MONASH University

AUSTRALIAN CENTRE FOR FINANCIAL STUDIES

Bank Disclosures Could Be Better

Financial Policy Brief
FPB 2017-02: 07 March 2017

Author:
Professor Kevin Davis
Co-Author:
Andrew Zhang

MONASH BUSINESS SCHOOL

Thought Leadership in the Financial Sector

FINANCIAL POLICY BRIEF

Bank Disclosures Could Be Better

FPB 2017 – 02: 07 March 2017

In this Financial Policy Brief, Professor Kevin Davis and Andrew Zhang examine the likely efficacy of the Basel 3 disclosures which are required of Australian banks. They argue that while compliance is observed, the presentation of disclosures is not likely to be helpful in achieving the objectives which the Basel Committee (and APRA) had in introducing disclosure requirements. Some simple, low cost, changes to the disclosure practices are recommended.

Following the Global Financial Crisis, the Basel Committee announced in 2010 (as part of Basel 3) increased disclosure requirements for banks. These were designed to address substantial gaps in publicly available information about banks' practices and conditions. With such gaps, effectiveness of the "third pillar" of the Basel framework for banking strength and stability, that of market discipline, was seriously undermined. (The "third pillar" disclosure requirements were initially announced in 2004 as part of Basel 2 and subsequently revised). APRA has adopted the Basel 3 disclosure requirements in its Prudential Standard APS 330 Public Disclosure, which initially came into effect on 30 June 2013 and which has since been broadened in its scope.

In its revised Pillar 3 disclosure requirements (which are available at http://www.bis.org/bcbs/publ/d309.pdf) the Basel Committee notes that "provision of meaningful information about common key risk metrics to market participants is a fundamental tenet of a sound banking system. It reduces information asymmetry and helps promote comparability of banks' risk profiles within and across jurisdictions." One consequence is the specification of common templates for provision of required information by banks across a number of disclosure categories.

While Australian banks appear to be complying with the requirements of the disclosure regulations, it is not at all clear that the nature of disclosures facilitates timely or easy comparisons between banks – which is an important objective of the disclosure regime. We suggest several simple, low cost, modifications to the regulatory requirements to help improve the potential effectiveness of these disclosures.

What is disclosed?

Originally, the Basel 2 disclosure requirements involved relatively limited provision of certain information on a quarterly basis, with more substantive disclosures required annually. And the requirements were significantly more substantial for the large banks operating under the Internal Models (Advanced) capital requirements than for those on the Standardised approach. Information on capital ratios, credit risk exposures (by portfolio), and loans past due was required quarterly with annual disclosures also providing more detail including information about capital instruments.

Now, the regulatory disclosures include: Capital and Risk Disclosures; Capital Instruments Disclosures; and Remuneration Disclosures. For the large Australian banks APRA also requires disclosure of some components of the Basel G-SIB disclosure requirement1, and if the group contains insurance activities, there will also be an insurance capital adequacy disclosure.

Apart from the required differences in disclosure for large banks operating under the internal models (Advanced) approach there are significant differences in presentation relative to the smaller banks and ADIs (operating under the standardised approach). An important difference is in the qualitative information provided, with the large banks providing extensive discussion of risk management practices (as required of Advanced IRB Banks) , but smaller banks general present only the required statistics without supporting discussion. The large banks are required to provide information on their leverage ratio, and APRA has signalled in the September 2014 consultation paper on disclosure that banks operating on the standardised approach would not be required to do so until Basel eventually settles on the specific leverage ratio figure. Banks operating under the Liquidity Coverage ratio approach (rather than the Minimum Liquidity Holdings approach used for smaller banks) are also required to make liquidity disclosures. The disclosure of capital instruments on issue is relatively substantial for major banks, but for smaller banks, credit unions and other mutual ADIs there is generally little to show.

Using Disclosure Statements

Banking is, unfortunately, sufficiently complicated that there is likely to be only a relatively few specialists who can make much sense out of the disclosures provided. But, of course, it only requires a few well informed participants to create market discipline – if they can easily access, and compare across peers, timely information. Unfortunately, the Basel disclosures

[1] These extra disclosure requirements include information on size, interconnectedness, substitutability, financial institution infrastructure, complexity and cross jurisdictional activity.

do not really meet those conditions of easy access, comparability and timeliness, which might facilitate greater and better analysis of our banks.

There are at least three failings in the nature of disclosure by Australian banks.

Data Extraction and Comparability

The first failing is impediments to easy comparability. Even if banks use the common template required by APRA, such as for provision of information about capital instruments, there are considerable resource costs in collecting that information into a manageable form for analysis. Information is generally presented on banks' websites in a tabular form based on the common template provided by APRA. However, the coding or formatting of the information is such that it is not always possible to simply "cut and paste" the data into a spreadsheet or other data management software. A row of information copied from a table, generally pastes into software as something quite different. This is easy to fix, and could create the suspicion that many banks don't want to make it easy for analysts or researchers to study the data.

Our analysis of recent bank capital instrument disclosure documents in terms of the ease of extracting data into an excel spreadsheet is given in column 4 of Table 1.

