



cutting through complexity

Improving the usefulness and clarity of financial statements

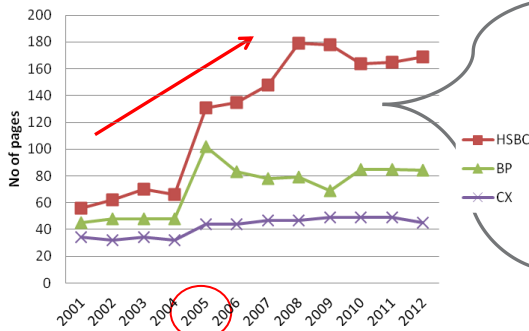
- perspective from the banking industry

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7th IFRS Regional Policy Forum
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Growing complexities of disclosures...

Number of pages of financial statements
2001-2012



Accounting policies (number of words)

	2001	2006	2012
HSBC	2,642	8,118	10,871
BP	2,170	7,757	10,504
CX	1,766	2,236	2,565

Financial risk management (FI) / financial instruments related disclosures (non-FI) (number of pages)

	2001	2006	2012
HSBC	N/A	15	35
BP	10	14	17
CX	N/A	4	10

What is being done?

- IASB Disclosure Project
- For banks, Enhanced Disclosures Task Force issued “Enhancing the Risk Disclosures in Banks” in October 2012



IASB Disclosure Project

- Forum held in January 2013
- Investors and preparers want the accounts to tell a story
- Impediments:
 - Prescriptive standards
 - High cost of failure to comply
 - Materiality a challenge
 - Overall incentives not right
- Conceptual framework key
- Work with regulators
- Technology?
- IFRS Foundation to take the lead?



Enhanced Disclosures Task Force

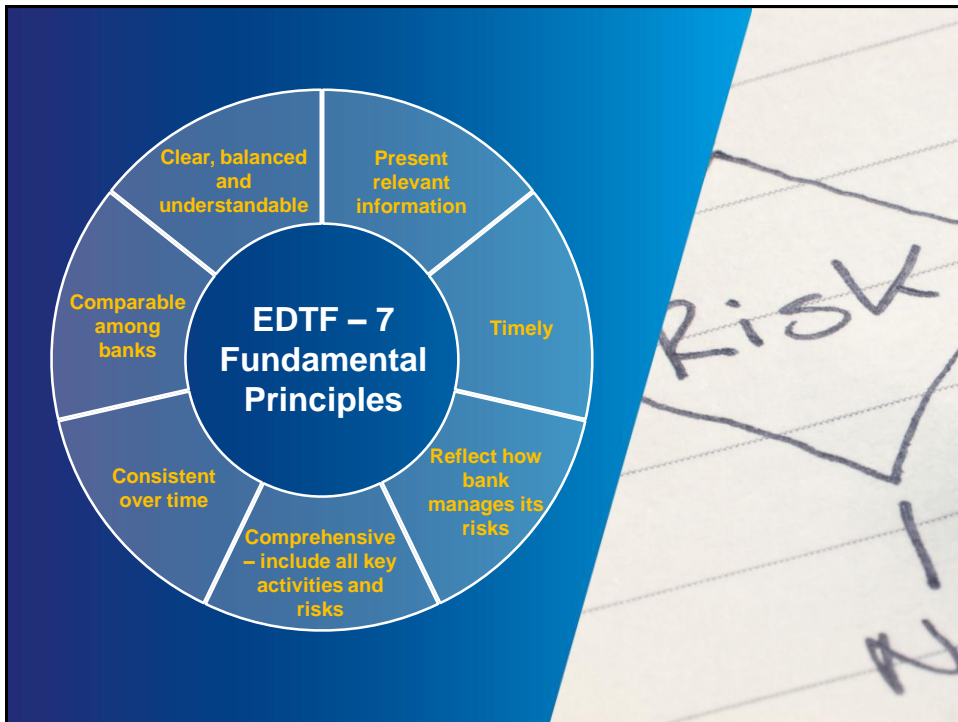
- Formed in 2012 to address crisis in confidence in banks
- Investor demand for better risk disclosure
- Private sector initiative under Financial Stability Board
 - Banks
 - Investors
 - Asset managers
 - Analysts
 - Ratings agencies
 - Audit firms
- If the industry doesn't lead change, regulators will



Issues with bank disclosures

- Lack of insight into complex business models
- Voluminous disclosures
 - Different places
 - Different times
 - Lack of integration
- Inconsistency
- Lack of context/ narrative





EDTF – 32 Recommendations

- High level – covered 7 areas
 - Risk governance, risk mgt strategy and business model
 - Capital and Risk Weighted Assets (RWAs)
 - Liquidity
 - Funding
 - Market risk
 - Credit risk
 - Other risks
- 8 examples of possible formats – not templates
- Additional commentary provided
 - Expand on recommendations
 - A number of examples and examples of existing best practice



Insight into recommendations – Capital & Risk Weighted Assets (RWAs)



	Current Disclosures	EDTF recommendations
Capital	Considerable geographic variation in required formats	Describe minimum Pillar 1 capital requirements
	Capital rules and interpretations vary making comparisons difficult	Provide overview of main components of capital and reconciliation to balance sheet
	Hard to reconcile regulatory capital to the balance sheet	Provide flow statement of movements in capital Include qualitative and quantitative discussion of capital planning

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8

RWAs a particular challenge

Current disclosures:

Bank and regulator discretion around models – hard to compare

Challenges

Investors lack confidence in RWA models and don't understand portfolio composition and risks

Objectives

**Better explanation of models and calculations
Enable investors to understand how models affect capital
Facilitate comparability**



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9

RWA recommendations

- Granular information to explain how RWAs relate to business activity and risks – Cascade
- Granular tables for major portfolios including information on models and inputs
- Tabulate credit risk by internal grading and map to external credit ratings
- RWA flow statement
- Narrative discussion of back testing of models



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Thank you.

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