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April 26, 2012

Dear Sir / Madam

Standard & Poor's Responses To The Questionnaire On The Identification Of Users/Investors' Needs On Credit Institutions' Pillar 3 Disclosures

Standard & Poor's Ratings Services Financial Institutions ratings group ("Standard & Poor's") appreciates the opportunity to respond to the European Banking Authority (EBA) *Questionnaire on the identification of users/investors needs on credit institutions Pillar 3 disclosures* issued on April 4, 2012 (the "questionnaire"). The views expressed in this letter are Standard & Poor's and do not necessarily represent those of any other entity to whom it may be affiliated. We intend our comments to reflect the analytical needs and expectations of our credit analysts[1] as well as the questions we receive from investors.

Standard & Poor's regards Pillar 3 disclosures as an important source of information for its assessment of banks' risk profiles. More specifically, we have leveraged Pillar 3 data to roll out an enhanced risk-adjusted capital analysis, our risk-adjusted capital (RAC) framework, which is a key part of our rating methodology. As a consequence, we systematically examine the Pillar 3 reports of the banks we rate and believe we are among the most frequent external users of Pillar 3 disclosures. We set out below what we regard as key issues relating to the questions you have raised about disclosures in Pillar 3 reports. Our responses also build on comments that we receive from international investors in the course of our work, who frequently contact us to raise questions about the disclosure and exposures of European banks.

Our broad view is that Pillar 3 reports have allowed us to improve our assessment of banks' risk profiles by facilitating the roll out of our RAC framework, but have fallen short of fully achieving the Basel Committee on Banking Supervision's goal: "*to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution*" and to become the main source used by market participants to assess banks. Indeed, in many instances we have had to seek additional information from the banks we rate to complement and assess, in a consistent way, the information disclosed in Pillar 3 reports.

[1] The opinions stated herein are intended to represent Standard & Poor's Ratings Services' views in response to the EBA's questionnaire. Our current ratings criteria are not affected by our response to the questionnaire.

In our view, many of the reasons why Pillar 3 disclosures do not fully engender market discipline relate to issues raised in the EBA questionnaire. These issues include the lack of consistent and transparent disclosure format, absence of consistent definitions of exposures, and the timeliness of banks' publication of Pillar 3 reports. Beyond the points raised in the EBA questionnaire, the lack of comprehensive information in Pillar 3 reports is another important element that we believe lessens Pillar 3's role in enforcing market discipline in disclosure. Essential information on risk, such as loan loss provision per asset class, financial collateral received, or exposure to high-risk sectors, is often missing. For example, the Pillar 3 reports of many Spanish banks did not provide specific information on their construction and real estate development portfolios up to year-end 2010, despite this being a significant risk area. It is also notable that Pillar 3 reports still contain very limited information on the commercial real estate portion of banks' corporate exposures.

Many banks have increased the level of disclosure in their Pillar 3 reports in recent years. However, this does not necessarily equate to a better quality of disclosures or higher relevance of the information. Some of the narrative disclosures we have seen, such as generic descriptions and definitions of risks, or a reminder about the Basel agreements, offer little if any valuable insights to users seeking to assess the risk profile specific to a particular bank, in our view. Sometimes the sheer volume of information may make it more difficult for market participants to identify the most important risk disclosures. We think banks should include only the most relevant information, presented in a standardized and transparent way. In many cases, we have observed that the information content of Pillar 3 reports that exceed 100 pages is not necessarily higher than that of shorter reports.

We outline below our view of the main issues related to the EBA's questions:

Consistency:
Pillar 3 disclosures should be standardized, transparent, and comparable.

We think that there has been a lack of harmonized, disciplined, and consistent implementation of Pillar 3 disclosures and that this has significantly undermined the usability and usefulness of Pillar 3 reports for market participants. We see variations in the format of Pillar 3 disclosures as one of the main reasons why Pillar 3 reports have not yet achieved their original aim or full potential and are not yet as successful as many had originally envisioned.

