Financial Disclosure in the Banking, Insurance and Securities Sectors: Issues and Analysis

May 2004
I. Executive summary.........................................................................................................1

II. Introduction .....................................................................................................................3

III. The state of disclosure....................................................................................................4
   A. Market risk in trading activity .................................................................................5
      Fisher II report recommendation............................................................................5
      Current disclosures .................................................................................................6
      Investment community and firm views ..................................................................7
      Initiatives by standard setters and regulators .......................................................8
   B. Firm-wide exposure to market risk.........................................................................9
      Fisher II report recommendation...........................................................................9
      Current disclosures .................................................................................................9
      Investment community and firm views ..................................................................10
      Initiatives by standard setters and regulators .......................................................10
   C. Funding liquidity risk ............................................................................................11
      Fisher II report recommendation..........................................................................11
      Current disclosures .................................................................................................11
      Investment community and firm views ..................................................................12
      Initiatives by standard setters and regulators .......................................................13
   D. Credit risk.............................................................................................................14
      Fisher II report recommendation..........................................................................14
      Current disclosures .................................................................................................14
      Investment community and firm views ..................................................................16
      Initiatives by standard setters and regulators .......................................................17
   E. Insurance risk ......................................................................................................18
      Fisher II report recommendation..........................................................................18
      Current disclosures .................................................................................................18
      Investment community and firm views ..................................................................19
      Initiatives by standard setters and regulators .......................................................19

IV. Development of disclosure concepts ............................................................................21
   Risk concentrations...................................................................................................21
   Loss mitigation of credit exposures...........................................................................22
   Performance measures for credit exposures ............................................................22
   Potential credit exposure ...........................................................................................23
   Funding liquidity risk ...............................................................................................23
   Market liquidity risk .................................................................................................25
Financial Disclosure in the Banking, Insurance and Securities Sectors: Issues and Analysis

I. Executive summary

1. In June 1999, a Multidisciplinary Working Group on Enhanced Disclosure (Fisher II working group) was established to provide advice to its sponsoring organisations\(^1\) on steps that would advance the state of financial institutions’ disclosures of financial risks in order to enhance the role of market discipline. The BCBS, IAIS and IOSCO, seeking to follow up on the recommendations contained in the Fisher II report,\(^2\) established (through the Joint Forum\(^3\)) a Working Group on Enhanced Disclosure (the Working Group). This report outlines the Working Group’s findings.

2. The Fisher II report recommendations cover five risk areas: market risk in trading activity, firm-wide exposure to market risk, funding liquidity risk, credit risk and insurance risk. They are aimed primarily at the major market participants, both public and private. To assess the extent to which the Fisher II report recommendations were adopted, the Working Group reviewed the 2002 annual reports of 66 financial institutions in the banking, insurance and securities sectors. In addition to surveying public disclosures, the Working Group held meetings with representatives from the investment community, credit rating agencies, and financial firms in order to gain their views on the degree of adoption of the Fisher II report recommendations and ways to improve public disclosures.

3. The Working Group found that the extent of adoption of the recommendations varies widely. While many financial firms have adopted some of the recommendations, at least a few particulars of the recommendations were not adopted by a significant number of firms. More specifically:

- Firms that are actively involved in trading generally make most of the recommended disclosures related to market risk. These disclosures virtually always involve the Value-at-Risk (VaR)\(^4\) methodology. A few firms also disclose the effects of stress testing, which is a key component of their internal risk management methodologies. Just over half of surveyed firms make some quantitative disclosures of risk and return, such as a comparison of risk estimates (eg VaR) with actual outcomes.

- For measuring market risk arising from activities other than trading, the Working Group’s survey found sensitivity analysis to be notably more likely to be used than VaR. Using their chosen methodology, two-thirds of surveyed banks and securities firms make quantitative disclosures of material non-trading market risk, while

---

\(^1\) Basel Committee on Banking Supervision (BCBS), the Committee on the Global Financial System of the G-10 central banks (CGFS), the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO).


\(^3\) The Joint Forum was established in 1996 under the aegis of the BCBS, IOSCO and the IAIS to deal with issues common to the banking, securities and insurance sectors.

\(^4\) VaR is an estimate of the probable amount at risk (the probability being reflected by the confidence level) due to fluctuations in the market factors (the volatility of the market factors) over a given period of time (holding period).
insurance companies make mainly qualitative disclosures on asset/liability management.

- The Working Group found that disclosure related to funding liquidity risk is a very complex issue, due primarily to the difficulty of quantifying the level of the risk in a way that is meaningful for disclosure purposes, as well as the firms’ sensitivity that such disclosures must be carefully considered in order not to provide misleading and potentially damaging information. With few exceptions, most of the firms surveyed include a discussion of funding liquidity in their annual reports. However, the extent of quantitative information supporting the discussion is generally weak. Improvement in quantitative disclosures with regard to funding liquidity risk is clearly needed, although the way to do this effectively remains a challenge.

- In the area of credit risk, the Working Group reviewed separately disclosure practices for credit risk resulting from credit instruments, OTC derivatives counterparties and reinsurers. Banks’ disclosures related to their lending portfolios tend to be fairly extensive, although just under half the banks surveyed provide information on the distribution of their loan exposure by credit rating. Both banks and securities firms tend to make extensive disclosure regarding their derivatives counterparty exposures. For such exposures, all surveyed securities firms, but less than a third of surveyed banks, disclose the credit ratings associated with these exposures. Many insurance companies also provide quantitative information with respect to the credit risk arising from their bond, loan, derivative and reinsurance exposures.

- The Fisher II report made only a few recommendations with respect to non-life insurance risk, which insurance companies appear generally to have adopted. For example, the majority of surveyed firms provide disclosures regarding paid losses and loss adjustment expense, incurred losses and loss adjustment expense and loss ratios. However, few insurers report pricing adequacy in their annual reports. These firms also tend to make additional disclosures, such as a discussion of trends and breakdowns of premiums, reserves and losses.

4. Members of the buy-side investment community with whom the Working Group spoke generally expressed a strong desire for financial firms to provide greater levels of disclosures, both within and beyond the Fisher II report framework. A number of their suggestions were constructive and included disclosures that at least a few firms have already begun to make, eg, stress testing processes, market risk incurred by insurance companies (not related to trading), liquidity risk, potential future exposure to derivatives counterparties, and finer breakdowns of credit exposure by industry and geographic location. Representatives of financial firms, which constitute providers of information, also offered a number of constructive suggestions for enhanced disclosures, most notably in respect to funding liquidity risk.

5. Efforts by regulators and other standard-setters have been made, and additional efforts are under way, to encourage financial firms to make disclosures similar to those recommended by the Fisher II report. For example, in its current effort to revise the Basel Capital Accord, the Basel Committee proposes to make mandatory many of the Fisher II report recommendations in the areas of market risk (arising from both trading and non-trading activities) and credit risk for certain banking organisations. The International Accounting Standards Board (IASB) is developing new disclosure standards that may

---

5 Insurers in some jurisdictions are required to provide this information in regulatory reports that are publicly available.
incorporate many of the Fisher II report recommendations in all financial risk areas. The IAIS likewise has projects under way with respect to disclosures about insurance risk, as well as credit and firm-wide market risk by insurance companies.

6. The Working Group believes that the five key Fisher II report recommendations merit continuing support, although there remains a question as to whether all of the recommendations in their current form are relevant to insurance firm operations. There is consensus, however, that similar risks in the various sectors should be disclosed in similar ways.

7. The Fisher II report also identified disclosure areas requiring further investigation and development from a conceptual point of view. The Working Group has reviewed these areas and agrees that further work in three should be pursued: disclosures of risk concentrations, potential future exposure, and funding liquidity risk. The goal should be to find a way for firms to disclose in a meaningful way information they already possess as part of their internal risk management processes.

8. The Working Group had originally intended to consider the disclosures of both regulated and unregulated firms (ie hedge funds) as contemplated in the Fisher II report. However, the Working Group was unsuccessful in obtaining the cooperation of a sufficient number of hedge funds to provide a meaningful basis for further review. The Working Group believes that some hedge funds may not have been willing to provide information because of concerns about client confidentiality, the proprietary nature of their positions, and a general reluctance to engage in dialogue with the regulatory community. Issues relating to hedge fund disclosures form part of a general debate ongoing in some jurisdictions regarding the regulation of hedge funds and are currently being considered by other organisations in the context of those debates. Nonetheless, further work on hedge fund disclosure could well be usefully considered at a future date.

II. Introduction

9. The Fisher II working group was established in June 1999 in response to increased volatility in financial markets and credit exposures of large financial institutions and the potential systemic risk these issues presented in light of the collapse of Long-Term Capital Management. The sponsoring organisations believed that greater transparency regarding financial institutions’ risks would strengthen market discipline and could play an important role in maintaining financial market stability. To help achieve that goal, the Fisher II working group conducted a study of large financial institutions with significant international activities to determine whether it was feasible to enhance the quality and scope of their disclosure of financial risks. In April 2001, the group issued a report containing recommendations for improving the public disclosure practices of banks, insurance companies, securities firms and leveraged investment funds (hedge funds).

10. The Fisher II report’s recommendations fell into three categories:

(1) A specific set of disclosures that should be provided by financial intermediaries that incur a material level of financial risks, through periodic reports to their shareholders, creditors and counterparties. These disclosures cover five major risk areas: 1) market risk in trading activity, 2) firm-wide exposure to market risk, 3) funding liquidity risk, 4) credit risk and 5) insurance risk.

