

A/Prof Martien Lubberink
Victoria University

A/Prof David Tripe
Massey University

December 12, 2016

Ashley Tomlinson, Jeremy Richardson and Tobias Irrcher
Prudential Supervision Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

Dear all,

We appreciate the opportunity to provide feedback on the Dashboard Approach to Quarterly Disclosure. We commend the efforts you made to produce a clear and comprehensive consultation document. Please see our accompanying comments.

Please let us know if you have any questions.

Kind regards,

Martien Lubberink and David Tripe

Comments on the Dashboard Approach to Quarterly Disclosure.

Martien Lubberink, Associate Professor, VUW

David Tripe, Associate Professor, Massey University

Q1. Do you have any comments on the proposed content of the Dashboard? Is there any additional information you would like to see in the Dashboard? What would be the benefits of this information?

Regarding Capital and Financial Position, please also consider disclosure of:

1. a full breakdown of regulatory capital, including Tier 2 and buffers and applicable buffer requirements, e.g. see Template CC1 of the Basel Disclosure Consultative Document;¹
2. a full reconciliation between Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied to capital of the bank, and the balance sheet of the bank (like Template CC2);
3. RWAs separately reported for the SA approach and the IRB approach;
4. balance sheet information with a breakdown of assets and liabilities in main categories and separate mentioning of interest earning and discount bearing assets and liabilities;
5. if possible: the relevant market to book ratio with separate mentioning of numerator and denominator.

Regarding Financial Performance, please also consider including a full breakdown of operating income and separate mentioning of net interest income, impairment expenses, the Cost to Income Ratio, and interest spread.

These items would facilitate the interpretation of data and contribute to a proper and balanced analysis.

Q2. What would be the benefits and costs of including some sort of metric of large exposures in the Dashboard? Do you have any comments regarding the proposed metrics? Can you suggest another metric you think would better capture this information?

Yes, we support some form of disclosure of Large Exposures data.

Q3. Should LVR data be in the Dashboard?

Yes, we support some form of disclosure of LVR data.

Q5. Should we enable, or even require, qualitative explanations of any of the Dashboard figures, if material changes have taken place?

Yes, such a requirement offers banks the possibility to share their views on material changes with the public.

¹See [BCBS Consultative Document d356](#).

Q6. Do you have any comments on the file types proposed for each type of user? Do you think a “database” approach would enhance accessibility of the information? Is there any other format that might enhance the accessibility of the data (for any profile of users)?

Regarding the Detailed Report, we support a database approach with disclosure of:

1. underlying data in a plain format on a separate sheet or in a csv file with bank information in rows and items in columns. This is the way the U.S. federal reserve makes data available.² It is also the way the European Banking Authority publishes its stress test data and the data of the transparency exercises.³ The reason is that sophisticated users rely on software like R, Python, Stata, etc to shape and combine the data in ways that it allows them to do research. Note that Excel is perhaps not the best choice as it sometimes re-interprets data in unexpected ways because of user preferences;⁴
2. uniform identifiers for banks, e.g. Legal Entity Identifiers (LEI), as this facilitates comparing bank data over time;⁵
3. uniform terms for items, or possibly codes or mnemonics;
4. the numerators and denominators of all ratios and percentages that the Dashboard reports;
5. opening and closing values where the Dashboard reports or uses the average of both.

Regarding points 4 and 5, having access to the raw or underlying data puts the users on an equal footing with the supervisor. Some information will get lost when only ratios, percentages, or averages are presented without the underlying numbers.

Regarding the Dashboard items, please use terminology consistent with Basel terminology, see for example Template CC1 (Composition of regulatory capital) of the Basel Disclosure Consultative Document.

Q7. What, beyond publication, should the Bank do to enhance understanding of the data it publishes? How valuable/what are the benefits of this work in terms of market discipline, or in other areas?

The concerns about over-simplification, errors, endorsement, and ranking are valid, hence our suggestion to disclose data in plain (csv) format.

Q8. How much previous period data would you like to see in the Dashboard?

An attempt should be made to preserve all data for public access. One way of achieving this, is saving a separate Dashboard file for each quarter. For Dashboard presentation purposes one could filter data and display data over the last 1–5 years.

²See for example: <https://chicagofed.org/banking/financial-institution-reports/bhc-data>.

³See the full data made available by the EBA on the following sites: www.eba.europa.eu/risk-analysis-and-data/eu-wide-stress-testing/2016 and www.eba.europa.eu/risk-analysis-and-data/eu-wide-transparency-exercise/2016/results.