Further, in our opinion, the implementation of Pillar 3 has been very diverse in the EU. This we believe is chiefly due to the coexistence of various unrelated national requirements, reflecting differences in how each country's regulator interprets the European Capital Requirements Directive. There are also variances in the level and quality of disclosure in Pillar 3 reports in certain jurisdictions because banks often have considerable discretion over the format and, to some extent, the content of Pillar 3 disclosures. This includes, but is not limited to, the level of granularity of the data and the narrative explanations supporting quantitative disclosures. We believe external independent verification and binding EU-wide regulatory guidance could help enhance the usefulness of Pillar 3 reports in fostering market discipline.

The current lack of standardization impedes our ability to compare Pillar 3 disclosures. If disclosed data are not comparable, they are less relevant in our rating analysis, which aims to rank the creditworthiness of all rated entities using benchmarks and peer comparisons. As an example, our banking credit analysts regularly produce loss estimates by exposure class for a given country for the subsequent two years. These figures are key inputs for our banking industry country risk assessments, the calibration of our RAC model, and our ratings on individual banks.

One could expect to find relevant material on banks' losses in Pillar 3 reports, such as historical loss data, banks' expected loss figures, and back testing data. However, when available, the information is disclosed in such a heterogeneous way that it cannot be aggregated or compared. The key obstacles to comparability here are the variety of category labels, granularity of the breakdowns, and the incomplete scope of the data, which is limited to the internal ratings-based (IRB) approach.

We believe that a more standardized approach to Pillar 3 disclosures, through the use of detailed disclosure templates, could be an effective way to enhance comparability of the data. However, the adoption of a Pillar 3 template should incorporate consistent definitions of key terms to ensure that the application and interpretation of the information banks provide do not vary across banks or jurisdictions. Otherwise, we believe that templates may give an impression of comparability, but not be helpful for investors.

We also consider it important that a template should not lead to banks taking a "tick-box" approach to disclosure. There should still be a requirement for banks to provide additional disclosure where necessary for investor understanding. For example, in the U.S. we are able to utilize the very precise and highly standardized mapping of data disclosed in U.S. bank holding companies' quarterly regulatory reports (US FR-Y9 C) as inputs to our RAC model. Nevertheless, we feel some additional textual explanations would add more substance to this purely quantitative rules-based approach. We elaborate on the crucial comparability issue and potential ways to improve it in our responses to questions 5 and 6 of the questionnaire in the appendix to this letter.

Reconciliation with accounting information:
Precise reconciliations between banks' financial statements and Pillar 3 reports should be provided.

In the EU, a bank's financial statements and Pillar 3 reports are two of the most important sources of financial information about the bank. Yet there is no mandatory requirement for banks to provide a detailed and consistent reconciliation to explain the reason for differences between the two. In addition to precisely identifying the differences in the regulatory and accounting scopes, we believe reconciliations should be provided to explain the differences between:

- Accounting capital and regulatory capital, such as shareholders' equity and tier 1 capital, as well as

- Accounting assets and regulatory assets, such as balance sheet assets and exposures-at-default (EADs).

With regard to the first of these two items, we note that in the past, the EBA's predecessor--the Committee of European Banking Supervisors--had highlighted reconciliation as an example of best-practice reporting.[2] We recognize that several banks already provide some form of reconciliation. However, in our view, this information is an essential element of reporting and should be provided by all banks on a consistent and comparable basis.

A reconciliation of balance sheet assets to EADs would provide much-needed transparency in this area, notably to allow a better understanding of the underlying risks under the main accounting lines and the risk of off-balance-sheet exposures. We would also welcome more

[2] CEBS, *Follow-up review of banks' transparency in their 2009 pillar 3 reports*, 30 June 2010.

details on the accounting information related to credit risk, including having them broken down by regulatory exposure classes. In our response to question 9 of the questionnaire, we set out the other areas where we believe reconciliation between accounting and regulatory information may be useful for investors.

Frequency and timeliness:
Pillar 3 disclosures should be published more frequently than once a year, and more promptly with regard to the period to which they relate.

