

Global Assessment of Bank Disclosure Practices

August 2006





Global Assessment of Bank Disclosure Practices

The Bank Disclosures Assessment Project assigns a composite Bank Disclosure Index to ~180 countries around the world yearly from 1994 to present. Using a checkbox approach to analyze individual banks, the index seeks to quantitatively measure the actual disclosure practices of commercial banks around the world, in relation to their assets, liabilities, equities, incomes, and risk profiles. The sub-indices and sub-component scores for individual disclosure categories can be directly translated into specific policy prescriptions. The panel data set of indices is made available in an Excel spreadsheet.

Contents

I	Why assess bank disclosure practices?	1
II	A checkbox approach to measuring disclosure practices	3
	A. Bank Disclosure Index (core set of disclosure items)	3
	B. Bank Disclosure Index (encouraged set of disclosure items)	7
III	Bank Disclosure Index: Assessment and Analysis	9
	A. Banking sector transparency in BRICs	11
	B. Banking sector transparency in Asia	14
	C. Banking sector transparency in Latin America	17
	D. Turkey: a successful reformer in ECA	20
IV	Future deliverables	22
	Annex: National ranking of disclosure index	24

I. Why assess bank disclosure practices?

Enhanced disclosure leads to better transparency and stronger market discipline in the banking sector. The third pillar of Basel II and Basel Core Principles No.21 explicitly asks for better disclosures by banks to allow the market to have a better picture of the overall risk position of the banks and to allow the counterparties of the banks price and deal appropriately. More disclosures should reduce information asymmetry between those with privileged information and outside small investors, and facilitate more efficient monitoring because sufficient information is necessary for market participants to exert effective disciplinary roles.¹ According to McKinsey’s “Global Investor and Emerging Market Policymaker Opinion Surveys on Corporate Governance”, “accounting disclosure” is listed as the number one most important factor considered by 71% of

¹ As proposed by Andrew Crocket (BIS), four pre-conditions have to be met in order for market discipline to work effectively. They are: (1) Market participants need to have sufficient information to reach informed judgments. (2) They need to have the ability to process it correctly. (3) They need to have the right incentives. (4) They need to have the right mechanisms to exercise discipline.



investors surveyed, and “enhanced disclosure” is named as number one key progress area by 44% of policymakers.

Accounting disclosure is raised to a particularly high level of importance for banking organizations compared to firms in other industries, for several reasons. Accounting reports are almost the sole source of information for bank investors and other stakeholders. Banks own few physical and visible assets and investors can get a sense of a bank’s performance and asset quality only from accounting numbers. Earnings numbers alone are not adequate for assessing the valuation of banks, the main business of which is to take risks and to provide liquidity (and thus earnings can be inflated through doing more of them). Thus profitability does not give investors the whole picture of the bank’s financial situation, until risk profile of the bank is holistically disclosed. Finally, aggregate accounting numbers (e.g., *total profits*, *total loans*) without certain level of breakdown is less informative for banks than it is for industrial firms, because the most important information lies in the details of the sources of income and expenses, or quality of assets. Investors need this information to make judgments on which incomes are sustainable and which expenses are recurring.

Transparency and disclosure is critical to banking sector stability. Enhanced bank disclosures have been showed to be able to make banking crisis less likely to happen (Tadesse [2005], Hoggarth, Jackson, and Nier [2003]), because in high disclosure regime banks are less likely to take excessive risks (Nier and Baumann [2006]), and when they happen the losses less costly (Rosengren [2001]). The reason is that worse-run banks will see their funding base shrank as a result of market discipline, and thus situations would not have deteriorated to a disaster-level in the first place. The key for market discipline however is information disclosure. Cordella and Yeyati (1998) and Boot and Schmetis (2000) both show that, ex-ante, managers will chose lower risk when the risk profile is observable to outsiders; and ex-post, when a banking crisis does occurs, Hoggarth et al. (2003) argue that disclosures reduce the likelihood of runs on fundamental sound banks. Because of the systematic importance of banks and the safety net extended to them paid by taxpayers, enhanced disclosures are not only necessary and relevant for publicly-traded banks, but also for privately-held and state-owned banks. As a matter of fact, disclosure has already become one of the key principles highlighted in the “OECD guidelines of governance of *state-owed enterprises*”. The failure of banks always hurts large number of stakeholders such as depositors, and brings about political and reputation risks. Even when banks are fully insured or owned by the government, bank disclosures are still useful for tax payers, who ultimately shoulder the costs of bail-outs, in monitoring and disciplining the banks.

Transparency & disclosure is one of the core components in many Bank/Fund operations in financial sector, e.g., FSAP, ROSC, and IFC’s Corporate Governance. Currently, data needed for assessment purpose are collected on an *ad hoc* basis prior to each individual FSAP or ROSC missions. The establishment of a quantitative benchmarking system with timely data on disclosure practices around the globe is long overdue and if completed will greatly facilitate cross-country comparisons and the use of



peer pressures. Furthermore, the disclosure items examined in this project are closely linked to what are already included in IMF's Financial Soundness Indicators framework (the core and the encouraged set), which creates compatibility with IMF-led operations, while at the same time seeks to provide more disaggregated level information in the assessment of financial stability in member countries.

A simplified and standardized checklist of core disclosure items needs to be developed for low and mid-income countries. There already are many initiatives made by not only international standard-setting bodies such as the IASB and Basel committee, but also national regulators to standardize financial reporting of banks, to make information disclosure more comparable across banks, through fixed formats of presentation. In BCBS report "Enhancing bank transparency", it is recommended that "one area in which supervisors are well suited to take on a productive role is in enhancing comparability by promoting the use of supervisory definitions and reporting classifications in public disclosure." The new IFRS 7 has replaced IAS 30 and asks for more detailed disclosure from financial institutions. Comprehensive as the new rule certainly is, the long laundry list prescribed is too remote for less complex banks in mid- and low-income developing countries. A smaller checklist of core items thus is needed, which has to be concise, easy to understand, easy to benchmark, and applicable to economies at all stages of development.

II. A Checkbox Approach to Measuring Disclosure Practices

The project seeks to benchmark bank disclosure practices across countries and individual banks, by developing and implementing a quantitative measurement system that caters to the specifics of banking business. Center to the project is the creation of a Bank Disclosure Index, which creates an initial platform and discussion point for opinion-seeking and consensus-building. Hopefully the publication and dissemination of the indices will help raise public awareness regarding the inadequacy of accounting disclosures among banks in developing countries, contribute to the dialogue on corporate governance of banks, and help set reform agenda to address the vulnerabilities identified by the indices.

II.A. Bank Disclosure Index (Core Set of Disclosure Items)

A Bank Disclosure Index (core set) is created based on the measurement framework originally propose by Erland Nier from the Bank of England. The composite index is first created for individual banks by measuring the level of details banks provide in their published accounts on seventeen core disclosure items, and then the national index is created by averaging the index values of individual banks in a country, weighted by their total assets.

The headline Disclosure Index is a composite disclosure index that aggregate information from six categories of disclosures, including: (1) *LOANS*: breakdown of loans by maturity, type, counterparty, credit risk, problem loans, etc; (2) *OTHER EARNIGN*



ASSETS: breakdown of securities by type, and hold purpose; (3) *DEPOSITS*: breakdown of deposits by maturity, type of customer; (4) *OTHER FUNDING*: breakdown of money market funding, and long-term funding; (5) *MEMO LINES*: disclosures of capital ratio, reserves, contingent liabilities, off-balance-sheet, etc; (6) *INCOMES*: breakdown of non-interest income and disclosure of loan loss provisions. These sub-indices further contain a total of seventeen disclosure items, which are listed and explained in *Table 1 (Page 5)*.

In *Table 1*, we also seek to link each disclosure items to risk categories set by Basel Committee as well as FSI indicators proposed by the IMF. We show that there is high compatibility between the disclosure items with the standards/frameworks proposed by other international standard-setting bodies. Each of the items is related to one or more dimensions of a bank’s risk profile (interest rate risk, credit risk, liquidity risk and market risk) or the capital/reserves the banks hold to cushion against the risks. Most of them can also find counterparts in IMF’s financial stability indicator framework. Drawing results from the IMF’s “Survey on the use, compilation, and dissemination of macroprudential indicators”, we also show that the disclosure items included in the core set are among the most valued ones according to responses by large group of national regulators and market participants.

