Basel Committee
on Banking Supervision

Public Disclosures by Banks: Results of the 2001 Disclosure Survey

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BANK FOR INTERNATIONAL SETTLEMENTS

Transparency Group

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Executive Summary

This publication of the results of the 2001 disclosure survey is part of the sustained effort by the Basel Committee on Banking Supervision (the Committee) to promote transparency and effective market discipline in the banking and capital markets.

The report aims to provide an overview of the disclosure practices of a sample of internationally active banks and to encourage these to further enhance transparency, especially in light of the coming implementation of the New Basel Capital Accord. Together with a similar survey conducted during the previous two years, the report also intends to highlight trends in the disclosure practices by banks.

The survey focuses on the annual reports of 54 banks representing a sample of internationally active banks headquartered in the Committee's member countries. It includes 104 questions addressing quantitative and qualitative disclosures in a number of categories: capital structure, capital adequacy, market risk internal modeling, internal and external ratings, credit risk modeling, securitisation activities, asset quality, credit derivatives and other credit enhancements, other derivatives, geographic and business lines diversification, accounting and presentation policies, and other risks.

The survey reveals that many banks have continued to expand the extent of their disclosures. Overall, in 2001, banks disclosed 63% of the items included in the survey, up from 59% in 2000 and 57% in 1999.

The main findings are the following:

- The most prevalent disclosures in 2001 were those on accounting and presentation policies, other risks and capital structure while those on credit risk modeling and credit derivatives and other credit enhancements were the less widespread. Disclosure of information on internal risk models was also much more common for market risk than for credit risk;

- Disclosures of information on securitisation activities, internal and external ratings and credit derivatives and credit enhancements considerably expanded over the period from 1999 to 2001 while remaining not very frequent. The most noteworthy improvement is the increase in the disclosure of information on other risks (operational and legal risks, liquidity risk and interest rate risk in the banking book) with the result that this became one of the most commonly provided disclosures in 2001;

- Regarding individual disclosure items, the most common were on the structure of capital (e.g. the amount of common shareholders' equity), accounting and presentation policies (e.g. the basis of measurement for assets at initial recognition and subsequent periods), market risk internal modeling (e.g. the type of internal modeling used) or capital adequacy (e.g. the risk-based capital ratio calculated in accordance with the methodology prescribed in the Basel Capital Accord).

In view of these results, the Committee encourages banks to further enhance the transparency of their use of credit risk mitigation techniques (including credit derivatives), asset securitisation and internal ratings, given that disclosure in these areas will be qualifying criteria for the recognition or use of these techniques under the New Basel Capital Accord.

Furthermore the few banks that do not disclose (compared to their peers) the most commonly provided disclosures are urged to improve these disclosures, which are already recommended under the existing disclosure guidance papers issued by the Committee and for the most part will be required under the New Basel Capital Accord.

Public Disclosures by Banks

Results of the 2001 Disclosure Survey

I. Introduction

The Basel Committee on Banking Supervision (the Committee)[1] has long encouraged banks to provide market participants with sufficient information to enable them to assess banks' risk management practices and financial strength. In this context, the Committee has over the past few years conducted surveys of public disclosure practices of internationally active banks headquartered in the Committee's member countries and issued reports on the key findings.[2]

Like the previous surveys, the 2001 survey is in line with the sustained effort of the Committee to promote transparency and effective market discipline. This survey follows the format adopted for the 1999 survey and includes items that were derived from the disclosure guidance papers issued by the Committee.

As part of its current work on the revision of the 1988 Basel Capital Accord, the Committee attaches great importance to the concepts of transparency and market discipline. In the draft New Basel Capital Accord[3], the Committee emphasizes that market discipline is an essential complement to the operation of minimum capital requirements and to the supervisory review process and has the potential to promote safety and soundness in banks and financial systems. The Third Pillar of the New Basel Capital Accord consequently provides for a set of disclosure requirements aiming to facilitate the exercise of market discipline and addressing notably the banks' capital (i.e. capital structure and capital adequacy) and risk exposures.

The Committee's latest publicly available document regarding the Third Pillar of the New Basel Capital Accord is the third consultative paper on the New Basel Capital Accord that was released for a three-month consultation period on 29 April 2003.

II. Objective

This report intends to provide an overview of the disclosure practices of a sample of internationally active banks and to encourage these to further enhance transparency, especially in light of the coming implementation of the New Basel Capital Accord. It therefore identifies areas in which disclosures are currently prevalent and those where enhanced disclosures would be desirable. As part of this exercise the report attempts to consider the

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1 The Basel Committee on Banking Supervision consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States.

2 The earlier reports were published in May 2002 and April 2001.

3 The New Basel Capital Accord will provide for a new capital adequacy framework based around three pillars: minimum capital requirements (the First Pillar), a supervisory review process (the Second Pillar) and market discipline (the Third Pillar). The Committee's intention is to complete the New Basel Capital Accord by the fourth quarter of 2003, with implementation to take effect in the Committee's member countries by year-end 2006.

banks' current disclosure practices in the context of the proposed disclosure requirements set forth in the Third Pillar of the New Basel Capital Accord[4].

Together with a similar survey conducted the previous two years, this report moreover intends to highlight trends in disclosure practices by banks. The trends identified must however be interpreted with caution. Section III discusses the comparability of results in light of the changes in the survey population.

III. Scope and Methodology Remarks

The 2001 survey focused on the annual reports of 54 institutions representing a sample of internationally active banks headquartered in the Committee's member countries. The banks reviewed are listed in the Appendix, which also shows the amount of the banks' total assets in the national currency and in US dollars at the closing date of the financial statements.

As compared with the 2000 survey, the survey population was notably subject to the following modifications: one bank[5] was added; two banks[6] were removed; seven banks[7] were affected by mergers or acquisitions; and two banks[8] were replaced by the respective holding company.

The changes in the number and/or composition of the banks surveyed tend to reduce the comparability of the results across years. Nevertheless, consistent with the approach used in the 2000 report, this report includes survey information of all banks surveyed. One alternative would have been to work on the basis of a "constant sample of banks" aiming to capture only banks present in the three consecutive surveys[9]. This approach was not adopted given its drawbacks, i.e.: it would have resulted *de facto* in a reduction in information and it would not have allowed to take account of the impact of restructuring transactions such as mergers or acquisitions. The consequence of the approach used is however that comparisons across years must in some respects be interpreted with caution.

