Irving Fisher Committee on
Central Bank Statistics

BANK FOR INTERNATIONAL SETTLEMENTS

Ninth IFC Conference on “Are post-crisis statistical initiatives completed?”

Basel, 30-31 August 2018

Enriching disclosures: The Bank Financial Strength Dashboard [1]

Tobias Irrcher,

Reserve Bank of New Zealand

[1] This paper was prepared for the meeting. The views expressed are those of the authors and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.

Enriching disclosures: The Bank Financial Strength Dashboard

Tobias Irrcher

Abstract

On 29 May 2018, the Reserve Bank of New Zealand launched a new online and interactive disclosure tool called the Bank Financial Strength Dashboard (the Dashboard). The Dashboard aims to enhance market discipline by making regulatory disclosures more timely, accessible and comparable. It provides key financial and prudential information on all banks incorporated in New Zealand, including the four major banks owned by Australian parents. Effective disclosures are particularly important for New Zealand because its regulatory settings emphasize market discipline relatively more than many other jurisdictions, and market discipline works best if supported by comprehensive and timely disclosure. The Dashboard has a strong focus on the presentation and communication of quantitative disclosures to a broad audience, ranging from sophisticated analysts through to the typical depositor. A layered design and various interactive features not only make the Dashboard easy to use, but will also provide a rich source of information on the demand for and use of prudential disclosures going forward.

Alongside the development of the Dashboard, the Reserve Bank has conducted what we believe to be the first quantitative analysis of the strength of market discipline in New Zealand, by measuring the extent to which market participants monitor and influence the risk profile of banks. The concentrated nature of the New Zealand banking sector means we are able to explore the impact of public commentary along with the standard market monitoring of financial information. We find evidence that market participants, especially bond holders, monitor and react to risk information in the expect way (i.e. bond spreads rise when these indicators signal an increase in risk and vice versa) and it appears that media and other public commentary plays a role in drawing the market's attention to specific risk events.

Keywords: prudential disclosures, market discipline, bank risk-taking, financial stability, reg tech

JEL classification: G21, G28, G32, G38

Contents

1. Introduction

This paper discusses the role of public disclosures in New Zealand as it relates to the prudential supervision of banks and how the Reserve Bank's new online and interactive disclosure tool (the 'Dashboard') is expected to contribute to financial stability by enhancing market discipline. The paper also discusses recent Reserve Bank efforts to measure how market discipline operates in New Zealand.

Public disclosures have long played a prominent role in the Reserve Bank's approach to prudential supervision of banks. This is especially true since the mid-1990s when the Reserve Bank introduced a requirement for banks to publish quarterly disclosure statements and at the same time reduced the extent of prudential regulations that applied to banks (Mortlock, 1996). The disclosure statement regime aimed to improve information for investors, strengthen the role of bank directors and promote sound banking practices. A key focus of disclosure statements was to increase transparency about the financial condition and risk profile of banks. New Zealand was somewhat of a pioneer in raising the profile and importance of disclosures in prudential supervision in the mid-1990s. The prominence of disclosures remains a distinguishing feature of prudential settings for banks in New Zealand even though regulatory prudential requirements have been strengthened in the wake of the Global Financial Crisis (Fiennes, 2016b).

The relative importance of public disclosures in New Zealand is reflected in the Reserve Bank's three pillars approach to prudential supervision of banks. The three pillars are: market discipline; self-discipline and regulatory discipline. Market discipline reflects the influence that investors and other stakeholders can have on an institution's behaviour and risk profile. The requirement for public disclosures is intended to support the ability of investors and other stakeholders to exert market discipline. Self-discipline is aimed at supporting firms' internal risk management and governance systems. Regulatory discipline involves setting rules and requirements.

Today, public disclosures are an important element of prudential settings in many jurisdictions and disclosures have been a prominent feature of international best practice for the supervision of banks since at least the mid-2000s under the Basel II accord. International best practice is an important benchmark for policy settings in New Zealand but these are tailored to fit the domestic context. An example of this is when the Reserve Bank simplified its disclosure regime in 2011.

There has been a fair amount of academic interest in measuring the effectiveness of market discipline (Eling, 2010). Due to data limitations, much of this analytical work has focused on a narrow segment of the target audience for disclosures, principally the holders of market traded debt and equity instruments. Data limitations are somewhat more pronounced in New Zealand compared to other jurisdictions because there are few bank issued securities traded on secondary markets. That said, data sources have improved somewhat over time and the Reserve Bank has recently taken some early steps to replicate international studies and extend the state of knowledge on how market discipline operates in New Zealand (Haworth, Irrcher and Gillies, 2018). The calibration of prudential settings in New Zealand is such that market discipline is expected to be somewhat stronger in New Zealand compared to other jurisdictions. These settings include the lack of an explicit deposit guarantee scheme, recent enhancements to the bank resolution framework and the prominence of disclosures.

The relative scarcity of data on how market participants use information such as public disclosures has been noted in the literature and in a somewhat prophetic statement, (Eling, 2010) comments that:

> "[an] instrument to enhance market discipline could be a standardized information platform, perhaps to be posted on a regulator webpage."

The Reserve Bank's tradition of innovation in the area of disclosures is followed up with the recent introduction of its Dashboard, a new online and interactive public disclosure tool that aims to enhance the timeliness, accessibility and comparability of information about the financial and prudential condition of banks in New Zealand. The Dashboard uses information technology to enhance the regulatory process of disclosures and can therefore be considered Reg Tech, or regulatory technology.

The Dashboard concept was born out of a broad review of prudential regulatory settings in 2015 called the Regulatory Stocktake. The stocktake identified an opportunity to significantly enhance the effectiveness of prudential disclosures through an online and interactive central repository of disclosure data – this is the Dashboard concept. The Dashboard concept was refined through public consultation in 2016 and was launched in May 2018. Early usage statistics indicate that the new disclosure tool is reaching a significantly larger audience than its predecessor. We have also received positive feedback on the design and usability of the new disclosure tool from the analyst community, media and various government agencies.