(2) Other disclosures that would, in principle be informative, but which require further deliberations to determine their cost and benefit and how they might be made. The
Fisher II report identified two areas under this category: risk Concentrations and Credit Risk (reflection of loss mitigation arrangements in ratings of credit quality as well as performance measures). It envisaged that these should be capable of resolution in the near term.

(3) Areas where quantitative information would fill an important gap in disclosures, for which further development of risk assessment concepts and methods are necessary before practical disclosures could be considered (a longer term horizon). Areas identified by the Fisher II report for further development included: (i) risk assessments that take account of market liquidity and considering how such measures could be used in disclosure of market risk, and (ii) broad principles for the assessment of funding liquidity risk. In the longer term, it was suggested that the sponsoring organisations collaborate with the private sector to review or develop best practices for disclosures of firm-wide exposures to market risk, and develop concepts for the measurement and disclosure of potential future credit exposure at a firm-wide level.

11. Given the importance of transparency in today’s financial environment, and that disclosure issues span all sectors, the Joint Forum established the Working Group to follow-up the work in the Fisher II report. Specifically, the Working Group was mandated to: (1) investigate the extent to which financial firms have adopted the specific disclosure recommendations of Fisher II; (2) assess the extent to which financial sector regulators and/or standard-setting bodies have considered new requirements to enhance disclosure of financial risks through changes in accounting, listing, or other requirements applicable to financial firms; (3) explore the development of disclosure concepts; and (4) consider the practicality of developing recommendations for enhanced public disclosures and re-evaluate, as appropriate, the recommendations of the Fisher II report.

12. The Working Group investigated the extent to which the Fisher II report recommendations have been adopted by financial firms and the ongoing disclosure projects of regulators and standard setting bodies. The Group also consulted with financial institutions and analysts in all three sectors. Finally, the group has done some preliminary work in the disclosure areas identified in the Fisher II report that require further investigation and development and has identified some specific areas where firms should be encouraged to develop meaningful disclosures and related methodological approaches. These are included in section IV of this report. The Working Group has concluded however, that additional work on the development of risk assessment concepts in these areas is needed before more comprehensive recommendations can be made.

III. The state of disclosure

13. This section reviews the results of a survey of public reports to assess firm adherence to the Fisher II specific recommendations covering the five major risk areas mentioned above, as well as presentations made to the Working Group, and developments at regulatory agencies and other standard-setting bodies.

6 Separately, the BCBS, IOSCO and IAIS have long been interested in transparency issues, and have issued several reports. See, eg, BCBS, Best Practices for Credit Risk Disclosure (September 2000), available at www.bis.org/publ/bcbs74.pdf; BCBS and Technical Committee of IOSCO, Trading and Derivatives Disclosures of Banks and Securities Firms (December 1999), available at www.bis.org/publ/bcbs64.pdf.
14. The survey undertaken by the Working Group involves the 2002 annual reports of 66 financial institutions in twelve countries in the banking, insurance and securities sectors. While an effort was made to include at least some firms in every financial sector in each country represented in the Working Group, the sampling method was not equally representative of all countries and sectors. The sample population, shown in the appendix, includes the reports of 38 primarily banking firms, 22 insurance companies, and six stand-alone securities firms.

15. To become better acquainted with the issues in disclosure, the Working Group met with financial analysts from four investment groups and a credit rating agency (i.e., the users of information) to obtain their views on the Fisher II report recommendations, what disclosures were being made and how they might be improved. The Group also met with representatives of banking, insurance and securities firms, the Securities Industry Association in the United States, and two hedge funds to obtain their perspectives as providers of information. The views of these firms and individuals are set forth throughout this report. However, this does not mean or imply that that either the Working Group or its individual members agree with those views.

16. The Working Group also surveyed the publications and current activities of the BCBS, the IASB, the IAIS and IOSCO to become acquainted with the latest developments that have a bearing on the adoption of the Fisher II report recommendations. It also reviewed current efforts to enhance disclosure by the US Securities and Exchange Commission (SEC).

17. The next five sub-sections cover the respective Fisher II report recommendations for market risk in trading activity, firm-wide exposure to market risk, funding liquidity risk, credit risk and insurance risk.

A. Market risk in trading activity

Fisher II report recommendation

18. All financial intermediaries that engage in trading activity or actively manage their mark-to-market portfolios should disclose measures of market risk in that activity. Value-at-risk (VaR) is a type of information that might be disclosed. In addition to aggregate figures, in their public disclosures, firms should break down VaR by risk or asset classes that provide diversification benefits to them. It should be estimated for both one-day and two-week

---

7 The Working Group also undertook a similar survey of the 2001 annual reports of a modestly different sample of financial firms. While a few improvements were evident between 2001 and 2002, disclosure practices in the two years were basically consistent. The 2002 survey includes a publicly available handbook that one firm, UBS, publishes separately from its annual report. This handbook may be found at http://www.ubs.com/e/investors/annrep/annualreportingoverview/2002/handbook.html.

8 Many of the banking organisations and insurance firms maintain substantial operations in the securities sector. A few primarily banking institutions also conduct insurance underwriting.

9 Some of the organisations made more than one presentation.

10 The term “trading activity” has been defined in various ways, both for regulatory and accounting purposes. Some definitions are based around the concept of trading intent, while others are activity based, in that they focus on actual patterns of buying and selling. A third type of definition focuses on the accounting treatment so that, for instance, all financial instruments that are accounted for at fair value with gains and losses recognised in the profit and loss account be treated as trading.
holding periods and reported in terms of the high, median and low values over the reporting interval and at period-end.

19. In addition, to enable investors to assess the efficiency of their risk management, financial firms should provide information about risk and return, including a comparison of risk estimates with actual outcomes. This comparison should be accompanied by qualitative discussion to help in understanding it.

20. Over time, financial institutions should strive to improve the alignment between their risk and performance measures and to provide an appropriate level of granularity in their disclosures.

**Current disclosures**

21. Virtually all surveyed banking and securities firms make some disclosure of VaR.\(^1\) Of those making disclosures, nearly all disclose the aggregate amount, while most give a breakdown by type of risk or asset class (interest-rate, equity price and either foreign exchange or commodity price risk). Most show high, average and low values, as well as the period-end value. The disclosed amounts are typically based on a one-day holding period, although a handful disclose 10-day VaR.\(^2\) Only one firm in the banking sector and two in the securities sector disclose VaR using both a one-day and a 10-day holding period; but even these firms give a full category breakdown for only one of the holding periods. They release just a summary number for the other.

22. Going beyond the Fisher II report recommendations, over half of the firms that make quantitative VaR disclosures include plots of daily or weekly trading VaR over the timeframe of the database (typically one year). Of these firms, 10% show the daily variation in the form of a histogram (giving the frequency of various values of VaR). By showing the full pattern of how VaR varies over time, these plots and histograms provide more information than do average values and ranges of VaR.

23. Virtually all firms that make any disclosure of trading market risk include a qualitative discussion of the risk and how it is measured and managed, with most of these firms disclosing that scenario analysis and stress testing form part of their methodology. Some banking and insurance firms disclose the results of such analyses.

24. Virtually no firm indicates which trading or mark-to-market activities are left out of its risk measurement methodology, leading to the impression that everything is included. Firms occasionally identify exposures omitted from a firm-wide VaR analysis, but also indicate that the omitted items are not things that are traded or “actively managed.”

25. In the insurance sector, it would appear that few firms have what they consider to be trading or actively managed mark-to-market portfolios (and thus would not have any associated risk data to disclose). VaR may, however, be disclosed as part of a report for an entire insurance group (but probably not for the affiliated businesses that are pure insurance companies). For example, one insurance organisation reports VaR only for subsidiaries that conduct investment-banking activity.

---

\(^1\) One of the 44 banks and securities firms does not make VaR disclosures.

\(^2\) One securities firm discloses 5-day VaR because it deems 5 days an adequate period to exit from its positions.
26. Disclosures of risk and return are not as good as might be desired. Somewhat over half of the firms that give any VaR estimate at all make a comparison of risk estimates with actual outcomes. Most of these do so by reporting the number of days when trading losses exceeded the risk measure or by plotting daily revenues and VaR on the same time axis. Some Japanese firms make the comparison in a particularly revealing fashion through the use of scattergraphs, in which VaR is plotted on one axis and gain/loss is plotted on the other axis. Some firms provide a histogram of trading revenues; but this is generally not connected to VaR. Only about a third of firms disclosing a VaR estimate provide a brief qualitative discussion to help in the comparison of the risk and return measures. It is uncommon for a firm to explain the differences between the basis of the profit numbers and the basis of the VaR estimates. Without such explanation, one does not really know what is being compared. In the few instances where such differences are mentioned, they represent only partial disclosures.

**Investment community and firm views**

**VaR disclosures**

27. Analysts indicated to the Working Group that the main value of disclosures for market risk in trading activity is that they reveal how management controls that risk. They emphasised the limitations on the utility of currently disclosed VaR numbers. They generally agreed that current VaR disclosures need to be enhanced by:

- Information about the firm’s stress testing in order to understand (i) the way management thinks about risk, and (ii) the most adverse outcome that the firm might face,
- More information on the shortcomings of the methodologies used to calculate VaR, particularly the large number of assumptions that underlie VaR numbers, and its weaknesses in times of market instability, and
- Greater granularity in order to hone in on the source of the risk.

28. Analysts wanted more information on how VaR estimates vary over time. They felt that the standard parameters – the average, high and low values of VaR over the reporting period – do not adequately describe any trends in the amount of risk that a firm assumes. As noted above, several firms provide plots (or histograms) of daily VaR, although no firm is known to disclose a measure of its variability, such as the standard deviation.\(^\text{13}\)

**Stress tests**

29. Analysts stated that stress tests should be standardised in order for the results to be useful. Without standardisation, the results would convey little meaningful information because they are heavily dependent on assumptions. With standardisation, analysts would base their evaluations on comparisons across firms.

