Mr. Mark Carney, Chairman
Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Mr. Carney,

As requested, the Enhanced Disclosure Task Force (‘EDTF’) is pleased to present its third report having undertaken a further assessment of the level and quality of application of the recommendations of our first report, ‘Enhancing the Risk Disclosures of Banks’ that was published in October 2012.

This report consists of two parts: a survey of global systemically-important banks (‘G-SIBs’) and certain domestic systemically-important banks; and a review by a group of the investor members of selected EDTF disclosures. In addition, the EDTF as a whole, and in workstreams, held meetings and conference calls to discuss the results of the assessment, to build on the experience of two years of implementation and to agree the key messages included in this report.

The survey results confirm that significant progress has been made towards implementing the EDTF recommendations in 2013 disclosures. Overall, participating banks reported having disclosed 73% of the information recommended by the EDTF. This represents a substantial increase (27%) from both the level achieved in the 2012 disclosures and a 39% increase from disclosures prior to the release of the EDTF report in October 2012. A significant driver of this progress was the increased implementation of quantitative disclosures, which increased from 40% to 70% on an aggregate basis. Such quantitative disclosures generally require more time to develop due to the lead times for making the necessary system changes, but are generally viewed by investors as more critical. Another driver is the increased attention the EDTF recommendations have received from national regulatory authorities, with nine authorities reported as having actively encouraged banks to implement the recommendations.

One of the unique and most powerful features of the EDTF continues to be the active participation by a range of investors, analysts and rating agencies who are active users of the financial information published by banks. Consistent with that approach, in this assessment users on the EDTF (the ‘User Group’) have conducted their own assessment of the banks’ implementation of 18 of the EDTF recommendations. This assessment confirms that banks have made substantial progress in implementing the EDTF recommendations over the past year, though a gap persists between bank self-assessments and the assessments of the User Group. The User Group assessed 79% of the recommendations reviewed as being fully (50%) or partially implemented (29%) across all 41 of the banks that participated in the survey. For banks that have participated in the survey for
the second time, the User Group assessment score has significantly increased with the User Group assigning a 45% Fully Implemented rate compared to just 16% in 2013 -- up 29 percentage points and nearly triple the prior year’s level. The User Group also noted that implementation rates continue to vary across countries. The User Group confirmed that banks in the U.K. and Canada have fully implemented the overwhelming majority of the recommendations (89% and 82%, respectively), while implementation rates are lower and differences between the Bank and User assessments are considerably wider in the U.S. and parts of Europe where national regulators have been less active in promoting adoption. The User Group believes there are opportunities for banks in the U.S., France and Australia to accelerate adoption in 2014. Looking ahead, the User Group intends to continue its outreach to global banks to promote continued progress in implementing the recommendations.

Although implementation of the EDTF recommendations has made significant progress and is nearly complete in some jurisdictions, the FSB and the EDTF both believe that there is still a role to play in supporting this disclosure initiative including keeping the banking sector alert to risks and issues which may benefit from revised or additional disclosures in the future. The EDTF co-chairs and members have also been active in helping create opportunities for investors, banks and other interested parties to gather to discuss disclosure, to the benefit of increased communication between all those involved. Such events will continue to be organised through the EDTF in various jurisdictions.

In June 2014 the Basel Committee on Banking Supervision published a consultative document ‘Review of the Pillar 3 disclosure requirements’. Included in the document are proposals to include a series of tables and templates many of which build on EDTF Recommendations. The EDTF sees considerable value in the effort to modify Pillar 3 to make it more useful to users and to better meet its objectives and welcomes an open dialogue between users, preparers and regulators to determine the appropriate quantity, detail and frequency of such disclosures. The EDTF is also mindful of the switch in status from voluntary to required disclosure and where appropriate will continue to champion for investor and peer group-led disclosure enhancements. The EDTF will follow developments in the implementation of the IASB and FASB new financial instrument standards and the new credit risk disclosures which may result. All of these developments may result in the need to review and update the EDTF recommendations in the future to ensure they remain relevant in the changing accounting and disclosure landscape.

Once again, we would like to express our gratitude to all EDTF members and the secretariat, Del Anderson and Sondra Tarshis, for their continued contribution and commitment to the EDTF’s work and Richard Thorpe of the FSB Secretariat for his significant involvement in the process and the Financial Stability Board for its continued encouragement and support. In addition, we would like to thank those banks that participated in the survey and PwC, in particular Alejandro Johnston and Jeffrey Sowell, for their contribution to the development, compilation and analysis of the bank survey.

Sincerely,

Hugo Bänziger  Russell Picot  Christian Stracke
Background

In October 2012, the Enhanced Disclosure Task Force (‘EDTF’), a private sector group established by the Financial Stability Board (‘FSB’) and composed of members representing both the users and preparers of financial reports, released a report that included 32 recommendations for improving bank risk disclosures in the areas of report usability, risk governance and risk management, capital adequacy, liquidity and funding, market risk, credit risk and other risks. In 2013 and 2014, the FSB requested the EDTF to produce a report, providing an update on how the recommendations are influencing risk reporting and whether they have proved helpful in meeting users’ needs. Therefore, in 2014 the EDTF, with the support of PwC, again carried out a survey to identify which of the report’s recommendations were implemented in 2013 annual reports 1, the ‘Bank Survey’. In addition, a group of investors and analysts from within the EDTF, the ‘User Group’, reviewed a sample the 2013 Annual Report disclosures of those banks participating in the survey to assess implementation, the ‘User Review.’

Bank Survey

The Bank Survey of global systemically-important banks (‘G-SIBs’) and certain systemically-important banks was based on self-assessment. The EDTF received 41 responses from banks in Europe, North America, Asia and Australia, including responses from 29 of the 30 G-SIBs2 designated by the Financial Stability Board. Significant highlights from the bank survey include:

- **Significantly higher level of implementation achieved:** A key theme of last year’s Progress Report was participants’ ambitious plans for implementation in 2013. Respondents reported a 73% overall implementation rate in 2013, up by 27 percentage points from 2012.
- **Broad-based adoption:** Six banks reported full implementation of all recommendations and an additional ten banks reported full implementation of over 85% of the recommendations in 2013. Only eight banks reported full implementation of less than 50% of the recommendations during 2013, down from 23 in 2012.
- **Implementation of quantitative disclosures:** Many banks faced challenges in implementing some of the recommendations relating to capital, market risk, credit risk, and funding in time for 2012 Annual Reports, but with more time available, this appears to have been a substantially smaller hurdle in 2013 Annual Reports. Implementation of predominantly quantitative recommendations improved from 40% to 70% in 2013.

Bank Survey Approach

The EDTF, with the support of PwC, conducted a survey3 of G-SIBs and other national systemically important banks in Europe, North America, Asia, and Australia to:

- understand banks’ progress in implementing the EDTF recommendations;
- assess incremental progress in 2013 disclosures compared with the 2012 disclosures;

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1 2013 annual reports refers to annual reports and Pillar 3 documents relating to the annual reporting for years ending two years after the issue of the issue of the EDTF’s first report in October 2012, i.e. for banks with calendar year ends, 31 December 2013 annual reports and Pillar 3 documents.
3 Each of the 30 G-SIBs was invited to participate, along with those banks represented on the EDTF and other national SIBs (e.g. top 6 Canadian banks). Of 44 banks contacted, 41 banks submitted a response and are included in the survey results.
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- provide insight about implementation approaches, challenges, as well as interactions with investors and regulators; and
- understand banks’ plans for further implementation in 2014.