The Dashboard sits alongside disclosure statements as a source of information about the financial condition of banks and was developed with a strong focus on meeting the needs of a diverse target audience. This includes an easy to use website, the production of educational materials and running a public awareness campaign to support the launch of the Dashboard. A by-product of building an interactive disclosure tool with wide appeal (like the Dashboard) is that it will provide an illuminating source of information on the use and demand for disclosure data over time. This type of information could help shed light on how market discipline operates in New Zealand and guide further refinements to the disclosure regime for banks.

Recently revised disclosure requirements in Basel III (i.e. the 2015 update) also makes reference to a 'Dashboard' approach. The Basel III Dashboard is a set of key prudential metrics that are reported in prescribed tabular format that aims to improve the accessibility and comparability of data across banks and across jurisdictions. The Reserve Bank's disclosure Dashboard has similar overarching objectives as the Basel IIII Dashboard but there are several important points of difference in the mechanics. For instance, the Reserve Bank's Dashboard is a centralized online repository with a strong focus on making information accessible to a general audience. By contrast there is no requirement for the Basel III Dashboard to be prominently displayed or easily accessible to users. Another point of difference is that the Reserve Bank's Dashboard also contains a lot more data items than the Basel III Dashboard. That said, the full set of Basel III disclosure requirements (i.e. in addition to those in the Basel III Dashboard) go beyond what is available on the Reserve Bank's Dashboard but this is largely because some regulatory requirements are not in place in New Zealand (e.g. there is no minimum leverage ratio requirement).

The rest of this paper is organized as follows; Section 2 discusses the Dashboard in more detail including early indications of its impact and some thoughts on possible next steps. Section 3 presents some results from recent analytical work at the Reserve Bank on measuring market discipline.

2. The Bank Financial Strength Dashboard

New Zealand context for disclosures

The Reserve Bank maintains a three pillar approach to prudential supervision of banks. The three pillars are: market discipline; self-discipline and regulatory discipline. As noted previously, market discipline reflects the influence that investors and other stakeholders can have on an institution's behaviour and risk profile. Self-discipline is aimed at supporting firms' internal risk management and governance systems. Regulatory discipline involves setting rules and requirements. The basic economic rationale for imposing prudential interventions is to mitigate the financial stability risks arising from market failures by aligning the interests of financial institutions with their customers and wider society. In comparison to other jurisdictions, New Zealand is an outlier in that the Reserve Bank does not do detailed on-site checking and instead relies relatively more on self and market discipline to achieve its financial stability objectives (Fiennes, 2016b).

Calibration of the three pillars is adjusted from time to time to reflect developments in international best practice and changes in domestic circumstances. As an example, the Reserve Bank simplified its disclosure regime in 2011. The 2011 changes were mainly focused on reducing compliance costs and improving the accessibility of disclosures for key users. The changes included dropping some components like the Key Information Summary because the costs outweighed the benefits. The remaining component, the quarterly General Disclosure Statement, was streamlined and simplified to lower costs and improve accessibility for sophisticated users. Also, the role of regulatory discipline has increased over the last 15 years, especially since the global financial crisis but market discipline remains a cornerstone of the Reserve Bank's regulatory approach.

Disclosure requirements naturally support the self and market discipline pillars through the scrutiny provided by market participants and other interested parties. The fact that no financial institution is guaranteed by the New Zealand government places additional market pressure on banks to emphasise safety. Another feature of New Zealand's disclosure regime is that bank directors are required to attest (i.e. sign statements) that, among other things, the bank has appropriate risk management controls in place, and that it has met its conditions of registration (or explained the extent of non-compliance, if any). These attestations by bank directors place additional weight on the importance of disclosure statements because there are stiff penalties on directors for attesting to false or misleading information and because the attestations are included in the disclosure statements themselves.

The Dashboard disclosure tool

The Dashboard is an online and interactive central repository of disclosure data that is updated quarterly. It is a tool designed to enhance the effectiveness of prudential disclosures, boost market discipline and thereby support the Reserve Bank's financial stability mandate. The Dashboard disclosure tool was born out of a broad review of prudential regulatory settings in 2015 called the Regulatory Stocktake, which identified stakeholder appetite for timelier, more accessible and more comparable prudential disclosures. The Dashboard concept was refined through public consultation in 2016 and was launched in May 2018 starting with one quarter of data.

The set of Dashboard data will become increasingly useful for trend analysis as the time series develops.

The Dashboard sits alongside disclosure statements as a source of meaningful information for investors and other interested users to better understand and compare a bank's business and its risks. As a result of the Dashboard, the frequency of disclosure statement publications was reduced from quarterly to six-monthly. The main rationale for retaining annual and half-yearly disclosure statements is that they remain useful for users and because they contain directors' attestation statements. There are a few important differences between the two types of disclosure that are summarised in Table 1.

The Dashboard data is sourced from private reporting that banks provide to the Reserve Bank whereas the disclosure data is prepared and published by banks themselves. The use of private reporting for the Dashboard minimises additional compliance costs for banks and contributes significantly to the comparability of data across banks because the information is based on definitions provided by the Reserve Bank. This is especially important for financial statement information, where the accounting standards can allow for discretion that adversely affects comparability of data. That said, banks have an incentive to achieve as much consistency as possible between the Dashboard and their disclosure statements so it is reasonable to expect banks to adjust their disclosure statements or provide reconciliations to minimise the impact of any remaining differences. Where disclosure statements are required to publish data related to prudential requirements, the data should be comparable between the Dashboard and disclosure statements, since the terms are defined by the Reserve Bank.