The 2001 survey, which was completed by each respective supervisory authority, followed the format as revised on the occasion of the 1999 survey. It contained 104 questions addressing quantitative and qualitative disclosures and broken down into the following categories.[10]

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4 It is worth noting that a more complete Pillar 3 comparison exercise will only be fully meaningful once the New Basel Capital Accord is entirely finalised and the survey questionnaire is revised accordingly.

5 Japan: The Sumitomo Trust and Banking Co.

6 France: Crédit Commercial de France (as it combined with HSBC) and the United States: Fleet Boston.

7 Germany: DG-Bank merged with GZ-Bank and formed DZ-Bank and Dresdner Bank combined with Allianz to become part of the Allianz Group; Japan: Bank of Tokyo-Mitsubishi combined with Mitsubishi Trust and Banking and Nippon Trust Bank forming Mitsubishi Tokyo Financial Group. Sanwa Bank combined with Tokai Bank and Toyo Trust and Banking forming UFJ Holdings. Sumitomo Bank merged with Sakura Bank and formed Sumitomo Mitsui Banking Corporation; the United Kingdom: Halifax merged with the Bank of Scotland and became HBOS; the United States: First Union merged with Wachovia and took Wachovia's name.

8 Belgium: Dexia Banque was replaced by Dexia S.A. Japan: Fuji Bank was replaced by Mizuho Holdings.

9 Or in the 2000 and 2001 surveys as a minimum.

10 While being useful, the breakdown of survey items into separate categories has some limitations. First it is in part a subjective exercise as some items might be placed under two different categories. Secondly it results in categories containing an unequal number of items.

- capital structure
- capital adequacy
- market risk internal modeling
- internal and external ratings
- credit risk modeling
- securitisation activities
- asset quality
- credit derivatives and other credit enhancements
- derivatives (other than credit derivatives)
- geographic and business line diversification
- accounting and presentation policies
- other risks (i.e. interest rate risk in the banking book, liquidity risk and operational risk)

The questionnaire form provided three possible answers: "yes", "no" or "not applicable". The "not applicable" category aimed to capture situations where there was no information to disclose either because the information was not relevant within the context of the bank's activities or because the information was relevant but not material[11]. It is worth noting however that the determination of whether a particular disclosure is "not applicable" is in part subjective since the borderline between non-disclosure of material information and no information to disclose may not always be readily apparent.

The disclosure rate referred to in this report is defined by the amount of "yes" answers as a percentage of the sum of the "yes" and "no" answers. Consequently it allowed dealing with cases where a low frequency of disclosure in a particular area was the result of the fact that banks were not (or not materially) involved in that activity as opposed to cases where a low frequency of disclosure was the result of a poor transparency policy from banks regarding that specific activity. Conversely, though, a small number of banks might by themselves determine the level of (as well as any changes in) a particular disclosure rate due to the fact that most banks were not (or not materially) involved in the relevant activity.

IV. Survey Results

(1) Overall Survey Results

Many banks have continued to expand and improve their disclosure practices. So, while banks disclosed 57% of the items included in the survey in 1999 (and 59% in 2000), they disclosed 63% of them in 2001.

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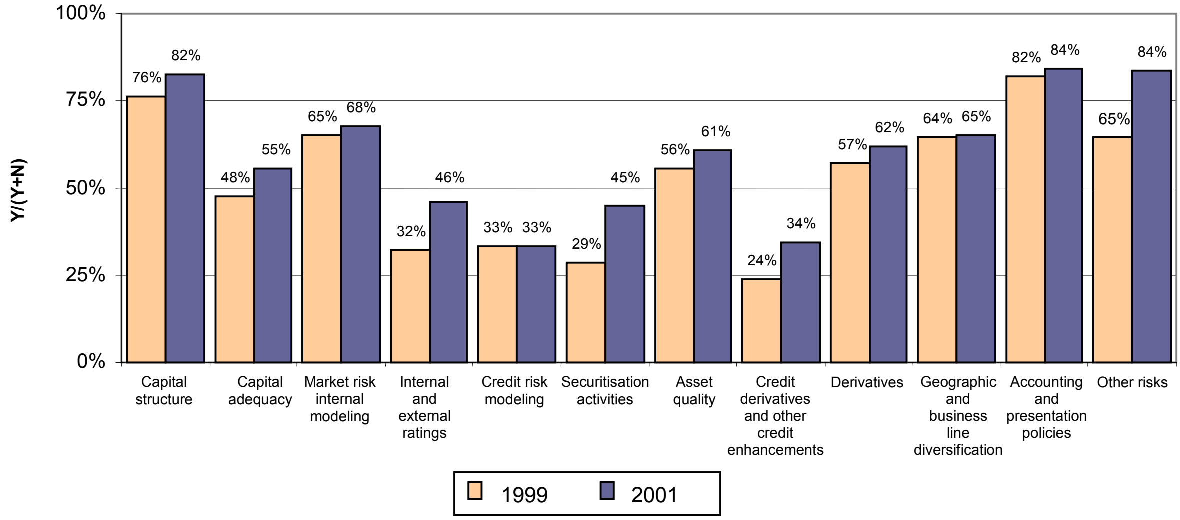
[11] Information is material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information. The basis of the materiality concept is that disclosures should be adapted to the size and nature of the banks' activities.

The chart below shows the disclosure rate for each of the categories covered by the survey as listed in Section III.[12]

Disclosure Rate by Survey Item Category



The graph reveals that overall, in 2001, disclosures of information on accounting and presentation policies (84%), other risks (84%) and capital structure (82%) were the most frequent while those on credit risk modeling (33%) and credit derivatives and other credit enhancements (34%) were much less widespread. It also shows that disclosure of information on internal risk models was much more common for market risk (68%) than for credit risk.

Furthermore the graph illustrates that disclosures of information on securitisation activities (up from 29% to 45%), internal and external ratings (up from 32% to 46%) and credit derivatives and credit enhancements (up from 24% to 34%) considerably expanded over the period from 1999 to 2001 while still remaining not very frequent. The graph also indicates that the most noteworthy improvement is the increase of the disclosure of information on other risks (operational and legal risks, liquidity risk and interest rate risk in the banking book) with the result that this became one of the most commonly provided disclosures in 2001.

Given the particular importance of these disclosures as qualifying criteria under the New Basel Capital Accord,[13] banks should further enhance the transparency of their use of credit risk mitigation techniques (including credit derivatives), asset securitisation and internal ratings.

The chart below illustrates the extent to which each survey item was provided by banks. The chart indicates that there is a regular progression from less common disclosures to disclosures that were provided consistently by all banks.