Most banks in the EU publish full Pillar 3 disclosures once annually, notwithstanding the EU's current legislation, which requires banks to consider whether more frequent publication is necessary.[3] Other banks may publish Pillar 3 disclosure more frequently.

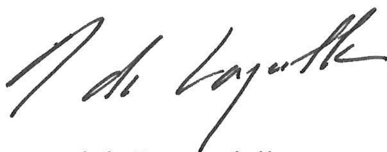
Given that banks' capital positions are an essential element in the analysis of banks for many investors and other market participants, and that banks' risk exposures can and do change relatively quickly, we do not think that Pillar 3 disclosures on an annual basis are sufficient to provide information to the market on a timely basis. Consequently, we are of the view that full Pillar 3 reports should be published more frequently, for example, at least twice a year (i.e. semiannually and annually).

For the same reasons, we believe the time lag between the end of a bank's accounting period and its publication of the related Pillar 3 disclosure is also an important consideration. For example, information about a bank's capital and risk exposures at the end of a financial year would be more relevant and useful if published shortly after the year-end date. The greater the delay, the less useful and relevant that information is to investors.

We note that entities whose securities are traded on a regulated market in the EU are required to publish their annual IFRS financial statements within four months of the year-end date, and half-yearly financial statements within two months of the date that period ended. It would be helpful to have similar requirements for Pillar 3 reports, in our view. Please refer to our response to question 7.

Our detailed responses to the questionnaire are set out in the appendix to this letter. We would be pleased to discuss any or all of the matters we have raised with you further. If you have any questions or require additional information, please contact Bernard de Longevialle (bernard_delongevialle@standardandpoors.com / +33-1-4420-7334), Simon Outin (simon_outin@standardandpoors.com / + 33-1-4420-7377), or Michelle Brennan (michelle_brennan@standardandpoors.com / + 44-20-7176-7205).

Yours sincerely,



Bernard de Longevialle
Standard & Poor's

[3] Article 147, EU Directive 2006/48/EC.

Appendix: Standard & Poor's responses to the EBA's *Questionnaire on the identification of users/investors needs on credit institutions Pillar 3 disclosures*

Identification of party providing feedback.

1. Entity (if applicable)/Contact person/Contact details (e.g. email, tel.)/Country.

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3. What use do/es you / your company make/s of Pillar 3 disclosures provided by credit institutions [e.g. investment analysis, investment advice, resource allocation decisions, audit, verification of regulatory requirements, enforcement of prudential measures, other (specify)]? How many reports on Pillar 3 disclosures do you consult per year? If you do not use Pillar 3 disclosures, please explain why (please note that in this case, you do not need to respond to the questions that follow)?

S&P has been a very active user of Pillar 3 disclosures throughout the world since the very first publications in 2007. S&P uses Pillar 3 reports in its assessment of the risk profile of banks. Pillar 3 reports are a primary source of information for our risk-adjusted capital (RAC) ratio, our own measure of capital adequacy (see "Bank Capital Methodology And Assumptions," published Dec. 6, 2010, on RatingsDirect for more details).

The RAC ratio is one of the most important inputs in our determination of bank ratings according to our criteria published on Nov. 9, 2011 (see "Bank Rating Methodology And Assumptions"). As a result, we have extracted data from Pillar 3 reports for almost all rated European banks when available.

We perform the RAC analysis for close to 1,000 entities each year worldwide, of which approximately 250 are in Europe.

4. Did you, and to what extent, consider the EBA assessments on Pillar 3 disclosures in your field of activity (e.g. considering the whole assessment, just areas on specific issues/risk types)? If not, why?

We carefully examine the EBA's assessments of banks' Pillar 3 reports. Most of the conclusions the EBA presented in its most recent assessment (dated Oct. 13, 2011) of Pillar 3 reports as of year-end 2010 are consistent with ours, in particular, the conclusions about the need for:

- Greater harmonization in the application of disclosure guidelines,
- Better comparability of data across banks,
- Enhanced linkages between disclosures and information in banks' financial statements, and
- Improvements in the timeliness of the reports.