The 2014 survey asked banks to report whether each recommendation was fully implemented, partially implemented, not implemented, or not applicable in their most recent annual reporting. If a recommendation was not categorised fully implemented, the survey asked whether banks had plans to implement the recommendation in the future. This year’s survey requested more detailed information. First, seven of the more complex recommendations were split into more granular disclosure components to better assess banks’ progress and highlight areas where disclosure enhancement is still underway. Second, banks were given the option to indicate where they had fully implemented a certain recommendation either “as recommended” or with “firm-specific modifications”. The latter designation was to be used in instances where the recommendation was implemented differently than proposed, but still in a manner consistent with the EDTF’s overarching principles for enhanced disclosure. Third, this year’s survey contained a series of qualitative questions that were intended to provide insight into banks’ implementation approaches, challenges, and interactions with investors and regulators.

The results that follow are based on self-reported responses from the 41 participating institutions representing a diverse mix of size, geography and accounting and regulatory standards. The breakdown of participating banks by geography is as follows:

Exhibit 1: Geographical breakdown of participating banks

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4 Both included in the “fully implemented” category in self-assessment results.
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Aggregate Results

The survey results confirm that significant progress has been made towards implementing the EDTF recommendations in 2013 disclosures. As shown in Exhibit 2, on an aggregate basis, participating banks reported having implemented 73% of the recommendations. This represents 27% more disclosures being implemented than in the 2012 and 39% more than disclosures included prior to the release of the EDTF report in October 2012. This progress reflects the substantial efforts many banks have made to incorporate the recommendations in their disclosures. Furthermore the progress made by the participating banks in 2013 was in line with the planned implementation in last year's survey.

Exhibit 2: Aggregate implementation of EDTF Recommendations by Participating Banks

Progress in the 2013 disclosures was broad-based with 16 banks reporting full implementation of over 85% of recommendations, including six banks that reported full implementation of all recommendations. This represents significant progress from last year’s Progress Report where just two banks reported having fully implemented over 85% of recommendations. On a regional basis, the Canadian banks reported the most progress, having increased their aggregate implementation of all EDTF recommendations by 58% between 2012 and 2013 disclosures to a total of 92%. They join the U.K. banks (98% aggregate implementation) in reporting full adoption of almost all the EDTF recommendations. Exhibit 3 provides a breakdown of adoption rates by major geography of participating banks.

Exhibit 3: Implementation of EDTF Recommendations by Geography
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The significant progress achieved during 2013 is in part reflective of the continuing support from national regulatory authorities. The implementation rates for U.K. and Canadian banks reflect that both the Bank of England and the Office of the Superintendent of Financial Institutions (‘OSFI’) have formally mandated the full implementation of EDTF recommended disclosures. Meanwhile, banks reported that the Office of the Comptroller of the Currency/ the Board of Governors of the Federal Reserve Board System (U.S.), the Swiss Financial Market Supervisory Authority (Switzerland), the Monetary Authority of Singapore (Singapore), Bank of Italy, Bank of Spain, De Nederlandsche Bank (Netherlands), and the Japan Financial Services Agency have actively supported the implementation of all or certain of the EDTF recommendations. This level of support is encouraging because it shows national regulators regard the EDTF recommendations as a meaningful addition to the programme of post-financial crisis enhancements geared towards the reduction of systemic risk. In accordance with the EDTF principles, the disclosures should encourage a dialogue between investors and banks, and therefore regulators should avoid over-prescription which could contribute to banks taking a compliance approach rather than developing meaningful disclosures.

Perhaps due in part to this increased attention by national regulators, many banks reported having devoted considerable time and resources towards implementing the EDTF recommendations during 2013. As shown in Exhibit 4, 84% and 51% of banks reported that senior executives (e.g. CEO, CFO, CRO) and their Board of Directors, respectively, have had either a “high” or “medium” level of involvement in setting implementation approaches. Meanwhile, 91% of banks indicated that key functions (e.g. finance, accounting, risk management) are either moderately or highly engaged in driving implementation. In terms of external coordination, 82% of banks reported having coordinated implementation approaches through private sector initiatives such as participation in periodic bank calls, involvement in industry associations (e.g. Institute of International Finance, the International Banking Federation, Canadian Bankers’ Association, British Bankers’ Association) and organising bilateral discussions. Several banks indicated that, although they have not worked directly with other banks, they have conducted benchmarking of disclosures against peers in order to understand best practices and inform implementation plans. The time and resource commitment that banks have made to implement EDTF recommendations is encouraging, given the number of competing requirements from accounting standard setters and regulators. Exhibit 5 shows competing priorities that banks reported took precedence over implementing the EDTF disclosures.

Exhibit 4: Degree of Involvement for Bank Stakeholders in EDTF Implementation

<table>
<thead>
<tr>
<th>Function</th>
<th>High</th>
<th>Medium</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>22%</td>
<td>69%</td>
<td>91%</td>
</tr>
<tr>
<td>Sr mgmt</td>
<td>53%</td>
<td>31%</td>
<td>84%</td>
</tr>
<tr>
<td>Total</td>
<td>36%</td>
<td>31%</td>
<td>67%</td>
</tr>
</tbody>
</table>

Exhibit 5: Competing Priorities for Banks in Addition to EDTF Disclosure Implementation

<table>
<thead>
<tr>
<th>Priority</th>
<th>40%</th>
<th>43%</th>
<th>34%</th>
<th>37%</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBA requirements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pillar III</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting changes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stress testing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Implementation by Section

Disclosures relating to capital, market risk, liquidity and funding were among those with the largest increase in implementation on a year-to-year basis. Notably, banks made significant progress on recommendations that investors had identified as being the most critical. For instance, Recommendation 22 (linkage between market risk and the balance sheet) was fully implemented by just three banks in 2012, but an additional sixteen banks reported full implementation in 2013. Exhibit 6 summarises the status of participating banks’ current disclosures by risk area and indicates, in parentheses, progress from 2012 disclosures. Many banks faced challenges in implementing some of the recommendations in time for 2012 Annual Reports, particularly those with more granular quantitative components, due to technology or reporting system limitations as well as the extensive governance process to approve new public disclosures. In their 2013 disclosures, banks reported significant progress on these recommendations with the implementation rate of predominantly-quantitative disclosures increasing from 40% to 70% on an aggregate basis. In the area of capital and risk weighted asset disclosures, implementation by U.S. banks in 2013 reports continued to be limited as the first group of U.S. banks to exit parallel run did so only as of the second quarter of 2014.

Exhibit 6: Implementation of EDTF Recommendations by Risk Area
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In addition to the significant progress in implementing quantitative disclosures, qualitative disclosures were more widely adopted in 2013 reports as well. Exhibit 7 shows the recommendations with the highest and lowest implementation rates. Disclosures relating to risk governance and other risks (e.g. operational and legal risk) show the highest implementation rates overall to date, in excess of 80%.