Another noteworthy difference is that the six-monthly disclosure statement information is subject to varying degrees of auditor scrutiny, whereas dashboard data is not. The lack of auditor scrutiny is one factor that allows the Dashboard to be published up to four weeks sooner than disclosure statements. Banks are able to revise their historical Dashboard data to maintain consistency across the different forms of disclosure. Finally, banks have different year-ends so financial flow data is much easier to compare on the Dashboard because the information is presented as quarterly flows rather than year-to-date as is done in disclosure statements.

Structural features of the Dashboard and Disclosure Statements		Table 1:
	Dashboard	**Disclosure Statements (from March 2018)**
Similarities		
Information content	Financial & prudential	Financial & prudential
Points of difference		
Source of information	Banks - Private prudential reporting to Reserve Bank.	Banks – self-published
Layout/ organisation	Unified	Significant variation allowed.
Director attestations	No	Yes
Audit / auditor review	No	Yes
Frequency	Quarterly	Six-monthly
Publication timing (clarify) Time lag after end of period	8 weeks	8-12 weeks
Publication location	RBNZ website	Banks' own websites
Commentary	Focused (provided by RBNZ?)	Extensive (provided by banks)
Revisions history	Yes	No
Reporting period for financial flow data	Calendar quarters	Year-to-date (from balance date)

Dashboard contents

The Dashboard data is organised in a layered format and contains over 100 individual metrics (see Table 2 for details). The first level of detail is the 'key metrics summary' page that presents seven key metrics (one for each subject area) in a visual format and is intended to provide users with quick insights. These charts are interactive and contain plain English descriptions of what the metric is about. A second level of information provides more granular data in a number of areas. A third level of information is a page for each bank that includes all their data in one place. Each bank's profile page also includes details of any recent data revisions and supplementary commentary that is provided directly by banks. Users who are interested in getting access to the underlying data will be able to download a file by clicking the 'just give me all the data' link.

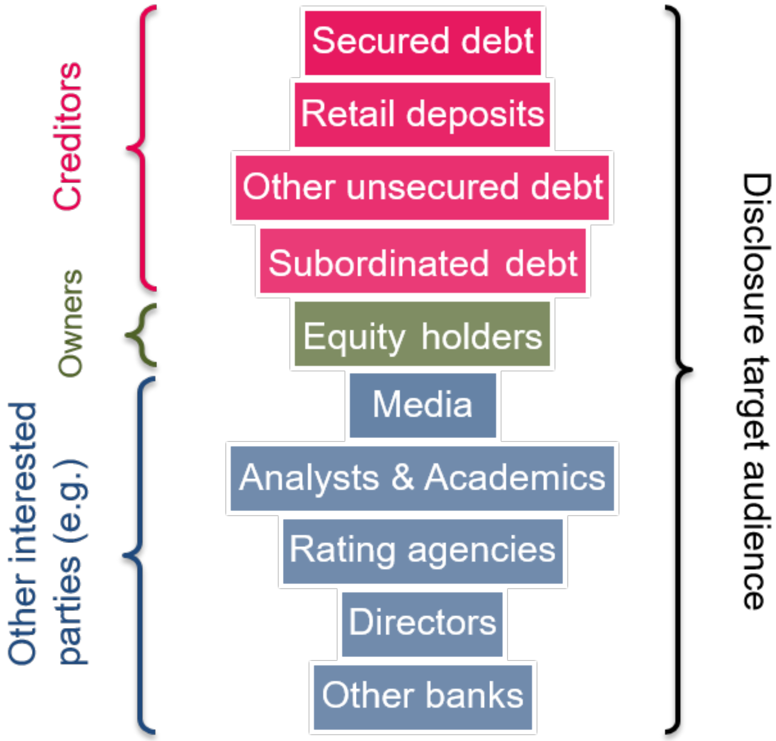
The Dashboard content can be categorised as either 'prudential' or 'financial'. Prudential information provides users with the ability to assess and monitor a bank's compliance with minimum risk-based requirements on regulatory capital and liquidity management and other important risk areas like credit concentration and asset quality. Financial information, which includes balance sheet and income statement data, allows users to gain a better understanding of a bank's business and provides context to some of the more prudential-oriented metrics. Some information, like asset quality, can be considered as both prudential and financial in nature.

Dashboard metrics			Table 2
Subject area	**Type of information**	**Key metric**	**Number of detailed metrics**
Credit rating	Prudential	Credit rating	3
Capital adequacy	Prudential	Total capital ratio & regulatory minimum	27
Asset quality	Prudential & Financial	Non-performing loans ratio	44
Profitability	Financial	Return on assets	14
Balance sheet	Financial	Total assets	14
Liquidity	Prudential	Core funding ratio	3
Credit concentration	Prudential	Sum of top 5 non-bank exposures relative to CET1 capital	4

Accommodating diverse users

The target audience for prudential disclosures is quite diverse and includes creditors, owners and other interested parties like the media, rating agencies and the banks themselves (see Figure 1). These users differ in a number of ways such as their financial literacy and preferences for different information presentation formats (i.e. raw data, written text and visualisations). It is reasonable to expect a large gap in financial literacy between some user groups, especially between the typical retail depositor and frequent users of disclosures like academics, financial journalists and professional investors. These types of differences were taken account of in the design and implementation of the Dashboard.

Figure 1: Target audience for prudential disclosures:



The starting point for the design of the Dashboard user interface was its predecessor, a little used data table (called the G1 table) prepared by the Reserve Bank and assembled from individual bank disclosure statements. A number of design iterations and some user experience testing revealed that a very graphics forward design, along with plain English explanatory materials and education videos were needed to adequately accommodate the range of expected users. The Reserve Bank reached out to other government agencies and financial journalists to help support the development of understandable explanatory materials and educational videos.

