# Press release

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## FSB invites feedback on risk disclosure practices

The Financial Stability Board (FSB) has launched a peer review of the implementation of the recommendations concerning risk disclosures by market participants that were made in the April 2008 Financial Stability Forum Report on *Enhancing Market and Institutional Resilience*. As part of this review, the FSB invites public input on the implementation of the recommendations.

The financial crisis highlighted the importance to market confidence of reliable valuations and disclosures of the risks that are most relevant to market conditions at the time. The recommendations in the April 2008 report related in large part to disclosures about structured products and certain other risk exposures that were of concern to market participants in 2008. The review will focus on implementation of the recommendations by FSB member jurisdictions and by the major financial institutions located in those jurisdictions.

A template (attached) to collect information from national authorities was distributed to FSB members in June 2010, and the responses will be analysed and discussed by the FSB later this year. The review is to be completed by January 2011 and the report will be published.

As part of this review, we welcome feedback from investors, audit firms, financial institutions, industry associations and other stakeholders on their practical experiences as users of the resulting disclosures or in implementing the risk disclosure recommendations. This could include comments on how disclosure practices at financial institutions have changed, areas where implementation has proven to be challenging, or initiatives that have been taken to improve disclosures. Suggestions are also welcome for possible future approaches to enhance the dialogue amongst investors, financial institutions, audit firms, standard setters and regulators about improved principles for disclosure and further improvements in risk disclosure practices.

**Feedback should be submitted by 10 September 2010** to fsb@bis.org under the subject heading “FSB Thematic Peer Review on Risk Disclosure.” Individual submissions will not be made public.

The review on risk disclosures is the second FSB thematic peer review in 2010, following the completion in March of the review on compensation. Additional information about FSB peer reviews is available on the FSB website.

**Notes to editors**

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies. It brings together national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The FSB is chaired by Mario Draghi, Governor of the Bank of Italy. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.

FINANCIAL STABILITY BOARD

28 June 2010

# Thematic Review on Risk Disclosures by Market Participants

Review Template

*The financial crisis highlighted the importance to market confidence of reliable valuations and useful disclosures of the risks associated with structured credit products and off-balance sheet entities. In April 2008, the FSF recommended that financial institutions should strengthen their risk disclosures and supervisors should improve risk disclosure requirements under Pillar 3 of Basel II. This template is a guide for member jurisdictions to provide input for the thematic review on the implementation of the risk disclosure recommendations of the April 2008 FSF Report on Enhancing Market and Institutional Resilience (http://www.financialstabilityboard.org/publications/r_0804.pdf). The template is structured around the three recommendations:*

- *Part 1, on recommendation III.1 of the April 2008 Report, asks about supervisory dialogue with relevant firms about leading-practice risk disclosures to the public and the extent to which these firms made the identified disclosures in 2008 and subsequent periods.*
- *Part 2, on recommendation III.2, asks about industry efforts to identify the principles for useful risk disclosures, or to identify any specific additional recommended disclosures, going forward.*
- *Part 3, on recommendation III.3, asks about steps taken or planned by supervisors to implement by end-2010 the Basel II Pillar 3 disclosure enhancements set forth by the Basel Committee on Banking Supervision (BCBS) in July 2009.*

*The template is intended to be completed by supervisory authorities for financial institutions that have significant exposures in the relevant areas.*

***Member jurisdictions are kindly requested to return the completed template to the FSB Secretariat (fsb@bis.org) by Wednesday, 25 August 2010.***

## 1. Disclosures for crisis-related risk exposures

> ***III.1.*** *The FSF strongly encourages financial institutions to make robust risk disclosures using the leading disclosure practices summarised in this report, at the time of their upcoming mid-year 2008 reports.*

FSF recommendation III.1 drew from the April 2008 report of the Senior Supervisors Group (SSG) to the FSF on *Leading-Practice Disclosures for Selected Exposures* (http://www.newyorkfed.org/newsevents/news/banking/2008/SSG_Leading_Practice_Disclosures.pdf), which included examples of public disclosures addressed in recommendation III.1. Members may find these examples helpful as they review their firms' risk disclosures.