30. Other presenters noted, however, that stress-testing procedures vary from firm to firm and it is difficult to standardise such tests. It is therefore unlikely that quantitative disclosures of stress test results would be comparable (assuming that disclosures reflect

\(^{13}\) One firm told the Working Group that it is unable to provide comparative VaR data for timeframes longer than the two most recent reporting periods because it updates its methodology regularly and does not re-calculate results for still earlier periods to make them comparable.
what the firm actually uses internally). Specifically, presenters noted that risk profiles and risk methodologies vary across firms, making it difficult to develop a standardised test that might be commonly embraced, and that there is a conflict between having disclosures that are consistent with internal risk management practices and disclosures that are comparable across firms. Suggestions were made that firms disclose their stress testing processes and assumptions, but not the results. This might give analysts information on how management views the firm’s risks. The qualitative discussions would need to be detailed in order to differentiate firms and not be boilerplate. Presenters argued that such qualitative disclosures might be more useful than quantitative results of stress tests, particularly since positions change dramatically. Such disclosures could include a qualitative discussion of trends in market risk profile, taking into consideration VaR and other internal risk measures and the top risk factors and drivers.

**Initiatives by standard setters and regulators**

31. In October 1999, the Basel Committee and IOSCO made recommendations for qualitative and quantitative disclosures for market risk that are similar to those in the Fisher II report (Basel/IOSCO Report). These international organisations urged banks and securities firms to disclose summary information from their internal risk management systems, supplemented by disclosures of the major assumptions and parameters of the models used to generate the data. In addition to high, low, average and period-end VaR numbers, they cited, as examples of the types of quantitative disclosures that might be made, histograms of daily profit and losses combined with daily VaR numbers and the number of times actual losses exceeded the VaR estimate. The Basel/IOSCO Report also recommended that firms discuss their process for stress testing. The discussion might include the types of portfolios involved, how stress test scenarios are developed, the frequency of testing, and management’s response. The report noted that the results of scenario analyses would enhance the transparency of an institution's market risk profile.

32. In revising its Capital Accord, the Basel Committee proposes to make some of the Fisher II report recommended disclosures mandatory for those banking organisations that wish to utilise internal models in setting capital requirements for market risk. These organisations would need to disclose the high, mean and low values of aggregate VaR over the reporting period and at period-end. However, the VaR figures need not be broken down by risk or asset class. A comparison of VaR estimates with actual outcomes is expected to be required.

33. The IASB standard on financial instruments disclosures (IAS 32) contains only limited disclosure requirements with respect to market risk. The objective of the disclosures about market risk in IAS 32 is to provide information to users of financial statements about currency risk, interest rate risk (fair value and cash flow), and price risk. However, a quantitative measure of market risk for trading portfolios or across a firm is not specifically required. For interest rate risk, effective interest rates and re-pricing information must be given. IAS 32 states that, in some circumstances, disclosure of interest rate sensitivity information may be useful, but it is not required. In a separate IASB project, known as “Disclosures of risks arising from and other disclosures relating to financial instruments,” the IASB is developing a more comprehensive standard for disclosures of financial risk, which it expects to release in mid-2004 for public comment. The resulting standard, which the IASB

---

14 Basel Committee on Banking Supervision and Technical Committee of the International Organisation of Securities Commissions, Recommendations for Public Disclosures of Trading and Derivatives Activities of Banks and Securities Firms (October 1999), available at www.bis.org/publ/bcbs60.htm.
expects to finalise in early 2005, is expected to amend existing IAS 30 (Disclosures in the Financial Statements of Banks and Similar Financial Institutions) but will apply to all companies that report under IASs, not just financial institutions. On the basis of the IASB’s latest project summary, it seems likely that this standard will incorporate some of the Fisher II report recommendations. For example, the IASB is considering including requirements for quantitative disclosures about market risk (including sensitivity analysis), as well as credit exposures and credit quality.

34. The IAIS has charged its Subcommittee on Enhanced Disclosure with developing a standard for disclosure of investment performance and risks. This subcommittee is in the very earliest stage of its work, and a standard would not be expected until 2005.

B. Firm-wide exposure to market risk

Fisher II report recommendation

35. The Fisher II report recognised that market risk can arise from interest rate and currency mismatches between assets and liabilities, even those not used in trading. Accordingly, it recommended that firms disclose the extent of this risk, whether managed in the aggregate on a firm-wide basis or separately outside the trading area. Specifically, the Fisher II report recommended that for firms in which firm-wide\footnote{15} assessments of market risk are used in the firm’s internal risk management and for which the firm has confidence in the risk assessment, a measure of firm-wide exposure to market risk that integrates assets and liabilities and off-balance sheet exposures across the entire institution should be disclosed. Where trading and non-trading activities are managed separately, only the market risk associated with non-trading activities would be reported under this caption. Where relevant, the disclosures should include the high, median and low value over the reporting period and at period-end.

Current disclosures

36. Sensitivity analysis is considerably more likely to be used for market risk outside the trading portfolio than is VaR. Nonetheless, while essentially all firms that use VaR make quantitative disclosures of their risk, not all of those that conduct sensitivity testing reveal the results of the tests. Even so, two-thirds of firms in the banking and securities sectors make some type of quantitative disclosure of their market risk either on a firm-wide basis or outside the trading portfolio. Insurance companies make mainly qualitative disclosures on asset/liability management. Some insurers disclose the results of sensitivity tests.\footnote{16}

37. In making disclosures of market risk outside the trading area, firms provide the high, low, and average values over the reporting period, as well as the value at period-end, if they use VaR. If they use sensitivity analysis, however, only period-end values are disclosed. High, low and average values would be meaningful only if the risk measure is calculated reasonably often. The firms do not indicate the frequency at which they perform these calculations.

\footnote{15} The term “firm-wide” is intended to refer to a parent company and all of its affiliates, ie, all members of a conglomerate group, and all activities regardless of where in the organisation they are undertaken.

\footnote{16} At least one insurance firm discloses VaR for its insurance business by segment (general insurance, which includes property and casualty, and life insurance).
Firms that do not use common measures inside and outside the trading book obviously would not have a firm-wide measure for market risk. Even among firms that use VaR for both trading and non-trading activities, a few do not provide an aggregate VaR.

**Investment community and firm views**

Most of the presenters did not address firm-wide exposure to market risk. However, the analysts who cover the insurance sector generally stated that, even if trading is not an important activity for a particular insurance firm, all insurers face significant firm-wide market risks. An insurance analyst stated that asset/liability mismatch is a key risk faced by insurance firms that needs to be disclosed better, and that insurance firms need to improve their disclosures regarding the way in which interest rate shifts may affect embedded values, as well as the results of any relevant sensitivity analysis. That is, the financial health of insurance companies (as well as other financial firms) is sensitive to changes in interest rates, foreign exchange rates, and equity prices.

**Initiatives by standard setters and regulators**

Little official guidance on disclosure of market risk outside the trading portfolio exists today, other than that provided by the US SEC. The SEC’s Regulation S-K requires all public issuers of securities (both financial and non-financial institutions) to disclose market risk in trading and non-trading portfolios separately. The firms may choose among three options in making these disclosures: sensitivity analysis, VaR, or a tabular presentation of instruments in a manner that will allow estimation of expected cash flows and how these flows might change under various scenarios.

The proposed New Basel Capital Accord would establish requirements for disclosure of the most typical non-trading market risk that banks face, ie, interest-rate risk in the banking book. Banks subject to the New Accord would need to disclose the key assumptions in their management methodologies, including loan prepayments and the behaviour of deposits without a stated maturity. Quantitative disclosures of the variation in earnings, economic value, or other measures used by management that would result from upward and downward interest rate shocks would also be required.

The IASB’s standard on financial instruments disclosures (IAS 32), cited above, also addresses market risk outside the trading portfolio. However, a quantitative measure of market risk across a firm is not specifically required. In its separate project on “Disclosures of risks arising from and other disclosures relating to financial instruments,” the IASB is developing a more comprehensive standard for disclosures of financial risk.

As noted earlier, the IAIS has charged its Subcommittee on Enhanced Disclosure with developing a standard for disclosure of investment performance and risks.\(^\text{17}\)

---

\(^{17}\) Even though in the framework of technical risks, the draft standard on technical performance and risks issued by the Subcommittee in October 2003 also requires the disclosure of simple sensitivity analysis relating to interest rate risk.
C. Funding liquidity risk

Fisher II report recommendation

44. The Fisher II report recognised that the concept of funding liquidity risk is very difficult to quantify in a meaningful way for disclosure. Moreover, such disclosures need to be carefully considered in order not to provide misleading and potentially damaging information. To strengthen their disclosures for funding liquidity risk, the Fisher II report recommended that firms look for ways to supplement meaningfully their qualitative discussions with quantitative information.

45. The Fisher II report further recommended that the disclosed information include a discussion about concentrations of funding sources, including the percentage of short-term funding that is provided by the three largest creditors for outstanding unsecured credits.

Current disclosures

46. Qualitative discussions of funding liquidity risk are widespread. All surveyed banks and securities firms in nearly all of the Working Group member countries discuss funding liquidity in their annual reports. All surveyed insurance companies in six countries also discuss funding liquidity, as do some insurers in the remaining countries. Several firms note that funding liquidity is managed at the local level.