⁴See [this BBC interview](#) with Ewan Birney, who recommended that the program should only be considered for “lightweight scientific analysis.”

⁵Also note this [LEI news item](#): “Starting in 2017, the Legal Entity Identifier (LEI) data pool will gradually be enhanced to include ‘Level 2’ data that will answer the question of ‘who owns whom’. Specifically, legal entities that have or acquire an LEI will report their ‘ultimate accounting consolidating parent’ as well as their ‘direct accounting consolidating parent’.”

Q9. Do you agree with our conclusion that all locally incorporated banks should be required to make disclosures on the Dashboard?

Yes. Disclosure exemptions for small banks render comparisons between banks incomplete. The virtues of proportionality are inversely related to size: smaller banks generally have less complex operations. This automatically reduces the burden of disclosure for smaller banks.

Q10. Do you agree with the Dashboard being implemented through the Bank publishing information that is privately reported to it under sections 36 and 93?

Yes. It may also contribute to the quality of privately reported data. Note that U.S. bank data available via FFIEC or via the Chicago Federal reserve are updated until declared final. RBNZ could adopt a similar approach.⁶

Q11. Do you have any comments on the options of the Reserve Bank transferring uploaded data across to the Dashboard, or the system automatically transferring uploaded data across to the Dashboard?

See our answer to Question 10 above.

Q12. Do you think that data should be posted on the Dashboard as soon as it is uploaded by individual banks, or that data on all banks should become available on the Dashboard at a set date at the end of each quarter?

Without prejudice to NZX disclosure guidelines, we think that data should be posted on the Dashboard as soon as it is uploaded by individual banks. See also our answer to Question 10 above.

Q13. Do you have any comments on the proposed mechanism for banks to correct data on the Dashboard?

See our answers to Questions 10–12 above.

Q14. Do you agree with the approach of using the definitions in statistical reporting on the Dashboard? If not, do you have a view on what approach should be taken to designing definitions for this purpose?

One can always present a mapping between RBNZ definitions and those used by banks, and, for example, the Basel Committee. Alternatively, one can use codes or mnemonics and present a mapping between these, the RBNZ definitions, international definitions, and definitions used by banks.

Q15. What mechanism for ensuring the quality of the data do you prefer, what are the compliance costs associated with each option, and what would be the implications of each option for how long after the end of each quarter the data could be published?

The data should ideally be made available within one month of the reporting date. See also our answer to Question 10: allow banks to resubmit data until RBNZ declares the data final. This could potentially create an incentive for banks to deliver high quality data in a timely fashion.

⁶See also this Bloomberg article: [Want an Early Peek at Bank Profits? Get It From U.S. Government.](#)

Q16. Do you agree with our approach to reconciling disclosure made in the Dashboard with full and half-year disclosure statements?

Yes.

Q20. If the Basel change is confirmed, do you have any concerns about this updating happening only six-monthly? Otherwise, which of the three options for off-quarter updating do you prefer and why? Can you suggest any other mechanism to achieve sufficiently timely publication of terms of new capital issues?

We prefer the third option: the advantage of having the information on capital instruments available via a central repository is that it is much easier to discover when these instruments will be called, or which instruments can be converted or written off under which conditions. The public wants to know the status of the full set of capital instruments including new, recently issued instruments—also given that banks issue these instruments and buy them back more frequently during times of stress.⁷

In practice, banks issue capital instruments infrequently. When they do so, they disclose the terms and conditions anyway. Therefore, the cost of updating the information on capital instruments will likely be manageable.

Note that although the Basel Committee mentions a semi-annual disclosure frequency, it does so in the context of a minimum standard of disclosures.⁸ New Zealand relies on market discipline more than many other countries. Consequently, references to semi-annual disclosures likely apply to countries with a prudential supervision approach that differs from ours.

Given that not all New Zealand banks are listed and given that the NZX website offers limited access to market information of banks' instruments, perhaps one could consider disclosure of relevant market data (e.g. prices) of all bank capital instruments.

In addition, the consultation document seems not to mention possible links with the NZX disclosure rules or guidance. This may need attention.

Q21. Please provide any comments on the proposed approach to ensuring timely disclosure of breaches by branches.

The Reserve Bank should keep an open mind with respect to the reporting of branches to make sure that the decision to out-scope branches does not lead to unintended consequences or impedes comparative analysis.

⁷See this paper on buybacks on SSRN: [Are Banks' Below-Par Own Debt Repurchases a Cause For Prudential Concern?](#)

⁸See Section 4.2 of the Basel Disclosure Consultative Document.