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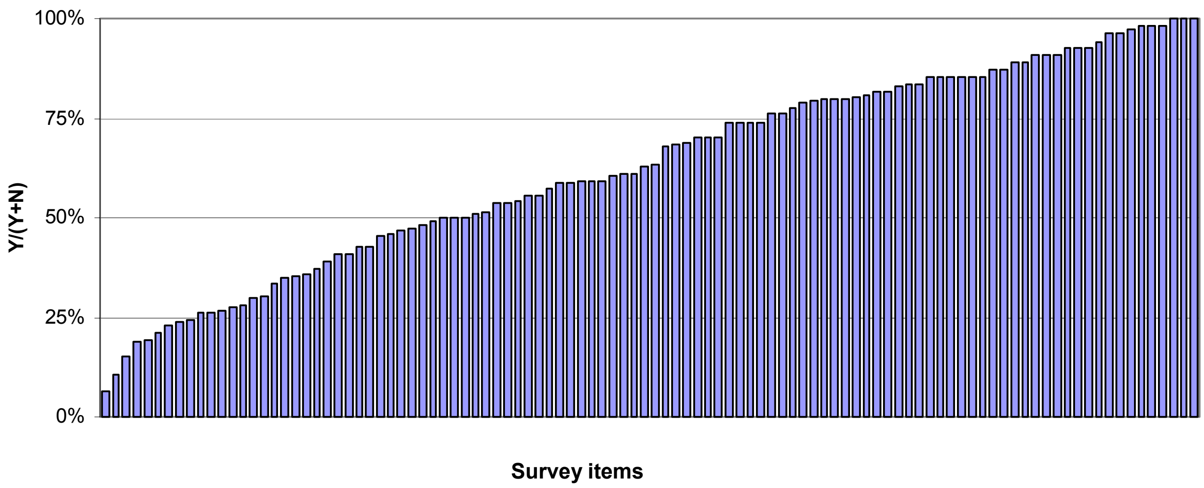
[12] Data are weighted by the number of "yes" and "no" answers to each question.

[13] The Third Pillar of the New Basel Capital Accord will indeed provide for a set of disclosure requirements which in some cases will be qualifying criteria for the use of particular methodologies (e.g. internal ratings based approach to credit risk) or the recognition of particular instruments or transactions (e.g. credit risk mitigation techniques or asset securitisation) for regulatory capital purposes.

Disclosure Rate by Survey Item



The most commonly provided disclosures included the following items:

- amount of Tier 1 Capital (100%)
- total capital base (100%)
- basis of measurement for assets at initial recognition and subsequent periods (100%)
- type of internal modeling used (e.g. historical simulation, VaR) (98%)
- income and expense information grouped by nature or function (98%)
- amount of common shareholders' equity (98%)
- amount of perpetual non-cumulative preference shares (97%)
- confidence level used for internal modeling[14] (96%)
- risk-based capital ratio calculated in accordance with the methodology prescribed in the Basel Capital Accord (96%)
- amount of minority interests in the equity of subsidiaries (94%)

The few banks that do not provide (compared to their peers) the disclosures indicated above nor other commonly provided disclosures as outlined in this Section are encouraged to improve these disclosures, which are already recommended under the existing disclosure guidance papers issued by the Committee and for the most part will be required under the New Basel Capital Accord.

Useful disclosures that were less commonly provided by banks included the following items:

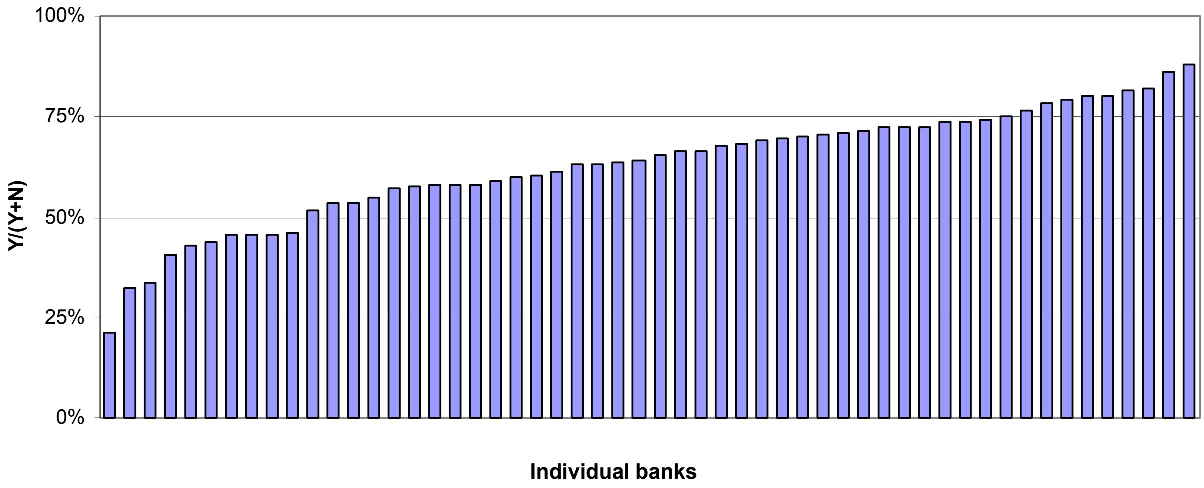
- information about the credit risk measurement models used, including model parameters (e.g. holding period, observation period, confidence interval), performance over time, and model validation and stress test (6%)
- amount and nature of derivatives credit risk loss reserves (11%)

[14] In the context of market risk.

- effect of credit enhancements on the counterparty exposure from OTC contracts (15%)
- information relevant to understanding how the Basel Accord capital requirements for market risk under the standardized approach have been calculated, including disclosure of capital charges for component risk elements (19%)
- replacement cost of non-performing derivatives (19%)

The chart below indicates the extent to which individual banks provided the information included in the survey. The chart shows that most banks disclosed more than 50% of the information included in the survey questionnaire.

Disclosure Rate by Individual Bank



(2) Detailed Survey Results

The tables below show the disclosure rate and the underlying number of affirmative answers[15] for each item included in the survey. The survey items are presented within each table in descending order following the 1999 disclosure rate[16], separately for qualitative and quantitative disclosures where appropriate.

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[15] The number of affirmative answers provides useful information as it helps to put the disclosure rate and its changes into perspective.

[16] It is worth noting that some of the 1999 and 2000 disclosure rates differ from the ones published in the 2000 report. This is due in certain instances to some interpretation issues that have been clarified.

