setters and regulators is also welcomed as the future financial statements of these organisations will be closely</p> | <p>It was noted that this principle should, in essence, apply to final standards / requirements that are aimed at stressed situations.</p> <p>This principle has no impact on policies established by IASB in the case of amendments to IFRS. Early adoption is deemed desirable and banks should</p>   | See new principle 5 and related explanations. |

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|    |                            | <p>monitored and examined by a number of interested parties for the foreseeable future. (ICAS)</p> <p>One commentator notes that new disclosure standards typically require some time to 'grow'. Requiring institutions to become early adopters for all new disclosure standards will impair the quality of the iterative process that is used to set up new disclosure processes. A 'comply or explain' approach reinforces this. (NVB)</p> <p>In a similar vein, three commentators note that the early adoption of new disclosure standards is in most cases challenging and burdensome (e.g. because of IT-systems implications or simply because awareness needs to be created within the institution by means of educational initiatives). For organisational and technical reasons, an appropriate period must be established for implementation.</p> <p>Moreover, institutions cannot be expected to prepare for implementing standards at a moment in time at which standard setters have not yet reached a definite agreement. (Febelfin, ZKA, EBF)</p>   | <p>make stringent efforts to meet this principle without compromising quality.</p> <p>The principle does not interfere with a bank's plans on adopting new IFRS standards or pre-empt an institution's decisions as to the early-adoption options provided in accounting standards.</p> <p>Nor does it imply that institutions should adopt draft disclosure requirements before they have been adopted (or endorsed).</p>   |   |
| P6 | Principle 6 – Verification | <p>One commentator notes that International Standards on Auditing (ISA's) do not allow for a differentiation in audited and unaudited parts of financial statements. No individual items or sections may be excluded from the overall audit scope and therefore should not be designated as either unaudited or reviewed or any other designation (ISA 700.8, 700.46&amp;47.)</p> <p>They note, that other sections of the financial disclosures such as the management report or the glossy brochure and ad-hoc filings or press releases are usually not subject to audit or review procedures except for a very high level reading with a view to consistency with the audited or reviewed financial statements when they are published together. (Deloitte AT)</p> <p>Similarly, one commentator notes, that 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. (ZKA).</p> <p>One commentator does not believe that it would be appropriate for the</p> | <p>CEBS has observed that many institutions already distinguish between audited and not audited information.</p> <p>This principle aims to provide users with a higher degree of comfort and to ensure they can easily locate this information, in particular if provided or reproduced outside financial statements.</p> <p>CEBS does intend to alter any requirements or obligations set out in financial reporting or auditing standards. Nor does CEBS intend to impose new review or verification requirements.</p> | See new principle 6 and related explanations. |

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|  | <p>CEBS Paper to imply that disclosures which are not audited should be reconciled to audited information whenever possible. They also comment that reconciling Pillar 3 disclosures with IFRS disclosures may particularly be extremely burdensome to achieve and is, moreover, likely to hamper flexibility.</p> <p>At the same time they refer to safeguards surrounding disclosures made on information that has not been verified by external auditors:</p> <ul style="list-style-type: none"> <li>- financial institutions have set up adequate internal verification processes;</li> <li>- the circumstance that non-audited information which institutions disclose is also being used internally by management provides for sufficient incentives to have the numbers right;</li> <li>- supervisors take action if an institution would make Pillar 3 disclosures that would deviate from what it reported within the framework of COREP.(EBA)</li> </ul> <p>One commentator notes that it is not clear how the principle (6) that financial institutions should specify whether and to what extent information has been verified by external auditors would work in practice and there would need to be some further explanation or guidance provided on this. (ICAS)</p> <p>One commentator believes that some further guidance is needed regarding the internal monitoring/assurance process for publicly disclosed information as most of the elements recommended for public disclosure in your guidance document (see Principles 7 thru 10) are not within the traditional scope of work for an (external) financial statements audit.</p> <p>For these elements, senior management and the board rely in the first place on the organisation's internal monitoring/assurance processes, including internal audit</p> <p>In this respect, to underpin the credibility of the assurance provided by the internal audit function and, therefore, fostering the transparency of publicly disclosed information, ECIIA strongly suggests that CEBS's disclosure guidance recommends financial institutions to publicly disclose information on:</p> <ul style="list-style-type: none"> <li>- the organisational independence of its internal auditing function,</li> </ul> | <p>It has been clarified that information that is subject to adequate internal verification processes could also be identified.</p> |  |
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|   |   | <ul style="list-style-type: none"> <li>- the adequate coverage of the internal audit plan.</li> <li>- the board/audit committee's oversight of the internal audit function. (ECIIA)</li> </ul>   |  |   |
| <b>Specific comments on section II. Content (principles 7-11)</b> |   |  |  |   |
| P7  | Principle 7 - Activities under stress within the business model | <p>One commentator notes that the disclosures suggested under item 7 generally would not fit for inclusion in the notes to financial statements but rather fit into the management report or other publicly available information which implies that they are not subject to audit procedures for that matter.</p> <p>As far as the disclosure refers to financial instruments either individually or as a whole there are detailed and sufficient disclosure requirements already included in IFRS 7 which are part of the notes to the financial statements and therefore subject to audit procedures. (WKO and Deloitte AT)</p> <p>One commentator similarly considers that the requirements for crisis-related reporting to be largely fulfilled within the context of financial reporting in that country (risk report, management report). They do not consider a detailed presentation of the information with different breakdowns to be useful in achieving the desired goals. (ZKA)</p> <p>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. (ZKA)</p> <p>One commentator believes that providing disclosures which are too detailed may be counterproductive because it may be difficult for an institution to make clear statements about the current and expected curtailing of its own business due to stressed events. The current crisis demonstrated that some events may not be foreseeable, e.g. because of psychological factors. Moreover, information about curtailing own activities, exposures and capital resources may be highly subjective. (EBF)</p> <p>One commentator noted that forward looking assumptions would give hypothetical outcomes yet the public could seize such information and</p> | <p>CEBS does not prescribe where information should be provided.</p> <p>CEBS is not convinced by these statements, which were not confirmed by its disclosure assessments.</p> | See new principle 7 and related explanations. |

