

Sent by e-mail to: baselcommittee@bis.org

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

17th February 2012

Dear Sir or Madam,

We are pleased to provide our response to the Basel Committee on Banking Supervision's ("BCBS") consultative document *"Definition of capital disclosure requirements"* (BCBS 212). We are broadly supportive of the need for improved and consistent disclosure standards for regulatory capital but believe that there are a number of important issues which need to be considered when developing the approach to be applied internationally including the specific items required to be included in the new disclosures and the specific reporting mechanisms to be adopted. We set out below our views on the key issues which we believe need to be addressed before the new disclosure requirements can be finalised.

Proposed use of disclosure templates

Disclosure template - Annex 1

During the financial crisis, concerns were raised about the quality and quantity of banks' regulatory capital and the extent of losses that could be absorbed. Basel III will substantially increase the quality and quantity of banks' regulatory capital and help increase the resilience of the banking industry. Disclosure can play a supporting role in increasing capital standards. The capital data proposed to be disclosed by the Committee as set out in Annex 1 is available or could be sourced at a reasonable cost and we see merit in a reconciliation between accounting and regulatory capital. However, we believe that the proposed data template is too prescriptive and preparers should be able to apply judgement and combine line items that are not material or relevant to investors and other stakeholders.

We believe that it is right for core capital to be separately disclosed, rather than embedded within the broader category of Tier 1 capital. In 2009, the FSA and the UK banking industry took steps to address the shortcomings in capital adequacy disclosure that became evident during the financial crisis by introducing a Core Tier 1 capital ratio which was in many ways a precursor of the Common Equity Tier 1 capital ratio. The real value in the disclosure of the Core Tier 1 capital ratio was to provide investors and other stakeholders with a clear view of UK banks' core capital ratios rather than the underlying capital components.

We see little additional value in requiring each regulatory deduction to be separately disclosed and propose that the accounting concept of materiality be introduced so that only significant items are reported and other items are presented in an aggregated form. Such an approach

would not hinder the comparability of capital adequacy of banks across jurisdictions which should focus on the net capital position for each tier of capital, rather than on individual regulatory adjustments. The key consideration should be the extent of net equity capital available. This would ensure that banks' financial statements are enhanced with additional useful information and not cluttered with superfluous lines of data. Instead of simply providing investors with more data, we believe that it would be better to provide them with useful information. We would encourage the Committee to seek views from investors on the additional capital information that they would like to see disclosed if responses are not received to this consultation.

The additional capital disclosures should be included in the section of banks' annual and interim reports and accounts that include their current capital adequacy disclosures. This will ensure that the disclosures may be followed more readily by investors and other readers of the accounts. They should be subject to the same level of verification by auditors as the current disclosures.

All new capital disclosure items will need to be reviewed carefully to ensure that clear definitions are in place. Cross-jurisdictional comparability will be compromised without clear definitions.

Reconciliation requirements

We are supportive of the intention to disclose a reconciliation of the key components of regulatory capital and their corresponding balance sheet amounts but we do not support the three step approach as proposed. We would argue any reconciliation should be done only for material items, not every single line item as proposed by the Committee and could be accompanied by explanatory narrative. The disclosures as proposed are likely to introduce confusion given the technicalities involved in calculating regulatory capital. Our view is based on the failure of Pillar 3 to deliver the increase in market discipline envisaged when Basel II was developed despite the extensive, technical disclosures on risk and capital.

We also note that annual reports and accounts tend to be extremely lengthy and contain a tremendous amount of data, although not necessarily all of value. There are initiatives underway seeking to improve the quality and usefulness of information included in them such as the Financial Reporting Council's discussion paper, *"Cutting clutter: combating clutter in annual reports"*. The assumption that endless disclosure can be absorbed and effectively applied by a rational market was not borne out by the experience of the financial crisis.

Disclosure of main features of capital instruments issued

We acknowledge the limitations in the existing Basel II Pillar 3 capital-related disclosure requirements noted in the consultative document, e.g. the lack of comparability, and are generally supportive of the proposal for banks to complete a 'main features template' to include summary disclosures for each capital instrument issued. The proposed items appear reasonable and we would like to see this standardised template adopted on a consistent basis to facilitate international comparison and keep the preparation of the summary manageable.

It would be helpful if the Committee would confirm that it intends for the Excel spreadsheet that it has developed to be disclosed, in which case, it would have to be published on banks' websites. From a practical perspective, this would be preferable given the Committee's requirement for each capital instrument to be disclosed in a separate column which could not be accommodated if required to be published in the financial statements.

Other disclosure requirements

There may be times when the requirement for banks to make available on their websites the full terms and conditions of all instruments included in regulatory capital could prove problematic, e.g. in the case of private placements. We are of the opinion that including a suitable level of detail in the 'main features template' should preclude the need to disclose the full terms and conditions of every instrument, although we do not have a strong objection against full disclosure if agreed by investors.

Timing of implementation and frequency of disclosure

It seems appropriate to require the new capital disclosures to come into effect from 1 January 2013 as long as the approach adopted embraces the concept of materiality and national variations are not significant and advised in good time. Otherwise we would expect some delays in implementation to enable banks to respond to the higher national standards.

We would be supportive of the final capital disclosures being reported with the same frequency as the publication of banks' financial statements, i.e. at least half yearly. We do not believe that the 'main features template' should be updated on a more frequent basis as suggested in the consultative document to show a 'live' position at all times unless a materiality limit can be introduced to require significant capital issuances to be updated in between reporting periods.

In conclusion, we agree with the aims and are generally supportive of the proposals made by the Committee in its consultation but believe that the level of prescription should be reduced so that banks focus on disclosing the more material items that form part of their regulatory capital. The more detailed disclosures such as the main features of instruments should be reported on banks' websites. We believe that such an approach would meet the aims of the consultation, be pragmatic and give rise to more effective disclosures for investors and other stakeholders.

Yours faithfully,

A handwritten signature in black ink, appearing to read "P. Walkden".

Pamela Walkden
Group Treasurer