1.1 Please describe the steps taken by supervisors or regulators in your jurisdiction to encourage public disclosures of the risk exposures identified in recommendation III.1. These risks were related to the crisis conditions in 2008 and included special-purpose entities, collateralised debt obligations, other subprime and Alt-A exposures, commercial mortgage-backed securities, and leveraged finance (see annex A).

1.2 What types of financial institutions in your jurisdiction were encouraged to make these disclosures (eg major financial institutions, locally incorporated financial institutions, or internationally active banks and securities firms)? Was this disclosure expected to be on a consolidated basis?

1.3 Please describe the steps taken by supervisors or regulators in your jurisdiction to assess the adequacy of disclosures of the risk exposures identified in recommendation III.1.

1.4 Financial institutions with "significant" exposures to the identified risks were expected to provide the disclosures. When the recommendations were agreed in 2008, the concept of significant exposure was flexible so as to allow supervisors, regulators, investors and market participants to consider significance in the context of their local markets. What are the process and criteria applied by supervisors or regulators in your jurisdiction to determine whether a firm's exposure to the identified risks is significant enough to warrant the expectation of disclosure? For example, are quantitative criteria applied for the size of the exposures in absolute terms, or in relation to total assets or capital?

1.5 Using the table below, please indicate for each period how many financial institutions located in your jurisdiction had significant exposures to the risks identified in recommendation III.1 and were, therefore, expected to provide the disclosures. Also please indicate their approximate market share in the table below (in terms of the institutions' total assets as a percentage of the sector's total assets).

| | | end-2008 | end-2009 |
|---|---|---|---|
| **Number** of financial institutions with significant exposures to the identified risks: | total | | |
| of which: | banks | | |
| | securities firms | | |
| | other financial institutions | | |
| **Market share** of the institutions above: | | | |
| | banks | | |
| | securities firms | | |
| | other financial institutions | | |

1.6 Using the table in Annex A, please list for each period the number of institutions in your jurisdiction that provided the disclosures for each of the identified risks. Please specify in Annex B the names of these institutions and the approximate market share that they represent (in terms of the institution's total assets as a percentage of the sector's total assets in your jurisdiction).

Please only include in Annexes A and B information relating to firms that were deemed to have significant exposures to the risks identified in recommendation III.1. This will enable a comparison to be made between the number of firms expected to make disclosures (question 1.5 above) and the number that did in fact make the disclosures. Firms that did not have significant exposures but disclosed these exposures anyway should not be included in the Annexes (or if included should be separately identified).

If these disclosures were not presented on a fully consolidated firm-wide basis, please mention the approach used.

If there are cases where firms have made disclosures covering only part of the template, please indicate whether this is because the parts not disclosed concerned areas where the firm did not have significant exposures.

1.7 The above disclosures are primarily quantitative in nature. Please discuss the extent to which qualitative information was also disclosed to provide context and relevant background information about the above quantitative disclosures.

1.8 Please specify whether the presented information was measured at fair value or amortised cost, and, if available, whether the fair values were level 1, 2 or 3.[1]

1.9 Please specify how the relevant disclosures were typically provided (eg as part of disclosures in published financial reports, investor presentations, website disclosures or other means). As mentioned in the FSF report, "In this context, disclosure broadly includes not only information presented in public securities filings but also information presented in earnings press releases and accompanying presentation slides posted to the firms' internet websites."

1.10 Please provide, for each of the institutions identified in Annex B, copies of the quantitative and qualitative information concerning the risk exposures identified in recommendation III.1 that they provided in their year-end 2009 disclosures.

1.11 Please describe any steps taken by supervisors to bring to firms' attention shortfalls in disclosure in the relevant areas. Also, mention whether there were discussions with audit firms regarding the adequacy of the risk disclosures identified in recommendation III.1.

[1] In some jurisdictions, institutions may have provided information regarding the amount of the exposures that were reported using fair value measurement (either fair value through profit and loss, or fair value through other comprehensive income) or amortised cost. To the extent certain exposures were reported at fair value, some may also have indicated whether the fair values were categorised as level 1, 2 or 3 under standards of the IASB or US FASB.