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|    |   | <p>consider it reality, bringing unnecessary increased instability in stressed times. Equally forward looking stressed assumptions are not part of Pillar 3; they should be included under Pillar 2/ ICAAP, which will be reviewed by the Regulator. (EBF)</p> <p>At the public hearing the discussion focused (both for principles 7 and 8) on forward-looking information and participants noted that such information is never audited and, given that it is based on hypothetical assumptions, is potentially misleading and even tends to make certain situations graver. Participants noted that this is linked to the discussion on principle 2.</p>   | <p>CEBS has clarified principle 2 and eliminated references to forward-looking information in principles 7-11.</p>   |  |
| P8 | <p>Principle 8 - Impacts on results and on risk exposures of the activities under stress.</p> | <p>One commentator is particularly concerned about forward-looking information and consider it virtually impractical to produce such information on an ad-hoc or close to ad-hoc basis as it generally requires extensive preparation work and similarly extensive verification work by auditors or reviewers to produce and validate the disclosures around the quantitative impact of such forward looking information.</p> <p>Under the existing IFRS there is no forward looking reporting requirement (while we recognize that certain IFRS 7 disclosures require the description of the impact on current equity and financial position of certain future stress scenarios) and therefore never require preparers to include possible future impacts for the very reason that financial statements give information about the influence of past transactions and events on the current financial position. It is noted that in most jurisdictions it is legally prohibited and at least highly unusual to provide quantitative figures about future expectations within a scenario presentation.</p> <p>Such a requirement may lead additional legal responsibilities of preparers and others involved in the financial reporting process.</p> <p>Finally it is noted that ISA ´s do not provide any guidance on the audit of forward looking information. There are other assurance standards that deal with the verification of forward looking information. [Verify] (WKO and Deloitte AT)</p> <p>Similarly one commentator is reluctant on the requirement to provide forward-looking information. Although this is already done in clearly delimited areas, institutions need to be very careful not to distribute false or misleading information to the public. Therefore the scope t and possible granularity of such forward looking information is by nature limited.</p> | <p>See comment above.</p> <p>The IASB’s conceptual framework includes a reference to the predictive value of financial statements which is relevant in this context</p> <p>A distinction between realised and unrealised losses is encouraged as it provides extremely valuable information to users, especially in a fair value environment. Indeed, while realised losses relate to transactions that have been completed, unrealised losses relate to on-going activities and may, therefore, be reversed</p> | <p>See new principle 8 and related explanations.</p> |