Table 1 Checklist of Disclosure Items (Core Set)

	Disclosure Items	Details of Information / Breakdown by category	Basel Risk Category	IMF FSI [average Usefulness Scores in brackets. Source: IMF Survey ² . Scale 1-4]
Loans	Loans by maturity	Sub three months, three to six months, six months to one year, one to five years, more than five years	Interest rate risk, Liquidity risk	Duration of assets [3.4]
	Loans by type	Loans to municipalities/government, mortgages, HP/lease, other loans	Credit risk	Real estate loans to total loans [3.2]
	Loans by counterparty	Loans to group companies, loans to other corporate, loans to banks	Credit risk	Large exposure to capital [3.5]
	Problem loans	Total problem loans	Credit risk	Non-performing loans to total gross loans [3.9] Non-performing loans net of provisions to capital [3.8]

² IMF Survey on the use, compilation, and dissemination of macroprudential indicators



Global Assessment of Bank Disclosure Practices

	Problem loans by type	Overdue/restructured/other non-performing	Credit risk	
Other earning assets	Securities by type	Detailed breakdown: Treasury bills, other bills, bonds, CDs, equity investments, other investments	Liquidity risk	Liquid assets to total assets (liquid asset ratio) [3.5] Liquid asset to short-term liabilities [3.6]
		Coarse breakdown: Government securities, other listed securities, non-listed securities	Liquidity risk	
	Securities by holding purpose	Investment securities, trading securities	Liquidity risk, Market risk	Net opening equity to capital [3.0]
Deposits	Deposits by maturity	Demand, savings, sub three months, three to six months, six months to one year, one to five years, more than five years	Interest rate risk, Liquidity risk	Duration of liabilities [3.4]
	Deposit by type of customer	Banks deposits, municipal/government	Liquidity risk	Customer deposits to total (non-interbank) loans [3.2]
Other funding	Money market funding	Total money market funding	Liquidity risk, Market risk	Duration of liabilities [3.4]
	Long-term funding	Convertible bonds, mortgage bonds, other bonds, subordinated debt, hybrid capital	Liquidity risk, Market risk	
Memo Lines	Reserves	Loan loss reserves (memo)	Credit risk	
	Capital	Total capital ratio, tier 1 ratio, total capital, tier 1 capital	Cushion for risk	Regulatory capital to risk-weighted assets [3.8] Regulatory tier 1 capital to risk-weighted assets [3.6]
	Contingent liabilities	Total contingent liabilities	Credit risk	
	Off-balance sheet items	Off-balance sheet items	Credit risk	Gross asset/liability position in financial derivatives to capital [2.8]
Income Statements	Non-interest income	Net commission income, net fee income, net trading income	Market risk	Trading income to total income [3.3]
	Loan loss provisions	Loan loss provisions	Credit risk	



Table 1 above lists the seventeen disclosure items include in the *core set*. We follow a *checkbox approach* to codify the level of disclosure details in each item. For each disclosure item a 0 was assigned if there was no entry of information in any of the corresponding disclosure categories associated with it and a 1 otherwise, except for the “securities by type” and the “capital” items. For the “securities by type” item, a 0 was assigned if there was no entry for any of the associated disclosure categories, a 1 if there was only an entry for the coarse breakdown and a 2 if there was an entry for the detailed breakdown. For the “capital” item, a 0 was assigned if there was no entry in any of the categories, a 1 if there was one entry only, a 2 if there were two entries and a 3 if there were three or four entries.³ Aggregating the information scores on the 17 disclosure items, the composite index can be created with the following formula: $DISC = \frac{1}{20} \sum_{i=1}^{17} s_i \times 100$

These items constitute the *core set* of disclosure items on which we think banks should always collect information and make available to the public. These items are relevant to traditional commercial banks located in countries at all stage of development, and should apply to banks in the poorest part of the world. In contrast, the usefulness of many of the more advanced disclosure items depends on the complexity and sophistication of the banking system and the idiosyncrasy of the country in question. These items may provide important information for certain group of banks and countries, but it is unrealistic and unpractical that banks of all size and in all countries need to prepare such detailed disclosures such as the 300-pages long 20-F reports of Banco Santander Chile (ADR). In this sense, the information availability of the *core* disclosure items is rather internationally comparable, because under any accounting regimes and at any stage of economic and financial development, these items are needed in order for investors to be able to understand the state of the banks’ operations. Certainly, the definitions of the items may differ by country, but it is less a problem here because we are comparing availability not numbers. Finally, a caveat has to be taken when interpreting the index, that although the failure to publicize information on these disclosure items is certainly an indicator of opacity, even full disclosure of all of them is not bulletproof guarantee of transparency. Information provided by the banks may not be completely true and fair, and a lot of important information can be revealed only in more advanced level of disclosures not covered by the items in the *core set*. Nevertheless, it is still a wise decision to fasten your seat belt although people wearing seat belts still die from car crashes. Less of them do, compared to those who drive without.

Similar to the Transparency and Disclosure (T&D) Study done by the Standard and Poor’s, this project does not attempt to assess the quality of information provided or identify any disclosure that may be incorrect or fraudulent. It is understood that disclosure of a piece of information does not always guarantee its integrity. Nevertheless, timely and comprehensive disclosures and descriptions of a bank’s risk profile make constant covering-up of accounting frauds more costly and less convenient. The

³ Note that whenever a bank provides information on three of these items, one can infer the fourth. Providing three items was therefore viewed as informationally equivalent to providing four items.



usefulness of the Index constructed based on the checkbox approach thus relies on the assumption that *nominal* transparency also has important value-added, independent on whether the information provided is *completely* accurate or not.

The rationale behind it can be illustrated with the following example. Suppose loan exposure is required to be disclosed by industry, and ex-ante an ill-intended bank manager doesn't know how to systematically manipulate the reporting (because ex-ante he doesn't know which sector will turn non-performing). The next year, steel sector experiences wide-spread bankruptcy problem. Now as the result of the disclosure made last year it becomes very difficult for the manager to claim lower NPL if it was reported last year that the bank was heavily exposed to the steel sector (The manager didn't cover this up last year because at that time he didn't know that things would turn bad). Cutting off disclosure now is not an option for him either, as it will certainly elicit an even more negative reaction (Federal Reserve Study Group on Disclosure [2000]).⁴

This story tells us exactly why many banks refuse to disclose loan exposure by industry. Once they start to disclose, there is no turning back, and over time it becomes more and more difficult to manipulate data (once you tamper on one item you need to change others, and probably historical ones as well, and you also need to make the sector exposure add up to 100% and make it consistent with your peers). Such is the beauty of modern accounting book-keeping: each item is interdependent with others, and the more items you disclose, the more difficult it becomes for you to reconcile a manipulated item. Also, as more banks start to subscribe to better disclosure practices, comparability of data increases. Thus the transparency benefit of enhanced bank disclosure is likely to be a convex function of the number of banks subscribing to higher disclosure standard.

II.B. Bank Disclosure Index (Encouraged Set of Disclosure Items)

The Disclosure Index (core set) discussed in the last section is only a first step. There are many disclosure items that are not included in the core set, which may provide important information to facilitate investors' and regulators' monitoring of banks. To provide a starting point, we took initiative to formulate an *encouraged set* of more advanced disclosure items that are important for evaluating bank risks and that we encourage bank to make available to the public. These disclosure items are listed in *Table 2*. The same checkbox approach will be followed to create the composite index, by measuring the level of detail that banks provide on each dimension of disclosures in their published accounts. Most of the information on these items is not available in machine-readable formats. To codify them for a large cross-section of banks and countries, further and

⁴ Cordella and Yeyati (1998) as well as Boot and Schmeits (2000) point to the commitment effect of bank disclosure as its benefit. Banks that disclose more information choose lower default risk in equilibrium. The idea is that a bank that discloses its risk profile exposes itself to market discipline and will therefore be penalized by investors for choosing higher risk. The effect is absent if investors do not know the risk profile of the bank and weaker if the amount of information available to investor is limited.



substantial amount of resources (funding, or labor) are required to support manual analysis of bank financial reports.

Starting from the preliminary list of encouraged set disclosure items, we hope to be able to build consensus through consultations with relevant parties and finalize a core and an encouraged set/checklist of bank disclosure items that can be accepted and used widely in various Bank financial sector assessment operations. We are looking forward to inputs from related units within and outside the Bank. Specific comments and suggestions on the composition of the Encouraged Set are particularly welcome. We also believe that it would be helpful to engage national bank supervisory agencies, not only for verification of data, but also to solicit feedbacks from the field, on country-specific barriers to and usefulness of individual disclosure items, and to build consensus. Nevertheless, experiences (e.g. Doing Business) suggest that completion of an internationally comparable index system first and increasing publicity of the index will help garner attentions from national authorities as a result of peer pressures.

Table 2 Checklist of Disclosure Items (*Encouraged set*)

	Disclosure Items	Details of Information / Breakdown by category	Basel Risk Category	IMF FSI [average Usefulness Scores in brackets. Source: IMF Survey . Scale 1-4]
Credit Risk	Breakdown of Loans	By industry	Credit risk	sectoral distribution of loans to total loans [3.6]
		By region	Credit risk	geographical distribution of loans to total loans [3.1]
		By line of business	Credit risk	
	Breakdown of impaired loans	By industry / By Region	Credit risk	
	Loan classification	<i>Four level</i> (current, overdue, bad, dead), <i>Five level</i> (current, special-mention, substandard, doubtful, loss), <i>Nine level</i> [AA...H])	Credit risk	
		Expected loss rate and probabilities of default associated with each category	Credit risk	
	Asset risk weight	distribution of on-balance-sheet assets by Basel risk-weight category	Credit risk	
	Real estate lending	Percentage of lending to real estate sector, residential real estate lending, commercial real estate lending	Credit risk	Residential/commercial real estate loans to total loans. [3.2]
	Loan concentration	Top ten largest borrower	Credit risk	large exposure to capital [[3.5]
		Related entities	Credit risk	



Global Assessment of Bank Disclosure Practices

Market Risk	Duration	Asset/Liabilities	Interest rate risk	Duration of assets/liabilities [3.4]
		Stress testing of interest rate sensitivity	Interest rate risk	
	FX exposure	Currency mix of asset	Market risk	foreign currency-denominated loans to total loans [3.1]
		Currency mix of liability	Market risk	foreign currency-denominated liabilities to total liabilities [3.1]
		Net FX open position (before and after hedging)	Market risk	net open position in foreign exchange to capital [3.4]
Market exposure	Net open trading position, Value-at-Risk (year-end, and daily distribution histogram)	Market risk	gross asset/liability position in financial derivatives to capital [2.8] net open position in equities to capital [3.0]	
Market Discipline	Reporting frequency	Yearly, Quarterly, Semi-annually	Transparency	
		Intraperiod number (high, low, median)	Transparency	
	Accounting policies	Income recognition, Provisioning plan, Valuation policy	Transparency	
	Corporate governance	Board structure	Transparency	
		Ownership structure, Names of beneficial owners	Transparency	
		Remuneration policy for directors and senior management	Transparency	
		Audit fees breakdown	Transparency	
	Market signals	Interbank borrowing costs	Market discipline	
		Proportion of liability that are insured	Market discipline	

III. Bank Disclosure Index: Assessment and Analysis

In the first stage of the project, a **Bank Disclosure Index (core set)** has already been created for a large cross-section of banks and countries. This core set Index evaluates only disclosure items included in the *Core Set* (listed in *Table 1*), which are more easily available in machine-readable formats. In the future, as resources become more available, we will gradually incorporate items from the *Encouraged Set* of disclosure items listed in *Table 2*. We obtained banks' annual financial reports and publicly available regulatory return information from the *BankScope* database compiled by *Bureau van Dijk*. When a bank presents many versions of financial reports (e.g., consolidated and unconsolidated), we always adopt the version that scores higher in the Bank Disclosure Index.