47. Among firms that discuss funding liquidity risk, the majority in every financial sector include some limited quantitative information to support the discussion. Most noteworthy, all stand-alone securities firms provide such information. Only a minority of the firms also discuss the concentrations of funding sources.

48. Most securities firms disclose the amount of unencumbered collateral, as do a few banks.¹⁸

49. Generally, surveyed banks disclose limited information concerning their funding liquidity risk, particularly with regard to quantitative information. Some banks might offer a table showing funding gaps in various maturity buckets. A few disclose one or more ratios by which liquidity is measured. Bank specific disclosures might include: the amount of volatile funding sources (uninsured time deposits, money-market rate accounts, unsecured overnight borrowings and foreign deposits); the contingent liquidity risk arising from securitisation activity; or the results of stress tests of the firm’s liquidity position. An insurance firm might provide a table of strategic liquidity, based on various stress scenarios.

50. No surveyed firm discloses the percentage of short-term funding obtained from its three largest creditors. However, several firms disclose the monetary amount of their credit facilities, which represent a potentially significant source of back-up funding. Some banking organisations note that, because they rely primarily on retail deposits for their liquidity, the amount of funding obtained from any particular wholesale creditor is immaterial.

51. Some insurers have noted that liquidity risk is not generally a critical concern for most of the insurance sector due to the nature of the business, which involves receiving cash

¹⁸ One of the surveyed securities firms provides more comprehensive disclosures, and discusses its liquidity policies, the leverage of its balance sheet, the effect of a change in credit ratings on liquidity, the effect of a rating downgrade on the amount of collateral the firm would have to post to cover its borrowings, a breakdown of the sources of its short-term funding, and the amount of unencumbered collateral it has to secure new borrowings when needed.
in advance that is invested to meet future potential claims. Liquidity risk becomes a concern only in very extraordinary situations, such as, for example, firm-wide policy surrenders. Some US firms offering contractual investment products would have more of a systematic exposure to liquidity risk.

52. While still fairly limited, disclosures relating to liquidity risk have improved modestly from 2001 to 2002. Most of this improvement involves qualitative disclosures, such as those relating to liquidity management processes and contingency plans. A few securities firms enhanced their quantitative disclosures, eg, by providing the estimated loan value of the liquidity cushion and other unencumbered assets, a discussion and quantification of illiquid non-financial assets, or the amount of additional collateral required to be provided in the event of a one-notch downgrade of the firm's senior debt credit rating.

Investment community and firm views

53. Most of the discussion on funding liquidity revolved around the feasibility of making disclosures in this area. All parties recognised that this is a sensitive topic because it is necessary for a firm to maintain investor confidence in order to retain access to funding. Disclosures that are wrongly interpreted could upset that confidence and inadvertently complicate a firm's liquidity management.

54. Presenters gave several reasons why firms may not be adopting fully the Fisher II report recommendations for liquidity risk. For example:

- Providing a single liquidity measure could lead to misunderstandings in the market place;

- Given the wide variety of ways in which firms manage liquidity risk, it would be difficult to develop a single measure for disclosure purposes that would be relevant for most financial firms.

55. Presenters made numerous suggestions regarding ways to enhance disclosure of liquidity risk. These include:

- Providing the firm’s short-term liquidity posture, including the size and type of funding used in the reporting period. Any risk of misinterpretation might be reduced by accompanying the quantitative disclosures with appropriate qualitative discussion;

- Disclosing more qualitative information that indicates how the firm manages liquidity and, in particular, how it might respond to a liquidity crisis. These disclosures could include:
  - The organisational structure that establishes the firm’s liquidity policies and ensures compliance with those policies.
  - The various contingency scenarios that have been analysed internally, including key assumptions;
  - Cash available from the sale or maturity of assets or their use as collateral for secured borrowing (ie, asset liquidity), including the assumptions on what prices these assets would fetch in the postulated scenario;

19 The disclosure might be made, for example, through greater granularity in the cash flow statements.
• Funding requirements from liabilities;
• Debt maturities, including put options and the effect of acceleration clauses;
• Cash flows from operations, focusing on trends and indicating whether potential funding demand from commitments and contingencies is included in the data;
• The potential need for cash transfers between the group’s affiliates and its ability to effect the transfers;20 and
• The reliability of alternative funding sources.

56. Regarding the insurance sector, analysts stated that disclosures should emphasise the insurers’ cash flows, rather than the financial instruments that they own (and that this would be consistent with the way the firms view and manage liquidity), and that funding liquidity risk may not be material for insurance firms because of premium cash flow (ie, a big drop in premiums collected could create a liquidity crisis for an insurance firm, but that this has not yet happened).

Initiatives by standard setters and regulators

57. As part of its project on “Disclosures of risks arising from and other disclosures relating to financial instruments” (cited above), the IASB is considering disclosure requirements related to liquidity risk, focusing on a maturity analysis for financial liabilities and a description of how the liquidity risk inherent in that maturity analysis is managed. No results are available at this time, as the project will be further discussed in 2004. The 1999 Basel/IOSCO Report, referenced above, states that financial institutions should describe how liquidity risk arises, how it relates to their trading and derivatives activities, and how it is measured and managed. The paper also states that institutions should discuss how performance in managing liquidity risk is assessed.

58. In December 2003, the US SEC issued an interpretive release, Commission Guidance Regarding Management’s Discussion and Analysis of Financial Condition and Results of Operations,21 to elicit more meaningful disclosure in the Management’s Discussion and Analysis section of company filings with the Commission. One section of the release provides guidance on disclosure of liquidity and capital resources and specifically focuses on disclosure of a company’s cash requirements, sources and uses of cash, debt instruments, guarantees and related covenants (including the impact of debt covenants on a company’s ability to undertake additional debt or equity financing), and cash management. The release makes reference to the required tabular disclosure of contractual obligations, including long-term debt, capital lease, operating lease, and purchase obligations and other long-term liabilities.22 That tabular disclosure is required for fiscal years ending on or after December 15, 2003.

20 Legal and regulatory rules often constrain funds transfers between financial affiliates.
D. Credit risk

Fisher II report recommendation

59. The Fisher II report recommended that all financial firms provide quantitative information on their exposures to credit risk, including data on credit quality and maturity, using breakdowns that reflect the nature of the firm’s exposures. The amount of exposure should include the loan equivalent amount from guarantees, credit derivatives and other contingent arrangements. Either internal or external credit ratings could be used to indicate the quality of current exposures. Where internal ratings are used, the firm should discuss qualitatively how the ratings relate to loss likelihoods and standard external rating classes. In addition, basic performance information should be disclosed.

Current disclosures

60. An annex to the Fisher II report listed credit instruments and counterparty exposures as examples of two broad categories by which disaggregations might be made, while giving firms leeway in defining the categories of credit risk to which they are exposed. Indeed, the vast majority of firms that make quantitative disclosures of credit risk distinguish between these two broad groupings. Thus, in reviewing current disclosures, the Working Group focused separately on credit risk resulting from credit instruments (loans, loan equivalents, receivables and bonds) and counterparties (primarily with regard to OTC derivatives). It should be noted, however, that most institutions place their credit risk disclosures in different places throughout their annual reports, making it difficult to obtain a comprehensive view of the institution’s overall credit exposure.

61. For lending arrangements, the appropriate measure to be disclosed is the amount of the exposure, net of provisions for credit losses. All banking institutions surveyed made these disclosures grouped by broad loan type; some gave breakdowns by industry or geographic location. Securities firms with significant lending portfolios disclose the exposures in aggregate. The majority of insurance firms make disclosures about their bond holdings. In many countries, banking or securities market regulators specify a minimum level of categorisation, and the firms comply with the regulatory requirements or exceed them.

62. The effect of collateral and other loss mitigation arrangements is rarely disclosed in regard to lending arrangements, as recommended by the Fisher II report. In exceptional cases, firms will disclose the total amount of credit protection purchased through single-name credit default swaps and synthetic collateralised loan obligations. In addition, one dimension that Japanese banks and insurance companies disclose is a break down of loan categories into collateralised and guaranteed or unsecured. There appear to have been no separate disclosures of credit risk associated with securities lending, although some firms would combine these exposures with repurchase agreements.

---

23 Counterparty exposures might include those associated with derivatives contracts, reverse repurchase agreements (RRPs), security loans, and reinsurance contracts. In some countries, RRPs are considered to be a form of secured lending and are included in the loan totals. In other countries, RRPs are categorised separately from loans.

24 One surveyed firm makes disclosures of its credit exposures in a particularly helpful format. This institution gathers into one table its credit exposures to loans outstanding, tradable assets, OTC derivatives and contingent liabilities and breaks each down by the type of counterparty.

25 Some provisions are of a general nature and not tied to any particular loan. When the recommended disclosure relates to a particular group of debtors, obviously the gross amount of the exposure is meant.
63. For counterparty risk, the Fisher II report called for the disclosure of replacement values after counterparty netting. The majority of surveyed banks and securities firms make these disclosures. Most stand-alone securities firms, but only a few banks, also give the effect of collateral arrangements.

64. In the internal risk management systems at many firms, exposures to derivatives counterparties are quantified in terms of potential credit risk. Less than 10% of the surveyed firms disclose their counterparty risk in these terms. However, these disclosures tend not to be accompanied by much qualitative information, such as an indication of the frequency at which the potential credit risk amounts might be realised.

65. Banks, securities firms, and most of the insurance firms surveyed disclose the amount of contingent risk – commitments to lend, guarantees, credit derivatives and other contingent arrangements granted. In several jurisdictions, these disclosures are required by national accounting rules.