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|     |  | <p>(Febelfin)</p> <p>Other commentators also note that principle 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. (ZKA, EBF)</p> <p>Stress testing is a subjective exercise as assumptions and methodologies can vary greatly across firms. Comparability is, therefore, an issue and there is a danger that the market may misinterpret stressed results. (EBF)</p> <p>One commentator suggests that these principles also include a reference to the "Three Lines of Defense" -model (mentioned in our specific remark above), as a leading practice for assuring, inter alia, the accuracy of the related disclosure. (ECIIA)</p> |   |  |
| P9  | Principle 9 – Impact on institution's financial position             | <p>One commentator notes that IFRS 7 already requires extensive disclosure on the impact on the current financial (liquidity) position of banks in particular. (WKO and Deloitte AT)</p> <p>Some commentators refer in this context to their remarks on principle 8 (about forward-looking information. (EBF, WKO, Deloitte)</p>   | <p>CEBS considers in that respect that quantitative information on liquidity risk in IFRS 7 is rather limited and could be developed. It, furthermore, does not consider that this principle interferes with IFRS 7.</p> <p>CEBS also thinks that the consistency with existing requirements is correctly noted in the "objective", and that this should not be read to go against existing requirements.</p> | See new principle 9 and related explanations.  |
| P10 | Principle 10 - Management of risks linked to activities under stress | <p>Some commentators refer in this context to their remarks on principle 8 (about forward-looking information. (EBF, WKO, Deloitte)</p> <p>One commentator notes that, as the objective is to relief the stress linked to an activity, the implementation of this recommendation should not result in the creation of 'self fulfilling prophecies'. (NVB)</p>  | <p>CEBS does not necessarily concur with this view. It is certainly not CEBS' aim to fuel self-fulfilling prophecies, and it was felt that not change was necessary.</p>  | See new principle 10 and related explanations. |

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| P11 | Principle 11 – Sensitive accounting issues | <p>As long as there is no extensive scenario disclosures around sensitive accounting issues which would undermine the quality of the primarily reported financial information one respondent notes they have no major concerns. (WKO, Deloitte AT)</p> <p>Some commentators refer in this context to their remarks on principle 8 (about forward-looking information. (EBF, WKO, Deloitte)</p> | <p>CEBS is of the view that, by nature, sensitive accounting issues require special attention. Yet, it is felt that high quality disclosure is linked to the amount of information disclosed. This is an area where there is scope for significant improvements of disclosures by means of reducing disclosures that are merely describing accounting standards to the benefit of information about how these standards are effectively being applied.</p> | See new principle 11 and related explanations. |
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***Specific comments on section III. Content (principles 12-16)***

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| P12 | Principle 12 - Disclosures provided in one place | <p>As disclosures are typically tailored to the needs of specific audiences, we prefer disclosure documents to be set up in such a way that it enables the specific users to read it as independent documents. (NVB)</p> <p>One commentator agrees that disclosures relevant to an understanding of an institution’s involvement in a certain activity should ideally be provided in one place and be appropriately cross-referenced where necessary to aid the reader’s understanding. (EBA)</p> <p>Two commentators agree that disclosures should be easy to read and understand which may also be achieved by cross-referencing. It should be noted, however, that there may be no cross-referencing from audited information to non-audited information as this would imply that non-audited information (such as a management report or a glossy brochure or other documents) would become subject to the same audit procedures as those statements that make reference to this unaudited document or information. (WKO, Deloitte AT)</p> <p>Two respondents comment that detailed cross-references called for in point 12 should generally be subject to the discretion of the reporting company. (EBF, ZKA)</p> | <p>CEBS does not have a preference for independent or joint reports. The principle deals with the manner in which information about a certain stressed situation should be provided. It should be such that the reader gets a complete picture in a timely and manageable way.</p> <p>CEBS is of the view that the relationship between audited / non-audited information is not affected by cross-references.</p> <p>Financial institutions are encouraged to consider benefits to users when all information relating to the SAME stressed circumstances is provided in one</p> | See new principle 12 and related explanations. |
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|     |  |  | place. The principle does not, however, intend to regroup disclosures from various regulations / standards into one document.  |  |
| P13 | Principle 13 - appropriate granularity | <p>One commentator agrees with the principles although an appropriate balance needs to be achieved. (EBF)</p> <p>One commentator notes that quantitative requirements in the various disclosure regimes are already too extensive now. A higher level of detail such as that called for in principle 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. (ZKA)</p> <p>One commentator notes that in determining the granularity of the reporting, one should take into account the length of the remittance periods. The shorter the remittance periods, the more difficult it becomes to provide very detailed reporting. (Febelfin)</p> | <p>CEBS agrees.</p> <p>CEBS is not trying to increase the quantity, but rather the quality of disclosures. The decision about the level of detail is left to institutions.</p> <p>CEBS agrees with the comments and believes firmly that it is up to the financial institution to strike the right balance between timeliness and the right level of detail. The revision clarifies that the principles do not add or get in the way of existing requirements.</p> | See new principle 13 and related explanations. |
| P14 | Principle 14                           | One commentator agrees with the principle and adds that they understand that CEBS is not suggesting that it would be appropriate for the industry to develop a single tabular format; adopting a uniform approach would not be likely to reflect the individual circumstances of financial institutions. (EBF)   |  | See new principle 14 and related explanations. |
| P15 | Principle 15 – Educational approach    | <p>One commentator is not convinced that general purpose financial statements and their dissemination the public is a primary means of educating about financial reporting matters.</p> <p>While a limited glossary is common practice, financial statements should not provide text book style IFRS education. This is a matter solely reserved to market discipline and it is believed that there is sufficient pressure for high quality and informative financial statements and related disclosures. (WKO, Deloitte AT)</p> <p>As far as the call for “executive summaries” is concerned one respondent cautions that financial statements should be read in their entirety and that</p>  | The revision clarifies that institutions should seek to strike the right balance between long educational developments for non-experts and adequate disclosures for knowledgeable users.   | See new principle 15 and related explanations. |