Exhibit 7: Highest and Lowest Implementation Rates, by Recommendation

<table>
<thead>
<tr>
<th>Top 5 recommendations</th>
<th>Bottom 5 recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>5) Summarize risk organisation and key functions</td>
<td>22) Discuss the linkage between market risk and the balance sheet</td>
</tr>
<tr>
<td>1) Present all related risk information together</td>
<td>19) Summarize encumbered and unencumbered assets</td>
</tr>
<tr>
<td>8) Describe the use of stress testing within the bank’s risk governance and capital frameworks</td>
<td>20) Tabulate assets, liabilities, and off-balance sheet commitments by contractual maturity</td>
</tr>
<tr>
<td>3) Describe other risks (e.g., operational, legal)</td>
<td>4) Outline plans to meet new regulatory ratios</td>
</tr>
<tr>
<td>2) Define risk terminology</td>
<td>28) Reconciliation of non-performing loans and allowance for loan losses</td>
</tr>
</tbody>
</table>

Banks reported less progress implementing recommendations that have the potential to conflict with forthcoming regulatory requirements or templates. For example, U.S. banks in particular expressed a preference to wait until national regulators finalise and implement standards for the liquidity coverage ratio/net stable funding ratio and also indicated certain capital disclosures would only be applicable once they exited parallel run. Similarly, where disclosure requirements in areas related to EDTF recommendations are being considered by accounting standard setters or regulators, banks may be waiting to implement recommendations until the related accounting or regulatory disclosure requirements are finalised, to develop a common reporting systems and processes and to avoid having to reconcile differences. For instance, in anticipation of the recent proposal to Pillar 3 requirements some banks chose to delay implementation of certain disclosures that would need to be adjusted once the revised Pillar 3 requirements were finalised and adopted by national regulators. Similarly, some banks expressed intentions to wait until the now-finalised EBA’s ‘Guidelines on disclosure of encumbered and unencumbered assets’ were released prior to adopting EDTF Recommendation 19 (summary of encumbered and unencumbered assets).

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User Review

Scope of Work and Approach

One of the unique features of the EDTF has been the active participation of a range of investor and analyst ‘users’ of the financial information published by banks. Consistent with that approach, a User Group, with debt and equity analyst members of the EDTF from buy-side and sell-side firms as well as rating agencies and investor groups, assessed banks’ disclosures considering both the ‘letter’ of the recommendations as well as the ‘spirit’ in which they were developed.

The User Group review expanded the scope of its review in 2014 in three significant ways. First, the group expanded from 11 to 18 users and became more international (with six of the seven new users located in the U.S. and Asia); second, the number of recommendations subject to the User Group review expanded from eight to 18 (see below); and finally, the number of banks reviewed increased from 27 to 41, including 25 banks that participated in last year’s survey.

The increase in the number of recommendations reviewed from eight to 18 (out of the total 32 recommendations) is especially significant and brought additional challenges. The original eight recommendations reviewed in 2013 were selected because users considered them among the most important recommendations and – in part reflecting their importance – each included an example in the original October 2012 EDTF report (Figures 1 to 8). They were also the most quantitative and more straightforward to measure in terms of implementation. The ten new recommendations that the user group reviewed were typically more qualitative and hence less objective to measure.

Each bank’s self-assessment of the eighteen recommendations was reviewed in detail by at least two members of the User Group. Differences in the individual reviewers’ assessments were discussed before a final User Group assessment was established. In forming their assessment, the User Group considered the fundamental principles in the EDTF report, specifically those of relevance and comparability. In addition, reviewers focused on whether each disclosure improved their understanding of the institution. In short, the User Group considered whether the disclosures met their expectations as to the nature, quantity, quality and granularity of information.

Given the original purpose of the EDTF, this User Review is crucial. As noted in the original October 2012 report “Investors’ faith in banks and their business models has yet to be restored in the wake of the global financial crisis. Rebuilding investors’ confidence and trust in the banking industry is vital to the future health of the financial system – and responding to their demands for better risk disclosures is an important step in achieving that goal.” Users measuring and commenting on the progress made by banks therefore forms a key part of the iterative process towards enhanced disclosure.

Finally, in response to feedback received from banks last year, the User Group provided all banks with a draft of their assessments to ensure that each bank understood how users reviewed their disclosures and to enable banks to provide references to any disclosures that members of the User Group were unable to locate. This outreach effort resulted in a number of changes to the User Group assessments.

The full list of recommendations\(^6\) reviewed by the User Group is shown on the following page.

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\(^6\) The recommendations from the EDTF report issued in October 2012 are reproduced in Appendix 1.
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<table>
<thead>
<tr>
<th>Recommendations reviewed by the User Group</th>
<th>New in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Present all related risk information together in any particular report. Where this is not practicable, provide an index or an aid to navigation to help users locate risk disclosures within the bank’s reports.</td>
</tr>
<tr>
<td>2</td>
<td>Describe and discuss top and emerging risks, incorporating relevant information in the bank's external reports on a timely basis. This should include quantitative disclosures, if possible, and a discussion of any changes in those risk exposures during the reporting period.</td>
</tr>
<tr>
<td>3</td>
<td>Once the applicable rules are finalised, outline plans to meet each new key regulatory ratio, e.g. the net stable funding ratio, liquidity coverage ratio and leverage ratio and, once the applicable rules are in force, provide such key ratios.</td>
</tr>
<tr>
<td>4</td>
<td>Describe the key risks that arise from the bank’s business models and activities, the bank’s risk appetite in the context of its business models and how the bank manages such risks. This is to enable users to understand how business activities are reflected in the bank’s risk measures and how those risk measures relate to line items in the balance sheet and income statement</td>
</tr>
<tr>
<td>5</td>
<td>Provide minimum Pillar 1 capital requirements, including capital surcharges for G-SIBs and the application of counter-cyclical and capital conservation buffers or the minimum internal ratio established by management.</td>
</tr>
<tr>
<td>6</td>
<td>Review a work statement of movements since the prior reporting date in regulatory capital, including changes in common equity tier 1, tier 1 and tier 2 capital</td>
</tr>
<tr>
<td>7</td>
<td>Qualitatively and quantitatively discuss capital planning within a more general discussion of management’s strategic planning, including a description of management’s view of the required or target level of capital and how this will be established.</td>
</tr>
<tr>
<td>8</td>
<td>Tabulate credit risk in the banking book showing average probability of default (PD) and LGD as well as exposure at default (EAD), total RWAs and RWA density for Basel asset classes and major portfolios within the Basel asset classes at a suitable level of granularity based on internal ratings grades.</td>
</tr>
<tr>
<td>9</td>
<td>For non-retail banking book credit portfolios, internal ratings grades and PD bands should be mapped against external credit ratings and the number of PD bands presented should match the number of notch-specific ratings used by credit rating agencies</td>
</tr>
<tr>
<td>10</td>
<td>Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type</td>
</tr>
<tr>
<td>11a</td>
<td>Describe how the bank manages its potential liquidity needs.</td>
</tr>
<tr>
<td>11b</td>
<td>Provide a quantitative analysis of the components of the liquidity reserve held to meet these needs, ideally by providing averages as well as period-end balances.</td>
</tr>
<tr>
<td>12a</td>
<td>The description should be complemented by an explanation of possible limitations on the use of the liquidity reserve maintained in any material subsidiary or currency.</td>
</tr>
<tr>
<td>12b</td>
<td>Summarise encumbered and unencumbered assets in a tabular format by balance sheet categories. This is to facilitate an understanding of available and unrestricted assets to support potential funding and collateral needs.</td>
</tr>
<tr>
<td>13a</td>
<td>Tabulate consolidated total assets, liabilities and off-balance sheet commitments by remaining contractual maturity at the balance sheet date. Present separately (i) senior unsecured borrowing (ii) senior secured borrowing (separately for covered bonds and repos) and (iii) subordinated borrowing. Banks should provide a narrative discussion of management’s approach to determining the behavioural characteristics of financial assets and liabilities</td>
</tr>
<tr>
<td>13b</td>
<td>Include collateral received that can be rehypothecated or otherwise redeployed.</td>
</tr>
<tr>
<td>14a</td>
<td>Discuss the bank’s funding strategy, including key sources and any funding concentrations, to enable effective insight into available funding sources, reliance on wholesale funding, any geographical or currency risks and changes in those sources over time.</td>
</tr>
<tr>
<td>15a</td>
<td>Provide information that facilitates users’ understanding of the linkages between line items in the balance sheet and the income statement with positions included in the traded market risk disclosures (using the bank’s primary risk management measures such as Value at Risk (VaR)) and non-traded market risk disclosures such as risk factor sensitivities, economic value and earnings scenarios and/or sensitivities</td>
</tr>
<tr>
<td>16a</td>
<td>Provide a reconciliation of the opening and closing balances of non-performing or impaired loans in the period and the allowance for loan losses.</td>
</tr>
<tr>
<td>17a</td>
<td>Include an explanation of the effects of loan acquisitions on ratio trends, and qualitative and quantitative information about restructured loans.</td>
</tr>
<tr>
<td>18a</td>
<td>Provide a quantitative and qualitative analysis of the bank’s counterparty credit risk that arises from its derivatives transactions. This should quantify notional derivatives exposure, including whether derivatives are over-the-counter (OTC) or traded on recognised exchanges. Where the derivatives are OTC, the disclosure should quantify how much is settled by central counterparties and how much is not, as well as provide a description of collateral agreements.</td>
</tr>
<tr>
<td>19a</td>
<td>Disclose publicly known risk events related to other risks, including operational, regulatory compliance and legal risks, where material or potentially material loss events have occurred. Such disclosures should concentrate on the effect on the business, the lessons learned and the resulting changes to risk processes already implemented or in progress.</td>
</tr>
</tbody>
</table>