In our understanding, the aim of the EBA's assessment is to monitor banks' compliance with the requirements of the European Commission's Capital Requirements Directive as implemented in Title V of Directive 2006/48/EC. While this task is important and necessary, we do not believe it is sufficient to address the issues highlighted above, including in particular the issue of comparability. In our view, the most important potential enhancement of Pillar 3 reports for the

benefit of investors would be the development of standardized templates, with consistent application, interpretation, and enforcement of such templates across Europe.

General perception on the usefulness of Pillar 3 disclosures

5. Are risk disclosures made by credit institutions adequate in order to assess their risk profile? If not, what improvements would you suggest?

We set out in our cover letter that some crucial risk elements were missing and that the quantity of information disclosed is not always associated with better quality information. The number of pages in Pillar 3 reports is generally not a reliable indicator of its relevance in terms of risk information. We believe there is room for improvement in making Pillar 3 reports more useful in providing insight into relevant risk areas. In particular, information on the quality of underwriting and risk processes, past loss experience by exposure class, and risk concentrations are not always provided in Pillar 3 reports. Even where such information is provided, it is usually very difficult to draw meaningful comparisons with other institutions. This renders the data less useful in our analysis, in which benchmarks and peer comparisons are highly relevant to our assessment of a bank's risk profile. We set out below a few real life illustrations of Pillar 3 shortfalls. We do not consider these examples to be outliers in terms of Pillar 3 reports, but representative of European banking groups:

- Two large European banking groups that have important insurance subsidiaries, which are key factors to consider in the assessment of each group's overall risk profile. Their Pillar 3 disclosures are minimal on this topic, only explaining that insurance companies consolidated in the financial statements are not included in the regulatory scope of consolidation and that insurance subsidiaries are sufficiently capitalized according to regulatory standards. The numbers deducted from the total regulatory capital base are extremely significant, yet there is no precise disclosure on how they are calculated and if the solvency of the insurance subsidiaries is close to the regulatory minima or well above them. We hope that Solvency II's own Pillar 3 requirements will improve transparency on this topic.

- Two large banking groups, one from the U.K., the other from Continental Europe, both have very large housing loan portfolios. However, the Pillar 3 disclosures are insufficient to enable us to compare the credit quality of these portfolios. In particular:

    - Basic information, such as accounting impairment charges and expected losses for the entire housing loan portfolio, is either not provided or incomplete. This is mainly because under the standardized approach retail exposures (a minority of the portfolio in both cases) are generally not broken down into subclasses such as housing loans. For exposures disclosed according to the internal ratings-based (IRB) approach, regulatory risk parameters by internal rating grade may give an idea of the risk distribution of the portfolio. However, the figures depend purely on internal models, without any reference to actual loss experience data, and the level of granularity is very different between the two banking groups. This means that the information disclosed does not easily enable comparative risk analysis.

    - The UK banking group does not mention self-certified mortgages in its Pillar 3 report, whereas we consider such loans to be much riskier than traditional mortgages. Under our RAC framework, the risk weight for self-certified mortgages is four times that of prime residential mortgages. Key risk metrics, such as the loan-to-value distribution, the affordability ratio, loan maturity, or split by type of interest rate are also missing.

- Two large banking groups with significant international corporate banking activities. Both banks' Pillar 3 reports contain a number of valuable disclosures in this area, such as the breakdown of the corporate portfolio by industry, by country or region, by internal and/or external ratings, and by residual maturity. However, the significant differences in format, scope, and categorization make it difficult for users to draw conclusions on the relative credit quality of a given bank's corporate portfolio. In particular:

  - The "Europe" region used for the geographic breakdown in the first group's Pillar 3 report does not single out the U.K. operations, which are quite significant for the overall group. The second group's report indicates three categories for Europe, namely its home country, the rest of Western Europe, and Eastern Europe.

  - Data on expected loss and impairment charges are either provided by IRB exposure class (in the case of the first group) or without a breakdown provided at the exposure class level (for the second group).