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|     |              | <p>the drive to provide shorter and more user friendly summaries is detrimental to the overall principles as outlined in Section I of your consultation paper. (Deloitte AT)</p> <p>This commentator notes that virtually all publicly held companies prepare press releases, analyst presentations and other documents which are usually disseminated more quickly and more widely to the users of financial statements than the long-form financial statements and that they believe that it is up to the enforcers and regulators to assure that such documents are of the highest possible quality and provide a true and fair - albeit abbreviated and not comprehensive - representation of the entity as compared to the full financial statements which are approved and audited. (WKO and Deloitte AT)</p> <p>Another commentator welcomes the suggestion made in the Consultation Paper that institutions should consider the inclusion of executive summaries in their disclosures and aim to tell a story about their activities. (EBA)</p> <p>Although we agree that an institution should seek to identify its primary risk factors, it is important to recall that disclosures such as Pillar 3 are intended to provide a point in time picture of an institution's risk profile. (EBA)</p> | <p>For the time being the requirement in Pillar 3 has been agreed at Basel level but is not in force in the EU. Therefore pillar 3 is currently focussed on capital calculations and is much narrower in scope than a full picture of a firm's risk profile.</p>  |  |
| P16 | Principle 16 | <p>One commentator points out that a public disclosure that certain activities under stress have no or very limited impact on the reporting entity create the same obstacles and issues both with respect to the responsibility of the preparers and the auditability as outlined before. Such statements - while they may be required to counterbalance market rumors – imply a significant risk of market manipulation or undesired guidance including an uncontrollable legal responsibilities of those issuing them. (WKO and Deloitte AT)</p> <p>Similarly one commentator notes that requiring institutions to disclose if they do not have significant exposure to an activity under stress reverses the 'onus of proof', as an institution already has to disclose significant information that can affect the share price. As a result of this recommendation it is implied that an institution has to react to each stress situation, causing noise. This would in effect decrease the overall effectiveness of disclosures. (NVB)</p> <p>Another commentator appreciates the point which is being made under this heading: when stress areas become apparent (e.g. Dubai crisis), financial</p>   | <p>CEBS agrees that this principle requires management judgment as to when an explicit statement of non-involvement – or low-involvement - is needed in order to prevent the effectiveness of the disclosure being undermined by unnecessary "noise".</p> <p>CEBS clarified this principle to say that disclosures should be made when they are deemed to constitute decision-useful information for users, recognising the need for management discretion.</p> | See new principle 16 and related explanations. |

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|  | <p>institutions that do not have significant exposures to activities under stress have taken the habit of disclosing this to the market. We believe that this has a positive market effect. That being said, care must be taken to prevent the effectiveness of disclosures being undermined by unfocussed and unnecessary „noise“. It is therefore believed that management must be permitted to exercise judgment as to when such a statement should be made.</p> <p>However, it is also noted that the principle should not apply to going concern situations as the market tends to be suspicious about negative statements. The final version of the CEBS Paper should not encourage institutions to mention explicitly that they are not – or only slightly – involved in activities under stress. Institutions should in any event retain the possibility of remaining silent about their involvement in some types of activities on the basis of the principle of materiality.</p> |  |  |
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