

## **Part 4: The Third Pillar – Market Discipline**

### **A. General considerations**

#### **1. Disclosure requirements**

757. The Committee believes that the rationale for Pillar 3 is sufficiently strong to warrant the introduction of disclosure requirements for banks using the New Accord. Supervisors have an array of measures that they can use to require banks to make such disclosures. Some of these disclosures will be qualifying criteria for the use of particular methodologies or the recognition of particular instruments and transactions.

#### **2. Guiding principles**

758. The purpose of Pillar 3 - market discipline is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The Committee aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution. The Committee believes that such disclosures have particular relevance under the New Accord, where reliance on internal methodologies gives banks more discretion in assessing capital requirements.

759. Under Pillar 1, banks use specified approaches/methodologies for measuring the various risks they face and the resulting capital requirements. The Committee believes that providing disclosures that are based on this common framework is an effective means of informing the market about a bank's exposure to those risks and provides a consistent and understandable disclosure framework that enhances comparability.

#### **3. Achieving appropriate disclosure**

760. The Committee is aware that supervisors have different powers available to them to achieve the disclosure requirements. Market discipline can contribute to a safe and sound banking environment, and supervisors require firms to operate in a safe and sound manner. Under safety and soundness grounds, supervisors could require banks to disclose information. Alternatively, supervisors have the authority to require banks to provide information in regulatory reports. Some supervisors could make some or all of the information in these reports publicly available. Further, there are a number of existing mechanisms by which supervisors may enforce requirements. These vary from country to country and range from "moral suasion" through dialogue with the bank's management (in order to change the latter's behaviour), to reprimands or financial penalties. The nature of the exact measures used will depend on the legal powers of the supervisor and the seriousness of the disclosure deficiency. However, it is not intended that direct additional capital requirements would be a response to non-disclosure, except as indicated below.

761. In addition to the general intervention measures outlined above, the New Accord also anticipates a role for specific measures. Where disclosure is a qualifying criterion under Pillar 1 to obtain lower risk weightings and/or to apply specific methodologies, there would be a direct sanction (not being allowed to apply the lower weighting or the specific methodology).

#### **4. Interaction with accounting disclosures**

762. The Committee recognises the need for a Pillar 3 disclosure framework that does not conflict with requirements under accounting standards, which are broader in scope. The Committee has made a considerable effort to see that the narrower focus of Pillar 3, which is aimed at disclosure of bank capital adequacy, does not conflict with the broader accounting requirements. Going forward, the Committee intends to maintain an ongoing relationship with the accounting authorities and monitor developments in this area to promote consistency between the disclosure frameworks.

763. Management should use its discretion in determining the appropriate medium and location of the disclosure. In situations where the disclosures are made under accounting requirements or are made to satisfy listing requirements promulgated by securities regulators, banks may rely on them to fulfil the applicable Pillar 3 expectations. In these situations, banks should explain material differences between the accounting or other disclosure and the supervisory basis of disclosure. This explanation does not have to take the form of a line by line reconciliation.

764. For those disclosures that are not mandatory under accounting or other requirements, management may choose to provide the Pillar 3 information through other means (such as on a publicly accessible internet website or in public regulatory reports filed with bank supervisors), consistent with requirements of national supervisory authorities. However, institutions are encouraged to provide all related information in one location to the degree feasible. In addition, if information is not provided with the accounting disclosure, institutions should indicate where the additional information can be found.

765. The recognition of accounting or other mandated disclosure in this manner is also expected to help clarify the requirements for validation of disclosures. For example, information in the annual financial statements would generally be audited and additional material published with such statements must be consistent with the audited statements. In addition, supplementary material (such as Management's Discussion and Analysis) that is published to satisfy other disclosure regimes (e.g. listing requirements promulgated by securities regulators) is generally subject to sufficient scrutiny (e.g. internal control assessments, etc.) to satisfy the validation issue. If material is not published under a validation regime, for instance in a stand alone report or as a section on a website, then management should ensure that appropriate verification of the information takes place, in accordance with the overarching principles set out below. Accordingly, Pillar 3 disclosures will not be required to be audited by an external auditor, unless otherwise required by accounting standards setters, securities regulators or other authorities.

#### **5. Materiality**

766. A bank should decide which disclosures are relevant for it based on the materiality concept. Information would be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information. This definition is consistent with International Accounting Standards and with many national accounting frameworks. The Committee recognises the need for a qualitative judgement of whether, in light of the particular circumstances, a user of financial information for the purpose of making economic decisions would consider the item to be material (user test). The Committee is not setting specific thresholds for disclosure as these can be open to manipulation and are difficult to determine, and it believes that the user test is a useful benchmark for achieving sufficient disclosure.

