

13 November 2017

Mr Pat Brennan  
Executive General Manager, Policy and Advice Division  
Australian Prudential Regulation Authority  
Via email: [ADIpolicy@apra.gov.au](mailto:ADIpolicy@apra.gov.au)

**Re: Proposed Revisions to Prudential Standard APS 330 Public Disclosure**

Dear Pat,

In response to the recent request for submissions on the draft changes to the prudential standard, I would like to offer the following comments and suggestions, some of which are elaborated upon in the attached document.<sup>1</sup> They focus primarily upon the risk and capital adequacy disclosures.

First, the prudential standard does not require ADIs to provide this information in a format which facilitates ready analysis and comparison across institutions – thereby impeding potential benefits from having public disclosure and market discipline. While data is provided according to a standard template, most banks do not provide the data in a form which can be readily copied into a spreadsheet or other software program in a format suitable for analysis. Further manipulation is required. Two recommendations are as follows.

*Recommendation 1: Banks should be required to provide APS 330 Public Disclosure information in a form which enable direct copying of the tabular data into a table format in spreadsheets and other software without need for further formatting.*

*Recommendation 2: APRA should provide on its website the historical and current disclosures of all ADIs in a form which is convenient for analysis and comparison across ADIs.*

Second, banks are required to provide disclosures within 40 days of the end of the relevant quarter. My calculations indicate that the typical lag in provision by the major banks is in the order of 38 days. This long lag reduces the potential value of the information for analysis. While there may be time lags involved in collating relevant data, it is doubtful that with modern systems and the importance of the disclosed information for bank internal management analysis and decision making that the appropriate lags are anywhere near this length. Hence:

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<sup>1</sup> “Bank disclosures could be better” Australian Centre for Financial Studies, Financial Policy Brief 2017-02  
<https://australiancentre.com.au/publication/bank-disclosures-better/>

*Recommendation 3: The required reporting time for publication of APS330 Public Disclosures should be significantly reduced from 40 days.*

Third, the disparate financial year dates of the Australian banks means that the quantity of disclosures are misaligned for any quarter (since required financial year-end and semi-annual disclosures differ from those for other quarters). This impedes contemporaneous analysis across banks. Hence:

*Recommendation 4: The required quarterly disclosures should be the same as required for the semi-annual disclosures (and possibly also for the annual disclosures).*

In conclusion, I would note that while I am supportive of the disclosure requirements, it is difficult to find any evidence that the disclosure regime has increased the level of market discipline of Australian banks – which is the primary objective of the requirements.

I am, of course, happy to discuss any of the above matters should you wish to do so.

Yours sincerely,



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# Bank Disclosures Could Be Better

Financial Policy Brief  
FPB 2017-02: 07 March 2017

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## 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 requirement<sup>1</sup>, 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

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<sup>1</sup> 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**

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

## 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.*

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