The index is prepared for c. 20,000 individual banks in about 180 countries around the world. We are able to evaluation both public-traded and closely-held banks. Unlike in other industries, banks, even when they are not listed on stock exchanges, are in most countries required by regulations to publicize financial reports and file regulatory returns. National index of bank disclosure is then constructed by averaging (weighted by a bank’s total asset) bank-level disclosure indices, to evaluate the transparency and disclosure situation of the national banking system as a whole. ⁵ Only traditional commercial banks, savings bank, and cooperative banks are included in the study. ⁶

In the Annex of this document, the disclosure indices for 180 countries, based on FY 2004 data, are tabulated in the form of a national ranking. The Index values range *between 0 and 100*, with higher values indicating better transparency and disclosure practices of the banking systems. In general, a Disclosure Index value below 60 indicates serious deficiency and low level of compliance in disclosure practices and needs attentions and corrective actions from the national bank supervisor. Besides the headline

composite index, six sub-indices are also created, which capture different categories of disclosure (Loans, Other Earning Asset, Deposits, Other Funding, Memo lines, and Income). These sub-indices can then be further broken down to 17 sub-components (The score of these sub-components are available in the Excel spreadsheet). These sub-indices and sub-component scores can help us identify the strength and weakness of a banking system’s disclosure practices, and formulate policy responds accordingly. The transformation of the scores into policy prescription is straightforward, and countries can understand easily which specific disclosure items they fail to disclose that cause their lower rating than their peers, and thus naturally what they need to do in order to upgrade their rating. Hopefully, this standardized checkbox approach can create some sort of peer pressure through international benchmarking and accelerate the process of improving

Most Transparent	Least Transparent
HONG KONG	ARGENTINA
SWEDEN	FRANCE
ITALY	CZECH REP.
NETHERLANDS	RUSSIA
FINLAND	CHILE
NORWAY	CHINA
SWITZERLAND	MOROCCO
SPAIN	LUXEMBOURG
JAPAN	EGYPT
TURKEY	SYRIA

Notes: only the top fifty largest banking systems are included in this specific ranking, for size is a good proxy for importance.

⁵ The index may overestimate disclosure level in some of the poorest countries. If some banks don’t file public reports at all, they are not included in the assessment instead of assigning a zero score. In the future, we may try to obtain full bank directory from national bank supervisors and make according adjustment.

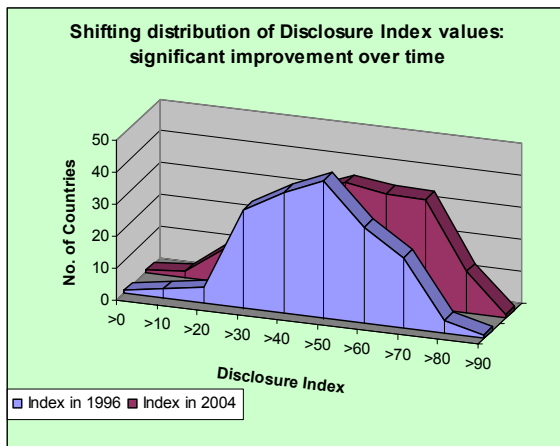
⁶ The Index may not appropriately reflect the different nature of operations of, for instance, investment banks, Islamic banks, governmental banks, and other specialized institutions. Excluded from the sample are Investment Banks and Securities Houses, Real Estate and Mortgage Banks, Medium and Long-term Credit Banks, Non-Bank Credit Institutions, Islamic Banks, and any specialized governmental financial institutions. Bank Holding Companies are also excluded because their subsidiary banks are already included in the sample, and thus the exclusion prevent double-counting of assets. In the Bankscope database, Goldman Sachs (UK) and UBS (UK) are misclassified as “commercial banks”, although these two large banks (subsidaire) registered in UK mainly engage in investment banking business. We exclude them from the calculation of UK’s national disclsour index.



bank transparency around the globe.

Historical indices are created yearly from 1994 onwards. Therefore, not only cross-country but also time series change (improvement) in bank disclosure practices can be documented and analyzed. The whole data set, which contains yearly disclosure indices (composite index, sub-indices, component scores) for 180 countries during the 1994-2004 period, is stored in a Microsoft Excel spreadsheet, and is available upon request, for Bank/Fund staff who are working on banking sector projects.

Over the past decade, significant progress has been made in raising the standard of bank disclosures, and the improvement is found across the board in both developed and emerging economies. As a result, the distribution of Disclosure Index values has shifted considerably to the right (higher values). Large number of countries that scored under 70 in Disclosure Index ten years ago has now surfaced above the opacity zone. Most of the improvement during the past 10 years were made in the areas of Loans, Incomes (net trading income, net fee income, interest income), and Memo Lines (capital adequacy, off-balance sheet, contingency, etc). Nevertheless, disclosures relating to loan composition still remain the greatest weakness among the six categories surveyed, and are critical in future banking sector reforms.



Below, based on the Disclosure Index created in the project, we conduct assessment and analysis on several systematically-important countries and regions, and present some brief observation and findings from the analysis.

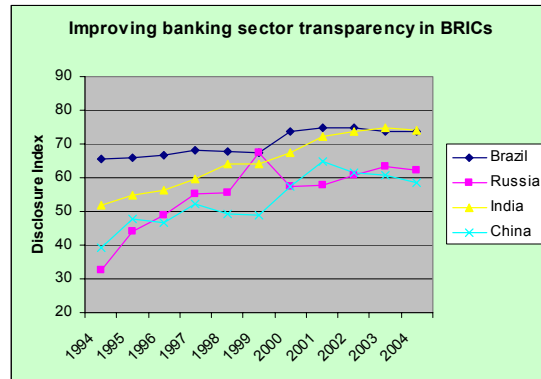
III.A. Banking sector transparency in the BRICs

For policymakers, size is a good measure of importance. As far as banking sector is concerned, this rule is quite true. The starting point of our analysis thus will be four systematically important countries in which the payoff from improving banking sector transparency is likely to be the highest. In 2003, Goldman Sachs dubbed the name BRIC for four systematically important developing countries (Brazil, Russia, India and China), which because of their growing economic size may reshape the global economic landscape in the next decades. All of the four are middle income countries with large population (India and China alone are home to one third of world population), relatively sound fundamentals, and most important, huge investment opportunities, and thus huge appetite for finance. They are so-called “growth centers” that require a lot of finance to realize tremendous pool of investment opportunities, and at this stage of development they all have to heavily rely on bank intermediations to channel domestic savings. This

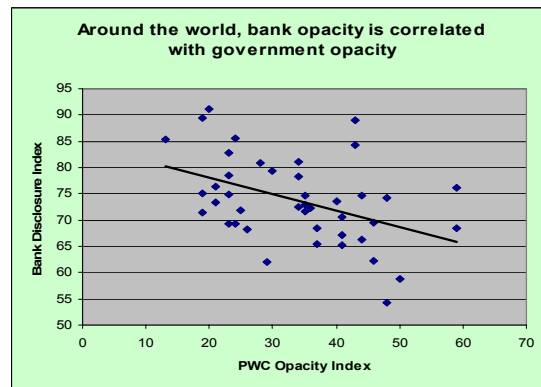


special characteristic creates a huge and common challenge for their banking sector. The key to their success thus lies in how we can make their banking system work more effectively, and how we can make the banks in BRICs more stable, more accountable, and more efficient. Market discipline is a necessity for these to happen, and for market discipline to work effectively, the system has to be transparent enough and investors/stakeholders need to receive sufficient information from disclosures, by the banks themselves or through the regulators.

Relying on the database we put together, we can easily make international comparisons as well as analyze the progress of banking sector transparency in BRICs. Ten years ago, the BRICs started from very heterogeneous levels of transparency (opacity). Back then, Russia and China scored well under 40 in Disclosure Index. Both countries were in early stage of transition from planning to market economy, and both inherited a monopolistic state-owned banking system from the old monobank regime. In China, the Big Four state-owned banks dominate the market, while in Russia it is the old national savings bank, the Sberbank, which still discloses much less than private sector Russian banks.