  - There is no information in the Pillar 3 report about single-name concentration in the corporate portfolio. Such concentration could be indicated for example by the weight of the largest exposures as a percentage of a bank's total corporate exposure; Standard & Poor's asks rated banks for a list of the 20 largest corporate exposures.

- Two large international banking groups that actively use credit risk mitigation (CRM) techniques. For both groups, corporate exposures after CRM are between 15% and 25% lower than before CRM. One group's Pillar 3 report shows no distinction between eligible financial collateral and other eligible collateral. Furthermore, the Pillar 3 reports of both groups show only one item grouping guarantees and credit derivatives by exposure class. This lack of detail does not allow for an assessment of the quality of collateral (for example, cash versus commercial real estate), nor does it facilitate an evaluation of the credit-protection provider's creditworthiness. Notably, in our view, one should be able to distinguish a guarantor that is a credit institution or a sovereign from other types of guarantors.

- In our view, the most important risk for many Spanish banks is their real estate development and construction loans, which we consider a key risk factor. Yet Pillar 3 reports generally lack information on this kind of exposures. Spanish banks have only started to systematically disclose exposure to the construction and real estate development sector in their annual financial statements since 2010, following an instruction from the local regulator.

6. Are Pillar 3 disclosures easy to locate and are they easy to be understood and to use for comparability purposes? If not, would you suggest specific areas where comparability should be improved? Would you suggest any way to improve access to Pillar 3 information?

The Pillar 3 reports of most banks are available on their websites.

As stated in our response to question 5 above, we consider that much of the Pillar 3 data are not comparable. We believe that the use of standardized templates, with clear definitions, is necessary to address the issue of comparability. More specifically, we would advocate the use of simplified versions of existing regulatory templates, namely the common solvency ratio reporting

(COREP) or the financial reporting (FINREP), as a starting point. Standardization would reduce the need for detailed definitions in each report, referring instead to publicly available definitions on each element of these templates.

For Pillar 3 information not included in the scope of the current regulatory reporting, we would suggest the development of common well-defined templates and rules. For example, we think that a requirement to provide a geographic breakdown by exposure class at the country level, when a given country represents more than 5% of a bank's total regulatory exposures, would aid comparability. Further, for amounts below this threshold, banks could be required to categorize disclosures under predefined regions.

7. Is the frequency of the credit institution's publication of Pillar 3 disclosures (once a year) sufficient for you? If not what type of information would be useful for you to be disclosed on a more frequent basis?

As set out in the main body of our letter, we would welcome more timely and frequent Pillar 3 publications. A semiannual frequency might reduce the incidence of outdated disclosure data. We think this is particularly relevant given that the pace of change in the European banking sector has sharply accelerated in recent years.

If banks have to publish Pillar 3 reports twice per year, it may be helpful if half-year disclosures require fewer narrative disclosures, focusing instead on quantitative disclosures, along the lines of quarterly "fact book" disclosures common in the Nordic region. We believe this would make it easier for banks to comply with semiannual Pillar 3 reporting requirements and increase the reports' relevance for users. These more frequent disclosures could include own funds information, exposure-at-default and risk-weighted assets by asset class, geographic breakdown by asset class, equity in the banking book, securitization, and market risk updates.

8. Do you have specific suggestions/comments about the publication dates of the Pillar 3 reports you consult?

As set out in the main body of our letter, we think that the timeliness of publication is an important element when considering the usefulness of the reports. This is why we would support the publication of Pillar 3 reports at the same time as a bank's financial reports, or at most a very short delay between the two.

That said, we have noted significant progress in this area, with publication of banks' Pillar 3 reports taking place earlier in 2011 than in previous years. This is an encouraging trend that is helpful for investors.

9. Would you support a greater degree of reconciliation between Pillar 3 disclosures and disclosures in the financial statements (e.g. in the areas of own funds, credit risk, market risk)? If so, under which forms (e.g. reconciliation tables, textual explanations)?