## **6. Frequency**

767. The disclosures set out in Pillar 3 should be made on a semi-annual basis, subject to the following exceptions. Qualitative disclosures that provide a general summary of a bank's risk management objectives and policies, reporting system and definitions may be published on an annual basis. In recognition of the increased risk sensitivity of the New Accord and the general trend towards more frequent reporting in capital markets, large internationally active banks and other significant banks (and their significant bank subsidiaries) must disclose their Tier 1 and total capital adequacy ratios, and their components,<sup>102</sup> on a quarterly basis. Furthermore, if information on risk exposure or other items is prone to rapid change, then banks should also disclose information on a quarterly basis. In all cases, banks should publish material information as soon as practicable.<sup>103</sup>

## **7. Proprietary and confidential information**

768. Proprietary information encompasses information (for example on products or systems), that if shared with competitors would render a bank's investment in these products/systems less valuable, and hence would undermine its competitive position. Information about customers is often confidential, in that it is provided under the terms of a legal agreement or counterparty relationship. This has an impact on what banks should reveal in terms of information about their customer base, as well as details on their internal arrangements, for instance methodologies used, parameter estimates, data etc. The Committee believes that the requirements set out below strike an appropriate balance between the need for meaningful disclosure and the protection of proprietary and confidential information. In exceptional cases, disclosure of certain items of information required by Pillar 3 may prejudice seriously the position of the bank by making public information that is either proprietary or confidential in nature. In such cases, a bank need not disclose those specific items, but must disclose more general information about the subject matter of the requirement, together with the fact that, and the reason why, the specific items of information have not been disclosed. This limited exemption is not intended to conflict with the disclosure requirements under the accounting standards.

## **B. The disclosure requirements<sup>104</sup>**

769. The following sections set out in tabular form the disclosure requirements under Pillar 3. Additional definitions and explanations are provided in a series of footnotes.

### **1. General disclosure principle**

770. Banks should have a formal disclosure policy approved by the board of directors that addresses the bank's approach for determining what disclosures it will make and the

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<sup>102</sup> These components include Tier 1 capital, total capital and total required capital

<sup>103</sup> For some small banks with stable risk profiles, annual reporting may be acceptable. Where a bank publishes information on only an annual basis, it should state clearly why this is appropriate.

<sup>104</sup> In this section of the New Accord, disclosures marked with an asterisk are conditions for use of a particular approach or methodology for the calculation of regulatory capital.

internal controls over the disclosure process. In addition, banks should implement a process for assessing the appropriateness of their disclosures, including validation and frequency of them.

**2. Scope of application**

771. Pillar 3 applies at the top consolidated level of the banking group to which the Capital Accord applies (as indicated above in Part 1: Scope of Application). Disclosures related to individual banks within the groups would not generally be required to fulfil the disclosure requirements set out below. An exception to this arises in the disclosure of Total and Tier 1 Capital Ratios by the top consolidated entity where an analysis of individual banks within the group is appropriate, in order to recognise the need for banks to comply with the Capital Accord and other applicable limitations on the transfer of funds or capital within the group.

Table 1  
**Scope of application**

<b>Qualitative Disclosures</b>	(a)	The name of the top corporate entity in the group to which the Capital Accord applies.
	(b)	An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities <sup>105</sup> within the group (a) that are fully consolidated; <sup>106</sup> (b) that are pro-rata consolidated; <sup>107</sup> (c) that are given a deduction treatment; <sup>108</sup> and (d) from which surplus capital is recognised <sup>109</sup> plus (e) that are neither consolidated nor deducted (e.g. where the investment is risk weighted).
	(c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.

<sup>105</sup> Entity = securities, insurance and other financial subsidiaries, commercial subsidiaries, significant minority equity investments in insurance, financial and commercial entities.

<sup>106</sup> Following the listing of significant subsidiaries in consolidated accounting, e.g. IAS 27.

<sup>107</sup> Following the listing of subsidiaries in consolidated accounting, e.g. IAS 31.

<sup>108</sup> May be provided as an extension (extension of entities and/or extension of information on entities) to the listing of significant subsidiaries in consolidated accounting, e.g. IAS 27. 32.

<sup>109</sup> May be provided as an extension (extension of entities and/or extension of information on entities) to the listing of significant subsidiaries in consolidated accounting, e.g. IAS 27. 32.