66. Insurance firms in some countries make quantitative disclosures about credit risk. Approximately 50% of the surveyed insurance firms make disclosures with respect to lending arrangements (primarily bonds and mortgages), while 40% make disclosures with respect to derivatives counterparty risk. When disclosures are made, they tend to display an appropriate level of disaggregation (loan type, product line, industry sector or geographical). With respect to credit risk arising from exposures to reinsurance companies, most of the surveyed insurance firms provide qualitative disclosures and some quantitative information, primarily amounts reflected in the financial statements, eg, receivables and payables related to reinsurance. The more detailed disclosures recommended by the Fisher II report are generally not provided, although a few insurers reveal reinsurer exposures by credit rating.

67. A majority of the surveyed firms provide some breakdown of their credit exposures by credit rating. In particular, about 45% of surveyed banks provide ratings data for their corporate and other non-consumer loans, while about 50% of insurance companies provide this data for either their bond holdings or their loan portfolio. At securities firms and some banks, however, bonds are marked-to-market, and their credit risk is reflected in the firms’ market risk disclosures. All surveyed stand-alone securities firms, as well as about 30% of banks and 20% of insurance companies, disclose creditworthiness ratings for derivatives counterparties. The disclosed ratings are usually expressed in terms of external credit rating agency categories or a mapping to these categories. Where such categories (or their equivalents) are not used, the investor usually has little indication as to what the internal ratings mean because the corresponding default probabilities are rarely disclosed.

68. Disclosure rates are somewhat higher for distributions by maturity than for those by credit rating. Over 60% of the surveyed banks provide maturity distributions for their loan portfolios, and about 30% disclose them for counterparty exposures. All surveyed securities firms disclose maturity information for their counterparty exposures. Somewhat under half of the surveyed insurance companies also include maturity information (for either financial instruments or counterparty exposures) in their annual reports to stakeholders.

---

26 Potential credit risk (also referred to as “potential future exposure” (PFE)) is the largest amount of credit risk that might arise over the life of the derivatives instrument. It is estimated from a modelling methodology.

27 This figure is based on reports to shareholders. Were public regulatory filings by insurance companies included, the proportion disclosing breakdowns by credit rating would be slightly larger. In the European Community, insurance firms must comply with strict supervisory restrictions on the type of investments (including loans) that they may make. Compliance with these restrictions is intended to limit the credit risk that the insurers face.
69. A particularly good disclosure practice is the cross-tabulation of exposures by credit rating and maturity. The majority of securities firms surveyed provide such cross-tabulations for their derivatives counterparty credit exposures.

70. With respect to the performance of credit exposures, banking organisations in all surveyed countries disclose the amount of loans and other credits that are past due or non-performing, loans that have been charged off, recoveries on charged-off loans, and provisions for credit loss. Among banking organisations making disclosure of loan performance, a majority also break down their problem loans by any number of loan types and/or geographical areas.

71. Securities firms manage the credit risk inherent in counterparty exposures differently from banks and insurance firms. Specifically, their exposures are marked to market regularly. As a result, any credit losses are immediately recognised as trading losses.

72. The Working Group has noticed some verifiable enhancements in credit risk disclosures between 2001 and 2002. More banks and insurance firms are disclosing credit risk data for their loan and bond portfolios, respectively. For example, a few banks have added a discussion and quantification of potential credit risk in the derivatives portfolio, or provided a maturity breakdown of loans.

Investment community and firm views

73. Presenters made the following observations regarding certain particulars of the Fisher II report recommendations that generally not have been adopted:

• Firms do not generally disclose potential future exposure (PFE) because it is difficult to arrive at a generally accepted analytic for PFE. Nonetheless, firms are managing their businesses along these lines and indeed have become more advanced in the measurement of PFE.

• Regarding concentration risk, public disclosure of the top 10 loans, for example, is difficult to make without disclosing names, although this would be important information for regulators. Disclosing publicly the percentage of a portfolio that is concentrated could be useful, but needs extensive qualitative discussion to give context to the quantitative data.

74. The analysts who made presentations to the Working Group thought that firm credit risk disclosures could be generally improved in several aspects. They indicated that banks could provide more detail and show migration between credit ratings in their loan portfolios. The banks’ disclosures also should include breakdowns that correspond to the way that management views risk internally, instead of following a rigid format. The analysts noted that insurance and securities firms needed to increase their basic disclosures of credit risk. It was also mentioned that the potential credit risk in derivatives should be disclosed because it is a factor that is monitored internally.

75. While many banks provide breakdowns of credit exposure by loan type (e.g., real estate, other commercial, other consumer, government, etc.), analysts called for further breakdowns by industry, geography, and the use of collateral. Such breakdowns would help

---

28 Management may review credit risks on a business line basis, rather than by type categories. For example, credit risks arising from investment banking may not be lumped with those arising from commercial banking. As another example, private banking may be reviewed separately from other customer banking.
them assess the institution’s risk because credit problems often strike a particular industry or geographic location, rather than a particular loan type. Further, the degree of collateralisation and the use of other risk mitigants figure importantly in the size of potential losses. Firms should also break down consumer loans by sub-types, eg, home mortgages, other instalment loans, credit card, secured lines of credit, etc. A few analysts went so far as to ask for disclosure of the sizes of a firm’s ten largest single exposures, without naming the borrowers. In response, it was noted that there might be regulatory constraints on the size of a firm’s exposure to a single borrower, and that further disclosures would therefore be unnecessary.

76. Analysts wanted to see wider acceptance of the Fisher II report’s recommendation for disaggregation of credit exposures by credit rating. For example, disclosures of credit quality could be extended to the consumer portfolio by including breakdowns by consumer credit scores. In order to be alerted to adverse trends, several analysts wanted to see data on migration across credit ratings.29

77. Analysts also suggested that firms provide additional discussion of their provisioning methodology (ie, methodology for forecasting loan losses). In some countries, firms have leeway in implementing accounting guidance for credit reserves. A fuller discussion would therefore be helpful in assessing the adequacy of provisioning, and thus the possible effect on earnings and capital should provisions prove insufficient for a particular loss event.

78. One insurance analyst also supported disclosure of the rating categories of the reinsurers used by the non-life insurance firms, as recommended by the Fisher II report, as well as the extent to which reinsurance polices are collateralised. This analyst further suggested that firms disclose the names of individual reinsurers if they are significant for the company’s financial condition. Going beyond the Fisher II report’s recommendations, she suggested that insurance companies need to provide more detail on the asset-backed securities that they own, as well as the credit derivatives to which they are exposed. To the extent that the durations of insurance company investments are matched with those of policy liabilities, she suggested that the main risk in the interest bearing bond portfolio would be credit, rather than market, and that it would therefore be helpful to disclose geographic and industry distributions of the bonds, in addition to the currency in which they are denominated. Finally, she suggested that all insurance companies disclose separately the investments of the life insurance company subsidiaries and those of the non-life subsidiaries because the solvency of individual subsidiaries depends in part on the matching of their respective assets and liabilities.

Initiatives by standard setters and regulators

79. In the new capital accord, the Basel Committee proposes that banking organisations be required to make essentially all of the disclosures recommended in the Fisher II report, although the specific requirements would vary by the approach selected for calculating regulatory capital requirements. Notably, the proposed requirements include disclosures that are not commonly made by banking organisations today, although bank disclosures are evolving. These include, under the standardised and foundation internal ratings-based (IRB) approaches, the exposure that is covered by collateral, as well as that covered by guarantees and credit derivatives. Under the standardised approach, exposures must be broken down by credit rating. Under the IRB approaches, the parameters of credit risk must be disclosed. Sufficient qualitative discussion must accompany the quantitative disclosures.

29 One analyst, however, would be satisfied with regular disclosures of exposures by credit ratings, from which migrations may be estimated.
to enable a fair understanding of the risk being absorbed by the institution. Most data are to be broken down by specified risk types, although a distinction does not always have to be made between lending arrangements and counterparty risk.

80. The IASB’s standard on financial instruments disclosures (IAS 32) includes a requirement for an entity to disclose information about its exposure to credit risk, specifically including the amount that best represents the entity’s maximum credit risk exposure in the event other parties fail to perform their obligations, and significant concentrations of credit risk. In its current project on “Disclosures of risks arising from and other disclosures relating to financial instruments” (cited above), the IASB plans to require non-prescriptive additional disclosures related to credit risk, including information about credit quality of assets, and collateral and other credit enhancements.

81. The IAIS will be looking at credit risk as part of its consideration of investment performance and risk. Separately, the IAIS Technical Committee has approved a new draft standard\(^3\) that includes a requirement for insurers to disclose the credit quality of the reinsurers, for example, by grouping reinsurance assets by credit rating.\(^{31}\)

82. The Basel/IOSCO Report made recommendations for both quantitative and qualitative disclosures concerning credit risk arising from credit and trading activities. In general, the Report recommended that qualitative disclosures should summarise an institution’s policies for identifying, measuring and managing credit risk, including the use of credit risk mitigants and how it assesses credit risk management performance. Where an institution uses internal models to measure potential credit exposure, the Report recommends disclosure of key assumptions underpinning the models. The Report concludes that quantitative disclosures should include data on gross current credit exposures and potential future credit exposure to counterparties, aggregate information on counterparty credit quality, concentrations, and credit losses, as well as data on the use of credit derivatives.

E. Insurance risk

\textit{Fisher II report recommendation}

83. The Fisher II report suggested certain disclosures for non-life insurance risks, which have particular applicability to insurance firms. These include reserve adequacy and loss development, pricing adequacy, and loss ratios. The Fisher II report also noted the need for further work by the IAIS to harmonise measurement methodologies and accounting standards among countries.