Table 1: A selection of bank disclosure information*

Bank	Disclosure Date	Release Date	Easy data extraction	Clicks from homepage
CBA	30/12/16	15/2/17	Yes	3
ANZ	30/12/2016	17/2/17	No	3
NAB	31/12/2016	6/2/2017	No	2
WBC	31/12/2016	21/2/17	No	3
MACQ	30/12/2016	17/2/2017	No	3
SUN	31/12/2016	9/2/2017	No	3
BEN	31/12/2016	13/2/2017	No	3
BOQ	30/11/2016	30/1/2017	No	3
ME	31/12/16	unknown	No	3

*Australian owned, non-mutual, banks

Recommendation 1: APRA should require that banks provide Capital Instrument disclosure information in a way which makes easy extraction of the data into data management software (such as Excel) possible.

Capital and Risk Disclosures

Information extraction is even more complex when the Capital and Risk disclosures and Remuneration disclosures are considered. One reason for this is the flexibility which APRA provides to the Advanced banks to provide commentary and information reflecting their specific arrangements while providing some minimum required amount of information. One consequence is that the annual disclosure documents for capital adequacy and risk run, for the major banks, to around 100 pages, and the quarterly disclosures to around 15-20 pages. APRA specifies that certain types of information are to be provided consistent with a list of table templates given in the attachments to APS 330. And while Australian banks provide such information (and provide a guide to how tables in their disclosure match the APRA requirements) again it is virtually impossible to extract data easily into a spreadsheet for comparison purposes.

Recommendation 2: APRA should require that banks provide information contained in their Capital and Risk disclosures also in the form of easy to extract form matching the APRA APS330 templates. The information could be provided on websites as a spreadsheet (with cells protected) or in form which can be "cut and pasted". Alternatively, APRA (which presumably must receive this information in a useable format) could make it available for all banks on its own web site.

Frequency and Timeliness

A third complication lies in the frequency and timeliness of bank disclosures. Quarterly disclosures may be an acceptable frequency if more frequent compilation and publication of data imposes significant costs on banks, and if there is little public benefit in increased frequency. However, it would be surprising if bank managements did not provide data such as capital ratios as part of monthly reporting to the board – such that some level of monthly reporting was not feasible.

Also there are significant delays in publication of the quarterly disclosures: Table 1 provides information on the number of days between quarter end and release of the capital and disclosures. In general, the average reporting delay is around 39 days. It may be that it takes this long to compile such information, but it is, at least, interesting that APRA requires that the APS330 "Attachment C" data on risk disclosures be released within 40 days of the end of the quarter!

Recommendation 3: APRA should consider whether the time lag allowed for regulatory disclosures is appropriate, and whether increased frequency of some disclosures is a feasible option.

Finding Basel 4 Disclosures

A final issue concerns ease of discovery of location of Basel disclosures. Table 1 presents information on ease of discovery on bank websites. Generally, APS 330 disclosure documents are only a few clicks away from any given bank's homepage. However while every bank is required by APS330 to have a "Regulatory Disclosures" section on its web page, it is not always easy to navigate to it. Finding the disclosures can be particularly frustrating, if one attempts to step through what would appear to be a logical sequence of web pages – rather than using the search button to look for "regulatory disclosures". Table 2 shows the URLs of Basel 3 regulatory disclosures for the benefit of readers

Table 2: Regulatory Disclosure URLs

CBA	https://www.commbank.com.au/about-us/shareholders/financial-information/regulatory/basel-iii-pillar-iii-disclosure.html
ANZ	http://www.shareholder.anz.com/pages/regulatory-disclosure
NAB	https://www.nab.com.au/about-us/shareholder-centre/regulatory-disclosures
WBC	https://www.westpac.com.au/about-westpac/investor-centre/financial-information/regulatory-disclosures/
MACQ	http://www.macquarie.com/au/about/investors/regulatory-disclosures
SUN	http://www.suncorpgroup.com.au/media/reports?term=regulatory-disclosures&year=2017
BEN	http://www.bendigoadelaide.com.au/public/shareholders/announcements/aps_330.asp
BOQ	http://www.boq.com.au/APRA_Pillar_3_reporting.htm
ME	http://mebank.com.au/about-us/about-me/me-reports/

Conclusion

While Australian banks make the regulatory disclosures required of them, it must be asked how useful these disclosures are for achieving the objectives of the disclosure regime. There are some simple, inexpensive, steps that could be taken to make the disclosures more user friendly and thus, hopefully, more effective in underpinning Pillar 3 (Market Discipline) of the Basel regime.

This Financial Policy Brief was prepared by Professor Kevin Davis, Research Director of the Australian Centre for Financial Studies and Andrew Zhang.

ACFS Financial Policy Briefs (previously called Financial Regulation Discussion Papers) provide independent analysis and commentary on current issues in financial regulation with the objective of promoting constructive dialogue among academics, industry practitioners, policymakers and regulators and contributing to excellence in Australian financial system regulation.

For more in this series, visit: australiancentre.com.au/publications/policy-briefs

About the Australian Centre for Financial Studies

The Australian Centre for Financial Studies (ACFS) is a part of Monash Business School. It aims to facilitate industry-relevant, rigorous research and independent commentary, drawing on expertise from academia, industry and government to promote thought leadership in the financial sector. Together, ACFS and Monash Business School aim to boost the global credentials of Australia's finance industry, bridging the gap between research and industry and supporting Australia as an international centre for finance practice, research and education.

www.australiancentre.com.au | business.monash.edu