### Results

The User Group finds that banks have made substantial progress in implementing the EDTF recommendations over the past year, though a gap persists between bank self-assessments and the assessments of the User Group. The User Group assessed 79% of the recommendations reviewed as either Partially (29%) or Fully Implemented (50%) across the set of eighteen recommendations reviewed this year and across all 41 of the banks that participated in the survey. For the recommendations reviewed last year, the User Group assigned a 45% Fully Implemented rate compared to just 16% in 2013 -- up by 29 percentage points and nearly triple the prior year’s level.
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Of these eight recommendations, 72% were viewed as Partially or Fully Implemented, up by 36 percentage points and double the implementation rate reported in the prior year (see Exhibit 8 below).

Exhibit 8: Summary of User Group Assessment

By Country / Geography

The User Group also noted that implementation rates continue to vary across countries. For banks in the U.K. and Canada, where local regulators have strongly encouraged implementation of the EDTF recommendations and engaged actively with banks on recommended disclosures, the User Group agreed that Full Implementation has been achieved for the overwhelming majority of the recommendations reviewed. By contrast, in those geographies where the regulatory involvement has been less obvious (e.g. U.S. and parts of Europe) or where adoption of the EDTF is more recent (e.g. Asia), implementation rates are considerably lower and differences between the Bank and User assessments are wider. Exhibit 9 below shows a difference of 18 percentage points between the Bank view and the User view for Fully Implemented recommendations across the full set of banks reviewed in 2014 (Banks 68% vs. Users 50%).

Exhibit 9: Comparison of Bank and User Group Assessments, by Geography

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1) Central Europe includes Germany, the Netherlands, Sweden and Switzerland
Members of the User Group highlighted opportunities for banks in the USA, France and Australia in particular, to accelerate implementation of the EDTF recommendations in 2014 while also recognising that implementation by U.S. banks is expected to increase as they start to implement Pillar 3 reporting and Advanced IRB approaches. The User Group challenges banks in all three countries to accelerate adoption in 2014 particularly given the prominence of U.S. and French banks in the global wholesale and derivatives markets and the large size of the Australian banking system in relation to its economy as well as the fact that Australian banks are major constituents of global equity indexes and significant issuers of public debt across international markets.

**Newly-Reviewed Recommendations**

Exhibit 10 shows the results for the recommendations that were reviewed by the User Group for the first time in 2014. For these ten recommendations, Users’ and Banks’ assessments differed the most for qualitative disclosures. Users’ assessed just 32% of Recommendation 32 (Operational risk loss events) and 46% of Recommendation 1 (Index to risk disclosures) as Fully Implemented compared to 93% for Recommendation 10a (Capital composition), which has a heavier quantitative component. This contrasts with the results of the 2013 User Group review, where users’ and banks’ assessments differed the most for quantitative recommendations.

In general, where the User Review indicated a substantially lower level of implementation it reflected a view from Users that banks were not embracing the spirit of the recommendation and were instead providing generic disclosures for compliance (e.g. users gave no credit for operational risk management disclosures that simply referenced the status of outstanding litigation). Members of the User Group are particularly interested to see banks either consolidate risk disclosures where possible or to provide an index to all significant risk disclosures (Recommendation 1).

**Exhibit 10: Comparison of Bank and User Group Assessments, only for ten newly reviewed recommendations**

![Comparison of Bank and User Group Assessments: New Recommendations in 2014](image)

**Progress made since prior survey**

Just as it is important to distinguish between those recommendations that were reviewed in the 2013 survey and those that are new for 2014, it is important to distinguish among banks that participated in the survey last year and banks that were new to the 2014 review process (mainly U.S. and Asian banks). Exhibit 11 shows the User Group review for those recommendations that were initially reviewed in 2013 (i.e. the original 8) and only for those banks who participated in both the 2013 and 2014 survey (i.e. excluding banks new for 2014). The 39% year-on-year improvement across all eight recommendations among this consistent set of banks is striking,
particularly given that both banks and members of the User Group agree that these recommendations are among the hardest to implement. For every recommendation except Recommendation 28, the User Group assessment improved significantly from 2013 levels. The lower User Group assessment for recommendation 28 reflected primarily the split of the recommendation into two parts, with stronger implementation of the first part, which focuses on non-performing loans and loan loss reserves, than the second, which focuses on acquired and restructured loans. In addition, the gap between banks’ and the User Group’s assessments narrowed from 14% to 10% for those institutions that participated in last year’s survey.