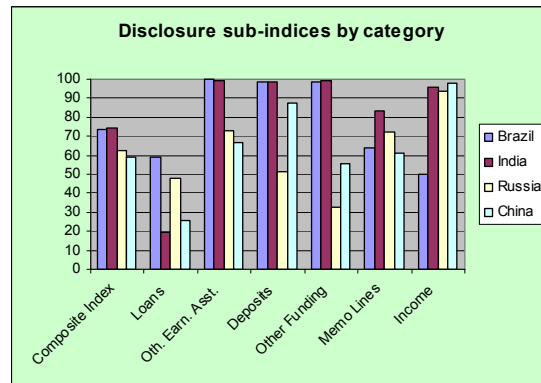
Government opacity goes hand in hand with bank opacity. As the two governments become more transparent over time, banking sectors in these two former planning economies are also making considerable progress in disclosure practices. Nevertheless, it is understood that there is not much voluntary incentive from inside the state-owned banks to make more disclosures to the market, not least because they do not need to tap the capital market for funding. Today the two former planning economies still stay at similar transparency level with each other, albeit at a higher level than in the past. Starting January 2004, Russian banks will be required to prepare financial statements in accordance with IAS, while China is also phasing in a new local GAAP that for most part in line with IAS. IFC surveyed 50 Russian banks in 2004, and found that half of them already converted to IFRS, while the other half planned to do it within two years, citing reputation gain, improving attractiveness for foreign investors, and less so, the regulatory requirement, as the lead driving factors. The survey however also discovered that Russian banks usually limit their disclosures to the minimum required by the law, because “additional disclosure is not required by law”.





China seems to be heading for bigger improvement in the next years, after three of the four Big Fours have enlisted international reputable banks on board as minority shareholders and will all finish IPOs in Hong Kong by 2006/2007. Foreign investors have brought in better skills and technologies, and full foreign participation in local banking market starting from December 2006 under the entry agreement of WTO will bring further pressure on the local the banking sector to enhance their risk management and financial reporting systems. The International Finance Corporations (IFC) currently holds minority equity stakes in a number of small Chinese banks⁷, and provides technical assistance in these areas. Most of the second-tier joint-stock national commercial banks are already listed domestically, and their improvement in transparency is also promoted by the ever-aggressive and market-oriented capital market regulator, the China Securities Regulatory Commission, which requires quarterly reporting and enforces protection of minority shareholders in the listed banks.

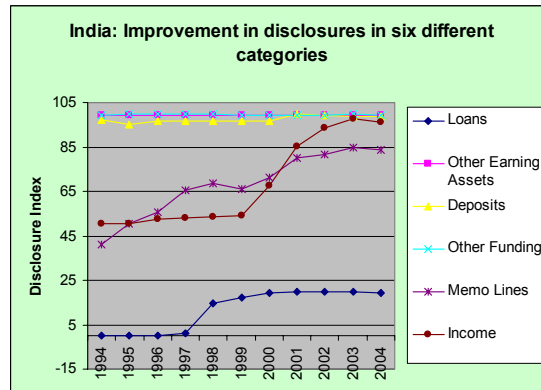
In contrast to China and Russia, Brazil has had a rather transparent banking system from the start, thanks to Banco Central do Brasil's (BCB) continuing efforts in requiring detailed collection and reporting of data from the banks it supervises. Among developing countries at similar income level, Brazil boasts one of the best bank regulatory data reporting systems in the world. BCB standardizes the presentation format (known as "Cosif") that Brazilian banks must comply with, and reports are made on a monthly basis. IFRS was first introduced in 2002 to the banking system by the BCB, and it is expected that eventually the standard will be required for all Brazilian banks. BCB also requires more refined classification and publication of bank loan quality by nine buckets, compared to the typical five-bucket system in other Latin American countries. After the 1999 financial crisis, Brazil has committed to and embarked on a serious bank privatization plan, with almost all federal- and state-owned bank, except Banco do Brasil (BB) and Caixa Econômica Federal (CEF), slated for privatization or exits. Several of the leading private sector banks, which are expanding aggressively through organic growth and M&As, including Bandesco, Itau, and Unibanco, have ADR programs in the U.S., and have to file detailed regulatory returns as instructed by the SEC in the US. The local capital market regulator, Comissão de Valores Mobiliários also (CVM) further requires that any disclosure made in US markets must be made public in Brazil too. Finally, the domestic capital market reforms initiated by CVM also spill over to the governance of banks, with all of the three leading private-sector banks already enrolling in the Novo Mercado that demands highest standard of financial reporting and investor protection.



⁷ These include Bank of Beijing, Xian City Commercial Bank, China Mingsheng Bank, Industrial Bank, Nanjing City Commercial Bank, and Bank of Shanghai.



Ten years ago, India’s disclosure level fell between the two camps, substantially better than China/India but lagged behind Brazil by a large margin. India is a market economy democracy, but the economy has a long history of being heavily intervened and run by the government. Starting from the market liberalizations in early 1990s, the government has gradually loosened its grips on the private sector, but the banking sector remains firmly state-owned (although minority shares are usually floated in local stock exchanges). Not much progress made among the public sector banks notwithstanding, the more transparent private sector banks are gaining ground at a brisk pace. Several newly-transformed private-sector banks such as ICICI and HDFC, which are eating into the market share of public sector banks, boast state-of-the-art risk management system, subscribe to international standards of financial reporting and corporate governance, and float shares in the US market. In the past ten years, the evolution



of the Disclosure Index values displays that India has been consistently converging toward Brazil, and now the disclosure practices are already at par with Brazil as measured by the Bank Disclosure Index, although there is little improvement in the disclosures of loan compositions (in which Brazil is particularly strong in). This observation of deficiency in loan composition disclosure can be straightforwardly translated into to a specific policy prescription for India’s future banking sector reform. Progresses are still being made. Recently, the Reserve Bank of India has issued several Master Circulars demanding banks to make specific form of disclosure to make financial reports more comparable, although responses so far are lukewarm, particularly among state-owned banks.

III.B. Banking sector transparency in Asia

Asia (including East Asia, Southeast Asia, and South Asia) is home to many of the fastest growing investment destinations. The region’s household savings rate is much higher than Latin America. The stunningly high level of bank intermediation, particularly in East Asian countries, totally dwarfs Latin America. Even Vietnam, the least financially developed country in the region, has a private credit to GDP ratio higher than 50%. The region’s growth has been mainly driven by capital investment. The four Tiger economies grew into their current status mostly by capital accumulation rather than productivity improvement. The growth model is currently religiously followed by other Asian countries, in particularly China. A transparent, stable, and efficient banking system thus is not only a key to the success of such a model, but also a cushion against potential financial crises, the last one of which had brought disastrous destructions to the region.

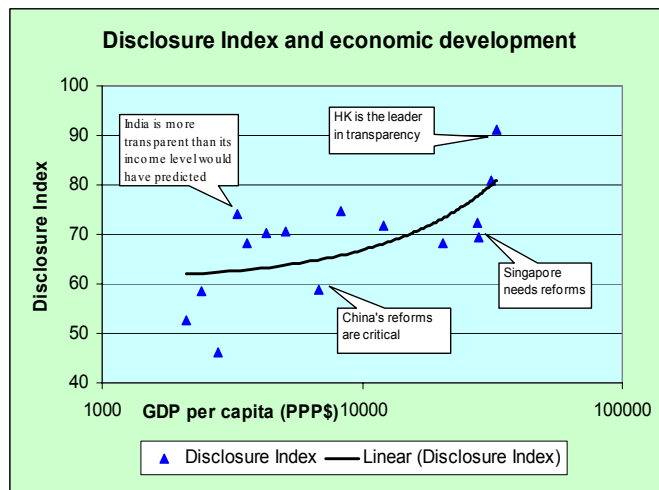
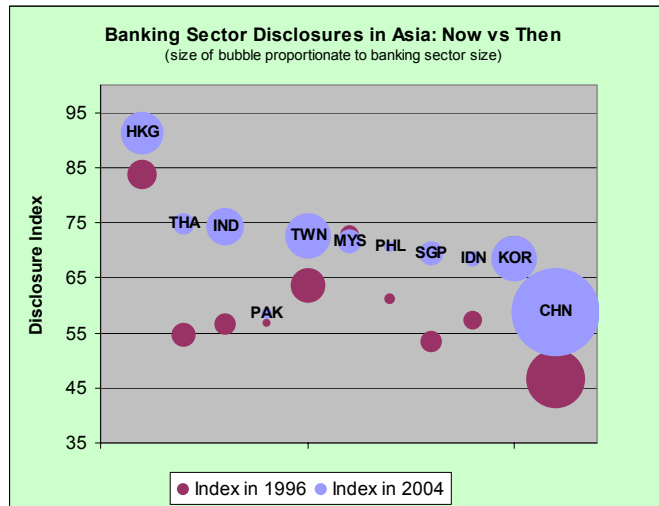


In the region, Hong Kong clearly stands out as the consistent leader in transparency and disclosures of banks. The territory has endorsed the principle of free market since very early days and in all walks of economic life. As early as 1994, the HKMA already published “Best Practice Guide on Financial Disclosure by Authorized Institutions” (BPG) to guide the financial disclosures of banks, and to make detailed provision for the form and content of financial statements and their audits. In their

1995 annual reports, banks started to disclose their capital adequacy ratios, liquidity ratios, and general and specific loan loss provisions. This was further improved in 1997 with the technical assistance from the IMF (during the Article IV consultation of that year), and from 1998 banks have been required to disclose their overdue and rescheduled loans in interim reports. The Hong Kong Society of Accountants also published an industry auditing guidelines on how auditors for banks should report to the HKMA. It is no accident that Hong Kong is now the undisputable financial center of the region, attracting numerous corporations from all over the region and in particular mainland China, to raise finance here because the higher level of financial reporting standards help them effectively lower costs of capital. Nevertheless, in terms of corporate governance, Hong Kong banks still leave a lot to be desired. According to information provided by Institutional Shareholder Services (ISS), ten of the eleven Hong Kong banks surveyed allocate majority board seats to insiders and *affiliated* outsiders. Only four banks have audit committee comprised solely of independent outsiders. Eight do not disclose whether they pay their auditors for non-audit related services such as tax consulting.