Good public disclosures are a shared responsibility

Basel III disclosure requirements note the five principles of effective disclosures: 1) clear; 2) comprehensive; 3) meaningful to users; 4) consistent over time and 5) comparable. In addition to this list, the Reserve Bank considers that market participants must have incentives to monitor banks and mechanisms to exercise discipline, such as reasonable alternative investment options provided by a competitive marketplace [Fiennes 2016]. Another equally important element of effective disclosures is that stakeholders must have confidence in the information being disclosed (Bascand (2018)). Indeed, there are quite a few ingredients needed to ensure that disclosures work as intended and many of these fall to the regulator but other stakeholders also share some responsibility in making sure disclosures work effectively. Banks are responsible for providing quality data and users are responsible for engaging with the data and engaging with the regulator about their needs.

Simply stating that good disclosures is a shared responsibility is of little value unless the appropriate incentives are also in place. For banks, disclosures are a regulatory requirement but banks also benefit from disclosures because the information they provide is useful for benchmarking risks and performance. The Dashboard has been welcomed by a number of banks because they see benefits in the data for themselves. Some stakeholders, such as journalists and rating agencies, have fairly clear professional or business incentives to monitor disclosures. Bank creditors and owners also have quite clear incentives to monitor disclosures because they care about the safety of their money.

While creditors have vested interests in disclosures, the Reserve Bank recognises that engaging with certain creditors, like retail depositors, is a challenge because they are a large group of people with varying levels of financial literacy. For this reason, the Dashboard was developed with a strong focus on presentation and communications. For example, the layered design and graphics presentation was specifically developed with a general audience in mind. Incidentally, this layered design and the various interactive features on the Dashboard will also provide a rich source of information on the demand for and use of prudential disclosures going forward. This information could shed light on how market discipline operates in New Zealand and provide useful guidance on how to further enhance prudential disclosures. Another benefit of the Dashboard for the Reserve Bank comes from the use of private reporting as the data source - the need to publish revisions places additional incentives on banks to focus on the quality of their private reporting.

Launch and reception of the Dashboard

The Dashboard was launched on 29 May and was accompanied by significant promotional efforts. The Dashboard was featured in the May Financial Stability Report (FSR) and was mentioned at the FSR press briefing on 30 May. An online and social media paid promotion campaign was run for about two weeks following launch date. There was a lot of very positive feedback on the understandability and ease of use from a number of sources including financial journalists, academics, and government agencies. Early usage statistics were quite positive but we are uncertain of the steady state interest in the Dashboard due to several one-off factors associated with the first publication including large promotional efforts and the novelty effect. Nonetheless, the Dashboard received more visits in its first 24 hours than its predecessor (the G1 table) typically receives in an entire year. The vast majority of these visits are from New Zealanders. An interesting observation is that about 15% of users to date are return visitors, which is an indication that a number of users view the Dashboard as a resource rather than just a one-off curiosity.

The Dashboard is Reg Tech (regulatory technology)

The Dashboard is the Reserve Bank's first native cloud application, which means that it lives in the cloud (Amazon Web Services to be precise). The Dashboard IT solution combines a user interface that draws data from a database that is also hosted in the cloud via an application programming interface (API). This configuration of applications and the use of cloud computing services is new for the Reserve Bank but is fairly common by modern IT standards. The benefits of this approach include enabling the Reserve Bank to focus its resources to build and run application and services without having to manage IT infrastructure (i.e. server-less architecture). External users benefit from high performance and high availability offered by the cloud. In this way, the Dashboard uses information technology to enhance a regulatory process, prudential disclosures in this case, and can therefore be considered an example of Reg Tech or regulatory technology.

The Reserve Bank is committed to further developing the Dashboard over time to reflect the evolving needs of users, changes in domestic regulatory policy settings and updates to international best practice. There is a short list of developments currently underway. The most immediate of these is the development of a public API to allow more flexible and efficient use of disclosure data. The public API would be particularly useful for users who want to make regular use of disclosure data for analytical or reporting purposes. Further down the track, users will likely benefit from being able to see trends on the Dashboard. Trend information won't be available for some time because the Dashboard was launched with one quarter of data and it will take time for trend information to accumulate. Finally, the Reserve Bank has made previous public statements about its interest in exploring disclosure dashboards for other sectors like insurance and non-bank deposit takers.

3. Better understanding how market discipline operates in New Zealand.

The Reserve Bank has an interest in better understanding how market discipline operates because it features prominently in New Zealand's regulatory settings for banks. As noted previously, the Dashboard will, over time, provide a rich source of information on the use of disclosure data. It will be interesting to observe how the demand for disclosure data correlates with macroeconomic developments and idiosyncratic risk events for specific banks. The usefulness of the Dashboard in this regard will depend on how much use the Dashboard gets but early indications on uptake and usage are encouraging.

Another stream of work by the Reserve Bank, separate from the Dashboard, has focused on replicating empirical studies that try to measure market discipline in other jurisdictions to see if the typical findings are also applicable in New Zealand, which has not been included in any studies that we are aware of. The existing literature identifies two elements of market discipline, a monitoring dimension and an influencing dimension. Monitoring involves market participants assessing disclosed information and reacting by affecting the cost of funding or by withdrawing funding. Influencing is when the actions of market participants alter the risk profile of a bank. The existing literature is almost entirely focused on the market monitoring dimension due to the lack of information on how bank management is influenced by market participants. This distinction between monitoring and influencing is conceptually useful but perhaps less relevant in practice because the cost and availability of funding can have a direct impact on the ability of a bank to take on certain risks and therefore influence their risk profile.