**Exhibit 11: Comparison of Bank and User Group Assessments** (only for eight originally reviewed recommendations and for those banks who participated in both 2013 and 2014 surveys)

<table>
<thead>
<tr>
<th>Bank by bank comparison</th>
</tr>
</thead>
</table>

Exhibit 12 below shows how many recommendations the User Group assessed as being fully implemented as well as the gap between the Users’ and Banks’ views on a bank-by-bank basis (presented as 1 to 41 in decreasing order of number of disclosures assessed by the User Group as Fully Implemented). The average difference in the number of recommendations categorised as Fully Implemented between the Users’ and Banks’ assessments was 2.8 out of 18 recommendations for banks that participated in last year’s survey and 4.0 for banks that are new to the survey this year. This confirms that banks that are new to the survey are more likely to experience gaps between the User Group and self-assessments. As noted above, the User Group has shared its assessment with
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each of the 41 banks shown below and has discussed the results with over twenty banks thus far to ensure that the banks understand the User Group’s evaluation criteria and expectations.

Implementation continues to vary considerably across individual banks. Two banks assessed themselves as having implemented all eighteen of the recommendations reviewed and the User Group agreed on all counts. The User Group assessed an additional quarter of the banks to have fully implemented at least 13 of the 18 recommendations; and a further three to have fully implemented between 9 and 12 of the recommendations. There were two instances where the User Group assessment exceeded the Bank assessment (in green).

Exhibit 12: Comparison of Bank and User Group Assessments, Ranked by User Assessment

As noted earlier, those banks that participated in the EDTF survey in 2013 generally showed substantial improvements in their implementation levels. This is confirmed in Exhibit 13 which shows a significant increase in the User Group assessment of full implementation (focusing only on the 8 recommendations that were subject to the user review in both 2013 and 2014). In 2013, no banks were assessed by the User Group as having fully implemented all 8 recommendations and only one bank was assessed as having fully implemented 7 of the 8 recommendations. In 2014, four banks were assessed by the users as having fully implemented all 8 recommendations whilst a further six banks were assessed as having fully implemented 7 of the 8 recommendations.
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Exhibit 13: Comparison of Bank and User Group Assessments

This Year's Results (based on 2013 Annual Reports)

Last Year's Results (based on 2012 Annual Reports)

Drivers of Differences in Assessment

Although the gap between users’ and banks’ self-assessments narrowed significantly in 2014, notable differences remain in certain cases. Through discussions with over 20 of the 41 banks that participated in the survey, members of the User Group identified the following drivers for the ongoing difference:

- **Differences in understanding of the EDTF recommendations:** The difference between banks’ assessments and users’ assessments is greater for banks that are new to the survey this year, which suggests that much of the difference in users’ and banks’ assessments is due to lack of familiarity with what users are seeking to understand from the disclosures. For example, some banks did not appreciate the importance of flow statements to users and thus thought that the reconciliation of changes to CET1 over a reporting period (Recommendation 11) provided the same information as the reconciliation between accounting equity and regulatory capital set out in Recommendation 10. Another common misunderstanding related to Recommendation 29 (Counterparty credit risk from derivatives) which a number of banks considered to be Fully Implemented simply through the disclosure of the notional value of derivatives in aggregate rather than by providing a detailed breakdown of derivatives usage between Over The Counter and exchange traded or cleared through central counterparties along with a description of collateral agreements. Over time, the User Group would expect such gaps to narrow through ongoing dialogue between banks and users.
• **Users demand for quantitative disclosures:** In some cases, the User Group required quantitative disclosures for a recommendation to be considered Fully Implemented, even where quantification was not explicitly part of the EDTF recommendation. For example, in Recommendation 22, the User Group expected banks to quantify linkages between Market Risk disclosures and the financial statements. Although 39% of banks were able to provide such quantification, several banks characterized this expectation as setting the bar even higher than the original recommendation. The User Group agrees that it set a high bar, but notes that without quantification the disclosure is less useful to investors.

• **Immateriality:** Some banks noted that certain EDTF disclosures are not material to their business. The User Group considered a lack of disclosure in such cases to be Not Implemented. For example, on Recommendation 32 (Operational risk loss events), several banks noted in their surveys that they had experienced no material operational risk losses during the year; however, there was no such disclosure in the Annual Report. The User Group noted that it is important for banks to disclose when they have no material exposure in a particular area and that such information can be very helpful for analysts to remove any doubt (e.g. “Bank X did not experience any operational risk loss events resulting in losses above Y threshold”)

Conclusions

First and foremost, the User Group members of the EDTF would like to recognise the significant progress many banks have made in implementing the recommendations in the report. The User Group and the broader analyst community recognise these efforts and greatly value the resulting enhancements to the disclosures.

It is also clear that those banks that are more familiar with the EDTF’s aims and objectives – either via EDTF membership, through the implementation of the EDTF recommendations, or through regulatory encouragement – are typically achieving higher levels of implementation. By contrast, some of the newer adopters (primarily U.S., Asian and some Continental European banks) showed lower implementation levels in 2013 annual reports. The User Group is in the process of reaching out to discuss leading practice disclosures with this group of banks.

The User Group encourages banks to be mindful of the reasons behind the specific EDTF recommendations and the fundamental principles in the EDTF report including, but not limited to, relevance and comparability. The EDTF acknowledges the tensions between the fundamental principles and understands that there will always be a need to strike a balance between presenting the views of management and ensuring comparability across banks. A constructive dialogue between preparers and investors will be essential to improving this balance to the benefit of all interested parties.
Lessons learned and considerations to further enhance disclosure

Since its inception in 2012, the EDTF has accumulated valuable experience through analysing bank survey and User Group review results and the review of over 60 annual reports to identify leading practice examples of implementation. In addition, the EDTF has gathered useful input from consideration of targeted emerging issues by the EDTF work streams' and through outreach efforts. In this context, the EDTF considers that it would be helpful to provide some additional feedback on lessons learned to date and considerations to potentially improve the understanding and application of certain of the recommendations in the future. Set out below is a summary of the EDTF recommendations where these lessons learned could be considered in better facilitating investors’ understanding of the risk profile of large international banks.

Risk governance and risk management strategies

7. Describe the key risks that arise from the bank’s business models and activities, the bank’s risk appetite in the context of its business models and how the bank manages such risks. This is to enable users to understand how business activities are reflected in the bank’s risk measures and how those risk measures relate to line items in the balance sheet and income statement. See Figure 1 in the appendix to Section 5 of the EDTF October 2012 report.

The objective of this recommendation is to help users understand the business activities and their risks and risk management at a high level. The Figure is, therefore, intended to act as a roadmap to allow users to readily identify business models and their related risks for further analysis. The User Group expects that much of the information in the Figure is available elsewhere in the Annual Report but that the Figure is intended to draw it into one place for users to provide an overview and a linkage between the segmental reporting for accounting purposes and the risk reporting. The EDTF is concerned that this recommendation seems to have a relatively low take up and that just following Figure 1 as drafted may not facilitate an understanding of the business model of each bank and of how risk measures relate to the income statement and balance sheet.

Figure 1 should be regarded as being illustrative as each bank will need to portray their business segments and performance and risk measures as used by management, which will naturally differ from entity to entity.

The leading practice example included in Appendix 3 page 22 highlights that it is particularly helpful to investors to include absolute amounts, rather than or in addition to percentages, and to broaden the list of measures included beyond the allocation of RWAs included in Figure 1 when other information is relevant to better understand the bank’s business activities and their risks.