(a) Capital Structure

Survey item	Disclosure rate:			Number of affirmative answers:		
	1999	2000	2001	1999	2000	2001
Total number of banks				*[57]*	*[55]*	*[54]*
Qualitative disclosures:						
Disclosed the issuance of capital through special purpose vehicles (SPVs)	85%	89%	79%	23	32	34
Disclosed key "trigger" events	38%	33%	51%	13	11	20
Quantitative disclosures:						
Disclosed the amount of common shareholders' equity	98%	100%	98%	56	54	52
Disclosed the total capital base	96%	98%	100%	55	54	54
Disclosed the amount of Tier one capital	95%	100%	100%	54	55	54
Disclosed the amount of perpetual non-cumulative preference shares	94%	97%	97%	30	32	33
Disclosed the amount of minority interests in the equity of subsidiaries	93%	94%	94%	50	49	48
Disclosed the amount of innovative or complex capital instruments, including the percentage of total Tier one capital	74%	83%	89%	23	35	40
Disclosed the amount of Tier three capital, where applicable	67%	67%	80%	20	18	20
Disclosed deductions from Tier one and Tier two capital	65%	67%	77%	37	36	41
Disclosed the amount of Tier two capital (split between Upper and Lower level Tier two) with separate disclosure of material components	47%	56%	60%	27	30	32
Both qualitative and quantitative disclosures:						
Disclosed the maturity, including call features of complex or hybrid capital instruments	73%	78%	79%	29	36	38
Disclosed provisions of capital instruments permitting interest of dividend deferrals or any other cumulative characteristics, where applicable	68%	68%	68%	21	17	21
Disclosed step-up provisions for capital instruments (where applicable)	43%	67%	59%	10	16	17
All disclosures:	76%	81%	82%	448	475	504

The vast majority of banks continued to provide basic quantitative information regarding the amount and components of their own funds.

All banks disclosed the amount of their Tier one capital and total capital base. Virtually all banks also provided the amount of their common shareholders' equity (98%), preference shares (97%) and minority interests in the equity of subsidiaries (94%). In addition and in parallel with their growing use of such instruments[17], banks continued to expand the disclosure about the amount of their innovative or complex capital instruments (including

[17] The percentage of banks using innovative or complex capital instruments rose to 83% in 2001, up from 54% in 1999.

their proportion of Tier one capital). Indeed 89% of banks reported such information in 2001 as against 74% in 1999.

Disclosure of information on Tier two and Tier three capital was somewhat less frequent: 80% of banks disclosed the amount of their Tier three capital and 60% disclosed the amount of their Tier two capital (including a breakdown into its main components). Although the disclosure of information on Tier two capital (and components) as well as on deductions from Tier one and Tier two capital has not been very widespread yet, it has improved significantly from 1999 to 2001.

In comparison with quantitative disclosures, information on the terms and conditions of the main features of capital instruments was, in general, less commonly provided by banks though the disclosure of such information seems to be improving. Altogether 79% of banks disclosed the maturity (including call features) of their complex or hybrid capital instruments (as against 73% in 1999) and 51% provided a discussion of the key "trigger" events which might affect the nature or cost of their capital instruments (as against 38% in 1999).

Even if they are already meeting some of the proposed capital disclosure requirements provided for in the Third Pillar of the New Basel Capital Accord, banks will still have to enhance the disclosure of such information in order to be in full compliance with those future requirements.

This is particularly the case for some features of innovative capital instruments, such as the use of Special Purpose Vehicles (SPVs), where the disclosure rate dropped in 2001, compared with 2000, while the number of affirmative answers increased. The explanation of these conflicting movements is that an increasing number of banks issued capital via SPVs and did not disclose the relevant information.

The decline in the disclosure rate relating to step-up provisions in 2001, compared with 2000, is mainly due to changes in the survey population.

(b) Capital Adequacy

Survey item	Disclosure rate:			Number of affirmative answers:		
	1999	2000	2001	1999	2000	2001
Total number of banks				*[57]*	*[55]*	*[54]*
Qualitative disclosures:						
Disclosed whether the bank has an internal process for assessing capital adequacy and for setting appropriate levels of capital	49%	45%	63%	28	25	34
Quantitative disclosures:						
Disclosed the risk-based capital ratio calculated in accordance with the methodology prescribed in the Basel Capital Accord	96%	95%	96%	55	52	52
Disclosed the risk exposure of each off-balance sheet instrument (specifying nominal amount, credit equivalent amount and risk weighted amount for each risk bucket)	39%	44%	50%	22	24	27
Disclosed the risk exposure of balance sheet assets (specifying book value and risk weighted amount for each bucket)	21%	27%	33%	12	15	18
Both qualitative and quantitative disclosures:						
Provided analysis of changes in the bank's capital structure and the impact on key ratios and overall capital position	65%	69%	74%	37	38	40
Provided all information relevant to understanding how Basel Capital Accord requirements for market risk under the internal models approach have been calculated	30%	38%	43%	13	15	18
Disclosed all information relevant to understanding how Basel Capital Accord requirements for market risk under the standardised approach have been calculated, including disclosure of capital charges for component risk elements, as appropriate	24%	19%	19%	10	8	8
All disclosures:	48%	50%	55%	177	177	197

Banks continued to improve the disclosure of information on their capital adequacy.

As in the previous two years, almost all banks (96%) disclosed their risk-based capital ratio calculated in accordance with the methodology set out in the current Basel Capital Accord. On the contrary, and although their number has generally increased since 1999, much less banks disclosed measures of their credit risk and market risk exposures equally calculated in accordance with the methodology prescribed in the current Basel Capital Accord. For instance, only 19% of banks provided information regarding their capital requirements for market risk under the standardised approach and 43% under the internal models approach.

A majority of banks (74%) provided information on the changes in their capital structure and on the impact of these changes on their key ratios and overall capital position.

In comparison with 1999, more banks (63%) disclosed whether they possessed an internal process for assessing their capital adequacy and for setting the appropriate levels of capital. In this respect, it is worth noting that such an internal process will be required under the Second Pillar of the New Basel Capital Accord.

Banks will have to further improve the disclosure of information on their capital adequacy as the New Basel Capital Accord will require similar disclosures.