The market monitoring studies focus on a fairly narrow set of stakeholders, mainly creditors and owners, to measure market disciplines because there is readily available data on the price of funding from secondary markets. Recalling Figure 1, which describes a diverse range of stakeholders, the narrow focus of existing empirical work, where stakeholders with the most at stake are the subject of study, can be thought of as a 'canary in the coal mine' approach. The broad finding from this literature is that market participants, especially subordinated debt holders, are monitoring the risk profile of banks via public disclosures of financial information. The results for other stakeholders like retail depositors are less conclusive, in part because the available data on retail depositors is not ideal (e.g. no data on the movement of deposits).

Data limitations are more acute in New Zealand because there are only a few equity and debt securities listed by New Zealand banks on secondary markets. Nonetheless, the broad finding that market participants, especially bond and equity holders, monitor bank risks is confirmed in New Zealand. On the other hand, the concentrated nature of the New Zealand banking sector means we are able to explore other dimensions of market discipline that do not appear to be featured in other studies. In particular, we have developed a comprehensive, list of idiosyncratic risk events that go beyond the standard information set used to measure the magnitude of market discipline in other jurisdictions. These risk events include things like credit rating changes, changes in capital requirements and other one-off announcements like a change in senior management. An interesting question is whether market participants are paying attention to these types of developments and whether the media and other commentators play a role in drawing the attention of the market to them. The results suggest that media and other commentators can have an amplifying effect on the market's awareness of and reactions to risk events (Haworth, Irrcher and Gillies 2018).

Looking ahead, the Reserve Bank plans to continue looking for opportunities to further develop its understanding of market discipline. In addition to the rich analytics we expect to get from the Dashboard tool itself, further empirical work is a possibility but data limitations are an inherent barrier. Another opportunity lies in focusing on stakeholders that have not featured prominently in the existing studies on measuring market discipline. This includes professional investors and other interested parties like rating agencies and the broader analyst community (see Figure 1). In terms of understanding how the actions of these stakeholders might influence the risk profile of banks it could be instructive to consider a more qualitative approach through questionnaires or interviews. Insights from this type of qualitative analysis would not provide a measurement of market discipline per se but would shed light on how the broader community of disclosure stakeholders contribute to market discipline.

4. Conclusion

The Dashboard is a new online and interactive prudential disclosure tool that represents an important step forward in responding to user needs for timely, comparable and accessible information on the financial and prudential condition of New Zealand incorporated banks. The Dashboard tool also marks the Reserve Bank's entry into Reg Tech, or regulatory technology, because it is built with an up to date IT approach that leverages the advantages of cloud computing to deliver a more efficient and effective regulatory process – that of prudential disclosures.

Better prudential disclosures, from the Dashboard, provide a number of benefits. Disclosure users benefit directly from easier access to better data. The banks benefit from better benchmark information. The Reserve Bank benefits from higher quality private reporting due to the additional incentives placed on banks to invest in quality assurance of their private reporting which is the source of the Dashboard data. There are also financial system stability benefits from enhanced market discipline enabled by the Dashboard. Finally, compliance costs are minimized because the Dashboard contents is drawn from existing data that banks provide and because the Dashboard enabled a reduction in the frequency of disclosure statement publications from quarterly to semi-annually.

Since the launch of the Dashboard on 29 May, the usage statistics suggest that we have succeeded in reaching a broader audience for prudential disclosures. The Reserve Bank is committed to further building on this early success in a number of ways. First, it will continue to invest in building awareness of the Dashboard and educating users on prudential disclosures. The Reserve Bank is also committed to improving the Dashboard in response to user needs. An example of this is our plan to develop a Dashboard public API, which will make it easier for interested parties to access and use the data for further analysis or reporting purposes.

Recent Reserve Bank empirical work broadly confirms that market participants, especially bond holders, are monitoring and reacting to public disclosures by banks, which is what we would expect to see and matches the general findings from other jurisdictions. Also, the research appears to support to the idea that media and other public commentators can have an amplifying effect on the market's awareness of risk events.

References

Bascand, G (2018). The effect of daylight: disclosure and market discipline. A speech delivered to the NZ Bankers' Association, 28 February.

Basel Committee on Banking Supervision (2015). Revised Pillar 3 disclosure requirements. Bank for International Settlements Standards.

Eling, M (2010). What do we know about market discipline in insurance? University of Ulm, Institution of Insurance Science.

Fiennes, T (2016a). Regulation and the importance of market discipline. A speech delivered to the NZ Bankers Association and Bank of New Zealand, 4 February.

Fiennes, T (2016b). New Zealand's evolving approach to prudential supervision. A speech delivered to the NZ Bankers' Association, 01 September.

Haworth, C., Irrcher, T., and Gillies, L (2018). Measuring market discipline in New Zealand. Reserve Bank of New Zealand Analytical Notes 2018/07.

Mortlock, G (1996). New disclosure regime for registered banks. Reserve Bank Bulletin, Vol 59 No. 1.

O'Connor-Close, C., and Austin, N (2016). The importance of market discipline in the Reserve Bank's prudential regime. Reserve Bank Bulletin, Vol 79 No. 2.

Irving Fisher Committee on
Central Bank Statistics

BANK FOR INTERNATIONAL SETTLEMENTS

Ninth IFC Conference on "Are post-crisis statistical initiatives completed?"