Capital adequacy and risk-weighted assets

4. Once the appropriate rules are finalised, outline plans to meet each new key regulatory ratio, eg the net stable funding ratio, liquidity coverage ratio and, once the appropriate rules are in force, provide such key ratios.

This recommendation is intended to address all new regulatory ratios as they are developed and is not limited to those specifically mentioned. The EDTF’s survey work has shown that the
implementation of the recommendation varies depending on the ratio under consideration, with a majority of G-SIBs\(^8\) having quantified the leverage ratio but with fewer having quantified the Net Stable Funding Ratio (‘NSFR’). This may be because the NSFR has been subject to a complete review and revision and the final version adopted by the Basel Committee may be substantially different from either the first version or the revised proposal published for comment in January 2014. The full implementation of the recommendation will be impacted by the differences in national or regional interpretation of the regulatory requirements and the implementation timetables in different jurisdictions. The EDTF appreciates regulators’ and preparers’ concerns about the usefulness of ratios that remain subject to uncertainty and re-calibration and understands that ratios may have transitional provisions which introduce further complexity. Where important elements of regulation remain subject to change, disclosure could be premature. Nevertheless, investors are particularly interested in understanding the new ratios and their potential impacts on the business before the rules are in force. This includes understanding the bank’s plans to meet the new ratios and information about how any disclosed ratios are being calculated and the remaining uncertainties. Investors are paying particular attention to the potential impact of the new regulatory ratios on the ongoing business. Therefore disclosures should assist investors in their assessment of the potential impact of the new requirements on the business and more importantly provide insight into the banks plans for implementation, taking into account any remaining regulatory uncertainties.

16. Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type. See Figure 4 in the appendix to Section 5 of the EDTF October 2012 report.

The recommendation does not specifically include reference to an RWA flow statement for operational risk, however it does specify RWA flow statement for each RWA risk type, which would generally include operational risk. Some banks applying the Advanced Measurement Approach do provide such a flow statement while other banks applying the Basic Indicator or Standardised Approach have provided narrative about the key drivers of RWA change. The User Group believes that leading practice would be to provide information on RWA movements for operational risk, with either a flow statement or narrative, as appropriate.

The User Group also noted that investors are interested in an RWA flow statement on a fully loaded Basel III basis where this is materially different from the current transitional phase-in RWA flow statement and so would facilitate an understanding of the potential Basel III impacts. In this context, ‘fully loaded’ (or ‘end-point’) means presenting information as if Basel III were fully implemented on the basis currently published for the relevant jurisdiction, disregarding the effect of any transitional arrangements that would allow for a phased-in application of the regulatory capital requirements. As discussed for Recommendation 4 above, banks should give a general indication of any assumptions made about final regulatory requirements, if not known at the time the disclosure is made.

Funding

19. Asset encumbrance: Summarise encumbered and unencumbered assets in a tabular format by balance sheet categories, including collateral received that can be rehypothecated or otherwise redeployed. This is to facilitate an understanding of available and unrestricted assets to support potential funding and collateral needs. See Figure 5 in the appendix to section 5 of the EDTF October 2012 report.

\(^8\) Of those participating in the EDTF survey, 74\% have quantified the leverage ratio, 57\% have quantified the LCR and 29\% have quantified the NSFR.
The EDTF acknowledges that many banks have made good progress in implementing this recommendation. In addition, the EDTF has noted that the FSB Workstream on Securities Lending and Repos recommended\(^9\) to the EDTF that they should work to improve public disclosure for financial institutions’ securities lending, repo and wider collateral management activities and that the European Banking Authority and other bank regulators have highlighted concerns about disclosure of assets that are legally pledged to central banks for emergency funding as encumbered.

While cognisant of the actions of regulators, including the issue of ‘Guidelines on disclosure of encumbered and unencumbered assets’\(^{10}\) by the European Banking Authority, the User Group believes that it would be helpful if the implementation of this recommendation incorporated off-balance sheet assets that are available to support funding and collateral needs and included additional information about the sources and uses of non-cash collateral. This could be done by expanding the table in Figure 5 to incorporate both on and off-balance sheet items and by adding summary measures to quantify available collateral (e.g. percentage of Available Collateral/Pledgeable Assets). Investors also consider an additional table breaking out the uses of on-balance sheet encumbered assets and a further table that details the sources and uses of non-cash collateral would be helpful in understanding the bank’s funding profile. Banks will need to assess their encumbrance disclosures in light of the requirements of regulators, including circumstances when information about assets pledged to central banks as part of emergency liquidity assistance may be particularly sensitive. Banks also need to be aware of disclosures required by accounting standards and securities law. It remains important for users to be able to discuss with management the assets available to support funding and collateral needs.

**Market risk**

23. Provide further qualitative and quantitative breakdowns of significant trading and non-trading market risk factors that may be relevant to the bank’s portfolios beyond interest rates, foreign exchange, commodity and equity measures.

At an EDTF outreach event in New York in early 2014 some users expressed that disclosure of interest rate sensitivities of trading and non-trading portfolios would be useful, particularly as the current low interest rate environment is expected to result in higher interest rates at some point in the future. Therefore, in addressing this recommendation, it would be useful to take note of the attention investors pay to interest rate sensitivities, including information on the effective duration or interest rate sensitivity for the trading and non-trading securities portfolios, where possible, taking into account derivative transactions. Investors also expressed interest in relevant information to better understand interest rate risk in floating rate portfolios.

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\(^9\) FSB. Strengthening Oversight and Regulation of Shadow Banking. 29 August 2013

\(^{10}\) EBA, Guidelines on disclosure of encumbered and unencumbered assets, 6/27/2014, available at:
Other risks

32 Discuss publicly known risk events related to other risks, including operational, regulatory compliance and legal risks, where material or potentially material loss events have occurred. Such disclosures should concentrate on the effect on the business, the lessons learned and the resulting changes to risk processes already implemented or in progress.

Since the EDTF report was issued, there have been an increasing number of banks subject to prosecutions and fines as a result of past regulatory and compliance failures and poor conduct. The User Group believes that investors are particularly interested in understanding the lessons that have been learned from the resolution of the issues and the resulting changes to risk processes. The leading practice examples included in Appendix 3 pages 87-89 illustrate how such information can be effectively conveyed.

Other timely matters

The EDTF continues to expect banks that access equity or debt markets, including smaller banks and subsidiaries of listed banks, to adopt the recommendations which are considered relevant to them. Investors will benefit from an understanding of risks and their mitigation within group structures, particularly where securities are issued by subsidiaries or holding companies with conversion or bail-in terms. Understanding group structures and the specific risks arising within subsidiaries is likely to become increasingly relevant as recovery and resolution and ring-fencing initiatives are finalised and application of the EDTF principles and recommendations in the context of such structures will become increasingly important.

Next Steps

First and foremost, the EDTF would like to recognise the significant and continuing investment many banks have made in implementing the recommendations of the EDTF. The User Group and the broader analyst community recognise these efforts and greatly value the resulting enhancements to the disclosures.

Although significant progress has been made in implementing the EDTF recommendations, and this is nearly completed in some jurisdictions, the FSB and EDTF believe that there is still a role to play in supporting this public sector disclosure initiative and in keeping the sector alert to risks and issues which may benefit from revised or additional disclosures in the future.