(c) Market Risk Internal Modeling

Survey item	Disclosure rate:			Number of affirmative answers:		
	1999	2000	2001	1999	2000	2001
Total number of banks				*[57]*	*[55]*	*[54]*
Qualitative disclosures:						
Disclosed the type of internal modeling used (e.g. historical simulation, VaR)	96%	96%	98%	55	51	53
Described the portfolios covered by the bank's internal model	79%	81%	85%	45	43	46
Provided an overview of policies and procedures for stress testing internal models	65%	69%	74%	37	37	40
Provided an overview of policies and procedures for back-testing internal models	56%	57%	50%	32	30	27
Quantitative disclosures:						
Provided summary quantitative information on market risk exposure based on internal methods used for measurement, with information on performance in managing those risks	86%	87%	89%	49	47	48
For those disclosing VaR data, provided high/low VaR	84%	87%	91%	43	48	49
For those disclosing VaR data, provided average VaR	82%	89%	93%	42	49	50
Provided summary VaR results on a weekly or monthly basis	53%	51%	56%	29	28	30
Discussed the number of times (days) actual portfolio loss exceeded VaR	46%	47%	54%	25	26	29
For non-traded portfolios, provided summary VaR or impact on earnings	45%	34%	36%	25	18	19
Provided daily information on profits and losses on trading activities, combined with VaR numbers (i.e. graphics)	37%	47%	54%	21	26	29
Discussed the results of scenario analysis or impact of shocks for traded portfolios	34%	29%	26%	19	16	14
For non-traded portfolios, provided summary results of scenario analysis of the impact of shocks	21%	25%	24%	12	14	13
Both qualitative and quantitative disclosures:						
Disclosed the confidence level used for internal modeling	98%	96%	96%	56	51	52
Disclosed the holding period used for internal modeling	89%	89%	91%	51	47	49
Disclosed the observation period used for internal modeling	67%	74%	70%	38	39	38
All disclosures:	65%	66%	68%	579	570	586

As in the previous two years, the vast majority of banks disclosed the basic features of their market risk internal models. For example, 98% of banks disclosed the type of model used, 96% disclosed the confidence level and 85% disclosed the portfolios covered by the model. Fewer banks provided an overview of the policies and procedures for stress testing internal models (74%) and for backtesting internal models (50%). Compared to 1999, these two disclosures further showed a diverging movement as the former improved while the latter dropped.

Although the level of disclosure of quantitative information has improved, it remains less widely disclosed than qualitative information.

Though a large majority of banks disclosed average (93%) and high/low VaR (91%), only 54% of banks disclosed the number of times actual losses exceeded VaR or daily profits and losses on trading activities. Moreover only about one quarter of banks provided information on the results of scenario analysis or impact of shocks for their non-traded portfolio (24%) and for their traded portfolio (26%). The frequency of this latter disclosure has further dropped from 1999.

(d) Internal and External Ratings

Survey item	Disclosure rate:			Number of affirmative answers:		
	1999	2000	2001	1999	2000	2001
Total number of banks				*[57]*	*[55]*	*[54]*
Qualitative disclosures:						
Discussed the process and methods used to assess credit exposures on both an individual counterparty and portfolio basis, including a description of the internal classification system (e.g., what each rating means in terms of default probability, degrees of risk being distinguished, performance over time and ex-post evaluation)	58%	52%	61%	33	28	33
Provided summary information about the internal ratings process	42%	60%	74%	24	33	40
Described how internal ratings are used in the bank's internal capital allocation process	21%	14%	23%	12	7	12
Both qualitative and quantitative disclosures:						
Provided summary information on the quality of on- and off-balance sheet credit exposures, based on the internal ratings process or external ratings	9%	17%	25%	5	9	13
All disclosures:	32%	36%	46%	74	77	98

Overall there was a substantial improvement in the disclosure of information on internal and external ratings.

Seventy-four percent of banks disclosed summary information about their internal ratings process (42% in 1999) and 25% of banks provided summary information on the quality of their on- and off- balance sheet credit exposures, based on their internal ratings process or external ratings (9% in 1999).

Sixty-one percent of banks also provided a description of their internal classification system and 23% indicated how their internal ratings were used in their internal capital allocation process.

Although the disclosure of information about banks' internal ratings materially improved, this level still remains quite low. Therefore banks should further enhance the disclosure of their use of internal ratings given the particular importance of such disclosure as qualifying criteria under the New Basel Capital Accord.

(e) Credit Risk Modeling

Survey item	Disclosure rate:			Number of affirmative answers:		
	1999	2000	2001	1999	2000	2001
Total number of banks				*[57]*	*[55]*	*[54]*
Qualitative disclosures:						
Disclosed whether credit risk measurement models are used, and if so, provided descriptive information about the types of models, portfolio(s) covered and size of portfolios	44%	41%	46%	23	20	22
Disclosed how the bank has incorporated historical default experience for different asset categories, current conditions, changes in portfolio composition and trends in delinquencies and recoveries	44%	44%	41%	25	24	22
Disclosed whether credit scoring is used when granting credit, and if so, provided descriptive information about the credit scoring model and how it is used	42%	42%	49%	21	22	25
If an institution stress tests its counterparty credit exposures, it should disclose its process for stress testing, and how testing is incorporated into its risk management system	23%	28%	21%	7	8	8
Both qualitative and quantitative disclosures:						
Disclosed quantitative and qualitative information about the credit risk measurement models used, including model parameters (e.g. holding period, observation period, confidence interval), performance over time, and model validation and stress testing	8%	11%	6%	4	5	3
All disclosures:	33%	34%	33%	80	79	80

Credit risk modeling is an area in which the disclosure of information by banks was not very common and showed no clear sign of improvement.

Although there has been an improvement from 1999, only 49% of banks provided descriptive information about their credit scoring model and how this was used.

Similarly, only 46% of banks provided descriptive information about the type of model used, the portfolios covered by the model and the size of these portfolios. Furthermore very few banks (6%) disclosed quantitative and qualitative information regarding their credit risk model, such as model parameters, performance over time, validation and stress testing. Such items consequently appeared to be much less commonly disclosed for credit risk than for market risk.

Even if the New Basel Capital Accord will not at this stage allow banks to use their credit risk models for the purposes of calculating their minimum regulatory capital requirements, these models might nevertheless be used in the context of the internal ratings based (IRB) approach. As a consequence banks using the IRB approach might have to disclose information about the models used in the context of that approach.

