DISCLOSURE OF INFORMATION AND THE EXEMPTION FROM DISCLOSURE FOR CREDIT INSTITUTIONS

Lecturer Ph.D. **Mariana VLAD**
„Ştefan cel Mare" University, Suceava, Romania
marianav@seap.usv.ro
Ph.D. Student **Ioana COLBU**
„Ştefan cel Mare" University, Suceava, Romania
ioanac@seap.usv.ro

Abstract:
Public presentation of information is supported by the existence of accounting standards and by an appropriate qualitative methodology presentation and requires publication of relevant qualitative and quantitative information from the annual financial statements, which are often supplemented by half-yearly or quarterly financial statements and other important information. Certainly, the adoption of internationally accepted accounting standards was a necessary measure to facilitate transparency and correct interpretation of financial statements. Also in order to ensure greater transparency in the banking system, efforts have been made also by the Basel Committee, which is regulated under Basel II, third pillar "Banking discipline." Pillar III requires banks an increased transparency, being created to allow the banking system to have better representation of the general situation of the bank, in terms of total exposed risk [1]. For this reason, credit institutions are required to provide both supervisors and the public detailed information on qualitative and quantitative involved risks, capital and risk management policies and procedures. In this article we intend to investigate what information that banks publish.

Key words: financial information, disclosure of financial information, exemption from disclosure.

JEL classification: G21

INTRODUCTION

Information provision requirements are more extensive as banks use more complex approaches for credit and operational risk. In this connection, it is recognized that there are differences between countries regarding the legal authority of banking supervision institutions, laying down standards of publication/ disclosure of internal information of banks.

Basel Committee recommendation is that banking institutions to disclose basic information respectively those who transmit essential data on the risk profile for all institutions and are important for a better market discipline. Basic information are those whose omission or misunderstanding could change or influence the assessment or decision evaluator/ recipients. The Committee believes that the frequency of publication of this information is very important to maintain market discipline. Therefore, it is proposed that disclosing such information to be made twice a year, and certain categories of information on some indicators that can degrade quickly over time, such as exposure and information on banks with international activities, to be published quarterly.

Because the provision of information can be a costly process, its usefulness has to be assessed with regard to cost, when disclosure requirements are determined. It is also very important that the moment of introducing information to be well chosen, because presentation of negative information to an audience that is not sufficiently prepared to interpret that information, can harm a bank and even the entire banking system. Therefore, a problem of credit institutions in financial reporting is to establish the correct volume of information to be disclosed.

RATING INFORMATION FOR CREDIT INSTITUTIONS LISTED ON STOCK MARKET

In this respect, confidentiality and financial stability of the bank has a significant weight in decision making.

Some countries have introduced regulations that allow banks to classify their indications of sensitive information that might reflect their ability to obtain new deposits. In Germany and Switzerland for example, banks have the right not to publish any provisions for doubtful loans and market value. In the U.S. on the other hand, the approach is to provide comprehensive information on the situation of the institution including a description of risk management, information on interest rate differentials for doubtful debts, debt restructuring and other receivables problem, the market value of assets and liabilities, in accordance with business and geographic concentrations of credit, and many other aspects.

In our country, the central bank issued a regulation [2] for these credit institutions whose shares are admitted to trading on a regulated market that specifies what information is confidential information, classified on the property right of the bank and which have a public character.

Under this regulation, information is considered propriety of a credit institution if its publication would have a negative impact on its competitive position. Such information may include information about products or systems, competition disclosed, would cause negative effects on investment value of the credit institution. Some examples are shown in Table 1.

Table 1. Examples of classified information with the credit institution as owner

INFORMATION PROPERTY OF CREDIT INSTITUTION (disclosure would cause competitive and materials harm if published)	Overall business strategy of the credit institution
	Method for determining and tracking the risk profile
	The bank's internal regulations: strategies, policies, plans, rules, manuals, procedures and projects
	Detailed description of internal models used for risk assessment
	Detailed description of the system of limits used in risk management
	Any other strategic information

Source: Banca Comercială Carpatica, Disclosure, 2008, p 5.

An information is considered confidential if the credit institution is obliged to maintain confidentiality of all facts, data and information related to it as well as of any fact, data or information available to it, concerning the person, property, activity, business, personal or business relations or information on customer accounts - balance, turnover, performed operations – in the services or contracts with customers. On what regard the banks, data classification structure and documents issued to confidential information belong to the bank manager [3]. Some examples are shown in Table 2.

Table 2. Examples of confidential information for credit institutions

CONFIDENTIAL INFORMATION (disclosure would cause material and image losses for the bank, customers, suppliers and collaborators)	Information from contracts with customers and other bank's employees or suppliers
	Any information regarding architecture and system functions
	Any information relating to a customer, employee or supplier without its accept

Source: Banca Comercială Carpatica, Disclosure, 2008, p 5.

Therefore, confidential information for banks is a professional secret. GEO no.99/2006 states that any member of the board of a credit institution, directors, employees and any person who, in one form or another, involved in administration, management or business credit institution does not have the right to use or disclose any activity during or after its termination facts or data which, if made public, would damage the interests or prestige of a credit institution or its customer.