We believe that the reconciliation of Pillar 3 disclosures with IFRS accounting statements would bring valuable information that allows a better understanding of the two most important sources of information for credit analysis. Currently, Pillar 3 reports and financial statements constitute two independent and unrelated sets of data. The integration would facilitate a more precise view on the asset side of a bank's balance sheet and complement the accounting credit risk information with regulatory information. We would advocate reconciliation for the following items:

- Accounting scope versus regulatory scope, with a focus on the most significant differences. We would suggest the use of a materiality threshold to prevent lengthy disclosures on minor discrepancies. This also raises the question of the treatment of insurance risk when insurance operations form an important part of a banking group. When relevant, the Pillar 3 report could provide tables that detail which components of a financial conglomerate's balance sheet are included in the regulatory scope assessment. In addition, banks could provide detailed explanations on securitization exposures, as set out in our responses to the questions on securitization (questions 23 to 26) below.

- IFRS shareholders' equity and Tier 1 capital. We think that the template proposed in the consultative document "Definition of Capital Disclosure Requirements" issued by the Basel Committee on Banking Supervision in December 2011 is helpful in this regard.

- How on-balance-sheet and off-balance-sheet IFRS numbers can be converted into EAD and the other way around, isolating perimeter effects. Breakdown of the main balance sheet items--notably all financial instrument categories (those for trading, available for sale, or held to maturity, as well as loans and receivables) and derivatives--into different asset classes, separating out the counterparty credit risk component.

- Information on credit risk. Banks could provide a breakdown of the accounting cost of risk (including details on specific and collective allowances, new provisions, write-offs, reversals, and recoveries), total provisions, nonperforming loans, and defaulted exposures by exposure class. Whenever possible, banks could compare with risk parameters for exposures treated under the IRB approach as a way to back test the calibration of internal models.

10. Do you have any general suggestions/proposals for improving credit institutions risk disclosures under the current Pillar 3 framework (e.g. use of common definitions, other)? Would you suggest the use of common templates or some specific format (e.g. separate report or report included in financial statements) for the publication of information under Pillar 3 requirements?

We regard common, consistently applied definitions as an essential step in improving Pillar 3 disclosures. For example, in our opinion, the wide variety of terms used by banks to refer to exposure-at-default (EAD) can cause confusion and impair comparability for users. EAD may be confused with or referred to as 'Exposure value,' 'Original exposure,' 'Adjusted exposure,' 'Average exposure or EAD,' 'EAD before/after credit risk mitigation,' 'Net/gross exposure or EAD', 'Reported EAD,' 'On- and off-balance sheet EAD,' 'Exposure applying conversion factors,' 'Exposure after value adjustment,' or 'EAD including or excluding counterparty risk.' In some cases, a bank may provide information in a glossary or in the text to help users understand what the term means, and sometimes users can derive the meaning by cross-referencing to other disclosures. However, it is sometimes impossible to know for certain how a term is defined and what precisely it refers to. See also our responses to questions 5 and 6 above.

<u>Information on own funds</u> (Questions 12 & 13)

Explaining the year-on-year changes in a bank's own funds would be valuable to our rating analysis. In our projections, we try to assess the future adjusted capital base of an entity. Such a disclosure would provide an opportunity to back test our previous expectations and improve them going forward.

For more details on own funds, please refer to our article "Standard & Poor's Ratings Services Supports The Basel Committee on Banking Supervision's Proposals To Improve Banks' Definition Of Capital Disclosure Requirements," published Feb. 20, 2012.

Information on the calculation of minimum capital requirements for credit risk according to the IRB approach (Questions 14 to 22)

We know the disclosures required under the standardized approach to measure credit risk are much less detailed than those required for the IRB approach. Yet less-detailed disclosures often prevent market participants from having a comprehensive view on the risk for a given exposure class. An element that could help reduce this information gap would be banks' systematic disclosure of annual losses per asset class, treating separately, IRB and standardized exposures within the same asset class. Adding qualitative comments on the relative riskiness associated with an exposure treated under the standardized approach would also be helpful.

