MOODY'S INVESTORS SERVICE

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European Banking Authority
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Per E-mail: Pillar3@eba.europa.eu

Dear Sir/Madam

EUROPEAN BANKING AUTHORITY ("EBA") QUESTIONNAIRE ON THE IDENTIFICATION OF USERS'/INVESTORS' NEEDS ON CREDIT INSTITUTIONS' PILLAR 3 DISCLOSURES

Moody's Investors Service (MIS) is a registered credit rating agency ("CRA") in the EU and rates a range of financial institutions domiciled in the Union. MIS uses financial data published by EU financial institutions as a key input to its credit analysis.

In MIS' view, regulatory focus on increasing the frequency, detail and consistency of publicly available information is a project that is to be welcomed. Enhancing the disclosure regime for financial institutions so that detailed, consistent information about underlying credit risks is provided by financial institutions to the investing public would result in at least two discrete and identifiable benefits:

First, by helping to broaden the depth and diversity of opinions and analysis available in the market it would improve the functioning of the debt capital markets in the EU. MIS has long supported efforts to encourage greater diversity of views in the credit markets. Access to further published information would support investors in conducting their own analysis and developing their own independent views about financial institutions. Moreover, since that information would also be available to other opinion providers (including but not limited to established CRAs), it would broaden the range of available perspectives, which in turn would increase the level of debate in the market, help deepen the general understanding and in the end increase market confidence.

Second, effective credit analysis requires clear, consistent and up to date information to allow market participants to rank order investments. By allowing all credit commentators access to more frequent, detailed and consistently reported financial information it would facilitate credit analysis by both investors and third parties.

MIS uses Pillar 3 information extensively in the analysis of credit risk in financial institutions (e.g. capital structure, breakdown of exposures at default, average risk weighted assets by counterparty, etc.). We support a regulatory framework that encourages the regular, detailed, consistently reported and frequent disclosure of information by financial institutions. However, disclosure of information is only the foundation of an effective market discipline framework. The information should be disclosed in a consistent format which allows for comparability. To date, the markets globally have operated under an information disclosure model that is inconsistent and of varying quality (e.g. market risk; not all Pillar 3 reports include developments on liquidity and funding risks ; etc).

In the revision of the reporting standards, MIS would propose that, as a minimum, the following two principles be followed:

(a) Establish a prescribed template for standardising disclosure: Currently, there is no standardisation with respect to the terminology or ratios for key metrics used in Pillar 3 disclosures. This makes it more difficult for market participants, market commentators and others to identify, assess and compare the key risk considerations of financial institutions. MIS suggests that the EBA develops a prescribed template and requires financial institutions to use standardised definitions and presentation of key metrics, where appropriate. Where standardisation of key ratios may not be appropriate, we recommend that the EBA requires financial institutions to disclose the detailed formulae;

(b) Introduce simple text explaining material risks. A free text section which would require financial institutions to provide additional information that the entity deems material for investors to understand the primary risks faced by the entity and that would not otherwise be apparent under (a). This could also cover information that may not be specifically required under Pillar 3 but that would be of material importance to investors such as, for example, a financial institution's exposure to a distressed sovereign.

We would propose that this template be updated on an at least a semi-annual basis which would allow for more timely and therefore effective credit assessment of financial institutions.

MIS understands the need to achieve a balance between requiring adequate disclosure and avoiding overloading investors with information that is of limited value. However, we do not believe that the point of balance has yet been reached. Further, more consistent and more frequent disclosure would be valuable in assisting investors' assessment of credit risk.

We trust that you will find our comments helpful and would be pleased to discuss our views with you at your convenience.

Yours faithfully

/s/
Frédéric Drevon
Regional Head: Europe, Middle East and Africa