In addition, the EDTF will review the Basel Committee’s Review of Pillar 3 disclosure requirements\(^{11}\) and the progress made on its finalisation with particular interest in where there may be overlap between EDTF recommendations and Pillar 3 requirements. The EDTF will also follow developments in the implementation of the IASB and FASB new financial instrument standards and the new credit risk disclosures which may result. Both these developments may result in the need to review and update the EDTF recommendations in the future to ensure they remain relevant in the changing accounting and disclosure environment.

The EDTF co-chairs and members have also been active in helping create opportunities for investors, banks and other interested parties to gather to discuss disclosure, to the benefit of increased communication of users’ information requirements. Such events will continue to be organised through the EDTF in various jurisdictions and will inform the group’s activities.

\(^{11}\) Basel Committee on Banking Supervision Consultation document available at: [http://www.bis.org/publ/bcbs286.pdf](http://www.bis.org/publ/bcbs286.pdf)
Supporting Materials

Appendix 1: EDTF Recommendations
Appendix 2: Members of the Enhanced Disclosure Task Force
Appendix 3: In-depth Summary of Bank Survey and User Group Assessments
Appendix 4: Leading Practice Examples of EDTF Recommendations

The EDTF has compiled a set of leading practice examples for each of the thirty two EDTF recommendations based on references to 2013 Annual Reports / Pillar 3 disclosures shared by participating banks.

It is important to note that risk disclosures are complex and that presentation necessarily differs across institutions. The examples selected are meant to highlight instances of high quality disclosures that meet the EDTF recommendations and are not meant to be exclusive or comprehensive.
Appendix 1: EDTF Recommendations

General recommendations

1. Present all related risk information together in any particular report. Where this is not practicable, provide an index or an aid to navigation to help users locate risk disclosures within the bank’s reports.

2. Define the bank’s risk terminology and risk measures and present key parameter values used.

3. Describe and discuss top and emerging risks, incorporating relevant information in the bank’s external reports on a timely basis. This should include quantitative disclosures, if possible, and a discussion of any changes in those risk exposures during the reporting period.

4. Once the applicable rules are finalised, outline plans to meet each new key regulatory ratio, e.g., the net stable funding ratio, liquidity coverage ratio and leverage ratio and, once the applicable rules are in force, provide such key ratios.

Risk governance and risk management strategies/business model

5. Summarise prominently the bank’s risk management organisation, processes and key functions.

6. Provide a description of the bank’s risk culture, and how procedures and strategies are applied to support the culture.

7. Describe the key risks that arise from the bank’s business models and activities, the bank’s risk appetite in the context of its business models and how the bank manages such risks. This is to enable users to understand how business activities are reflected in the bank’s risk measures and how those risk measures relate to line items in the balance sheet and income statement (Figure 1).

8. Describe the use of stress testing within the bank’s risk governance and capital frameworks. Stress testing disclosures should provide a narrative overview of the bank’s internal stress testing process and governance.

Capital adequacy and risk-weighted assets

9. Provide minimum Pillar 1 capital requirements, including capital surcharges for G-SIBs and the application of counter-cyclical and capital conservation buffers or the minimum internal ratio established by management.

10. Summarise information contained in the composition of capital templates adopted by the Basel Committee to provide an overview of the main components of capital, including capital instruments and regulatory adjustments. A reconciliation of the accounting balance sheet to the regulatory balance sheet should be disclosed.

11. Present a flow statement of movements since the prior reporting date in regulatory capital, including changes in common equity tier 1, tier 1 and tier 2 capital (Figure 2).

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12 Qualitatively and quantitatively discuss capital planning within a more general discussion of management’s strategic planning, including a description of management’s view of the required or targeted level of capital and how this will be established.

13 Provide granular information to explain how risk-weighted assets (RWAs) relate to business activities and related risks.

14 Present a table showing the capital requirements for each method used for calculating RWAs for credit risk, including counterparty credit risk, for each Basel asset class as well as for major portfolios within those classes. For market risk and operational risk, present a table showing the capital requirements for each method used for calculating them. Disclosures should be accompanied by additional information about significant models used, eg. data periods, downturn parameter thresholds and methodology for calculating loss given default (LGD).

15 Tabulate credit risk in the banking book showing average probability of default (PD) and LGD as well as exposure at default (EAD), total RWAs and RWA density for Basel asset classes and major portfolios within the Basel asset classes at a suitable level of granularity based on internal ratings grades. For non-retail banking book credit portfolios, internal ratings grades and PD bands should be mapped against external credit ratings and the number of PD bands presented should match the number of notch-specific ratings used by credit rating agencies (Figure 3)

16 Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type (Figure 4)

17 Provide a narrative putting Basel Pillar 3 back-testing requirements into context, including how the bank has assessed model performance and validated its models against default and loss.

**Liquidity**

18 Describe how the bank manages its potential liquidity needs and provide a quantitative analysis of the components of the liquidity reserve held to meet these needs, ideally by providing averages as well as period-end balances. The description should be complemented by an explanation of possible limitations on the use of the liquidity reserve maintained in any material subsidiary or currency.

**Funding**

19 Summarise encumbered and unencumbered assets in a tabular format by balance sheet categories, including collateral received that can be rehypothecated or otherwise redeployed. This is to facilitate an understanding of available and unrestricted assets to support potential funding and collateral needs (Figure 5)

20 Tabulate consolidated total assets, liabilities and off-balance sheet commitments by remaining contractual maturity at the balance sheet date. Present separately (i) senior unsecured borrowing (ii) senior secured borrowing (separately for covered bonds and repos) and (iii) subordinated borrowing. Banks should provide a narrative discussion of management’s approach to determining the behavioural characteristics of financial assets and liabilities (Figure 6)
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21 Discuss the bank’s funding strategy, including key sources and any funding concentrations, to enable effective insight into available funding sources, reliance on wholesale funding, any geographical or currency risks and changes in those sources over time.

Market risk

22 Provide information that facilitates users’ understanding of the linkages between line items in the balance sheet and the income statement with positions included in the traded market risk disclosures (using the bank’s primary risk management measures such as Value at Risk (VaR)) and non-traded market risk disclosures such as risk factor sensitivities, economic value and earnings scenarios and/or sensitivities (Figure 7).

23 Provide further qualitative and quantitative breakdowns of significant trading and nontrading market risk factors that may be relevant to the bank’s portfolios beyond interest rates, foreign exchange, commodity and equity measures.

24 Provide qualitative and quantitative disclosures that describe significant market risk measurement model limitations, assumptions, validation procedures, use of proxies, changes in risk measures and models through time and descriptions of the reasons for back-testing exceptions, and how these results are used to enhance the parameters of the model.

25 Provide a description of the primary risk management techniques employed by the bank to measure and assess the risk of loss beyond reported risk measures and parameters, such as VaR, earnings or economic value scenario results, through methods such as stress tests, expected shortfall, economic capital, scenario analysis, stressed VaR or other alternative approaches. The disclosure should discuss how market liquidity horizons are considered and applied within such measures.