84. Although the Fisher II report generally aimed its insurance risk proposals to insurers, the Working Group notes that insurance risk could also extend to other financial institutions that offer products with an insurance risk element associated with them, for example, financial guarantees or catastrophe bonds.

\(^3\) Approved by the IAIS Technical Committee and will come into force once adopted at the IAIS annual conference.

\(^{31}\) International Association of Insurance Supervisors, Standard on Disclosures Concerning Technical Performance and Risks for Non-Life Insurers and Reinsurers (draft, October 2003), paragraph 44.
**Current disclosures**

85. Insurance firms appear to be complying fairly well with the minimal recommendations of the Fisher II report that relate specifically to insurance risk. For example, the majority of surveyed non-life insurance firms provide disclosures regarding paid losses and loss adjustment expense, incurred losses and loss adjustment expense and loss ratios. However, only a few firms covered pricing adequacy. In addition to items mentioned in the Fisher II report, most insurers also discuss trends and provide breakdowns of premiums, reserves and losses.

**Investment community and firm views**

86. The analysts who focused on the insurance sector noted that insurance policy losses can take many years to emerge after a policy is written and that this makes it difficult for both insurance companies and investors to forecast earnings streams. It was suggested that firms clarify past earnings trends (among other things) to enhance the accuracy of analyst forecasts. For example, firms could provide tables showing the development of paid and incurred losses and related expenses, as recommended in the Fisher II report (so-called “triangle tables”). These disclosures would help analysts in assessing the adequacy of an insurance company’s reserves. Ideally, firms would break down each year’s premiums earned, and losses incurred, by whether direct earnings/obligations of the company or ceded (eg, to a reinsurer).

87. It was also suggested that pricing adequacy be disclosed by business line, noting that pricing inadequacies often surface only when an insurance firm needs to take a write-down.

88. Although not covered by the Fisher II report, presenters also discussed the life insurance sector. It was suggested that assumptions be disclosed because methodologies are not standardised. For example, it would be necessary to know the assumptions behind deferred acquisition costs, embedded options and guarantees in order to understand the true state of a company’s condition.

89. Finally, analysts discussed how they might restructure an insurance company’s financial statements to get a better perspective on its capital adequacy. It was noted that insurance firms make inadequate disclosures with regard to their exposures to reinsurers and the quality of their counterparties. These firms allegedly provide a poor sensitivity analysis (in particular, their assumptions are not disclosed). It was suggested that pressure from rating agencies would be sufficient to persuade the larger insurance companies to improve their disclosures, but that the smaller firms would need regulatory pressure to do so.

**Initiatives by standard setters and regulators**

*IAIS Draft Standard for Non-Life Insurance Risks*

90. The IAIS Subcommittee on Enhanced Disclosure has proposed a standard\(^\text{32}\) for disclosure of non-life insurance risks applicable to non-life insurance companies and reinsurers. As noted in the IAIS’ draft standard, “[a]n insurer should provide qualitative and quantitative information on technical performance in the areas of pricing adequacy, provision

\(^{32}\) Approved by the IAIS Technical Committee in December 2003
adequacy, claims statistics, risk concentrations, reinsurance and capital.\textsuperscript{33} Pricing adequacy would be judged through disclosures of historical data on the loss (or claims) ratio, the expense ratio, the combined ratio and possibly the operating ratio. Provision adequacy would be assessed through disclosures of claims development and the run-off of provisions. Claims statistics could take various forms and would sometimes need to be accompanied by qualitative explanations. Disclosures on risk concentrations should include quantitative descriptions of their nature (eg, by geography and sector), quantitative data on their magnitude (if quantitative information is not given, there should be an explanation as to why it cannot be given), and an indication of the extent to which they are reduced by reinsurance or other risk mitigation measures. Information on reinsurance should include a discussion of its adequacy, its cost, the payments received, and the creditworthiness of the reinsurers used. Capital disclosures should include the definition of capital and several historical capital ratios and generic capital requirements. Finally, disclosure on key assumptions and standardised sensitivity tests of key assumptions and variables would also be required. A draft standard of the Subcommittee, issued in October 2003\textsuperscript{34}, would require the disclosure of the existence of stress testing and sensitivity analysis (eg, the effects of a 10% change in interest or inflation rates) relating to firm-wide exposure to market risk.

\textit{IASB Project on Insurance Contracts}

91. The IASB has underway a project to develop an International Financial Reporting Standard (IFRS\textsuperscript{35}) for insurance contracts. Not only is there currently no IAS or IFRS on insurance contracts, but insurance contracts are also excluded from the scope of those existing IAS/IFRS that would otherwise be relevant. Insurance accounting practices are very diverse internationally and also often differ from practices in other sectors. Because it is not feasible for the IASB to complete its project on insurance contracts in time for many of the entities that will be required to adopt IFRS in 2005, the project is being conducted in two phases. Phase I of the project has resulted in an Exposure Draft (ED 5, Insurance Contracts) with comments due by October 31, 2003. The IASB expects to issue the final IFRS on Insurance Contracts under Phase I in the first quarter of 2004. The standard would be effective for periods beginning on or after January 1, 2005. The IASB aims to complete an exposure draft under Phase II of the project by June 2005.\textsuperscript{36}

\textit{Solvency II}

92. Solvency II is the name given to a comprehensive review of the way in which insurance supervisors in the European Union seek to ensure the solvency of insurance companies. This review, begun in 2000, is wide-ranging and intended to lead to a major reform of the existing prudential system. It is also similar to the Basel Committee’s New Capital Accord in that it will follow a “three pillar” approach, including a pillar covering disclosures. Among other things, increased disclosure requirements may result from this effort, especially as regards solvency, technical provisions, reinsurance programs and sensitivity to key assumptions.\textsuperscript{37}

\textsuperscript{33} IAIS, op. cit., paragraph 412.

\textsuperscript{34} Adopted at the IAIS Technical Committee meeting in December 2003

\textsuperscript{35} IFRS are replacing International Accounting Standards (IAS). Until replaced, all IAS remain in force.

\textsuperscript{36} See IASB Update for November 2003 at www.iasb.org

IV. Development of disclosure concepts

93. The Fisher II report identified a number of areas where improved disclosures would be useful, but where the means of making such disclosures were still in need of development or where consensus was lacking. Areas where the firms have made progress in developing concepts, but disclosure issues remain open, include concentration risk, loss mitigation in credit risk, and performance measures for credit exposures. Two areas where developmental work is still in progress, firm-wide market risk and potential credit exposure (PFE), are discussed above and further thoughts on the latter are offered below. In addition, there are some areas where the authors of the Fisher II report thought that the private sector should take the lead, specifically regarding market liquidity risk and funding liquidity risk. The Working Group has identified areas where firms should be encouraged to develop meaningful disclosures relating to their methodological approaches in this area.

Risk concentrations

94. Because risk concentrations constitute vulnerabilities for all firms, the Fisher II report indicated that further deliberation was required on practical means of expressing vulnerability. The Working Group found that the way institutions disclose information about exposures to risk concentrations varies widely across firms, but in general is not presently disclosed in comprehensive and quantitative terms. The Working Group agrees, however, that risk concentration is a critical disclosure item, and is relevant for both market and credit risk.

95. The Fisher II report recommended an examination of the meaningfulness and potential effect on market functioning of greater granularity in risk profiles of market and credit risks, such as the use of economic regions, market sectors, industries or specific assets. The questions raised here were (1) whether risk concentrations can be expressed in a categorization of exposures at a practical level of granularity, and (2) since stress tests are often used to assess risk concentrations, whether the heterogeneity of stress testing practice would affect disclosure of such concentrations.

96. The Working Group heard differing views on these issues. Some firms argued that such breakdowns would not reveal their risk concentrations unless they were made at a high level of detail along a number of different dimensions, but that they would then reveal proprietary business strategies. In contrast, some analysts have expressed doubts that such information would be truly proprietary and are sceptical of claims that such disclosures would deter a firm from undertaking investments that had sound commercial prospects.

97. For large, well-diversified firms, such disclosures should not impose an undue threat to any business strategy. Indeed, some firms are already disclosing various credit risk concentrations of amounts on the order of magnitude of one-tenth of capital. However, not all firms are making disclosures at this level of detail. For example, while geographic breakdowns of exposures are often disclosed, industry breakdowns are not. The categorical breakdowns vary substantially from one firm to another thereby making comparison more difficult. Nevertheless, a degree of management discretion when providing breakdowns would seem necessary to reflect internal criteria used. Since information about concentrations is important to users of financial information, some quantitative disclosure complemented by qualitative discussion is valuable.

98. With regard to the use of stress tests, the Working Group notes that they are based in part on assumptions and correlations between exposures, and that these are often based on management’s judgement. Thus stress test results are unlikely to be comparable from firm to firm. Some firms prefer to disclose risk concentrations as identified by a sensitivity
analysis as this avoids the need to define a stress scenario resulting in a major impact. In any case, further work should be done to help determine whether it would be useful for firms to describe publicly their general stress testing methodology or sensitivity analysis results, including quantitative information, as a few firms have already done. 38

Loss mitigation of credit exposures

99. Financial firms naturally attempt to mitigate their credit risks, and disclosures would not be complete without some indication of the extent to which credit risk has been mitigated. The effect of credit risk mitigation can potentially be shown as either a reduction in an exposure or an improvement in the credit quality of the exposure. For instance, a credit derivative hedge may offset an exposure and result in the reporting of only a small net exposure. Alternatively, a guarantee on a loan might be reflected in the upgrade of the credit rating of the loan to that of the guarantor from that of the borrower. Needless to say, these alternative approaches can make disclosures of credit exposures less comparable than they first appear.

