BBA Code for Financial Reporting Disclosure

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Background

The financial crisis has led to an increased focus on financial reporting disclosure by the UK's seven largest lending institutions[1] (together the 'UK banks'). The UK banks recognise that there is a level of public interest in their disclosure that extends to other stakeholders in addition to investors. UK banks have gone beyond what is required by International Financial Reporting Standards (IFRS) as adopted in the European Union, statutory and regulatory requirements and the FSA's Listing, Disclosure and Transparency Rules to strive towards ensuring that the information they provide is commensurate with this interest.

Although the Directors of each Financial Institution remain responsible for ensuring that appropriate disclosures are provided for their entities, in order to further develop and enhance this commitment, the UK banks have:

- Established a regular dialogue on financial statement disclosures as part of their preparatory work for producing annual and interim reports, with the aim of enhancing comparability and understanding. The details of this approach are set out in Annex 1.

- Adopted this Code in respect of their future financial reporting. They will include a statement of compliance with this Code in their annual and interim reports, commencing from their 2009 annual reports. In recognition of the potential for the Code to be amended or withdrawn entirely in light of responses to the FSA Discussion Paper on enhancing financial reporting disclosures[2], the Code remains in draft form at present.

The principles are set out below in bold numbered paragraphs, with explanatory paragraphs where appropriate.

[1] The groups headed by Abbey National plc, Barclays plc, HSBC Holdings plc, Lloyds Banking Group plc, Nationwide Building Society, Standard Chartered PLC and The Royal Bank of Scotland Group plc.

[2] 'Enhancing financial reporting disclosures by UK credit institutions' - FSA Discussion Paper, October 2009.

Overarching principle

1. **UK banks are committed to providing high quality, meaningful and decision-useful disclosures to users to help them understand the financial position, performance and changes in the financial position of their businesses.**

UK banks acknowledge that achieving this goal is predicated on focused, open, clear and understandable disclosures and that it is particularly important to explain their business strategy and business models so that stakeholders can understand opportunities and risks. To this end, boilerplate disclosures that do not convey meaningful, entity-specific information should be avoided.

Where relevant, quantitative disclosures should be accompanied by sufficient qualitative narrative to meaningfully explain the significance of the quantitative disclosures.

The Business Review should clearly “tell the story” of the business performance for the period under review and the key risk exposures should reflect information provided to the Board.

Disclosures should be made at an appropriate level of granularity to aid understanding of the information or activity being explained. Judgements about the level of detail should balance the necessary need for aggregation to avoid information overload against the need for granularity to enhance understanding and increase transparency and should be based on information provided internally to key management personnel. Significant balances should not be left unexplained.

Disclosures relevant to the understanding of an institution’s involvement in a certain activity should be provided in one place or appropriately cross referenced to meet disclosure requirements of different jurisdictions and to allow easy navigation.

Where disclosures are made (e.g. Key Performance Indicators in the Business Review) that show analyses that are not directly reconcilable to the financial statements, then it is important to explain the context of the information and how it relates to the financial statements.

Where disclosures are made that show an analysis of assets or liabilities which are comprised of balances (or parts of balances) from different balance sheet line items, the disclosures should include reconciliation back to the relevant balance sheet line items.

Compliance with IRFS

2. **UK banks will continue to keep under review and are committed to ongoing re-evaluation and enhancement of their financial instrument disclosures for key areas of interest.**

To ensure that their financial statements continue to be of high quality, UK banks will continue to seek to identify those areas of their activities which are of particular interest to market participants. In making this assessment institutions will consider internal management information provided to the Board, relevant guidance and directions provided by UK, European and international regulators and standard setters as well as representations made by stakeholder groups.

In particular, UK banks acknowledge that high quality disclosures in the following areas are particularly important:

- Judgements in applying accounting policies (IAS 1.122).
- Informative explanations about accounting policies adopted (IAS 1.117).
- Key assumptions when estimating the carrying value of assets and liabilities (IAS 1.125).
- Information about financial risks and exposures and how they are managed (IFRS 7.31 to 7.35).
- Sensitivity analyses (IFRS 7.40).
- Assumptions supporting fair value estimates (IFRS 7.27).
- Information about credit quality of assets (IFRS 7.36 to 38).
- Significant changes to carrying values at interim reporting periods (IAS 34.15).

