Investor view

Insight from the investment community

What are the key issues on banking analysts’ minds?

Analysts and investors in the banking sector have identified a number of areas where they are frustrated with current corporate reporting, and some improvements that could be made to disclosures in the annual report. This ‘Investor view’ looks at some areas that banks might address.

**Liquidity reporting**

Investors tell us that liquidity reporting is the most important area of focus and also the ‘biggest failure’ of current reporting. Analysts say current liquidity reporting is ‘like the Wild West’.

Investors want management to explain their funding sources, including where concentrations exist, and to disclose funding by major currency.

Again, consistency in reporting across the banks is key, as comparability is crucial for their analysis.

Investors would also like to see a detailed explanation of the banks’ key metrics, including loan-to-deposit ratios, new Basel requirements and the net stable funding ratio. Disclosing the basis of these calculations is important for comparability.

Investors also encourage management to discuss expectations around deposit outflows and re-investment, with particular focus on the wholesale business.

**Reporting of risk-weighted assets**

Risk-weighted assets (RWAs) are one of the key metrics that analysts use when looking at capital and Tier 1 ratios.

Investors understand what makes up the capital but have no confidence in the RWA numbers, as they do not understand how the number is derived and how it can change. One investor noted, ‘Management are woeful in how they describe the balance and its movement period on period’.

Many investors think that comparing the RWA numbers between banks is meaningless because banks do not calculate them consistently.

Disclosure of the basis of the RWA calculation would improve the usability of the number significantly.

Banking sector
Investors believe that there is an opportunity for individual banks to gain advantage by improving the detail of disclosures, increasing transparency around calculations and providing some assurance over the RWA number.

**How are the banks making money?**

Analysts find it difficult to understand, from current reporting, how the investment banks are making their money.

They say there is a lack of clarity around how legacy assets will be resolved and the impact of own-credit adjustments and unrealised gains versus underlying business. This makes it harder for investors to model what core earnings from businesses will be in the future. As a result, the valuation of many investment banks is lower than it might be.

In order to populate their models, analysts need to be able to see one-off write-downs, credit events and real revenues at a great level of detail.

Investors would also like to see more segment analysis and explanation of performance. One investment banking segment is not enough detail; investors want to see which parts of the business are making money and how. Separate segment disclosure for equity and fixed income, currencies and commodities (FICC) businesses would be a good start.

**Sovereign debt and commercial real estate disclosures**

While the current focus is on Greek and Italian debt, the investor community would welcome detailed disclosure of the exposures banks have to all sovereign debts.

Commercial real estate is another major credit risk that analysts are concerned about – history shows this is where banks can differentiate themselves significantly in terms of performance.

Investors would like to see disclosures brought up to the level of those for retail real estate exposures, including key information such as loan to value, vintages and geographic spread.

**Impairment and own credit**

Investors are frustrated with the incurred-loss model but appreciate the difficulties in an expected-loss model.

They would appreciate banks providing additional disclosure on the potential indicators of impairment to its assets.

They also feel strongly that adjustments as a result of own-credit revaluation should be part of OCI and not operating performance.