## 2. Risk disclosures going forward

> ***III.2*** *Going forward, investors, financial industry representatives and auditors should work together to provide risk disclosures that are most relevant to the market conditions at the time of the disclosure. To this end:*
>
> - *Investors, industry representatives and auditors should develop principles that should form the basis for useful risk disclosures.*
> - *Investors, industry representatives and auditors should meet together, on a semi-annual basis, to discuss the key risks faced by the financial sector and to identify the types of risk disclosures that would be most relevant and useful to investors at that time.*

Recommendation III.2 was designed to encourage private sector dialogue and was not directed to FSB members. Therefore, to help answer the following questions members may find it useful to inquire of associations representing investors, financial institutions, and auditors in their jurisdiction.

2.1 What progress have investors, financial industry representatives and auditors in your jurisdiction made in developing principles that provide a basis for useful risk disclosures?

2.2 Do investors, financial industry representatives and auditors in your jurisdiction regularly meet to identify on an ongoing basis the types of risk disclosures that would be most relevant and useful to investors? If so, please provide details.

2.3 What additional disclosures have firms in your jurisdiction made, beyond those described as leading practices in 2008, that could be suitable for inclusion in the leading practices going forward?

2.4 What is the best way to move forward this recommendation? Is market pressure sufficient or is official pressure needed? If additional official pressure were to be applied, should it be done at a national or international level?

## 3. Disclosures under Pillar 3 of Basel II[2]

> ***III.3*** *The BCBS will issue by 2009 further guidance to strengthen disclosure requirements under Pillar 3 of Basel II for:*
>
> - *securitisation exposures, particularly exposures held in the trading book and related to re-securitisation;*
> - *sponsorship of off-balance sheet vehicles, to give the market greater insight into the extent of banks' contractual and non-contractual obligations and exposures;*
> - *banks' liquidity commitments to ABCP conduits, to ensure that disclosure is as clear as for on-balance sheet credit exposures; and*
> - *valuations, including the methodologies and uncertainties related to those valuations.*

3.1 Which financial institutions in your jurisdiction will be required to implement the enhancements to Pillar 3 of Basel II, as set forth by the BCBS in its July 2009 report? For example, internationally active banks, all banks, or financial institutions with significant exposures? For jurisdictions where Pillar 3 has not been implemented, please summarise the extent of voluntary implementation of the enhanced disclosures.

3.2 Please summarise in the table on the next page the steps taken to implement the enhancements to Pillar 3 of Basel II. The BCBS specified that improved disclosures should be made in each of the areas listed in the table, as of 31 December 2010. Please also summarise any further actions planned during 2010 and any initiatives by firms in your jurisdiction to date to implement these disclosures.

[2] This section of the questionnaire focuses on the enhanced Pillar 3 disclosures that directly related to recommendation III.3. The BCBS also set forth other enhancements to Pillar 3 disclosures that address areas that were not the focus of this recommendation.

| | |
|---|---|
| **(i) Securitisation exposures in the trading book** | |
| Steps taken to date | |
| Actions planned, including timetable | |
| Evidence of firms' progress | |
| **(ii) Sponsorship of off-balance sheet vehicles** | |
| Steps taken to date | |
| Actions planned, including timetable | |
| Evidence of firms' progress | |
| **(iii) Internal Assessment Approach and other ABCP liquidity facilities** | |
| Steps taken to date | |
| Actions planned, including timetable | |
| Evidence of firms' progress | |
| **(iv) Resecuritisation exposures** | |
| Steps taken to date | |
| Actions planned, including timetable | |
| Evidence of firms' progress | |
| **(v) Valuation with regard to securitisation exposures** | |
| Steps taken to date | |
| Actions planned, including timetable | |
| Evidence of firms' progress | |
| **(vi) Pipeline and warehousing risks with regard to securitisation exposures** | |
| Steps taken to date | |
| Actions planned, including timetable | |
| Evidence of firms' progress | |