100. The Basel Committee recognises that both methods are in common use and does not prescribe either method for regulatory capital calculations. Nonetheless, banking organisations will be required under the New Basel Capital Accord to make extensive disclosures of their credit risk mitigation methodologies. The Fisher II report went further; it recommended that both gross exposures (after counterparty netting, where applicable) and net exposures after collateral and other loss mitigation arrangements be shown. A few firms have provided both types of disclosure.

101. The Working Group notes that firms are exploring new methods of credit risk transfer as a tool for loss mitigation. Given that this field is rapidly developing, however, the Group believes that it is premature to conduct an investigation focused solely on disclosure of credit risk transfer.

Performance measures for credit exposures

102. The Fisher II report raised the question as to whether credit risk information might be enhanced and made more timely by, for example, disclosing migrations of current exposures across credit rating classes or other information on the performance of exposures in various rating categories.

103. The Working Group is of the opinion that such disclosures would have merit. It notes, however, that the proposed New Basel Capital Accord, while mandating many disclosure enhancements in the credit area, will not require disclosures of migrations across credit ratings. 39

38 In the IAIS draft standard cited earlier, it was suggested that risk concentration disclosures could include "exposure[s] with the potential to produce losses large enough to threaten an [entity's] economic health or ability to maintain core operations." IAIS, op. cit., p. 9. IAS 32 requires institutions to disclose significant concentrations, although "significant" is not defined.

39 Where the institution's creditworthiness disclosure involves internal rating classes, expected performance of credits within each rating class is to be disclosed.
Potential credit exposure

104. The variable and volatile nature of the replacement value of derivatives contracts means that the counterparty credit exposure in these contracts can change over time; the ultimate credit exposure can also change. In addition to the current replacement value of derivatives contracts, many risk managers also monitor the potential future exposure (PFE) of these credit exposures. The Working Group believes that information about PFE is useful for understanding the nature of credit risk in an institution with a large derivatives business. As noted earlier, some firms disclose their PFE to derivatives counterparties, as well as contingent obligations under lines of credit and guarantees, including those extended by insurance companies and treated as insurance risk. The Working Group generally believes that a brief, but pertinent, qualitative explanation regarding the potential exposure is desirable. For example, at least two firms (one in banking and one in securities) already disclose the statistical level of confidence at which they measure their potential credit exposure. The Working Group also thinks that it is important that disclosures in this area include measures that the firm uses internally for risk management. For instance, if the firm focuses on potential credit exposure to the exclusion of present values, its disclosures should be similarly slanted.40

105. The Securities Industry Association made a proposal that the Working Group believes is worth pursuing. It proposed that individual firms should experiment with two possible measures related to derivatives: the mean positive exposure (MPE) and the portfolio potential exposure (PPE). MPE is a measure of the average potential counterparty exposure of a derivatives portfolio, while PPE represents an extreme value of potential counterparty exposure of the portfolio. PPE is typically evaluated at some (large) degree of confidence (ie 95% or greater).

106. The Working Group thinks that further work on approaches to disclosing PFE would be worthwhile and that this work should include industry involvement.

Funding liquidity risk

107. All financial firms must maintain adequate liquidity in order to continue operating, especially during moments of stress; thus they all face funding liquidity risk to some degree. Nonetheless, differences between types of financial firms suggest that disclosure of liquidity risk, more so than for other risks, may need to be tailored by financial sector. The deposit base of banks, the flow of premium receipts at insurance firms, and the marketable securities held by securities firms have distinct implications for liquidity risk. These differences aside, liquidity risk is present in all firms; and a firm’s ability to manage this risk ultimately determines whether it can survive episodes of stress.

108. Given its critical nature, it is no surprise that many firms are extremely reluctant to reveal much information about liquidity risks, while investors believe that more should be disclosed. An important aspect of liquidity risk is investors’ confidence in the firm. Thus, a maturity mismatch of assets and liabilities at a firm in which investors have confidence would not necessarily be a source of concern, but a lack of confidence could turn a maturity mismatch from a potential liquidity risk to an immediate liquidity crisis. Some firms seem to be particularly concerned about the fragility of the market’s confidence in their short-term liabilities and how more disclosure might impair that confidence. Investors, on the other hand, generally are quite aware of the illiquid profile of firms’ assets and liabilities even if they

40 A few firms already make disclosures in this way.
are uncertain of its extent; and thus they may assume the worst about a firm under distress. In this sense, a lack of information is a vulnerability, rather than a defence against misinterpretation and misunderstanding. In any event, from a prudential perspective, disclosures that would strengthen incentives for firms to manage their liquidity risks better would be a positive development for containing systemic risks.

109. The Working Group believes that a qualitative discussion of the firm’s funding liquidity risk is an important disclosure to supplement any quantitative data disclosed on this risk. Some preliminary ideas for qualitative disclosure include, among other things,

- Identification of the relevant committee or group within the firm that sets the contingency funding plan, and/or identifies liquidity issues and provides guidance.
- Firm exposure to special purpose entities and related potential liquidity support requirements.
- The firm’s utilisation of liquidity monitoring tools to maintain appropriate levels of liquidity through normal and stress periods, and its primary measure of liquidity.
- The firm’s credit ratings and the impact of any changes on the firm’s ability to access funds.
- A description of how the balance sheet affects the firm’s ability to obtain funding.
- Identification and description of the firm’s sources of funds, including its issuance of long-term debt, trust preferred capital securities or other corporate obligations.

110. The Working Group believes that it is essential for firms to continue to work towards developing meaningful quantitative disclosures. In addition to showing, where material, a baseline maturity mismatch of assets, liabilities and known contractual cash flows, quantitative disclosures would be particularly important for showing the impact of certain stress scenarios on contingent funding arrangements. Such contingent liquidity risks would include payment acceleration and termination clauses tied to ratings downgrades or contingent collateral obligations that can place demands on a firm's liquidity at precisely the moment when a firm would be under stress.

111. The Working Group believes that, among others, the following approaches may merit further work to promote enhanced quantitative disclosure of funding liquidity risk:

- Recommendation of the IASB approach that would require disclosure of a maturity analysis of financial liabilities based on remaining contractual maturities, and management discussion of how the firm handles contractual maturities of liabilities (e.g., rollovers, selling liquid assets, etc.) Whether this approach is adaptable to insurers needs to be considered since the quantitative disclosure focuses solely on liabilities. Further details about the IASB proposals would be needed to make an informed assessment about its merits for the three sectors.
- Explore “cash flow” disclosures so as to encompass more clearly insurance companies.
Market liquidity risk

112. The importance of market liquidity risk has been highlighted in recent years when the prices of financial instruments changed dramatically when market liquidity dried up, causing losses when positions were unwound in illiquid markets. Current disclosures do not account for the effects of market liquidity risk. An example of market liquidity risk is the risk associated with hedging or liquidating a position that is losing value. An annex to the Fisher II report examined the degree to which a conventional one-day VaR measure could understimate market risk. The analysis used a liquidity-adjusted VaR, which is a VaR estimate using holding periods determined by the length of time that would be required to unwind positions. The pilot study in the Fisher II report found that, on average, liquidity-adjusted VaR was about five times as large as one-day VaR. More to the point, the ordering of firms by liquidity-adjusted VaR was substantially different than the ordering by one-day VaR. Thus, the Fisher II report noted that disclosure of risk measures in addition to one-day VaR would be useful. However, liquidity-adjusted VaR was somewhat of an experimental tool, in which limited confidence could be placed.

113. The Fisher II report indicated that VaR estimated over a two-week holding period, while providing more information about potential exposures to liquidity risk than the one-day VaR, would not necessarily constitute a satisfactory indicator of market liquidity risk. The ordering of firms by this measure still differed from that obtained using liquidity-adjusted VaR.

114. A fair amount of research on how to assess market liquidity risk has been conducted by risk managers at financial institutions. This research suggests that progress is being made in this area. It appears, however, that there is no consensus concerning methods that could be used to disclose such risks. The Working Group would encourage the private sector to continue its efforts to attain a satisfactory measure for market liquidity risk. It should be noted that the Basel/IOSCO report of Oct. 1999, suggested that firms disclose how market liquidity risk is considered in determining mark-to-market values of traded positions.

V. Hedge Funds

115. The Working Group had originally intended to consider the disclosures of both regulated and unregulated firms (ie hedge funds) as contemplated in the Fisher II report. The rationale identified in Fisher II was that all internationally active financial entities could and should include details related to liquidity, credit and market risk in routine periodic disclosures, with respect to those items where they experience material levels of the relevant risk.

116. The Working Group recognised the useful opportunity to go into further detail on potential hedge fund disclosure and to this end made significant efforts to persuade hedge funds to participate in its deliberations. However, of the hedge funds contacted, only two were willing to meet with the Working Group to present their views on disclosure. The Working Group nonetheless considered ways in which disclosure in relation to hedge fund activities could be approached. For example, the Working Group recognised that regulated

---

41 In general, market liquidity risk can be defined as the current or prospective risk to earnings and capital arising from a financial institution's inability to unwind quickly its positions on current market rates without incurring unacceptable losses. Market liquidity risk arises from the failure to recognise or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.
prime brokers would receive much risk information on the hedge funds that they serve, although this information is not made public.

117. From the hedge funds contacted, important barriers to a more constructive engagement on disclosure of hedge funds' activities appear to include client confidentiality, the proprietary nature of hedge fund positions as it relates directly to their strategy, and a general reluctance amongst them to engage in dialogue with the regulatory community at all, for fear of encouraging some form of oversight. Without more information from hedge funds, the Working Group does not believe that it can consider in any meaningful way the issues around potential hedge fund disclosure. However, further work could be pursued by other organisations.  