Basel, 30-31 August 2018

Enriching disclosures:
The Bank Financial Strength Dashboard [1]

Tobias Irrcher,

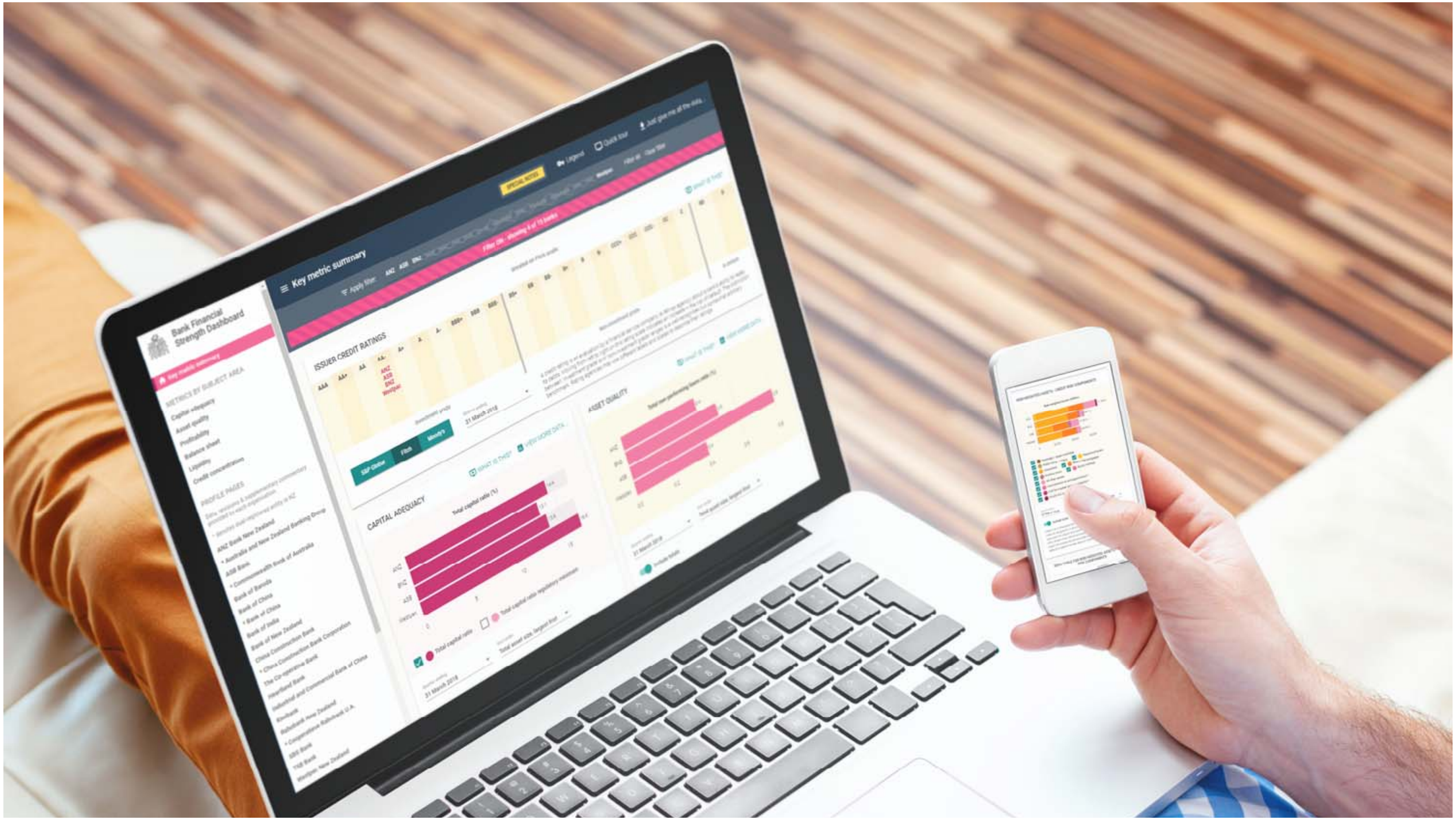
Reserve Bank of New Zealand

[1] This presentation was prepared for the meeting. The views expressed are those of the authors and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.

Bank Financial Strength Dashboard

Tobias Irrcher

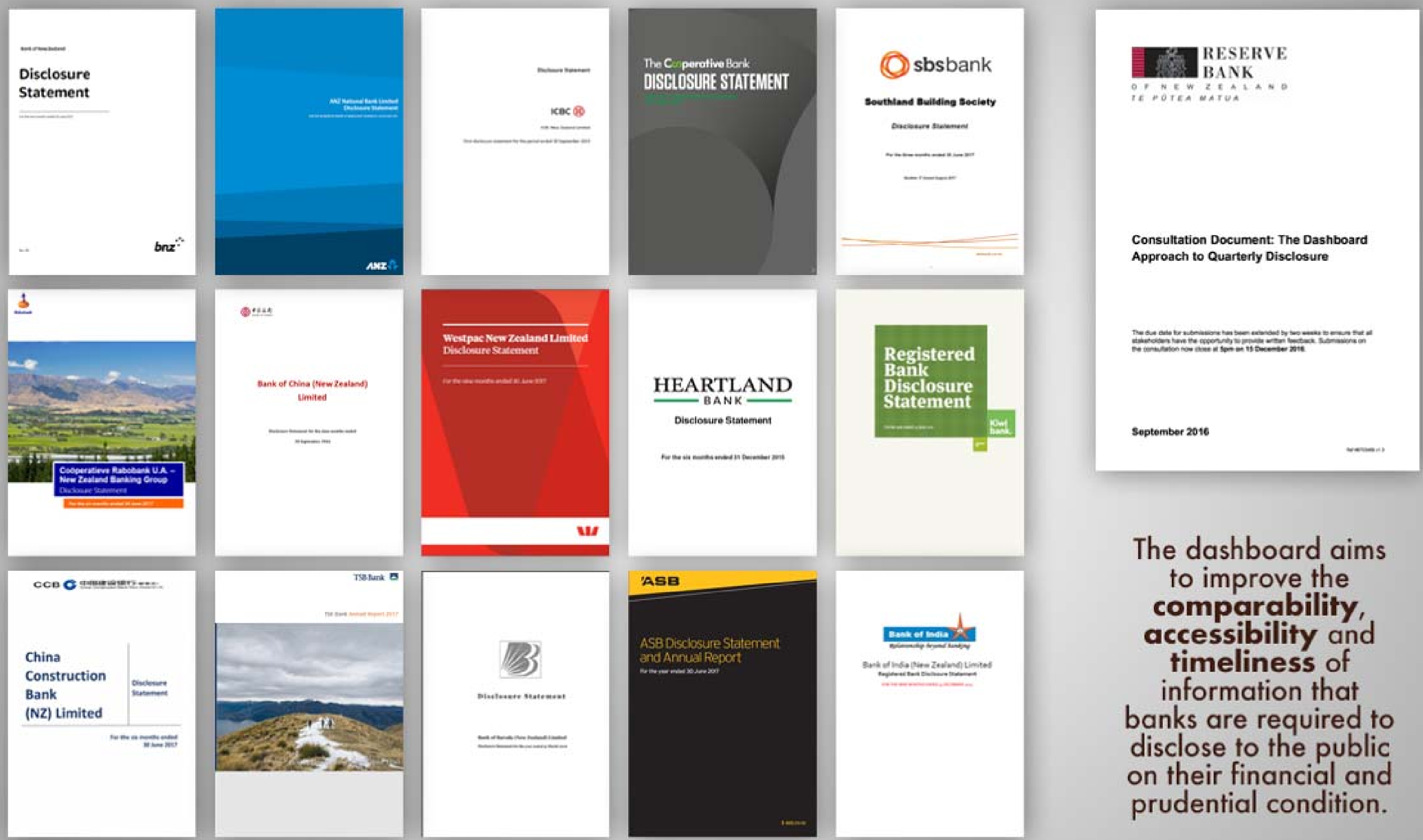
RESERVE BANK
OF NEW ZEALAND
TE PŪTEA MATUA