The other major economies in the region lag considerably behind Hong Kong. Today their Disclosure Index values are very similar, most of them falling into a narrow range between 65 and 75.

They were however quite different back in 1996 prior to the financial turmoil that swept through the whole region. Back then, as indicated by the positions of the red bubbles in the chart, banks in Thailand, India, Philippines, Singapore, and Indonesia were much





more secretive in presenting their balance sheets, compared to those located in Malaysia, Korea and Hong Kong. Subsequent to the crisis, shocked by the devastating effect of the turmoil and the scandals revealed in investigations, public consensus was quickly formed in these countries on the importance of a more transparent system. National regulators thus were able to push forward large reform packages with relatively little resistance. Today, these previously opaque systems have significantly closed their gap with the better systems in the region.

The Disclosure Index for Singapore in 1996 confirms industry’s perception that disclosure by Singapore banks was poor until a few years ago. Fitch Ratings’s *Singapore Country Report* concludes that, before the crisis, disclosure practices in Singapore compared unfavorably even with regional counterparts. Loans and advances were stated net of loan loss reserves and loan loss reserves were clubbed together with “other liabilities including provisions”. Severely lack of information, investors and creditors mainly relied on the Monetary Authority of Singapore (MAS)’s extensive regulations to ensure that the banks were in good financial condition. After the Asian financial crisis, the MAS drastically raise the requirement on public disclosures, and investors today get direct access to banks’ information in much more details.

The main challenge in the region is China, which has the largest (and also currently most problematic) banking system in Asia (excluding Japan). The sheer size of the Chinese banking system makes the problems not only domestic, but also regional and international, and attracts keen attention from international investors and policy-makers. Any improvement or deterioration in the information environment of Chinese banking system will certainly dramatically alter the judgment and confidence of observers on the situation.

Without comprehensive balance sheet information of the system and of individual banks, analyses are always done by estimations and educated guesses, such as the headline NPL number produced (and later withdrawn) by Ernst & Young. Better disclosures of information can keep investors updated of the current health of the

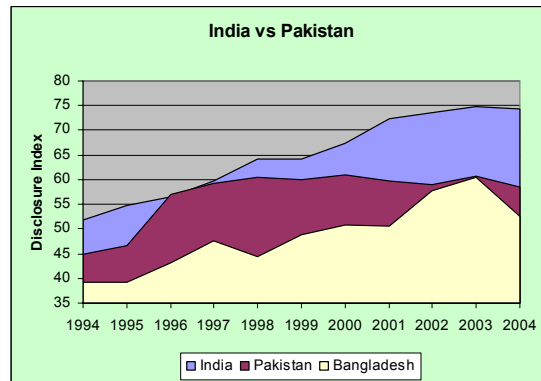
Bank Name	Market share %	Listing Status	Disclosure Index
ICBC	21.7	Oct-06 HK	30
Bank of China	18.4	Listed HK	75
Agricultural Bank of China	17.2	Unlisted	50
China Construction Bank	16.8	Listed HK	70
Bank of Communications	4.9	Listed HK	80
China Merchants Bank	2.5	Listed CN	85
China CITIC Bank	2.2	Listed CN	70
Shanghai Pudong Bank	2.0	Listed CN	80
China Minsheng Banking	1.9	Listed CN	90

Chinese financial system, and reduces the uncertainty and risks which usually cause investors to demand higher cost of capital or to under-invest. The move to list three major state-owned banks in Hong Kong Stock Exchange and prepare financial reports conforming to IFRS is certainly an encouraging step. China’s Disclosure Index is forecasted to move upward noticeably in the next years, after completion of the mega IPOs in Hong Kong, which will force them to make regular financial reports in accordance to international standards. Particularly important is the IPO of ICBC (which scored as lows as 35 in Disclosure Index in 2004), which currently drag down the

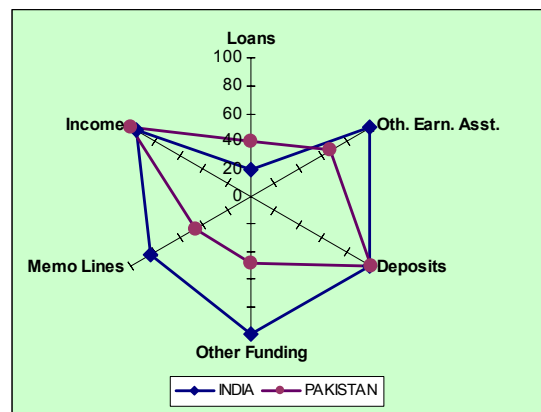


national Disclosure Index.

Another striking comparison in Asia is that between India and Pakistan. The two countries separated half a century ago from the former British Indian colony. Both countries adopted some strong element of central planning in economic management in the decades after independence. In both countries, the government still actively intervenes in the banking sector through directed and concessional lending schemes. Pakistan is however well ahead of India in handing over banks back to the private sector through privatizations, and now private-sector banks control more than 80% of the system's assets, up from just 8% in 1990.



Unlike in India, banks in Pakistan are not required to submit an income report according to any format prescribe by the State Bank of Pakistan (SBP), although Pakistan adopts 39 of the 41 International Accounting Standards. The Disclosure Index reveals that India is making consistent and significant progress in the past decade, while Pakistan, starting from not much worse than its neighbor, has not made many strides in improving bank accounting disclosure practices since 1997. By disclosure category, Pakistan is relatively weak (compared to India) in the disclosures of Memo Lines (capital position, contingent liabilities, etc), Other Funding, Other Earnings Assets, while at par with India in the disclosure of composition of Income, and Deposits. The diagnosis may help SBP to draw up a priority list in the next revision of reporting requirement, as well as the World Bank to formulate Country Assistance Strategy for Pakistan's banking sector reforms. The several weakness areas identified by the diagnosis will have to be emphasized in such reforms.



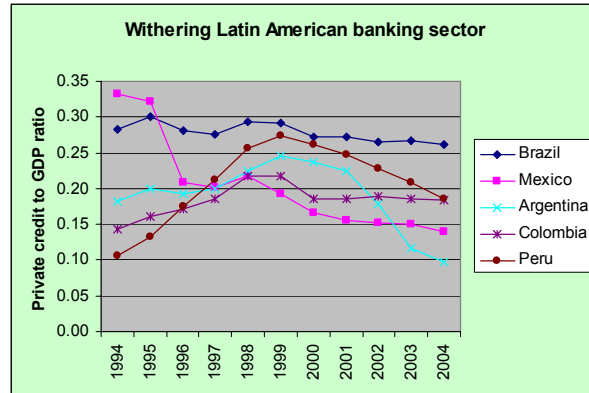
III.C. Banking sector transparency in Latin America

Latin America used to be the most exciting place for foreign investment, before the rise of Asia. Today local capital markets dry up, and money escapes from the formal sector and from the intermediation of banks. Observers are asking “Whither the Latin American capital markets?”, “Whither the Latin American banking sector?” The local financial system is probably *withering*. In Mexico, a higher mid-income country, private credit to GDP ratio drops to as low as 17% (a ratio usually characterized by Sub-Sahara nations), and entrepreneurs rely mostly on inter- and intra-corporate credit to finance investment.

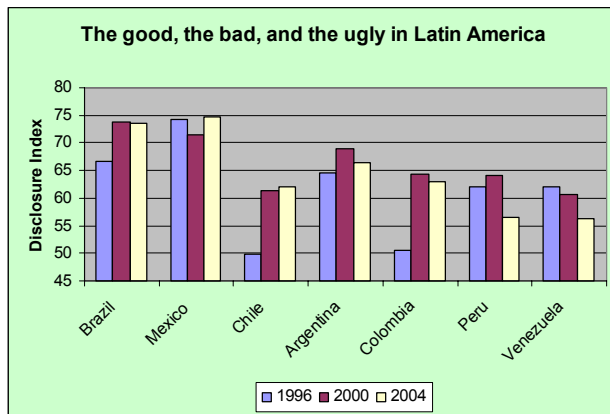


Argentina is even worse, with the ratio being 11%, barely enough for normal cash transaction and currency circulations. Things are not getting better. Foreign investors have become more cautious; local entrepreneurs got their hands burned in hard currency borrowing and became more hesitant; and there is still no guarantee that the governments can commit to fiscal responsibility. Nevertheless, in such a situation, development of a transparent and trustworthy local banking sector becomes all the more important an urgent task.

In the region, banking systems in Brazil and Mexico are always ahead of their neighbors in standard of information disclosures. They, in particular central bankers in Brazil, have been imitating their northern neighbor, the United States, in setting up their own regulatory framework, although many of the rules are certainly not enforced to the full extent. Accounting standards consistent with International Accounting Standards were adopted as early as 1997 in Mexico.