**Annex A**

## Table on leading practice disclosures for selected exposures

Please list, for each period, the number of firms in your jurisdiction that provided disclosures for each of the identified risk exposures. Include only information relating to firms that were deemed to have significant exposures to the risks identified in recommendation III.1. Please list in Annex B the names of the firms that provided these disclosures. Members may find the examples in the SSG report useful as they review their firms' risk disclosures.

| | **Number of financial institutions providing disclosures** | |
|---|---|---|
| | **end-2008** | **end-2009** |
| **Special Purpose Entities (SPEs) - General** | | |
| Total exposure, including on- and off-balance sheet analysis (as well as funded and committed lines, if applicable) | | |
| Exposure before and after hedging | | |
| Exposure before and after write-downs[3] | | |
| Size of SPE vs firm's total exposure | | |
| Activities of SPE | | |
| Reason for consolidation (if applicable) | | |
| Nature of exposure (sponsor, liquidity and/or credit enhancement provider) | | |
| Collateral type | | |
| Geographic distribution of collateral | | |
| Average maturities of collateral | | |
| Credit ratings of underlying collateral | | |
| **Collateralised Debt Obligations** | | |
| Total exposure, including on- and off-balance sheet analysis (as well as funded and committed lines, if applicable) | | |
| Exposure before and after hedging | | |
| Exposure before and after write-downs[4] | | |
| Size of CDOs vs firm's total exposure | | |
| Breakdown of CDOs – type, tranche, rating, etc. | | |
| Breakdown of collateral by type | | |
| Breakdown of subprime mortgage exposure by vintage | | |
| Hedges, including exposures to monolines, other counterparties | | |
| Creditworthiness of hedge counterparties | | |
| Credit valuation adjustments for specific counterparties | | |
| Sensitivity of valuation to changes in key assumptions and inputs | | |

[3] The FSF and SSG reports did not define the term "write-downs", but the SSG report provided examples of how major financial firms were disclosing write-downs. In principle, write-downs indicate how firms have reduced their risk exposures of the types identified in recommendation III.1, for example, through negative fair value changes and/or through reducing certain loans in response to credit loss impairments (such as through loan charge-offs).

| | Number of financial institutions providing disclosures | |
|---|---|---|
| | end-2008 | end-2009 |
| **Other Subprime and Alt-A Exposure** | | |
| Total exposure, including on- and off-balance sheet analysis (as well as funded and committed lines, if applicable) | | |
| Exposure before and after hedging | | |
| Exposure before and after write-downs[4] | | |
| Whole loans, residential mortgage-backed securities (RMBSs), derivatives, other | | |
| Detail on credit quality (e.g., credit rating, loan-to-value ratios, performance measures) | | |
| Breakdown of subprime mortgage exposure by vintage | | |
| Sensitivity of valuation to changes in key assumptions and inputs | | |
| **Commercial Mortgage-Backed Securities** | | |
| Total exposure, including on- and off-balance sheet analysis (as well as funded and committed lines, if applicable) | | |
| Exposure before and after hedging | | |
| Exposure before and after write-downs[4] | | |
| Breakdown of collateral by industry | | |
| Breakdown of collateral by geography | | |
| Change in exposure from the prior period, including sales and write-downs | | |
| **Leveraged Finance** | | |
| Total exposure, including on- and off-balance sheet analysis (as well as funded and committed lines, if applicable) | | |
| Exposure before and after hedging | | |
| Exposure before and after write-downs[4] | | |
| Funded exposure and unfunded commitments | | |
| Change in exposure from prior period(s), including sales and write-downs | | |
| Distribution of exposure by industry | | |
| Distribution of exposure by geography | | |

**Annex B**

## Table on market share of firms providing the referenced disclosures

Please specify the name and market share of the financial institutions covered in the table in Annex A. Market share refers to the institution's total assets as a percentage of the sector's total assets and can be approximate. The purpose of collecting market share data is to facilitate analysis of possible gaps in coverage and identify whether disclosures are concentrated among the largest institutions.

| | **Market share** | |
|---|---|---|
| **Names of financial firms providing disclosures** | **end-2008** | **end-2009** |
| | | |