Bank Financial Strength Dashboard
Key metric summary
ISSUER CREDIT RATINGS
CAPITAL ADEQUACY
ASSET QUALITY

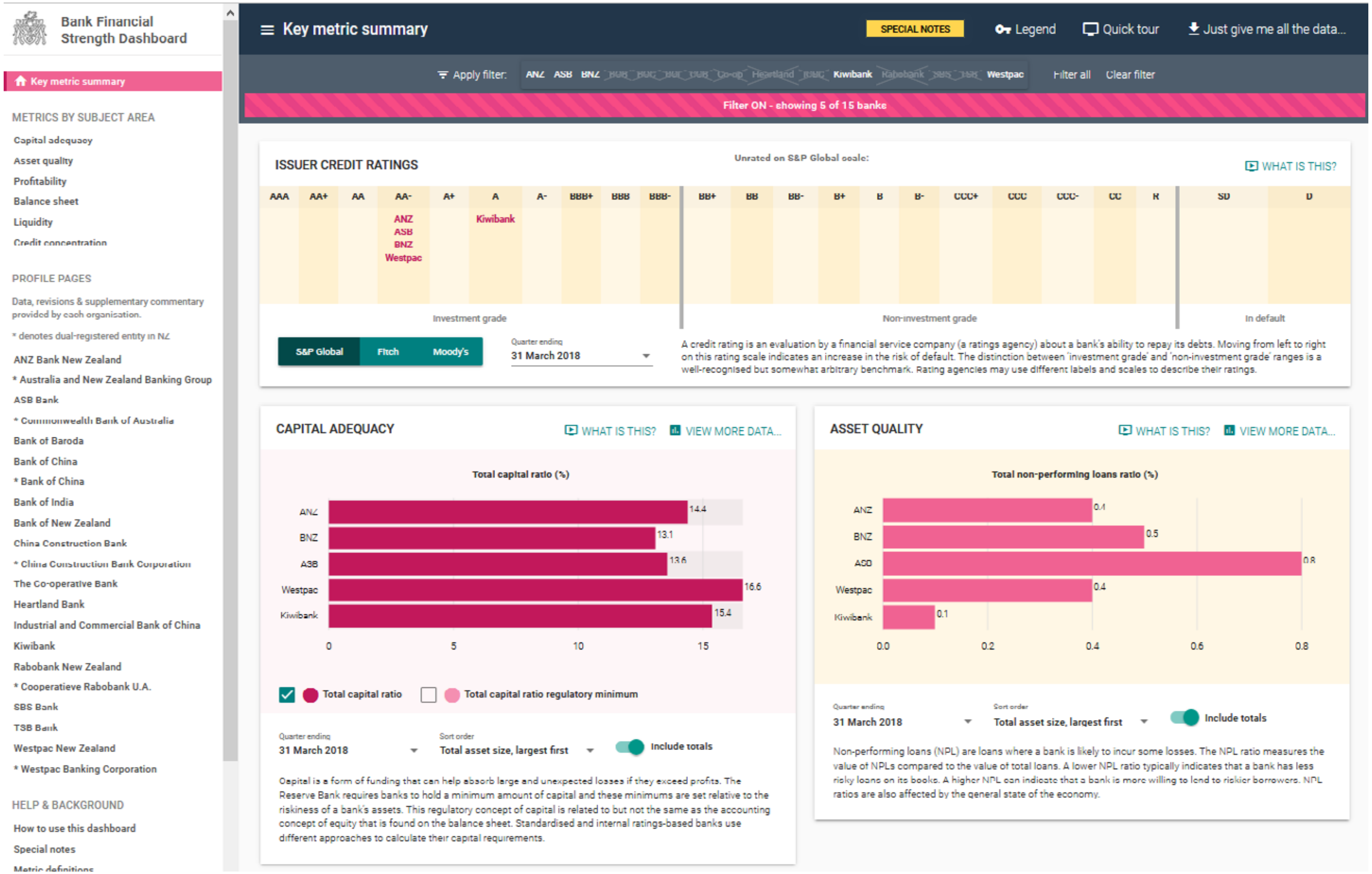

Self-
discipline
Market
discipline
Regulatory
discipline

Background on prudential disclosures

- Public disclosure is a cornerstone of prudential supervision
- NZ disclosure regime for banks introduced in 1996 (pioneering)
- NZ disclosure regime reviewed and simplified in 2011 with a focus on sophisticated audience
- Basel updated disclosure standards in 2006, 2012, 2015 and 2017
    - Guiding principles: Clear, comprehensive, meaningful, consistent and comparable
    - Post GFC updates - <u>more prescriptive</u> & <u>more detailed</u>



The dashboard aims to improve the **comparability**, **accessibility** and **timeliness** of information that banks are required to disclose to the public on their financial and prudential condition.