Dating back to mid 1990s, both markets have been highly concentrated in the hands of large national and foreign conglomerates. This usually helps improve disclosure practices because larger banks can better afford the costs of preparing more sophisticated financial reports. A number of large banks further commit to higher standards of financial reporting and corporate governance by issuing ADRs in the United States. Also, recent milestone capital market reforms taking place in these two countries add further strength to the banking sector by leveraging market disciplines from the private sector. Finally, foreign banks dominate the Mexican market, and they are also making inroad in Brazilian market by M&As and bidding in the privatization of state-owned banks. They usually bring with them better practices of financial reporting. Furthermore, these large foreign banks may influence the direction and pace of reforms in host countries toward the more rigorous standards imposed by OECD regulators. Nevertheless, the potential downside is that information and market discipline may be compromised if foreign parents choose to fully consolidate the subsidiaries into their financial statements and stop reporting individual performance of these subsidiaries.

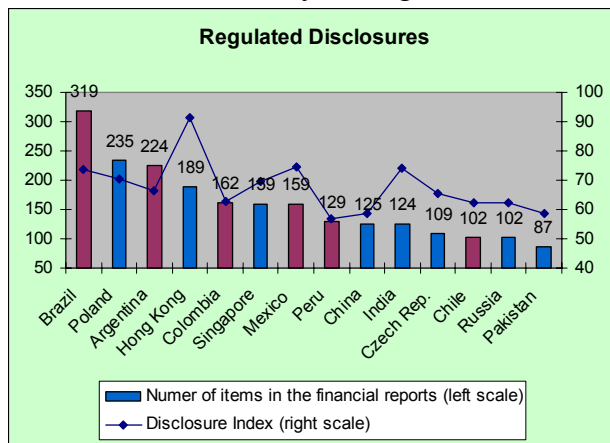


Back in 1996, Chile scored much lower in the Disclosure Index than her regional peers. Subsequently situations improved significantly. The passage of the General Banking Act



in 1997 raised the standard of financial reporting, imposing more stringent loan loss classification and reserve requirements on Chilean banks. Also, banking sector consolidation after waves of mergers concentrated assets into several large banks (some in the hands of foreign banks such as BSCH, BBVA, and Scotiabank) that practice better financial reporting. At the turn of century in 2000, Chile's Disclosure Index was already at par with Peru, which was previously one of the regional leaders in public disclosures⁸. Between 2002 and 2004, three leading Chilean banks (Banco de Chile, Banco Santander Chile, Corpbanca) went on to offer ADRs in NYSE, which further raised the bar of disclosure standards and it is no accident that Chile's Disclosure Index rose further.

The progress being made notwithstanding, it has to be noted that even today the level of public disclosures by Chilean banks does not stand out favorably among Latin American countries, although Chile has been embracing market-oriented reforms enthusiastically in many other areas and is frequently referred to as the model country in the region. It is clear that Chilean regulator has not been actively pushing for public disclosures of banks. We can use a rudimentary measure to illustrate this. For each country, Bureau van Dijk (for its own information collection purpose) makes a list of accounting items relevant and used by banks in their financial reports.



The number of items in the list thus reflects the best possible practices in a country, and is influenced by many factors, the most of important of which usually include government or industry regulations on how financial reports should be formatted (the case in point is Brazil). We find that, in the list for Chile, there are only 102 items, while in the list of Brazil, there are as many as 328, one of the highest in the world.

The gap between Brazil and Chile could reflect the different philosophy of the policy makers in the two countries. It is also noted that Poland has much higher number of items in the list than Czech Republic (235 vs 109). The Poland vs Czech Republic comparison

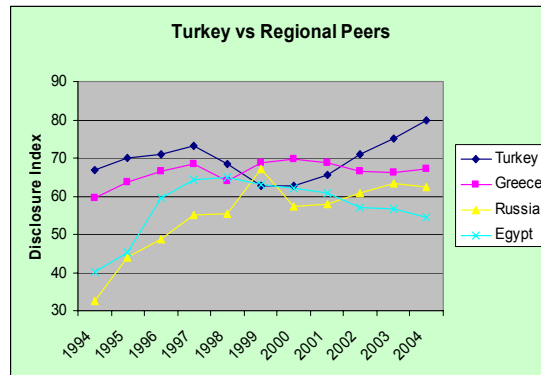
⁸ In the 1990s, Peru was one of the region's leaders in bank disclosures. Fujimori administration carried out a package of radical banking sector reforms. New Basel-style prudential regulations were introduced. All state-owned commercial banks were re-privatized, and state development and mortgage banks were abolished. Deposit insurance was eliminated. Barriers to entry for both domestic and foreign investors are removed. In 1996, Peru's Disclosure Index was at par with Brazil and Argentina, and significantly better than Chile and Colombia. Over the past several years, however, Peru experienced a significant decline in the level of accounting disclosures. Her Disclosure Index has been downgraded to one of the lowest in Latin America. After Fujimori's departure, the nation fell into a state of political instability, economic sluggishness, and severe financial distress. The deterioration in disclosure practices was across the board seen in most major Peruvian banks, and the setback in disclosures was particularly acute in the area of other earnings assets and market funding. The setback may be explained by the bank supervisor's lack of authority and enforcement power vs private sector, in the midst of political turmoil and absence of leadership in the government.



has become a classical story known as “*Coase vs the Coasians*”. Since the start of the transition, the Czech policy-makers have been pursuing a more free market fundamentalist approach to regulation. They believe that if the market and the investors demand better disclosures or better corporate governance, then the invisible hands will force firms to provide it. Polish policymakers believe the opposite. They believed that intervention is necessary and introduced specialized regulators to standardize the financial reporting and corporate governance practices of listed firms and banks. It is not clear which approach works better. On the one hand, in the Czech Republic, plagued by weak law enforcement, there are much more corporate scandals than in Poland, where the regulator takes a more active position in prosecuting violators. On the other hand, those Czech corporations that have survived the “*trials and errors*” do prosper and get stronger, and as of today Czech stock market is still larger (scaled by economy size) than its Polish counterpart. The gap between Chile and Brazil thus could be explained by the same story, and it is possible that Chile is the Latin Czech Republic, and Chilean banks could voluntarily upgrade their disclosure practices without government intervention, motivated by their own desire to raise capital in US and domestic markets. By far, it is not clear to us whether the Chilean approach or the Brazilian approach to bank supervision may produce better results.

III.D. Turkey: a successful reformer in ECA

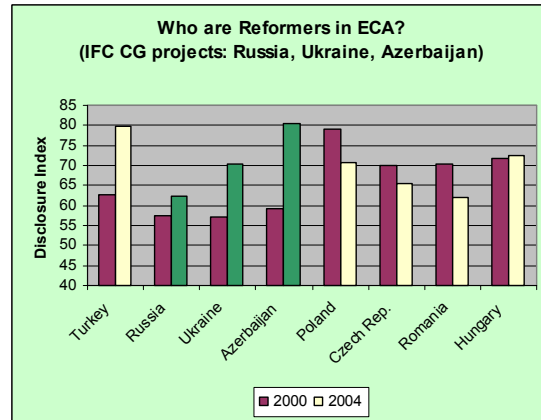
In the wake of 2000/2001 financial crisis, a “Banking Sector Restructuring Program”, which includes “financial reporting” as one of its main pillars, was initiated in Turkey in May 2001 to strengthen privately owned commercial banks. The establishment of the Banking Regulation and Supervision Agency (BRSA) in 2000 and the convergence of prudential supervision to EU standards (motivated by the strong desire to join the EU) dramatically improve the transparency of the banking sector. Self-regulation also plays a complementary role. In Turkey, banks have to keep their financial reports according to the uniform formats set by the Turkish Banking Association, which enhances comparability and usefulness of financial statements.



The impact of the reforms is clearly seen in Turkey’s Disclosure Index, which received one large upgrade after another over the past few years. Today, in bank disclosure practices, Turkey has already clearly distinguished herself from all of her major regional peers including Russia, Egypt, and her richer neighbor Greece, which several years ago still had a ten point lead over Turkey in Disclosure Index.

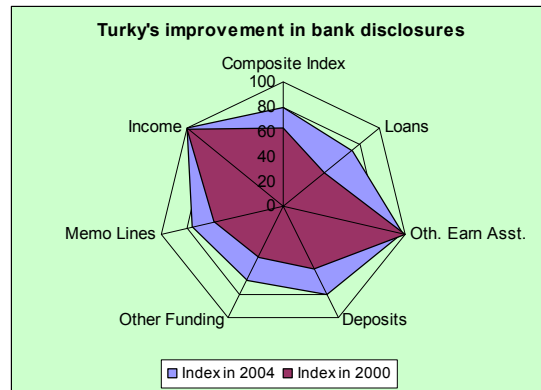


There are two avenues through which a country can upgrade its *asset-weighted* national Disclosure Index. One is by improving disclosure practices in the more opaque banks that drag down the national index (in the case of Turkey it is the T.C. Ziraat Bank). The other avenue is by the more transparent banks expanding market share at the expense of the more opaque banks.⁹ Either way, the weighted average national Disclosure Index will improve as a result.



The experience of Turkey seems to be a nice combination of both approaches. First of all, the improvement made in disclosure practices is across the board in all the large banks, except the largest bank, the state-owned T.C. Ziraat Bank (TCZ). The simple average of composite Disclosure Index of the largest seven banks rose from 66 to 81 in just four years. Significant progress was made in all of the weakness categories of disclosures, including Loans, Deposits, Other Funding, and Memo Lines. The remaining two categories were already strong from the beginning.