<b>Quantitative Disclosures</b>	(d)	The aggregate amount of surplus capital <sup>110</sup> of insurance subsidiaries (whether deducted or subjected to an alternative method <sup>111</sup> ) included in the capital of the consolidated group.
	(e)	The aggregate amount of capital deficiencies <sup>112</sup> in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries.
	(f)	The aggregate amounts (e.g. current book value) of the firm's total interests in insurance entities, which are risk weighted <sup>113</sup> rather than deducted from capital or subjected to an alternate group-wide method, <sup>114</sup> as well as their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction or alternate group-wide method.

### 3. Capital

Table 2  
**Capital structure**

<b>Qualitative Disclosures</b>	(a)	Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.
<b>Quantitative Disclosures</b>	(b)	The amount of Tier 1 capital, with separate disclosure of: <ul style="list-style-type: none"> <li>• paid-up share capital/common stock;</li> <li>• reserves;</li> <li>• minority interests in the equity of subsidiaries;</li> <li>• innovative instruments;</li> <li>• other capital instruments;</li> <li>• surplus capital from insurance companies;<sup>115</sup> and</li> <li>• goodwill and other amounts deducted from Tier 1.</li> </ul>
	(c)	The total amount of Tier 2 and Tier 3 capital.
	(d)	Deductions from Tier 1 and Tier 2 capital.
	(e)	Total eligible capital.

<sup>110</sup> Surplus capital in unconsolidated regulated subsidiaries is the difference between the amount of the investment in those entities and their regulatory capital requirements.

<sup>111</sup> Pillar 1 reference: paragraphs 11 and 14 under Part 1.

<sup>112</sup> A capital deficiency is the amount by which actual capital is less than the regulatory capital requirement. Any deficiencies which have been deducted on a group level in addition to the investment in such subsidiaries are not to be included in the aggregate capital deficiency.

<sup>113</sup> Pillar 1 reference: paragraph 12 under Part 1.

<sup>114</sup> Pillar 1 reference: paragraph 11 under Part 1.

<sup>115</sup> Pillar 1 reference: Paragraph 14 under Part 1.

Table 3  
**Capital Adequacy**

<b>Qualitative disclosures</b>	(a)	A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.
<b>Quantitative disclosures</b>	(b)	Capital requirements for credit risk: <ul style="list-style-type: none"> <li>• Portfolios subject to standardised or simplified standardised approach;</li> <li>• Portfolios subject to the IRB approaches: <ul style="list-style-type: none"> <li>• Corporate (including SL not subject to supervisory slotting criteria), sovereign and bank;</li> <li>• Residential mortgage;</li> <li>• Qualifying revolving retail;<sup>116</sup> and</li> <li>• Other retail;</li> </ul> </li> <li>• Securitisation exposures.</li> </ul>
	(c)	Capital requirements for equity risk in the IRB approach: <ul style="list-style-type: none"> <li>• Equity portfolios subject to the market-based approaches;</li> <li>• Equity portfolios subject to simple risk weight method; and</li> <li>• Equities in the banking book under the internal models approach (for banks using IMA for banking book equity exposures).</li> <li>• Equity portfolios subject to PD/LGD approaches.</li> </ul>
	(d)	Capital requirements for market risk: <ul style="list-style-type: none"> <li>• Standardised approach; and</li> <li>• Internal models approach – Trading book.</li> </ul>
	(e)	Capital requirements for operational risk: <ul style="list-style-type: none"> <li>• Basic indicator approach;</li> <li>• Standardised approach; and</li> <li>• Advanced measurement approach (AMA).</li> </ul>
	(f)	Total and Tier 1 <sup>117</sup> capital ratio: <ul style="list-style-type: none"> <li>• For the top consolidated group; and</li> <li>• For significant bank subsidiaries (stand alone or sub-consolidated depending on how the Capital Accord is applied).</li> </ul>

#### 4. Risk exposure and assessment

772. The risks to which banks are exposed and the techniques that banks use to identify, measure, monitor and control those risks are important factors market participants consider in their assessment of an institution. In this section, several key banking risks are considered: credit risk, market risk, interest rate risk and equities in the banking book and operational risk. Also included in this section are disclosures relating to credit risk mitigation and asset securitisation, both of which alter the risk profile of the institution. Where applicable, separate disclosures are set out for banks using different approaches to the assessment of regulatory capital.

