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Response to Basel Committee on Banking Supervision 'Definition of capital disclosure requirements' Consultative document of December 2011

Ben Hanslip & Nicholas Beale 17th Feb 2012

We strongly agree that banks should improve the transparency of their capital positions through enhanced disclosure.

A. *Feedback on whether the use of templates across jurisdictions, with consistency in format and information disclosed, is necessary to achieve the appropriate level of comparability in disclosure, or whether the focus should be on the consistency of the information disclosed, with the formats potentially varying between jurisdiction.* (Page 1)

   In general we believe that a degree of regulatory diversity is both inevitable and desirable to promote the stability of the financial system. With respect to capital disclosure requirements, the drive for uniformity may risk creating a framework that overlooks hidden or newly emerging elements. It is important to avoid a calcified framework that is unable to respond adequately to evolving necessities, as such a flexible international network of separate but overlapping disclosure formats may be preferable.

B. *Full reconciliation of all regulatory capital elements back to the published financial statements… Supervisors and market participants can trace the origin of the elements of the regulatory capital back to their exact location on the regulatory scope balance sheet.* (Page 5)

   We strongly support this approach. As well as providing a valuable information stream for supervisors, it has the potential to affect the internal dynamic incentives of banks' risk and capital allocation functions. It should help to clarify the link between individual business decisions and the direct impact on capital requirements

   In a broader context it would also be desirable to consider applying what we call the **Equivalence Principle of Systemic Information** - namely for every piece of systemic information provided by a bank to a regulator, the regulator should return a related piece of data to the bank.

   Specifically the regulator should indicate how systemic capital would vary for small changes in each disclosed parameter - the partial derivative. This reciprocal exchange has the potential to enhance the relationship between banks and regulators. It also gives a greater insurance that the information has been understood and used.

C. *It is proposed that banks publish this disclosure with the same frequency as the publication of their financial statements (ie typically quarterly or half yearly).* (Page 2)

   This is a good and realistic starting point. However, over time we would encourage an **increasing frequency of information flow between banks and supervisors**. This will diminish the opportunities for regulatory 'window dressing' as periods between disclosures fall.

We hope these responses prove useful and are of course happy to provide more detail if desired.