IASB Expert Advisory Panel, Senior Supervisors Group and other good practice guidance

3. **UK banks acknowledge the importance of good practice recommendations and similar guidance issued from time to time by relevant regulators and standard setters and will assess the applicability and relevance of such guidance to their disclosures.**

As necessary, UK banks should continue to consider going beyond what is required by IFRS, statutory and regulatory requirements and listing rules to ensure that the information they provide to stakeholders meets these objectives.

Accordingly UK banks will assess, and reflect to the extent relevant to their business models and mixes, good practice recommendations made by the IASB's Expert Advisory Panel, the Financial Stability Board, Senior Supervisors' Group and Committee of European Banking Supervisors and other guidance of similar standing.

Current examples of best practice disclosure focus on:

- The impact of market turmoil on results;
- Disclosure of levels and types of exposures;
- Granularity of disclosures; and
- Accounting policies and valuation issues.

UK banks will also keep under review topical and emerging issues. Even though topical issues may not be material in relation to their overall business, it may be material for the sector or otherwise important to the business and as such relevant for stakeholders. The UK banks will consider providing information to enable stakeholders to understand the effect on the bank's business of these issues.

In considering what matters would be regarded as a topical or emerging issue, the UK banks will consider a number of factors such as: market conditions, information provided to the Board, feedback and guidance from regulators, standard setters, and stakeholder groups.

Depending on the nature of the topical or emerging issue, the following types of disclosure may be appropriate:

a. Balance sheet and income statement amounts for the activity.

b. Explanation of the business strategy.

c. Explanation of opportunities and risks and the potential for any significant income statement charge.

It may also be relevant to confirm that the bank does not have exposure to a particular risk.

4. UK banks will seek to enhance the ability to compare financial statement disclosures across the UK banking sector.

In adopting new standards, best practice recommendations and considering key market areas of interest which require enhanced disclosures, UK banks will seek to implement, where appropriate, consistent approaches to aid comparison and understanding.

In this regard, the UK banks acknowledge that disclosures in tabular form are a good way to facilitate understanding and enhance the ability to compare across institutions.

While each bank's business model and financial exposure is different, it is recognised that users seek to undertake comparisons between banks. To assist users with this and their understanding of financial reports, the UK banks will provide within their annual and interim reports a glossary of terms. The glossary will set out the definitions of key non-IFRS terms used in relation to financial instruments as well as other important terms and acronyms used in their reports. These definitions should be of sufficient detail to enable the scope of disclosures to be differentiated where appropriate.

Subject to responses to the FSA Discussion Paper, it is the intention of the UK banks that, beginning from their 2010 annual reports, they will seek to converge their definitions of non-IFRS terms. In this context, 'convergence' does not necessarily mean identical definition; rather, a level of equivalence in definition to enhance the ability of stakeholders to make (a) an assessment of each individual UK bank's assets and liabilities, financial position, performance and risk profile; and (b) meaningful comparisons across the UK banking industry.

5. UK banks should clearly differentiate in their annual reports between information that is audited and information that is unaudited.

UK banks acknowledge that it is important that there is a clear differentiation between audited and unaudited information. They will therefore ensure that audited information reported outside of their financial statements is clearly noted.

Annex 1 – The UK banks’ agreed approach for an ongoing process to meet and discuss financial statement disclosures.

UK banks have a history of working together through the BBA’s Financial Reporting Advisory Panel to understand and prepare for the adoption of new financial reporting requirements. In the past, specific Working Parties have been established to prepare for such major events as the first time adoption of IFRS, the application of IFRS 7 and the implementation of Pillar 3 of the Basel II Accord.

To ensure that their financial statements continue to provide users with meaningful and decision-useful information about changes in their financial position and performance, UK banks will build on this past work and commit to meet before key reporting periods to:

- discuss the application of new IFRS disclosure standards and, where necessary, approaches to enhance the consistency of application of these disclosures in terms of interpretation, definition and presentation;
- consider best practice guidance produced by relevant regulators including interpretation, definition and presentation;
- identify topical issues which are material to the market as a whole and may require additional disclosure; and
- review the comparability and consistency of disclosures generally.

The Directors of each Financial Institution remain responsible for ensuring that appropriate disclosures are provided for their entities.

The group will not discuss in any way current pricing/cost levels or trends nor any specific customer related information or any issue considered commercially sensitive.