(f) Securitisation Activities

Survey item	Disclosure rate:			Number of affirmative answers:		
	1999	2000	2001	1999	2000	2001
Total number of banks				*[57]*	*[55]*	*[54]*
Qualitative disclosures:						
Disclosed the accounting treatment of securitisation transactions and other credit risk mitigation techniques	44%	45%	59%	21	21	30
Described the bank's strategy and objectives for securitisations	31%	44%	63%	13	18	31
Described general recourse provisions on securitisations	15%	23%	28%	6	9	13
Quantitative disclosures:						
Disclosed the amount and types of assets securitised	51%	49%	61%	20	20	30
Disclosed the income effect of securitisation	33%	44%	47%	14	19	23
Disclosed the amount of servicing retained on securitised assets	26%	32%	30%	10	13	14
Disclosed the amount of risk on assets retained when assets are securitised	23%	27%	43%	9	11	21
Described details on subordinated interests retained (first loss protection) when assets are securitised	5%	22%	27%	2	9	13
All disclosures:	29%	36%	45%	95	120	175

In parallel with their growing involvement in securitisation activities[18], banks have generally enhanced transparency in this area. However, disclosures on securitisation activities are still not very frequent.

Less than two-thirds (63%) of banks described their strategy and objectives with regard to securitisation (up from 31% in 1999). Also, 61% of banks disclosed the amount and types of securitised assets (up from 51% in 1999) and 59% disclosed the associated accounting treatment (up from 44% in 1999).

Only 43% of banks disclosed the amount of risk retained on securitised assets and only about one quarter described details on the subordinated interests retained (27%) and the general recourse provisions (28%).

Banks should further enhance the transparency of their securitisation activities particularly given that disclosure in this area will be qualifying criteria under the New Basel Capital Accord.

[18] The percentage of banks participating in asset securitisation rose to 91% in 2001, up from 68% in 1999.

(g) Asset Quality

Survey item	Disclosure rate: 1999	Disclosure rate: 2000	Disclosure rate: 2001	Number of affirmative answers: 1999	Number of affirmative answers: 2000	Number of affirmative answers: 2001
Total number of banks				*[57]*	*[55]*	*[54]*
Qualitative disclosures:						
Disclosed how the allocated and (any) of the unallocated portions of the allowances are determined	67%	76%	85%	36	42	46
Described policies and practices for sovereign risk provisioning	62%	73%	80%	34	37	41
Disclosed the types of credit exposures that are evaluated individually for impairment and the types of exposures that are evaluated as a group	58%	64%	76%	33	35	41
Discussed practices and procedures used for evaluating the adequacy of credit loss provisions and credit loss allowances	58%	58%	59%	33	32	32
Discussed the techniques used to monitor and manage past due or impaired assets/credit relationships	46%	53%	57%	26	29	31
Described how the level of allowances compares with historical net loss experience	39%	51%	50%	22	28	27
Quantitative disclosures:						
Provided a reconciliation of activity for any allowances established for credit impairment ("continuity schedule")	91%	93%	93%	52	51	50
Disclosed information on the impact of non-accrual and impaired assets on the financial performance of the bank including information on charge-offs and provisions	86%	85%	87%	49	47	47
Disclosed the amount of any charge-offs and recoveries that have been recorded directly in the income statement	85%	88%	83%	40	36	34
Provided information on total credit exposures, including exposures arising from lending, trading, investment, liquidity/funding management and off-balance sheet activities	74%	56%	59%	42	31	32
If the institution uses collateral, covenants, guarantees or credit insurance to reduce risk exposure, the impact on credit exposure should be disclosed	30%	13%	28%	17	7	15
Provided information on the amount and nature of derivatives credit risk loss allowances	15%	10%	11%	8	5	5
Disclosed the replacement cost of non-performing derivatives	13%	7%	19%	7	4	9
All disclosures:	56%	55%	61%	399	384	410

The disclosure rate of quantitative information on allowances, charges-offs and impaired assets continued to be very high. Ninety-three percent of banks provided a reconciliation of activity for their allowances established for credit impairment, 87% disclosed information on the impact of non-accrual and impaired assets on their financial performance and 83% provided the amount of charge-offs and recoveries recorded directly in their income statement.

The disclosure of the impact on credit exposure of the use of collateral, covenants, guarantees or credit insurance recovered up to the level reached in 1999 but was still not very frequent.

Similar to the low frequency of disclosures observed for derivatives (see below), only 19% of banks disclosed the replacement cost of their non-performing derivatives and 11% provided the amount and nature of their derivatives credit risk loss allowances.

Disclosures of qualitative information regarding allowances considerably increased. There has been particularly progress on the number of banks disclosing how the allocated and unallocated portions of their allowances were determined (85% in 2001 as compared to 67% in 1999), describing their policies and practices for sovereign risk provisioning (80% in 2001 as compared to 62% in 1999) and disclosing the types of credit exposures that were evaluated individually for impairment and the types of credit exposures that were evaluated as a group (76% in 2001 as compared to 58% in 1999).

(h) Credit Derivatives and Other Credit Enhancements

Survey item	Disclosure rate:			Number of affirmative answers:		
	1999	2000	2001	1999	2000	2001
Total number of banks				[57]	[55]	[54]
Qualitative disclosures:						
Discussed how credit derivatives are used, including strategy and objectives	37%	38%	51%	17	18	23
Quantitative disclosures:						
Disclosed the notional amounts and fair value of credit derivatives	33%	40%	54%	15	19	25
Disclosed quantitative information about the effect of credit enhancement on counterparty credit exposures	25%	16%	26%	14	9	14
Disclosed the amount of credit risk bought or sold using credit derivatives	18%	28%	35%	8	13	16
Listed a breakdown of credit derivatives by type of instrument (e.g. total return swap, credit default swap or other credit derivatives)	18%	19%	30%	8	9	14
Disclosed information on the effect of credit enhancement on the bank's counterparty exposure from OTC contracts	14%	9%	15%	8	5	8
All disclosures:	24%	24%	34%	70	73	100

Although there has been a material improvement, disclosures on credit derivatives activities were still quite low. Therefore the overall level of disclosure for credit derivatives activities remained below the levels of disclosure for (other) derivatives activities.

Only 51% of banks disclosed qualitative information about their use of credit derivatives and 54% disclosed quantitative information in the form of notional amounts and fair value. Even fewer banks provided the breakdown of their credit derivatives by type of instruments (30%) and the amount of credit risk protection bought or sold (26%). About one quarter of banks (26%) disclosed information on the effect of credit enhancements on their counterparty credit exposure.

Banks should further enhance the transparency of their derivatives activities particularly given that disclosure in this area will be qualifying criteria under the New Basel Capital Accord.