VI. Future Work

118. Based on the findings in this report, the quality of disclosure could be enhanced in the following areas: PFE, concentrations and funding liquidity risk. The Working Group recognises the challenges, however, in developing recommendations for specific types of disclosures. For example, PFE poses a challenge in arriving at a generally accepted analytic; and disclosing concentrations might reveal proprietary information. Moreover, disclosing quantitative data on a firm’s funding liquidity risk raises concern on the part of some firms that the markets might misinterpret the data and overreact in a negative way. As these complex areas evolve, there would be merit to the regulatory community, users of financial information and producers of information to work out common methodological approaches to disclosure. Future work should seek to identify the advanced methodologies currently used internally by the industry including the resulting data upon which senior management relies, and to work with the industry to seek to develop common methodological approaches to disclosure on that basis.

42 Of some relevance to this issue, on 2 October 2003, the US Securities & Exchange Commission (SEC) released a report entitled “The implications of the Growth of Hedge Funds.” This report outlines SEC staff’s factual findings, identifies concerns and recommends that the SEC consider certain regulatory and other modifications to improve the current system of hedge fund regulation and oversight. The report is available at: http://www.sec.gov/news/studies/hedgefunds0903.pdf.

43 The Working Group does not believe that these are the only areas where disclosure can be enhanced. It chose to restrict its recommendations for further work to these three areas primarily because they are of most concern to the investor community. Moreover, these are areas where firms already have developed analytics, and therefore possess information that could be disclosed publicly. The challenge, as noted in this report, is in determining how much of, and in what way, this information should/can be disclosed.
## Appendix 1

2002 Annual Reports Included in the Survey

<table>
<thead>
<tr>
<th>Firm</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bank</strong></td>
<td></td>
</tr>
<tr>
<td>Bank of Montreal</td>
<td>Canada</td>
</tr>
<tr>
<td>Canadian Imperial Bank of Commerce</td>
<td>Canada</td>
</tr>
<tr>
<td>Danske Bank</td>
<td>Denmark</td>
</tr>
<tr>
<td>Nordea Bank</td>
<td>Denmark</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>France</td>
</tr>
<tr>
<td>Crédit Agricole SA</td>
<td>France</td>
</tr>
<tr>
<td>Crédit Lyonnais</td>
<td>France</td>
</tr>
<tr>
<td>Société Générale</td>
<td>France</td>
</tr>
<tr>
<td>Commerzbank</td>
<td>Germany</td>
</tr>
<tr>
<td>Deutsche Bank Group</td>
<td>Germany</td>
</tr>
<tr>
<td>BNL</td>
<td>Italy</td>
</tr>
<tr>
<td>Capitalia</td>
<td>Italy</td>
</tr>
<tr>
<td>Intesa BCI</td>
<td>Italy</td>
</tr>
<tr>
<td>San Paolo IMI</td>
<td>Italy</td>
</tr>
<tr>
<td>Unicreditto</td>
<td>Italy</td>
</tr>
<tr>
<td>Mitsubishi Tokyo Financial Group</td>
<td>Japan</td>
</tr>
<tr>
<td>Mizuho Financial Group</td>
<td>Japan</td>
</tr>
<tr>
<td>Sumitomo Mitsui Financial Group</td>
<td>Japan</td>
</tr>
<tr>
<td>UFJ Holdings</td>
<td>Japan</td>
</tr>
<tr>
<td>Banco Santander</td>
<td>Mexico</td>
</tr>
<tr>
<td>GF Banorte</td>
<td>Mexico</td>
</tr>
<tr>
<td>GG BBVA Bancomer</td>
<td>Mexico</td>
</tr>
<tr>
<td>GF Bital</td>
<td>Mexico</td>
</tr>
<tr>
<td>GF Inbursa</td>
<td>Mexico</td>
</tr>
<tr>
<td>Banco Bilbao Vizcaya Argentaria</td>
<td>Spain</td>
</tr>
<tr>
<td>Santander Central Hispano</td>
<td>Spain</td>
</tr>
<tr>
<td>Credit Suisse Group</td>
<td>Switzerland</td>
</tr>
<tr>
<td>UBS</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Abbey National</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Barclays</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Bank of America</td>
<td>United States</td>
</tr>
<tr>
<td>The Bank of New York Company</td>
<td>United States</td>
</tr>
<tr>
<td>Bank One</td>
<td>United States</td>
</tr>
<tr>
<td>Citigroup</td>
<td>United States</td>
</tr>
<tr>
<td>FleetBoston</td>
<td>United States</td>
</tr>
<tr>
<td>JP Morgan Chase</td>
<td>United States</td>
</tr>
<tr>
<td>Mellon Financial Corporation</td>
<td>United States</td>
</tr>
<tr>
<td>SunTrust Banks</td>
<td>United States</td>
</tr>
<tr>
<td>Firm</td>
<td>Country</td>
</tr>
<tr>
<td>-----------------------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td></td>
</tr>
<tr>
<td>Great-West Lifeco</td>
<td>Canada</td>
</tr>
<tr>
<td>Manulife Financial Corporation</td>
<td>Canada</td>
</tr>
<tr>
<td>Sun Life Financial Services of Canada</td>
<td>Canada</td>
</tr>
<tr>
<td>Topdanmark</td>
<td>Denmark</td>
</tr>
<tr>
<td>Tryg Forsikring A/S</td>
<td>Denmark</td>
</tr>
<tr>
<td>AXA</td>
<td>France</td>
</tr>
<tr>
<td>Allianz</td>
<td>Germany</td>
</tr>
<tr>
<td>Assicurazioni Generali</td>
<td>Italy</td>
</tr>
<tr>
<td>Compagnia Assicuratrice</td>
<td>Italy</td>
</tr>
<tr>
<td>Dai-ichi Mutual Life Insurance Co.</td>
<td>Japan</td>
</tr>
<tr>
<td>Nippon Life Insurance Co.</td>
<td>Japan</td>
</tr>
<tr>
<td>Grupo Nacional Provincial</td>
<td>Mexico</td>
</tr>
<tr>
<td>ING Group</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Swiss Life</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Swiss Re</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Zurich Financial Services</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Aviva</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>AIG</td>
<td>United States</td>
</tr>
<tr>
<td>AMBAC</td>
<td>United States</td>
</tr>
<tr>
<td>Chubb Corporation</td>
<td>United States</td>
</tr>
<tr>
<td>Pacific Life</td>
<td>United States</td>
</tr>
<tr>
<td>Prudential Financial</td>
<td>United States</td>
</tr>
<tr>
<td><strong>Securities</strong></td>
<td></td>
</tr>
<tr>
<td>Nomura Holdings</td>
<td>Japan</td>
</tr>
<tr>
<td>The Bear Stearns Companies</td>
<td>United States</td>
</tr>
<tr>
<td>The Goldman Sachs Group</td>
<td>United States</td>
</tr>
<tr>
<td>Lehman Brothers</td>
<td>United States</td>
</tr>
<tr>
<td>Merrill Lynch &amp; Co.</td>
<td>United States</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>United States</td>
</tr>
</tbody>
</table>
## Appendix 2

### Members of the Working Group on Enhanced Disclosures

<table>
<thead>
<tr>
<th><strong>Chairman</strong></th>
<th>Michael Macchiaroli</th>
<th>Securities and Exchange Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Canada</strong></td>
<td>Janet Holmes</td>
<td>Ontario Securities Commission</td>
</tr>
<tr>
<td><strong>Denmark</strong></td>
<td>Lars Østergaard</td>
<td>Danish Financial Supervisory Authority</td>
</tr>
<tr>
<td><strong>France</strong></td>
<td>Noël Guibert</td>
<td>Commission de Contrôle des Assurances</td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td>Andreas Schneider</td>
<td>Bundesanstalt für Finanzdienstleistungsaufsicht</td>
</tr>
<tr>
<td><strong>Italy</strong></td>
<td>Alberto Corinti</td>
<td>ISVAP</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>Yoshinori Nakata</td>
<td>The Bank of Japan</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td>Axel Martinez</td>
<td>Banco de Mexico</td>
</tr>
<tr>
<td><strong>Spain</strong></td>
<td>José Manuel Portero</td>
<td>Comisión Nacional de Mercado de Valores</td>
</tr>
<tr>
<td><strong>Switzerland</strong></td>
<td>Marta Estavillo</td>
<td>Banco de España</td>
</tr>
<tr>
<td><strong>United Kingdom</strong></td>
<td>Deborah Chesworth</td>
<td>Financial Services Authority</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>Gerald Edwards</td>
<td>Board of Governors of the Federal Reserve System</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>John Kambhu</td>
<td>Federal Reserve Bank of New York</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>Richard Mead</td>
<td>Federal Reserve Bank of New York</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>Robard Williams</td>
<td>Federal Reserve Bank of New York</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>Tom Rees</td>
<td>Office of the Comptroller of the Currency</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>William Stark</td>
<td>Federal Deposit Insurance Corporation</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>George Lavdas</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>Robert Seabolt</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>Jenifer Minke-Girard</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>Raymond Spudeck</td>
<td>National Association of Insurance Commissioners</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>Chris Evangel</td>
<td>National Association of Insurance Commissioners</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>Blaine Shepherd</td>
<td>National Association of Insurance Commissioners</td>
</tr>
<tr>
<td><strong>Financial Stability Forum</strong></td>
<td>Kristel-Grace Poh</td>
<td></td>
</tr>
<tr>
<td><strong>Secretariat</strong></td>
<td>Silvano Tittonel</td>
<td></td>
</tr>
</tbody>
</table>