

What Constitutes Appropriate Disclosure for a Financial Conglomerate?

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This paper addresses the disclosure issues for financial conglomerates principally from the same perspective as that of the Basel Committee on Banking Supervision: that disclosure is important for the safety and soundness of banks. However, we reach substantially different conclusions with respect to three important disclosure issues: the role of market value accounting; the frequency of disclosures; and the role of subordinated debt. We start by asking why any special disclosure might be required for financial conglomerates. This question immediately leads to a discussion of what is special about financial conglomerates. We also address the question of, "Disclosure to whom?" There are at least two potential audiences for information disclosures: financial regulators and the public investors/creditors/customers of a financial conglomerate. Issues of the appropriate structure for a financial conglomerate, and the information revelation that should accompany that structure, are also raised. Finally, we return to the title topic: What constitutes appropriate disclosure for a financial conglomerate. Unfortunately, by turning its back on the three most important steps that could be taken to improve information disclosure-mandating market value accounting (MVA) for banks' reports to regulators, aiming toward daily submission of these reports, and requiring the issuance of subordinated debt-the Basel Committee has fundamentally undermined its efforts to enhance banks' safety and soundness.