However credit institutions are obliged to disclose the following information in a special report:

Objectives and policies of credit institutions on risk management, separately for each category of risk: strategies and processes for managing these risks, structure and organization of each risk management function or other ways of organizing for this purpose, the area of coverage and type of reporting systems and risk assessment; coverage policies and risk mitigation, strategies and processes implemented to monitor the effectiveness of such policies.

Information on equity: summary information on contract terms on the main characteristics of each element of equity and related components, the value of Tier I with a separate indication of each positive and each deduction, the total the Tier II and Tier III capital adequacy of credit institutions and investment firms, the deductions from Tier I and Tier II and the total amount of eligible own funds.

Credit institution's exposure to credit risk and dilution risk: accounting definition for the terms "outstanding elements" and "deprecated elements", a description of approaches and methods used for determining value adjustments and provisions; value total exposures after accounting and compensation techniques before credit risk mitigation, and the average exposure for the period, broken down by exposure classes, geographical distribution of exposures, broken down by major classes of exposure, properly detailed, if case, the distribution of exposures by sector or type of counterparty exposures broken down by class, properly detailed, where appropriate, breakdown of all exposures by residual maturity, divided by class of exposure, appropriately detailed, if any, value impaired exposures and past due exposures, separated by geography and significant, accompanied, if possible, to the amount of value adjustments and provisions for each geographical area in part.

Reconciliation of valuation changes and provisions for impaired exposures, shown separately: the information shall include: a description of the type of value adjustments and provisions; opening balances; facilities to provisions for the period, amounts provisioned or reversed for estimated probable losses, related exposure period, any adjustments, particularly those caused by foreign exchange, combinations of activities, purchases and sales of subsidiaries, and transfers between provisions; and closing balances. Value adjustments and provisions and reversals recorded directly in the profit and loss will be published separately.

CONCLUSIONS

Credit institutions may choose not to publish one or more of the items listed if the credit institution considers that the communication includes information considered to be its property or confidential communications made to specify that certain information was not disclosed, the reason which were not disclosed and publish data about the information, unless they are classified as property of the credit institution or confidential.

We found that most public information concern to estimate the risk profile of credit institutions listed, these serving to support the financial system supervision. This is a beginning and we think it would be done by all credit institutions, not only those working on a regulated market.

Also, both market participants and policy makers have given increased attention to production and dissemination of information, seen as a key factor enabling the financial system to allocate the most productive purposes such as management and risk. This interest is due to the rapid development of financial sector, its complexity and its global character. Moreover, financial crises and recent corporate abuses have highlighted some failures regarding the processing and storage. As a result they have made several initiatives to improve information quality.

In addition to efforts to improve macroeconomic information, information for each company in part was improved because of the accounting frame. In this field it is notable the efforts to achieve harmonized IFRSs. There are also similar steps in updating standards for reporting on the risk profile of credit institutions, process driven by prudential authorities, particularly in the context of the Basel Committee capital adequacy (Basel II). This has brought forward significant differences in perspective between accounting and prudential supervisors on available information and not least, the potential implications were obvious for financial stability.

We can say that any institution should disclose financial and non-financial information, to address at least: appraisal of current financial position and profitability, appraisal of the risk profile and an appraisal of the uncertainty affecting the two types of estimates. This information, called "micro" should be filled with the "macro" level analysis, where the subject is not the institution but the economy as a whole and particularly the financial system. That does not mean that the "micro" information capacity to provide an overview is canceled. As long as the information level "micro" is properly handled, they can provide an overview.

From the above it can be concluded that accountant specialists focus more on information on the institutions' financial condition and performance, while prudential regulators risk profile.

Whether you watch the financial system in terms of resource allocation and risk, we can say that the set of key information to be published can be classified in two dimensions [4]. The first dimension describes the characteristics of financial interest information, and the second being analyzed and the degree of accumulation of information. Regarding the financial characteristics, there are three types: indicators of financial condition and profitability indicators of the risk profile and estimates of uncertainty or error associated with estimates limits the first two features.

Financial reporting takes primarily place in the "micro" level information and because this type of information has the longest tradition in accounting and refers to the balance sheet, income statement, cash flow, equity situation. Micro-level information can be translated into macro information if objective analysis shifts from individual institutions to the economy as a whole. Unlike the "micro" information, the level "macro" is the accumulation of bottom-up initial information from individual units, on: profitability, financial position and cash flow information of the corresponding sector, i.e. banking or non-financial business sector. These statistics are the basis for sub-specific accumulation, such as the monetary and credit data. We must remember that banks operate not only confidential information qualified as such by law, but also information that does not fit in this category, but can not be made public in any conditions. The latter, although not a legal restriction regime, are still subject to a controlled traffic system for avoiding negative consequences on the business or bank image, its employees or customers [5].

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ENDNOTES

[1] Greuning H. v., Brajovic Bratanovic S, Analyzing banking risk: a framework for assessing corporate governance and risk management, 2009, p. 198

[2] National Bank of Romania Regulation no. 25 regarding disclosure requirements for credit institutions and investment firms Gazette. no. 1035bis of 28/12/2006

[3] Andronache V., Bank and commercial operations. Test cases and practical solutions in the relations between bank and customer, University Publishing House, Bucharest, 2006, p.54

[4] Borio C., Tsatsaronis K., Accounting, prudential regulation and financial stability: elements of a synthesis, 2005, http://www.bis.org/publ/work180.pdf?noframes=1

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