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## **FSB Thematic Peer Review on Risk Disclosure**

Dear Mr Draghi,

We welcome the opportunity to respond to the FSB's peer review of the recommendations concerning risk disclosure.

So far several initiatives aimed at improving disclosures have been undertaken. The European-wide dialogue among the banking sector and market participants has been driven by public hearings, roundtables, survey initiatives and assessments, mainly conducted and chaired by CEBS and participating national regulators. Their intention is to promote convergence by highlighting best practices in disclosure and to enhance market transparency about banks' risk profiles and capital adequacy. CEBS has conducted several assessments regarding improvements and guidelines on adequate disclosure methods since June 2008.<sup>1</sup> CEBS's aim is to improve the quality of disclosure without amending, duplicating or adding to existing disclosure requirements or recommendations – such as IFRS, Pillar 3 of Basel II, listing and notification rules or other statutory regulations.

Besides the above mentioned European-wide progress initiated by CEBS, the existing dialogue among individual banks and also between banking sector representatives and involved market participants such as rating agencies and investors continues on a regular basis. The development and treatment of risk disclosure is a subject high on the agenda of these meetings.

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<sup>1</sup> C.f. <http://www.c-eps.org>.

BCBS's "Enhancements to the Basel II framework" of July 2009<sup>2</sup> provides the first detailed proposal based on the lessons learned from the financial crisis. Pillar 3 (market discipline) requirements have been strengthened in several key areas, including securitisation exposures in the trading book, sponsorship of off-balance sheet vehicles, resecuritisation exposures and pipeline and warehousing risks with regard to securitisation exposures. The EU has responded to BCBS's amendments to Pillar 3 of Basel II in the light of the FSB's recommendations by incorporating these changes in its CRD III proposal.

As a result of the enhancements to the Basel II framework and corresponding CRD III amendments, future Pillar 3 disclosure will cover risk information about off-balance sheet vehicles, (re)securitisation exposures and other critical areas addressed by the FSB and CEBS. In addition, CEBS has issued guidelines focusing on the presentation, content and frequency of disclosures. CEBS will also continue to conduct regular assessments.

Market discipline plays a key role in the Basel II framework and is achieved by mandatory disclosures (such as Pillar 3 reports). With this in mind, we are convinced that the market as a whole will adopt new proposals and disclosure techniques in an effective, homogenous and best-practice oriented way.

This will guarantee a high degree of comparability and flexibility in banks' disclosures and at the same time ensure that critical aspects of a bank's individual risk profile (e.g. securitisation exposures) will be analysed in depth (as recommended by the FSB and CEBS). In a dynamic market place, regular reviews and updates are required. We prefer the notion of more generic principles which provide overall direction rather than detailed rules intended to cover every new development.

Regulators should have confidence in market demands and dynamics. Banks are forced by market expectations to adequately implement and comply with reporting and disclosure principles. We therefore recommend continuing to pursue and follow up market-led initiatives.

Along with market discipline mechanisms, intra-sector dialogue and reference to good practices will encourage further coordination among banks. Sector-driven commitments will

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<sup>2</sup> <http://www.bis.org/publ/bcbs157.htm>

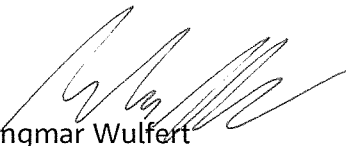
promote the most suitable methods of improving the substance, presentation, comparability and consistency of disclosures.

We would be happy to provide further information about these issues on request.

Yours sincerely,



Dirk Jäger



Ingmar Wulfert