Beyond that, we think it would be complex, if not impossible, to give an opinion on a bank's internal model from general qualitative descriptions. In our view, the only way to obtain real insight into a bank's internal models would be for banks to disclose the main assumptions, the main data used for calibration and backtesting, as well as the key inputs of the model, the mechanics, and the main outputs. They could also explain how the model is used in risk management systems and the role it plays in their calculation of regulatory capital requirements. However, we consider that this level of granularity cannot be reasonably expected from banks, especially in light of the number of internal models banks typically use. In addition, such details would most likely be of little value to most external users.

Current disclosures on internal models vary widely among institutions and cannot be easily compared. We would consider the following information as valuable if it were disclosed in a standardized way:

- Mapping of the internal rating scale on eight standard buckets, comparable to the rating categories used by rating agencies, and with a range for the probability of default (the lowest category would be for defaulted assets);

- Use of these standard buckets for all banks in their disclosures. For clarity, we do not ask banks to recalibrate their internal models, but rather we suggest the use of a fixed number of grades in the quantitative disclosures;

- Use of the same standard buckets for all types of exposures, retail or corporate, and

- Breakdown of EAD, probability of default, loss-given default, expected loss, risk-weight, specific, and general provisions allowances, and risk weight by exposure class, internal rating grade, and standard buckets.

Information on securitization (Questions 23 to 26)

Securitization has been under the close scrutiny of investors and analysts since the onset of the financial market crisis. Local and regional regulators, the Financial Stability Board, and the European banking industry have all actively tried to enhance the scope and quality of banks' disclosure in this area. However, these efforts at greater transparency have been hampered by the complexity of the securitization process, including the issue of risk transfer (the difference between accounting and regulatory scopes, sponsor and originator versus investor position) and

widespread confusion about terminology. Further complexities can be found in the method of applying impairments or deductions to lower-rated securitization tranches, the separate regulatory treatment with multiple approaches such as the Ratings-Based Approach, Supervisory Formula Approach, Internal Assessment Approach, and different treatment in the banking book and trading book before the implementation of Basel 2.5.

Overall, we believe that external users can be overwhelmed by the scale of information provided and, importantly, relevant information can be lost in the sheer volume of disclosures provided, some of which is boilerplate. We think only the most relevant information should be included and that it should be presented in a standardized and comprehensive way.

In our opinion, the key risk information for securitization exposures is the breakdown by risk-weight bands or external ratings of retained or purchased securitization exposures. We would welcome thinner risk-weight bands, notably for the highest risk exposures (those with risk-weights exceeding 100%). On the format, we would suggest that these data be provided in line with the regulatory approach used, by underlying exposure class type and by geography, with a summary table for total exposures.

Information on market risk (Questions 32 to 34)

We see market risk disclosures as one of the weaker areas of Pillar 3 disclosures. This is mainly attributable to the complexity of banks' underlying activity.

The standardized risk charge provides very rough information, but does not specify the type of risks incurred or their potential impact. Even if validated by regulators, the value-at-risk (VaR) figure remains the result of complex models that are more or less aggressive across banks. Complexity, in our view, limits the potential benefits from disclosing more details about VaR models. We believe that banks' systematic disclosure of backtesting information and daily profit and loss over the reporting period would be more valuable than additional technical details of models.

Stress-testing disclosures provide useful complementary information about a bank's risk appetite and potential tail risk. Such stress tests are, however, highly bank specific and difficult to compare. For comparative purposes, we believe that it could be useful for banks to complement such disclosures by providing the results of standardized stress tests, along with transparent and consistent assumptions. Disclosing the expected VaR shortfall, which provides a complementary view of tail risk, would also be a useful market risk measure.

We think the disclosure of other types of quantitative and qualitative data may help market participants form their own opinion about the riskiness of a bank's trading activities. For example, a list of capital markets on which a bank is active, the description of major instruments and strategies, the breakdown of revenues by market type, the most significant trading counterparties by entity type (bank, corporate, hedge fund, etc.), and the breakdown by internal ratings of specific risk exposures could contribute to a better understanding of the underlying risks taken by a bank's capital market division.