In 2004, the top seven Turkish commercial banks control 77% of the system's assets, which is a little lower than four years ago. The allocation of market share between them however experienced a reshuffle. TCZ, which did not make any progress in disclosure practices, was losing market share to others, although it is still the largest bank in Turkey. Further commercialization and restructuring, and eventually a share-issue privatization of TCZ, in necessary to further upgrade the transparency of the system.



Turkiye Is Bank (IS bank), owned by its own pension fund as well as the Republican People's Party, followed a completely different reform path. Four years ago, IS Bank was the worst player among the largest banks in terms of transparency and disclosures, even

⁹ Analysis of the data shows that from 30% to 40% of the cross-bank variations in Disclosure Index cannot be explained by country factors, indicating substantial within-country variations in disclosure practices, and suggesting a potential avenue for transparency-enhancement by better-disclosed banks expanding their market shares against more opaque banks (because the national level Bank Disclosure Index is weighed by each bank's total asset market share). The US market is a case in point. The largest US banks practice probably the best public disclosures in the world, but regulatory ceiling on their market share leaves plenty of room for small community banks to thrive, the transparency of which compares less favorably to international standards. For this reason, the national disclosure index for US, although it is still one of the best in the world, falls behind a number of other advanced countries.



worse than TCZ. But subsequently it managed to drastically revamp its financial reporting practices and raised Disclosure Index discretely from 55 to 90. At the same time, IS bank expanded market share by 5%, and overtook the state-owned Halk Bank and became the second largest bank behind TCZ. The action of IS Bank alone makes the single largest weighted impact on the national Disclosure Index of Turkey. The third largest bank Akbank (controlled by the Sabanci family) made substantial improvement too, although the impact is less than half of that by IS Bank.

Bank Name	DISC '00	DISC '04	Share % '00	Share % '04
T.C. Ziraat Bank	60	60	23	19
IS Bank	55	90	12	14
Akbank	65	90	10	11
Vakiflar Bank	75	85	5	10
Yapi Ve Kredi Bank	65	90	4	8
Garanti Bank	80	80	10	8
Halk Bank	60	75	15	8
<i>Average/Sum</i>	<i>66</i>	<i>81</i>	<i>80</i>	<i>77</i>

The experience of Turkey indicates to us the importance of focusing efforts on the reforms of the largest banks (e.g. T.C. Ziraat Bank in Turkey, or Sberbank in Russia, which controlled 36% of Russian system asset in 2004). The payoff is equally higher by pursuing the fastest growing banks in a country when the largest banks resist to changes. The transformation of these banks, because of their sheer (existing and incremental) market share, can dramatically reshape the landscape of “asset darkness” in a system, and bring the assets controlled by them into the scrutiny of sunshine. The role model effect of the largest or fastest growing banks cannot be underestimated. In particular, in countries experiencing economic and financial instability, the “flight to quality” by depositors can play a very effective disciplining role in forcing opaque banks to follow the market leader to improve on their disclosure practices. Finally, the new wave of acquisitions of local banks by foreign banks in 2005/2006 following the stabilization of the Turkish economy and their higher standards of financial reporting have introduced new sources of pressure on local banks, and the spillover impact will be seen in the years to come.

IV. Future Deliverables

In the future, on the basis of the Bank Disclosure Index introduced in this document, we plan to develop an umbrella or related products, for the goal of promoting awareness of the importance of transparency and disclosure in banking organizations, as well as catalyzing reforms in member countries through peer pressure. Below we introduce some of the plans on our agenda.

Indices: The headline Disclosure Index released in the first stage of the project will be a starting point. The indices are intended to be updated every year and become a routine practice. In the long turn, given sufficient resources in place, we may be able to implement the advanced version of Disclosure Index which covers the Encouraged Set of disclosure items discussed in Section II B. In the short term, many variants of the core set Index can be created to meet individual demands, for select interest group of banks, e.g.



state-owned banks, large banks, or for special type of banking organizations, e.g. cooperative banks, savings banks, Islamic banks. Disclosure Index can also be assigned to individual banks, to be used in investment evaluation works. For example, IFC can use this Index as an input in evaluating her investment portfolio of financial institutions as well as the results of IFC-led reforms. IFC should be particularly glad to see that Azerbaijan, a country in which IFC launched a three-year bank corporate governance improvement program, ranks very favorably in Bank Disclosure Index in recent years.

Reports and analytical pieces: A comprehensive flagship report titled “*Back to Basic: bank transparency and disclosures around the world*” is being produced to summarize and disseminate the main results of the efforts, as well as to discuss perspective and policy directions on bank accounting disclosure issues. We also plan to invite experts in related fields to contribute to the reports and/or participate in a potential conference we may organize on the topic of transparency and disclosures. There will be a number of follow-up reports that discuss research findings related to bank disclosure practices, based on the Bank Disclosure Index created. In-depth special country reports will also be produced for a number of systematically important economies, or as requested by the Regions which show interest. Finally, for countries that dispute the rating by our Disclosure Index, the rule of “guilty until proven innocent” (which is used by Doing Business too) is used, that proof must be provided that certain disclosure items are indeed made publicly available to investors, to initiate a rating change.

Customized service: On an as requested basis, it is possible to refine the indices and cover more details of disclosure practices. This may involve looking into specific disclosure items that are not yet included in the basic indices, for a large cross-section of countries, for benchmarking purpose. It can also involve researching banking sector of a specific country of interest, and provide a more detailed review and analysis of bank accounting disclosure practices in the country. It is expected that such request may come from the Regions in their FSAP operations or other financial-sector-related projects. Given interests and demands from the Regions, the team can also be sourced for specific country analysis. Substantial financial and labor resources need to be used to respond to these research requests, and thus inter-department charging are necessary. Requests for service from outside the Bank are also expected, and industry sponsors may also be sought for.

Background research: To support the use, interpretation, and persuasiveness of the Bank Disclosure Index, background research is needed in relation to the determinants and consequences of banking sector transparency. Economic effect (e.g., valuation, stability, information asymmetry, capital adequacy cost of capital...) of bank disclosures can be investigated academically and provided as background papers to support the main policy efforts.¹⁰

¹⁰ FSE researchers are currently studying what determine variations in accounting disclosures of banks. Standard & Poor’s (2005), in a transparency and disclosure survey of Russian banks, finds that, for a common list of material items, Russian banks make much less disclosure than do nonfinancial Russian corporations. This suggests that banks may not be intrinsically opaque, but that insiders choose to withhold



CONTACT

Rocco Huang (OPD)

E-mail: rhuang@worldbank.org

Tel: 202-458-7773

information and reduce transparency. As a matter of fact, most of the disclosure items we include in the list are what the bank management should have already collected, and thus it is clearly a disclosure and not an internal risk management deficiency problem. According to an IMF survey, 82% (100% for industrial countries and 75% for the rest) of respondent countries to the survey say they (i.e. national authorities) compile (but not necessarily disseminate publicly) “distribution of loans by sector” at aggregate level. Disclosure rate of this item at bank level however is far lower, as discovered in our research.



Annex: Ranking of countries by Bank Disclosure Index (core set)

Table notes: The Disclosure Indices are first created for individual banks based on their disclosure practices, using a checkbox approach, and then national Indices are created by taking the asset-weighted average of the bank-level Disclosure Indices. A total of more than 20,000 banks are included in calculating these indices. The headline Disclosure Index is the composite disclosure index that aggregate information from six sub-indices, each of which measures the level of disclosure in a certain category of disclosures.

These six categories include: (1) LOANS: breakdown of loans by maturity, type, counterparty, credit risk, problem loans, etc; (2) OTHER EARNIGN ASSETS: breakdown of securities by type, and hold purpose; (3) DEPOSITS: breakdown of deposits by maturity, type of customer; (4) OTHER FUNDING: breakdown of money market funding, and long-term funding; (5) MEMO LINES: disclosures of capital ratio, reserves, contingent liabilities, off-balance-sheet, etc; (6) INCOMES: breakdown of non-interest income and disclosure of loan loss provisions. These sub-indices further contain in total seventeen sub-components, which are listed in the Table 1 of this document.

The index and sub-index values presented here are based on financial year 2004 data. To obtain index values for earlier years back to 1994, and for the seventeen sub-component scores, please contact the author for an Excel spreadsheet that contains all of this information.