Bank Financial Strength Dashboard
Key metric summary
METRICS BY SUBJECT AREA
Capital adequacy
Asset quality
Profitability
Balance sheet
Liquidity
Credit concentration
PROFILE PAGES
Data, revisions & supplementary commentary provided by each organisation.
* denotes dual-registered entity in NZ
ANZ Bank New Zealand
* Australia and New Zealand Banking Group
ASB Bank
* Commonwealth Bank of Australia
Bank of Baroda
Bank of China
* Bank of China
Bank of India
Bank of New Zealand
China Construction Bank
* China Construction Bank Corporation
The Co-operative Bank
Heartland Bank
Industrial and Commercial Bank of China
Kiwibank
Rabobank New Zealand
* Cooperatieve Rabobank U.A.
SBS Bank
TSB Bank
Westpac New Zealand
* Westpac Banking Corporation
HELP & BACKGROUND
How to use this dashboard
Special notes
Key metric summary
SPECIAL NOTES
Legend
Quick tour
Just give me all the data...
Apply filter:
ANZ ASB BNZ Kiwibank Westpac
Filter all
Clear filter
Filter ON - showing 5 of 15 banks
ISSUER CREDIT RATINGS
Unrated on S&P Global scale:
WHAT IS THIS?
AAA AA+ AA AA- A+ A A- BBB+ BBB BBB- BB+ BB BB- B+ B B- CCC+ CCC CCC- CC R SD D
ANZ
ASB
BNZ
Westpac
Kiwibank
Investment grade
Non-investment grade
In default
S&P Global
Fitch
Moody's
Quarter ending
31 March 2018
A credit rating is an evaluation by a financial service company (a ratings agency) about a bank's ability to repay its debts. Moving from left to right on this rating scale indicates an increase in the risk of default. The distinction between 'investment grade' and 'non-investment grade' ranges is a well-recognised but somewhat arbitrary benchmark. Rating agencies may use different labels and scales to describe their ratings.
CAPITAL ADEQUACY
WHAT IS THIS?
VIEW MORE DATA...
Total capital ratio (%)
ANZ 14.4
BNZ 13.1
ASB 13.6
Westpac 16.6
Kiwibank 15.4
0 5 10 15
Total capital ratio
Total capital ratio regulatory minimum
Quarter ending
31 March 2018
Sort order
Total asset size, largest first
Include totals
Capital is a form of funding that can help absorb large and unexpected losses if they exceed profits. The Reserve Bank requires banks to hold a minimum amount of capital and these minimums are set relative to the riskiness of a bank's assets. This regulatory concept of capital is related to but not the same as the accounting concept of equity that is found on the balance sheet. Standardised and internal ratings-based banks use different approaches to calculate their capital requirements.
ASSET QUALITY
WHAT IS THIS?
VIEW MORE DATA...
Total non-performing loans ratio (%)
ANZ 0.4
BNZ 0.5
ASB 0.8
Westpac 0.4
Kiwibank 0.1
0.0 0.2 0.4 0.6 0.8
Quarter ending
31 March 2018
Sort order
Total asset size, largest first
Include totals
Non-performing loans (NPL) are loans where a bank is likely to incur some losses. The NPL ratio measures the value of NPLs compared to the value of total loans. A lower NPL ratio typically indicates that a bank has less risky loans on its books. A higher NPL can indicate that a bank is more willing to lend to riskier borrowers. NPL ratios are also affected by the general state of the economy.

Expected benefits

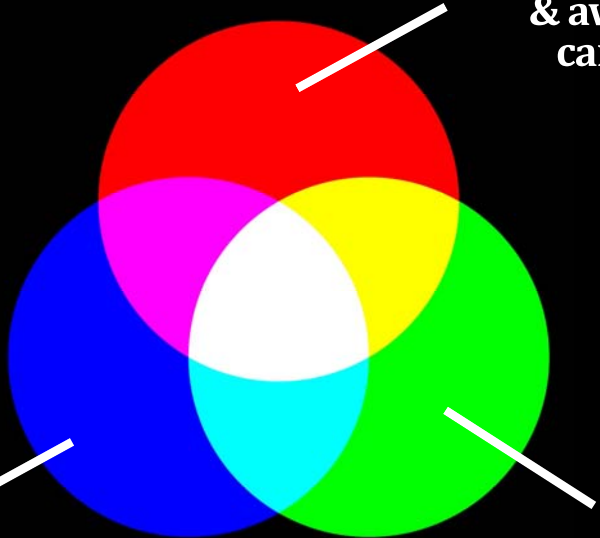
Enhanced market discipline

Better public benchmark data

Learning and research

Better quality data

Communications Strategy



Disclosure target audience

- Creditors
  - Secured debt
  - Retail deposits
  - Other unsecured debt
  - Subordinated debt
- Owners
  - Equity holders
- Other interested parties (e.g.)
  - Media
  - Analysts / Academics
  - Rating agencies
  - Directors
  - Other banks

What is next

- Continue to promote and build awareness of the Dashboard
- Possibly other disclosure dashboards (e.g. insurance and NBDTs)
- Develop new features to meet user needs:
  - Public API's for flexible and efficient use of data
  - Print / share image feature
- Further analytical work on market discipline
  - Quantitative and qualitative
  - Dashboard monitoring