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To Secretariat of the Basel Committee on Banking Supervision

Comment on the Basel Committee's Consultative Document *Definition of capital disclosure requirements*

We are pleased to have the opportunity to provide feedback on the Basel Committee's consultation.

By way of background, Hermes is a leading asset manager in the City of London. As part of our Equity Ownership Service (EOS), we also respond to consultations on behalf of a number of institutional investors from the US, Australia and Canada, as well as across Europe, including the USA's Highland Good Steward Management and Canada's Public Sector Pension Investment Board (only those clients which have expressly given their support to this response are listed here). In all, EOS advises clients with regard to assets worth a total of $138 billion (at 31 December 2011). We assist these clients to act as good owners of the companies in which they invest, and to participate in debates on public policy which will affect the value of their investments.

We were pleased to take part in the roundtable on bank risk reporting hosted by the Financial Stability Board in December. There was a valuable discussion at that roundtable between the investors, financial institutions and regulators, and a remarkable degree of commonality of views. We believe that there was agreement that better reporting could and should be encouraged by all parties, but that there was a danger that detailed prescription by regulators might go too far and stifle the innovation and flexibility that banks must have to be able to report on those issues which are of particularly critical concern to their investors at any given time. Reporting should not be allowed to ossify: instead, it must have flexibility built in to enable financial institutions and their investors to communicate effectively on what matters.

This would argue strongly for a BIS standard which sets minimum disclosure requirements, such that there is a useful baseline of information from all financial institutions, but which does not require reporting in a specific format. The danger of

establishing fixed templates for reporting is that they may crowd out the flexibility of the market to respond rapidly to particular concerns. We do not believe that this would be a positive, and therefore would recommend that the Basel Committee does not seek to establish global templates but rather focuses solely on consistency of the information disclosed.

The one exception we would make to this call for standardisation on information but not on format is in relation to the ‘main features template’. Here, the data required by the market about instruments will not change over time and given that the nature of the disclosures will inevitably be bespoke and individual, it does seem wholly appropriate to set out a clear template for disclosure such that investors can access the information that they need as efficiently as possible. We also agree with the substance of what is sought under this template.

In a similar way, we support the information sought in the other templates and believe that these are appropriate and necessary. We have one comment with regard to the timetable: we believe that the current date for implementation means that in practice it will be 18 months before this information is consistently available to the market, and that the data will not be disclosed alongside banks’ annual reporting for the calendar year 2012. We believe that this would miss a significant opportunity to build investor confidence, and would argue that the transition period begin with reporting related to balance sheet dates on or after 31 December 2012, rather than on or after 1 January 2013. This would encompass most banks’ annual reporting for 2012 and therefore enable these disclosures to provide significant additional assurance to investors. We believe that there is still sufficient time before this deadline comes into effect meaning that this would not impose a significant further burden on reporting banks.

We welcome the Basel Committee’s continued attention to the details of bank disclosures to the market. We believe that this is important such that shareholders can carry out their role of calling companies to account for their activities and the risks that they are running. We would welcome dialogue on the issues noted in this letter if that would be of assistance to you.

Yours sincerely,

Paul Lee
Director