(i) Derivatives (other than Credit Derivatives)

Survey item	Disclosure rate:			Number of affirmative answers:		
	1999	2000	2001	1999	2000	2001
Total number of banks				[57]	[55]	[54]
Qualitative disclosures:						
Discussed the objectives for use of non-trading derivatives	81%	78%	80%	46	43	43
Described how derivatives are used to hedge risks (strategies)	72%	71%	80%	41	39	43
Discussed the overall business objectives of trading activities and strategies for achieving those objectives	68%	69%	74%	39	38	40
Quantitative disclosures:						
Disclosed the gross positive market value of derivatives	68%	75%	81%	39	41	44
Disclosed the gross negative market value of derivatives	54%	60%	70%	31	33	38
Provided summary information about the effect of non-trading derivatives on earnings of off-balance sheet (hedging) positions held by the organization (e.g. to manage interest rate risk, currency risk and other risks)	54%	49%	56%	31	27	30
Disclosed the quantitative effect of legally enforceable bilateral and multilateral netting agreements	47%	35%	41%	27	19	22
Provided end-of-period and average notional and market values for trading portfolios and non-trading portfolios	46%	40%	39%	26	22	21
Disclosed future potential exposures for derivatives, where appropriate	25%	27%	35%	14	15	19
All disclosures:	57%	56%	62%	294	277	300

Most banks disclosed qualitative information about their trading and derivatives activities with 80% of banks discussing their objectives for the use of non-trading derivatives and 74% reporting on their overall business objectives of trading activities and strategies for achieving those objectives.

Apart from the gross positive and negative market value of derivatives that were disclosed by most banks (81% and 70% respectively), quantitative information was not commonly provided. Less than one half of banks disclosed the future potential exposures for derivatives (35%), the end-of-period and average notional amounts and marked values for trading and non-trading portfolios (39%) and the quantitative effect of legally enforceable bilateral and multilateral netting agreements (41%).

Derivatives activities is therefore an area where banks should consider improving the disclosure of information (and more specifically the disclosure of quantitative information).

(j) Geographic and Business Line Diversification

Survey item	Disclosure rate: 1999	2000	2001	Number of affirmative answers: 1999	2000	2001
Total number of banks				*[57]*	*[55]*	*[54]*
Quantitative disclosures:						
Provided information on market activity by broad instrument category (e.g. futures, forwards, swaps and options)	84%	82%	85%	48	45	46
Provided information on market activity by broad risk category (e.g. interest rate, exchange rate, precious metals, other commodities and equities)	81%	80%	87%	46	44	47
Disclosed summary information about the geographic distribution of credit exposures, including domestic and international credit exposures	79%	76%	81%	45	42	44
Provided information on trading revenues by major risk category (foreign exchange, interest rate, commodity, equity), or by major product (bonds, swaps, foreign exchange, equities)	74%	69%	70%	42	38	38
Disclosed information about the composition of on- and off-balance sheet credit exposures by major types of counterparty	70%	73%	69%	40	40	37
Disclosed credit exposure information by business line	68%	62%	59%	39	34	32
Disclosed sovereign exposures	62%	57%	69%	34	29	35
Provided a breakdown of impaired assets by geographic area	47%	44%	45%	27	24	24
Provided a breakdown of past due assets by counterparty type	44%	49%	48%	25	27	26
Provided a breakdown of past due assets by asset category	35%	33%	37%	20	18	20
All disclosures:	64%	62%	65%	366	341	349

Most banks continued to disclose the breakdowns of their market activity by risk category (e.g. interest rate or exchange rate) (87%) or by instrument type (e.g. futures or swaps) (85%). Many banks also continued to provide information on their credit exposures broken down by geographic area (81%) and, to a lesser extent, by major types of counterparty (70%).

Disclosure of breakdowns of problem credits was much less widespread while not having improved since 1999. Less than one half of banks provided information on their impaired assets broken down by geographic area (45%) or on their past due assets broken down by counterparty type (48%) or asset category (37%).

Banks that do not currently provide breakdowns (i.e. by geographic area or counterparty type/industry sector) of their credit exposures and of their past due/impaired loans, should consider providing these disclosures in view of the coming implementation of the New Basel Capital Accord that will normally require such disclosures.

(k) Accounting and Presentation Policies

Survey item	Disclosure rate: 1999	2000	2001	Number of affirmative answers: 1999	2000	2001
Total number of banks				*[57]*	*[55]*	*[54]*
Qualitative disclosures:						
Disclosed the basis of measurement for assets at initial recognition and subsequent periods, e.g., fair value or historical cost	98%	100%	100%	56	55	54
Described the accounting policies and method of income recognition used for trading activities (using both cash instruments and derivatives) and non-trading activities	91%	89%	93%	52	49	50
Described the treatment of hedging relationships affecting the measurement of assets	80%	85%	85%	40	47	46
Disclosed the basis for determining when assets are considered past-due and/or impaired for accounting and disclosure purposes (number of days where appropriate)	77%	80%	83%	44	44	45
Quantitative disclosures:						
Disclosed income and expense information grouped by nature or function within the bank	89%	98%	98%	51	54	53
Provided summary information about how trading activities affect earnings, based on internal measurement and accounting systems	88%	85%	83%	50	47	45
Distinguished between trading assets and trading liabilities	50%	48%	47%	28	26	25
All disclosures:	82%	84%	84%	321	322	318

Most banks continued to disclose information about their accounting and presentation policies.[19] The high frequency of disclosures on accounting policies and valuation methods is related to the fact that these pieces of information are actually essential for the users of the annual reports in order for them to have the necessary context to understand the quantitative disclosures and as such are often required by national law or generally accepted accounting principles.

All banks disclosed the basis of measurement for their assets at initial recognition and subsequent periods. The overwhelming majority of banks (93%) also provided information about the accounting policies and methods of income recognition that they used for trading and non-trading activities. A smaller proportion (83%) disclosed the basis for determining when credits were impaired or past due.

Virtually all banks (98%) grouped their income statement information by nature or function within the bank. Only 47% of banks distinguished between trading assets and trading liabilities.

[19] It is worth noting that there may be some qualitative improvements in the disclosures that are not captured in the survey.