Credit risk

26 Provide information that facilitates users’ understanding of the bank’s credit risk profile, including any significant credit risk concentrations. This should include a quantitative summary of aggregate credit risk exposures that reconciles to the balance sheet, including detailed tables for both retail and corporate portfolios that segments them by relevant factors. The disclosure should also incorporate credit risk likely to arise from off-balance sheet commitments by type.

27 Describe the policies for identifying impaired or non-performing loans, including how the bank defines impaired or non-performing, restructured and returned-to-performing (cured) loans as well as explanations of loan forbearance policies.

28 Provide a reconciliation of the opening and closing balances of non-performing or impaired loans in the period and the allowance for loan losses. Disclosures should include an explanation of the effects of loan acquisitions on ratio trends, and qualitative and quantitative information about restructured loans (Figure 8).

29 Provide a quantitative and qualitative analysis of the bank’s counterparty credit risk that arises from its derivatives transactions. This should quantify notional derivatives exposure, including whether derivatives are over-the-counter (OTC) or traded on recognised exchanges. Where the derivatives are OTC, the disclosure should quantify how much is settled by central counterparties and how much is not, as well as provide a description of collateral agreements.
30 Provide qualitative information on credit risk mitigation, including collateral held for all sources of credit risk and quantitative information where meaningful. Collateral disclosures should be sufficiently detailed to allow an assessment of the quality of collateral. Disclosures should also discuss the use of mitigants to manage credit risk arising from market risk exposures (i.e. the management of the impact of market risk on derivatives counterparty risk) and single name concentrations.

Other risks

31 Describe ‘other risk’ types based on management’s classifications and discuss how each one is identified, governed, measured and managed. In addition to risks such as operational risk, reputational risk, fraud risk and legal risk, it may be relevant to include topical risks such as business continuity, regulatory compliance, technology, and outsourcing.

32 Discuss publicly known risk events related to other risks, including operational, regulatory compliance and legal risks, where material or potentially material loss events have occurred. Such disclosures should concentrate on the effect on the business, the lessons learned and the resulting changes to risk processes already implemented or in progress.
# Appendix 2: Members of the Enhanced Disclosure Task Force

## Co-Chairs

<table>
<thead>
<tr>
<th>Organization</th>
<th>Name</th>
<th>Position</th>
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<tbody>
<tr>
<td>Lombard Odier</td>
<td>Hugo Bänziger</td>
<td>Managing Partner</td>
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<tr>
<td>HSBC</td>
<td>Russell Picot</td>
<td>Group General Manager and Group Chief Accounting Officer</td>
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<tr>
<td>PIMCO</td>
<td>Christian Stracke</td>
<td>Managing Director, Member of Investment Committee and Global Head of Credit Research Group</td>
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## Additional Members

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<tr>
<th>Organization</th>
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<tbody>
<tr>
<td>Allianz SE</td>
<td>Tom Wilson</td>
<td>Chief Risk Officer</td>
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<tr>
<td>AXA Group</td>
<td>Emmanuelle Nasse-Bridier</td>
<td>Group Chief Credit Officer</td>
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<tr>
<td>Barclays Capital</td>
<td>Simon Samuels</td>
<td>Managing Director</td>
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<tr>
<td>BlackRock</td>
<td>Simon Martin</td>
<td>Director, Fixed Income, Credit - Financials Institutions</td>
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<tr>
<td>BNP Paribas</td>
<td>Gérard Gil</td>
<td>Senior Advisor</td>
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<tr>
<td>CFA Institute</td>
<td>Vincent Papa</td>
<td>Director, Financial Reporting Policy</td>
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<tr>
<td>Citigroup</td>
<td>Jim Padula</td>
<td>Managing Director, Head of Corporate Regulatory Advisory</td>
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<tr>
<td>CLSA Limited</td>
<td>Derek Ovington</td>
<td>Head of Regional Banks, Asia</td>
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<td>Commonwealth Bank of Australia</td>
<td>Greg Mizon</td>
<td>Chief Risk Officer, International Institutional Banking and Markets Risk Management</td>
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<tr>
<td>CreditSights, Inc</td>
<td>Pri de Silva</td>
<td>Senior Analyst, US Banks and Brokers</td>
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<tr>
<td>DBS</td>
<td>Elbert J. Pattijn</td>
<td>Chief Risk Officer and Group Executive Committee Member</td>
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<td>Deloitte</td>
<td>Mark Rhys</td>
<td>Global IFRS for Banking Co-Leader</td>
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<tr>
<td>Deutsche Bank</td>
<td>Ralf Leiber</td>
<td>Managing Director, Head of Group Capital Management</td>
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<td>Ernst &amp; Young</td>
<td>Karen Golz</td>
<td>Global Vice Chair, Professional Practice</td>
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<tr>
<td>Fidelity Management and Research</td>
<td>Kana Norimoto</td>
<td>Research Analyst, Fixed Income</td>
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<td>Fidelity Worldwide Investment</td>
<td>Katsumi Ishibashi</td>
<td>Senior Credit Analyst</td>
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<td>Fitch Ratings</td>
<td>Bridget Gandy</td>
<td>Managing Director, Co-head EMEA Financial Institutions</td>
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<td>ING Group</td>
<td>Norman Tambach</td>
<td>Group Controller</td>
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<td>Institutional Investment Advisors Limited</td>
<td>Crispin J. Southgate</td>
<td>Director</td>
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<tr>
<td>International Banking Federation (IBFed)</td>
<td>Dirk Jaeger</td>
<td>Managing Director – Banking Supervision, Accounting, Association of German Banks; Chairman of Accounting Working Group of IBFed</td>
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<tr>
<td>International Corporate Governance Network (ICGN)</td>
<td>Paul Lee</td>
<td>Head of Investment Affairs, National Association of Pension Funds</td>
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<td>Robin Doyle</td>
<td>Managing Director, Regulatory Strategy and Policy</td>
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<td>KPMG</td>
<td>Caron Hughes</td>
<td>Partner, Financial Services, KPMG China</td>
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<td>M&amp;G Investment Management</td>
<td>James Alexander</td>
<td>Head of Research</td>
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<td>Akihiko Kagawa</td>
<td>Senior Managing Director, Group Chief Risk Officer and Chief Compliance Officer</td>
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<td>Moody’s</td>
<td>Mark LaMonte</td>
<td>Managing Director, Chief Credit Officer, Financial Institutions</td>
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<td>Asian Bank Credit Research Analyst</td>
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<td>PGGM</td>
<td>Eloy Lindeijer</td>
<td>Chief Investment Management</td>
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<td>PwC</td>
<td>Robert P. Sullivan</td>
<td>Global Banking and Capital Markets Leader; Global Regulatory Leader</td>
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<td>Royal Bank of Canada</td>
<td>Mark Hughes</td>
<td>Chief Risk Officer</td>
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<td>Santander</td>
<td>Javier Torres</td>
<td>EVP, Head of Integral Risk control and Model Validation</td>
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<td>Osman Sattar</td>
<td>Director - Accounting Specialist, EMEA Financial Institutions</td>
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<td>Alex Brougham</td>
<td>Managing Director, Group Finance Disclosure Officer</td>
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<td>Managing Director, US Bank Equity Research</td>
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<td>David Schraa</td>
<td>Regulatory Counsel</td>
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