Rank	Country	Disclosure Indices						
		Composite Index	Loans	Other Earning Assets	Deposits	Other Funding	Memo Lines	Income
1	HONG KONG	91	73	94	100	93	99	100
2	SWEDEN	89	63	99	99	95	99	98
3	ITALY	89	59	100	99	96	99	98
4	FINLAND	85	63	86	71	100	99	98
5	NETHERLANDS	85	65	78	98	99	93	95
6	BAHRAIN	84	75	99	53	67	96	97
7	NORWAY	84	60	70	96	92	98	99
8	QATAR	83	76	93	67	33	100	100
9	SWITZERLAND	83	62	99	63	94	90	99
10	OMAN	82	64	100	50	67	96	100
11	JAPAN	81	40	100	95	87	93	99
12	AZERBAIJAN	80	81	90	84	49	77	100
13	SPAIN	80	59	83	76	88	90	97
14	MICRONESIA	80	60	100	50	100	100	50
15	TURKEY	80	72	98	79	67	75	100
16	ICELAND	80	50	91	98	88	91	75
17	ISRAEL	79	40	100	100	50	98	100
18	SLOVAKIA	79	70	92	76	88	71	100
19	UAE	79	75	78	75	73	78	100
20	SOUTH AFRICA	78	48	75	84	96	90	99
21	AUSTRIA	78	60	91	80	83	82	86
22	AUSTRALIA	78	58	99	50	97	96	50
23	SLOVENIA	76	52	97	98	55	80	96
24	USA	76	53	98	48	98	93	58
25	LEBANON	76	61	73	95	63	81	99
26	MALTA	76	63	99	72	91	69	84



Global Assessment of Bank Disclosure Practices

27	KAZAKHSTAN	76	52	89	73	64	86	98
28	PORTUGAL	76	67	80	75	98	66	98
29	DENMARK	75	46	94	88	87	86	61
30	CANADA	75	25	99	53	98	98	92
31	THAILAND	75	40	100	46	69	94	100
32	MEXICO	75	20	99	99	86	88	100
33	NEW ZEALAND	75	38	99	99	72	89	61
34	JORDAN	74	55	95	39	37	96	100
35	HUNGARY	74	58	97	63	94	69	89
36	INDIA	74	19	99	99	100	84	96
37	MALAYSIA	74	0	99	97	97	99	97
38	BRAZIL	74	59	100	99	98	64	50
39	GEORGIA REP. OF	74	66	91	80	53	68	97
40	LITHUANIA	73	53	99	67	71	69	100
41	TAIWAN	72	20	100	100	49	92	100
42	GERMANY	72	52	83	91	88	69	78
43	IRELAND	72	39	78	96	94	76	83
44	POLAND	71	45	96	98	77	63	89
45	PHILIPPINES	71	40	100	79	90	62	100
46	NAMIBIA	70	27	71	98	77	85	98
47	SRI LANKA	70	40	67	47	97	86	100
48	UKRAINE	70	54	79	61	47	80	98
49	LATVIA	70	34	97	82	66	75	95
50	SAUDI ARABIA	69	63	67	53	50	94	53
51	SINGAPORE	69	38	99	49	99	74	81
52	BELGIUM	69	49	99	77	98	52	90
53	UNITED KINGDOM	69	42	67	95	95	67	93
54	NEPAL	68	44	96	49	24	86	98
55	INDONESIA	68	19	98	98	82	70	98
56	KOREA REP. OF	68	36	100	73	98	58	99
57	ESTONIA	68	49	100	50	51	69	100
58	CYPRUS	67	48	82	51	65	74	95
59	GREECE	67	36	76	83	91	66	93
60	ECUADOR	67	59	98	66	83	42	99
61	ARGENTINA	66	47	99	96	67	45	100
62	FRANCE	66	38	70	91	98	60	90
63	KUWAIT	66	68	100	6	38	65	100
64	CZECH REPUBLIC	65	51	72	63	76	60	98
65	PALESTINIAN TERRITORY	65	0	100	100	50	83	100
66	PAPUA NEW GUINEA	65	0	67	100	50	100	100
67	TAJKISTAN	65	40	33	100	0	100	100
68	GAMBIA	64	40	80	96	50	59	100
69	UGANDA	63	45	67	45	49	93	46
70	ALBANIA	63	41	88	61	47	63	100
71	BENIN	63	31	98	100	29	59	99
72	COLOMBIA	63	20	80	98	83	59	100
73	BULGARIA	63	41	82	67	51	64	94
74	RUSSIAN	63	48	73	52	32	73	94



Global Assessment of Bank Disclosure Practices

FEDERATION								
75	BELARUS	62	25	89	57	61	73	92
76	CHILE	62	20	67	99	96	59	100
77	ROMANIA	62	38	71	94	47	61	96
78	TUNISIA	62	34	93	49	50	65	99
79	BOTSWANA	62	17	66	51	50	92	98
80	TRINIDAD AND TOBAGO	62	44	100	50	54	51	99
81	NICARAGUA	61	40	67	57	100	50	100
82	BRUNEI DARUSSALAM	60	40	67	100	50	50	100
83	MALDIVES	60	0	67	50	50	100	100
84	CHINA-PEOPLE'S REP.	60	25	68	88	55	63	100
85	SAN MARINO	60	30	100	88	87	41	74
86	MOLDOVA REP. OF	59	29	68	50	39	77	100
87	HONDURAS	59	19	67	95	96	50	100
88	PAKISTAN	59	40	67	100	48	46	100
89	UZBEKISTAN	58	26	50	53	43	83	100
90	MOZAMBIQUE	58	72	33	72	30	50	100
91	MOROCCO	58	45	100	100	59	34	56
92	EL SALVADOR	58	20	69	61	52	71	96
93	JAMAICA	58	27	67	100	70	63	50
94	LUXEMBOURG	57	40	65	100	87	46	50
95	PERU	57	20	54	100	70	56	97
96	DOMINICAN REPUBLIC	57	20	93	50	53	58	98
97	CROATIA	56	43	99	50	58	33	100
98	VENEZUELA	56	20	88	99	48	61	50
99	ANDORRA	56	20	67	89	45	61	95
100	GHANA	56	47	66	50	50	48	98
101	HAITI	55	20	100	100	50	33	100
102	TOGO	55	20	100	100	0	50	100
103	PANAMA	55	48	79	70	46	36	84
104	BOLIVIA	55	20	67	100	48	50	100
105	EGYPT	54	9	93	80	45	55	91
106	LIECHTENSTEIN	54	27	67	99	48	52	67
107	ETHIOPIA	53	2	94	93	4	62	100
108	ZAMBIA	53	14	67	50	36	72	94
109	MACAU	53	35	80	56	28	46	99
110	COSTA RICA	53	2	94	100	51	44	99
111	BANGLADESH	53	32	66	95	14	72	19
112	MAURITIUS	52	1	67	60	55	70	93
113	MACEDONIA (FYROM)	52	10	66	98	86	41	84
114	KENYA	51	17	66	47	74	52	91
115	BARBADOS	51	24	67	9	59	77	50
116	CAPE VERDE	51	20	45	100	50	47	100
117	BELIZE	51	13	67	58	82	50	83
118	YEMEN	51	7	57	96	42	55	100
119	GUATEMALA	50	39	77	93	41	20	96
120	TANZANIA	50	23	71	91	40	49	59



Global Assessment of Bank Disclosure Practices

121	ALGERIA	50	39	67	100	51	33	50
122	BURKINA FASO	50	40	33	100	12	48	93
123	PARAGUAY	50	23	67	87	46	50	57
124	SERBIA AND MONTENEGRO	49	24	77	47	36	46	98
125	MALAWI	49	20	82	31	7	62	94
126	ST. KITTS AND NEVIS	49	20	100	40	50	50	50
127	KYRGYZSTAN	48	20	58	50	34	55	100
128	SWAZILAND	48	36	67	11	36	50	95
129	MONACO	48	25	61	97	37	44	62
130	SENEGAL	47	20	65	99	14	44	82
131	CAMEROON	47	40	67	85	31	40	38
132	CAMBODIA	47	16	38	93	40	51	83
133	BOSNIA- HERZEGOVINA	47	28	71	43	48	37	85
134	SEYCHELLES	46	0	67	90	50	47	83
135	VIETNAM	46	28	51	97	45	31	81
136	ZIMBABWE	46	23	67	44	50	55	45
137	CONGO, DEMOCRATIC REP. OF	46	23	67	100	30	30	80
138	MONGOLIA	46	20	41	34	72	56	69
139	BHUTAN	45	20	67	100	0	50	50
140	SIERRA LEONE	44	0	67	0	45	67	100
141	RWANDA	44	20	67	83	19	43	61
142	ARMENIA	44	20	65	50	36	39	88
143	MALI	44	5	94	100	18	32	70
144	GUYANA	44	12	67	93	0	57	43
145	NETHERLANDS ANTILLES	43	6	45	95	14	48	91
146	NIGERIA	42	20	72	18	46	50	49
147	URUGUAY	40	20	67	50	0	38	88
148	ANGUILLA	40	20	100	0	0	50	50
149	GIBRALTAR	40	20	0	50	50	50	100
150	LIBERIA	40	0	67	50	0	50	100
151	GABON	40	40	67	100	0	28	15
152	IVORY COAST	39	5	33	100	0	46	92
153	ANGOLA	38	27	67	44	39	19	72
154	BERMUDA	38	23	67	28	27	37	56
155	MAURITANIA	36	20	33	93	0	22	100
156	BURUNDI	35	20	54	90	40	27	10
157	SAINT LUCIA	35	20	100	50	25	17	25
158	CENTRAL AFRICAN REPUBLIC	35	40	67	50	0	17	50
159	SYRIA	35	20	65	100	1	33	2
160	LESOTHO	34	20	67	50	0	35	36
161	LIBYAN ARAB JAMAHIRIYA	32	15	82	56	7	19	42
162	SURINAME	32	0	56	100	0	33	33
163	NIGER	31	24	33	84	0	25	44
164	BAHAMAS	30	5	66	58	41	17	42
165	ANTIGUA AND	30	0	69	47	50	32	3



Global Assessment of Bank Disclosure Practices

	BARBUDA							
166	WESTERN SAMOA	30	0	67	0	50	17	100
167	GRENADA	29	9	67	50	28	22	22
168	CUBA	29	21	14	99	51	4	50
169	IRAN	28	3	67	96	0	18	19
170	MADAGASCAR	28	23	26	82	23	23	5
171	CAYMAN ISLANDS	27	2	72	42	89	8	6
172	IRAQ	27	31	67	50	0	15	0
173	SUDAN	27	20	51	64	0	8	53
174	DOMINICA	25	20	33	50	0	17	50
175	LAOS	20	0	67	50	0	0	50
176	CHAD	15	20	0	100	0	0	0
177	TONGA	10	0	0	50	0	0	50