UK Finance Code for Financial Reporting Disclosure

Background

The UK's eight largest lending institutions[1] (together the 'UK banks') recognise that there is a level of public interest in their disclosure that extends to other stakeholders in addition to investors. UK banks have gone beyond what is required by International Financial Reporting Standards (IFRS) as adopted in the European Union, statutory and regulatory requirements and the PRA's Listing, Disclosure and Transparency Rules to strive towards ensuring that the information they provide is commensurate with this interest.

Although the Directors of each UK bank remain responsible for ensuring that appropriate disclosures are provided for their entities, in order to further develop and enhance this commitment, the UK banks have:

- established a regular dialogue on financial statement disclosures as part of their preparatory work for producing annual and interim reports, with the aim of enhancing comparability and understanding.
- adopted this Code in respect of their financial reporting and include a statement of adherence with the Code in their annual reports.

This Code applies to disclosures in annual reports and accounts and interim reports.

The Code's principles are set out below in bold numbered paragraphs, with explanatory paragraphs where appropriate.

Overarching principle

1. **UK banks are committed to providing high quality, meaningful and decision useful disclosures to users to help them understand the financial position, performance and changes in the financial position of their businesses.**

- Business strategy and business models should be described so that stakeholders can understand opportunities and risks.
- The Business Review should clearly "tell the story" of the business performance for the period under review and the key risk exposures should reflect information provided to the Board.
- Where relevant, quantitative disclosures should be accompanied by suitable qualitative narrative explaining the significance of the quantitative disclosures.
- Disclosures should be presented such that, to the extent practical, all information about a particular activity is provided in one place in the annual or interim report; where this is not possible, for example, to meet disclosure requirements of different jurisdictions, in as few places as possible and with clear cross references to allow easy navigation.
- Where disclosures are made (e.g. Key Performance Indicators in the Business Review) that show analyses that are not directly reconcilable to the financial statements, the context of the information and how it relates to the financial statements should be clearly explained and reconciled when needed.
- Where disclosures are made that show an analysis of assets or liabilities which are comprised of balances (or parts of balances) from different balance sheet line items, the disclosures should include reconciliation back to the relevant balance sheet line items.
- Disclosures should be reviewed at each reporting date to identify those that have become redundant or less relevant. These should be reduced or removed so that disclosures overall remain targeted and relevant.

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[1]The groups headed by Barclays plc, HSBC Holdings plc, Lloyds Banking Group plc, Nationwide Building Society, Santander UK plc, Standard Chartered PLC, The NatWest Group Plc, Virgin Money UK PLC.

- Boilerplate disclosures that do not convey meaningful, entity-specific information should be avoided.
- Disclosures should be made at an appropriate level of granularity to aid understanding of the information or activity being explained. Judgements about the level of detail should balance the necessary need for aggregation to avoid information overload against the need for granularity to enhance understanding and increase transparency and should be based on information provided internally to key management personnel. Significant balances should not be left unexplained.

Compliance with IFRS

2. **UK banks will continue to keep under review and are committed to ongoing re-evaluation and enhancement of their financial instrument disclosures for key areas of interest.**

To ensure that their financial statements continue to be of high quality, UK banks will continue to seek to identify those areas of their activities which are of particular interest to market participants. In making this assessment institutions will consider internal management information provided to the Board, relevant guidance and directions provided by UK, European and international regulators and standard setters as well as representations made by stakeholder groups.

UK banks acknowledge that high quality disclosures in the following areas are particularly important:

- Judgements in applying accounting policies (IAS 1.122).
- Informative explanations about accounting policies adopted (IAS 1.117).
- Key assumptions when estimating the carrying value of assets and liabilities (IAS 1.125).
- Information about financial risks and exposures and how they are managed (IFRS 7.31 to 7.35)
- Sensitivity analyses (IFRS 7.40).
- Methods and assumptions supporting fair value estimates (IFRS 7.27).
- Nature and extent of risks arising from financial instruments (IFRS 7.31).
- Information about credit quality of assets (IFRS 7.36 to 38).
- Significant changes to carrying values at interim reporting periods (IAS 34.15)
- Expected credit losses (IFRS 9 as relevant).

Good practice guidance

3. **UK banks acknowledge the importance of good practice recommendations and similar guidance issued from time to time by relevant regulators and standard setters and will assess the applicability and relevance of such guidance to their disclosures.**

As necessary, UK banks will continue to consider going beyond what is required by IFRS, statutory and regulatory requirements and listing rules to ensure that the information they provide to stakeholders meets these objectives.

Accordingly, UK banks will assess, and reflect to the extent relevant to their business models and mixes, good practice recommendations made by the Financial Reporting Council, the Financial Stability Board, European Securities and Markets Authority and other guidance of similar standing.

UK banks will also keep under review topical and emerging issues. Even though topical issues may not be material in relation to their overall business, it may be material for the sector or otherwise important to the business and as such relevant for stakeholders. The UK banks will consider providing information to enable stakeholders to understand the effect on the bank's business of these issues.

In considering what matters would be regarded as a topical or emerging issue, the UK banks will consider a number of factors such as: market conditions, information provided to the Board, feedback and guidance from regulators, standard setters, and stakeholder groups.

Depending on the nature of the topical or emerging issue, the following types of disclosure may be appropriate:

- Balance sheet and income statement amounts for the activity.
- Explanation of the business strategy.
- Explanation of opportunities and risks and the potential for any significant income statement charge.

It may also be relevant to confirm that the bank does not have exposure to a particular risk.

4. UK banks will seek to enhance the ability to compare financial statement disclosures across the UK banking sector.

In adopting new standards, best practice recommendations and considering key market areas of interest which require enhanced disclosures, UK banks will implement, where appropriate, consistent approaches to aid comparison and understanding.

While each bank's business model and financial exposure is different, it is recognised that users seek to undertake comparisons between banks.

To assist users with this and their understanding of financial reports, the UK banks:

- recognise that disclosures in tabular form are a good way to facilitate understanding and enhance the ability to compare across institutions.
- will continue to converge their definitions of non-IFRS terms. In this context, 'convergence' does not necessarily mean identical definition; rather, a level of equivalence in definition to enhance the ability of stakeholders to make (a) an assessment of each individual UK bank's assets and liabilities, financial position, performance and risk profile; and (b) meaningful comparisons across the UK banking industry.

To assist users with this and their understanding of financial reports, the UK banks will provide within their annual reports a glossary of terms. The glossary will set out the definitions of key non-IFRS terms used in relation to financial instruments as well as other important terms and acronyms used in their reports. These definitions should be of sufficient detail to enable the scope of disclosures to be differentiated where appropriate.

5. UK banks should clearly differentiate in their annual reports between information that is audited and information that is unaudited.

UK banks acknowledge that it is important that there is a clear differentiation between audited and unaudited information. They will therefore ensure that audited information reported outside of their financial statements is clearly and specifically noted, particularly where audited and unaudited information is included on the same page.