(l) Other Risks

Survey item	Disclosure rate:			Number of affirmative answers:		
	1999	**2000**	**2001**	**1999**	**2000**	**2001**
Total number of banks				*[57]*	*[55]*	*[54]*
Qualitative disclosures:						
Provided qualitative disclosures of interest rate risk in the banking book	75%	75%	85%	43	41	46
Disclosed information about the main types of operational risk and identified and discussed any specific issues considered to be significant	63%	82%	91%	36	45	49
Disclosed legal contingencies (including pending legal actions) and discussed possible liabilities	53%	72%	81%	23	31	38
Quantitative disclosures:						
Provided quantitative disclosures of interest rate risk in the banking book	65%	69%	76%	37	38	41
Both qualitative and quantitative disclosures:						
Disclosed quantitative and qualitative information and strategies for managing liquidity risk	63%	78%	85%	36	43	46
All disclosures:	65%	75%	84%	175	198	220

Banks continued to improve significantly the disclosure of information on liquidity, operational and legal risks as well as interest rate risk in the banking book. This information has now become as commonly disclosed as the basic information on market risk or credit risk.

Eighty-five percent of banks disclosed quantitative and qualitative information regarding liquidity risk (63% in 1999).

Ninety-one percent of banks provided information on the main types of operational risk and identified and discussed any specific issues considered significant in this regard (63% in 1999). Eighty-one percent of banks also disclosed legal contingencies and discussed possible liabilities (53% in 1999).

Eighty-five percent of banks provided qualitative information on the interest rate risk in their banking book (75% in 1999) while fewer banks (76%) provided quantitative information on this (65% in 1999).

Operational risk (including legal risk) and interest rate risk in the banking book are two areas where the Third Pillar of the New Basel Capital Accord will require disclosures. The progress made in particular in the banks' disclosures of operational risk are encouraging even if the general picture could have been influenced by the very general drafting of the questions on these items.

Related Papers and Press Release

Basel Committee on Banking Supervision, *Core Principles for Effective Banking Supervision* (September 1997).

Basel Committee on Banking Supervision, *Enhancing Bank Transparency* (September 1998).

Basel Committee on Banking Supervision and IOSCO Technical Committee (Joint Report), *Recommendations for Public Disclosure of Trading and Derivatives Activities of Banks and Securities Firms* (February 1999).

Basel Committee on Banking Supervision, *Best Practices for Credit Risk Disclosure* (July 1999).

Basel Committee on Banking Supervision, *Sound Practices for Loan Accounting and Disclosure* (July 1999).

Basel Committee on Banking Supervision, *A New Capital Adequacy Framework: Pillar 3 Market Discipline* (January 2000).

Basel Committee on Banking Supervision, *Consultative Document: The New Basel Capital Accord* (January 2001).

Basel Committee on Banking Supervision, *Public Disclosures by Banks: Results of the 1999 Disclosure Survey* (April 2001).

Basel Committee on Banking Supervision, *Working Paper on Pillar 3 – Market Discipline* (September 2001).

Basel Committee on Banking Supervision, *Public Disclosures by Banks: Results of the 2000 Disclosure Survey* (May 2002).

Basel Committee on Banking Supervision, *Basel Committee reaches agreement on New Capital Accord issues* (Press Release of 10 July 2002).

Basel Committee on Banking Supervision, *Consultative Document: The New Basel Capital Accord* (April 2003).

Appendix

Banks Included in Survey
In alphabetical order, by country

Country	Institution	Total Assets (Millions)	
		National Currency	US Dollars[20]
Belgium	Dexia S.A.	351,355	309,649
	Fortis Bank	377,994	333,126
	KBC Bank	215,881	190,256
Canada[21]	Bank of Montreal	239,409	150,695
	Bank of Nova Scotia	284,425	179,030
	Canadian Imperial Bank of Commerce	287,474	180,949
	National Bank of Canada	75,763	47,689
	Royal Bank of Canada	359,260	226,135
	Toronto Dominion Bank	287,838	181,178
France	BNP Paribas	825,296	727,332
	Crédit Agricole S.A.	495,067	436,303
	Crédit Lyonnais	202,365	178,344
	Société Générale	512,499	451,665
Germany	Commerzbank AG	501,312	441,806
	Deutsche Bank AG	918,222	809,229
	Dresdner Bank AG	506,683	446,540
	DZ-Bank	364,645	321,362
	HypoVereinsbank AG	728,170	641,736
	WestLB	431,910	380,642
Italy	Banca di Roma	133,114	117,313
	Banca Nazionale del Lavoro	91,539	80,673
	IntesaBCI	314,897	277,519
	San Paolo - IMI	170,485	150,248
	Unicredito Italiano	208,388	183,652

20 All conversions are at the closing date of the financial statements which is December 31, 2001 unless otherwise noted. For Euro-zone member countries – Belgium, France, Germany, Italy, Luxembourg, the Netherlands, and Spain –, an exchange rate of 1 USD = 1.1347 EUR was used uniformly.

21 Closing date of the financial statements: October 31, 2001.

Country	Institution	Total Assets (Millions)	
		National Currency	US Dollars[20]
Japan[22]	The Sumitomo Trust and Banking Company, Ltd	16,704,021	125,358
	Mitsubishi Tokyo Financial Group, Inc.	99,496,829	746,693
	Mizuho Holdings, Inc.	151,312,400	1,135,553
	Sumitomo Mitsui Banking Corporation.	108,005,001	810,544
	UFJ Holdings, Inc.	79,772,980	598,672
Luxembourg	Banque Générale du Luxembourg S.A.	38,998	34,369
	Dexia Banque Internationale à Luxembourg S.A.	44,709	39,402
Netherlands	ABN AMRO Holding N.V.	597,363	526,456
	ING Bank	443,356	390,730
	Rabobank Groep	363,619	320,457
Spain	Banco Bilbao Vizcaya Argentaria	309,246	272,538
	Banco Santander Central Hispano	358,137	315,626
Sweden	Skandinaviska Enskilda Banken	1,163,315	109,052
	Svenska Handelsbanken	1,174,521	110,103
Switzerland	Credit Suisse Group[23]	863,432	516,098
	UBS AG	1,253,297	749,132
	Zurich Cantonalbank	75,882	45,168
United Kingdom	The Abbey National Group	214,906	312,538
	Barclays plc	356,649	518,675
	HBOS plc	312,275	454,142
	HSBC Holdings plc	478,496	695,877
	Lloyds TSB Group	236,539	343,999
	The Royal Bank of Scotland Group plc	368,782	536,320
	Standard Chartered	73,836	107,379
United States	Bank of America Corp.	621,764	621,764
	Bank of New York Co.	81,025	81,025
	Bank One	268,954	268,954
	Citigroup	1,051,450	1,051,450
	J. P. Morgan Chase & Co.	693,575	693,575
	Wachovia Corp.	330,452	330,452

[22] Closing date of the financial statements: March 31, 2002.

[23] Excludes insurance business.