TRANSPARENCY INTERNATIONAL
the global coalition against corruption

International Secretariat
Alt-Moabit 96
10559 Berlin, Germany
Tel: 49-30-3438 20-0
Fax: 49-30-3470 3912
Email: ti@transparency.org
http://www.transparency.org

Hugo Bänziger
Chief Risk Officer and Member of the Management Board
Deutsche Bank

Russel Picot
Group General Manager and Group Chief Accounting Officer
HSBC Holdings plc

Christian Stracke
Managing Director,
Member of Investment Committee and Global Head of Credit Research Group
PIMCO

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Submission to Financial Stability Board Enhanced Disclosure Task Force

Dear Mr Bänziger, Mr Picot and Mr Stracke,

Enhanced transparency of financial institutions is essential to enable stakeholders including shareholders, regulators and consumers to assess the nature and the size of the risks to which they are exposed and to prevent global financial crises as the one in 2008. We therefore commend the Financial Stability Board for creating a Task Force on Enhanced Disclosure "to develop principles for enhanced disclosures, based on current market conditions and risks, including ways to enhance the comparability of disclosures" and look forward to your recommendations.

We would like to respectfully submit recommendations generated for the Enhanced Disclosure Task Force's consideration. The first three recommendations are based on Transparency International's recently published report "Transparency in Corporate Reporting: Assessing the World's Largest Companies"[1]. The report assesses transparency in corporate reporting amongst the world's largest multinationals based on three criteria:

(i) Reporting on anti-corruption programmes (covering bribery, facilitation payments, whistleblower protection and political contributions);
(ii) Organisational transparency (disclosure of subsidiaries, including company name, the percentage owned by the group, the place of incorporation and some basic information on company operations); and
(iii) Country-level disclosure of revenues, capital expenditure, income before tax, income tax and community contributions.

The report reveals that half of the world's 105 top listed companies do not publish information on their anti-corruption programmes and organisational transparency and that the average score in country-by-country reporting is very low. Results for multinationals from the financial industry underperformed the sample average in each of these three dimensions.

The Transparency in Corporate Reporting report focuses on information that should be disclosed by every multinational corporation concerned with earning the trust of stakeholders and its "social licence to operate". Financial institutions – whether they operate across borders or not – have additional responsibilities owing to their crucial role in financial intermediation and the impact of their failure on the rest of the economy. Recommendations four and five outline additional disclosures that should be undertaken by those institutions, which would improve the ability of a wide range of stakeholders to monitor their risk-taking.

[1] HSBC received a score of 92% on reporting on anti-corruption programmes, 100% for organisational transparency and 8% for country-level disclosure. Deutsche Bank and PIMCO are not covered in the report.

Recommendations:
In view of the significant impact of financial institutions on the global economy Transparency International recommends that they publish the following information:

1) **Complete and comprehensive reporting on anti-corruption programmes including bribery, facilitation payments, whistleblower protection and political contributions.**

Public reporting on anti-corruption programmes demonstrates commitment that supports employees and enhances anti-corruption efforts. It also enables other stakeholders to monitor company behaviour and hold them accountable for their anti-corruption behaviour.

2) **Details about their organisational structures including the names, percentage holdings and country of operations for both fully consolidated and non-fully consolidated company holdings.**

While most companies publish some limited information about their corporate holdings, very few provide complete and comprehensive details. As a result, many related entities remain hidden from public view and scrutiny. This area of reporting is particularly relevant in the financial sector, with a history of "off balance sheet" entities whose lack of transparency contributed to the recent financial crisis.

3) **Country-by-country financial reporting of revenues, capital expenditure, income before tax, income tax, concession fees, royalties and community contributions.**

Citizens must have adequate information in order to monitor the activities of companies operating in their territory in order to hold companies and governments accountable. While most companies declare their commitment to supporting local communities, they undermine accountability on it by failing to publish adequate detailed financial information on their local operations.

4) **Comprehensive and comparable data related to a financial institution's risk profile, e.g. credit exposure to other financial institutions (including off-balance sheet entities), loans to business sectors and customer classes, as well as information on loan performance.**

While recognising the progress that has been made within the framework of Basel II and III on bank transparency ("Pillar 3 disclosures"), particularly with regard to securitisation and remuneration, we note that disclosure in many of these areas remains inadequate. In the financial statements of some banks, even straightforward data such as loans to public bodies, loans to small and medium-sized enterprises (SMEs) and foreign currency exposures are hard to find. Disclosures of loan performance data and provisions made for losses should be standardised, as their usefulness is often undermined by different definitions of "non-performing loans". Given that uncertainty about the quality of the loan books of European banks has been a major factor in the ongoing crisis, the failure of banks to disclose such highly relevant data needs to be addressed urgently.

5) **Quarterly averages of balance sheet categories.**

Financial institutions should report quarterly averages of balance sheet categories. This would avoid a misleading snap-shot of the firm's position at a point in time that could be due to atypical events in the normal course of business or intentional "window-dressing" designed to achieve a certain outcome for reporting purposes.

We thank you for considering our recommendations and look forward to further engagement on these important issues.

Yours sincerely,

Huguette Labelle

Huguette Labelle
Chair