<sup>116</sup> Banks should distinguish between the separate non-mortgage retail portfolios used for the Pillar 1 capital calculation (i.e. qualifying revolving retail exposures and other retail exposures) unless these portfolios are insignificant in size (relative to overall credit exposures) and the risk profile of each portfolio is sufficiently similar such that separate disclosure would not help users' understanding of the risk profile of the banks' retail business.

<sup>117</sup> Including proportion of innovative capital instruments.

(i) *General qualitative disclosure requirement*

773. For each separate risk area (e.g. credit, market, operational, banking book interest rate risk, equity) banks must describe their risk management objectives and policies, including:

- strategies and processes;
- the structure and organisation of the relevant risk management function;
- the scope and nature of risk reporting and/or measurement systems;
- policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.

(ii) *Credit risk*

774. General disclosures of credit risk provide market participants with a range of information about overall credit exposure. Disclosures on the capital assessment techniques give information on the specific nature of the exposures, the means of capital assessment and data to assess the reliability of the information disclosed.

Table 4

**Credit risk: general disclosures for all banks**

<b>Qualitative Disclosures</b>	(a)	The general qualitative disclosure requirement (above) with respect to credit risk, including: <ul style="list-style-type: none"><li>• Definitions of past due and impaired (for accounting purposes);</li><li>• Description of approaches followed for specific and general allowances and statistical methods; and</li><li>• Discussion of the bank's credit risk management policy.</li></ul>
<b>Quantitative Disclosures</b>	(b)	Total gross credit risk exposures, <sup>118</sup> plus average gross exposure <sup>119</sup> over the period <sup>120</sup> broken down by major types of credit exposure. <sup>121</sup>
	(c)	Geographic <sup>122</sup> distribution of exposures, broken down in significant areas by major types of credit exposure.
	(d)	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.

<sup>118</sup> I.e. after accounting offsets and without taking into account the effects of credit risk mitigation techniques, e.g. collateral and netting.

<sup>119</sup> Where the period end position is representative of the risk positions of the bank during the period, average gross exposures need not be disclosed.

<sup>120</sup> Where average amounts are disclosed in accordance with an accounting standard or other requirement which specifies the calculation method to be used, that method should be followed. Otherwise, the average exposures should be calculated using the most frequent interval that an entity's systems generate for management, regulatory or other reasons, provided that the resulting averages are representative of the bank's operations. The basis used for calculating averages need be stated only if not on a daily average basis.

<sup>121</sup> This breakdown could be that applied under accounting rules, and might, for instance, be (a) loans, commitments and other non-derivative off balance sheet exposures (b) securities and (c) OTC derivatives

<sup>122</sup> Geographical areas may comprise individual countries, groups of countries or regions within countries. Banks might choose to define the geographical areas based on the way the bank's portfolio is geographically managed. The criteria used to allocate the loans to geographical areas should be specified (e.g. domicile of the borrower).

	(e)	Residual contractual maturity breakdown of the whole portfolio, <sup>123</sup> broken down by major types of credit exposure.
	(f)	By major industry or counterparty type: <ul style="list-style-type: none"> <li>• Amount of past due / impaired loans;<sup>124</sup></li> <li>• Specific and general allowances; and</li> <li>• Charges for specific allowances and charge-offs during the period.</li> </ul>
	(g)	Amount of impaired loans and past due loans broken down by significant geographic areas including, if practical, the related amounts of specific and general allowances. <sup>125</sup>
	(h)	Reconciliation of changes in the allowances for loan impairment. <sup>126</sup>

Table 5

**Credit risk: disclosures for portfolios subject to the standardised approach and supervisory risk weights in the IRB approaches<sup>127</sup>**

<b>Qualitative Disclosures</b>	(a)	For portfolios under the standardised approach: <ul style="list-style-type: none"> <li>• Names of ECAs and ECAs used, plus reasons for any changes;*</li> <li>• Types of exposure for which each agency is used;</li> <li>• A description of the process used to transfer public issue ratings onto comparable assets in the banking book; and</li> <li>• The alignment of the alphanumeric scale of each agency used with risk buckets.<sup>128</sup></li> </ul>
<b>Quantitative Disclosures</b>	(b)	<ul style="list-style-type: none"> <li>• For exposures subject to the standardised approach, amount of a bank's outstandings (rated and unrated) in each risk bucket as well as those that are deducted; and</li> <li>• For exposures subject to the supervisory risk weights in IRB (HVCRE, any SL products subject to supervisory slotting criteria and equities under the simple risk weight method) amount of a bank's outstandings in each risk bucket.</li> </ul>

**Credit risk: disclosures for portfolios subject to IRB approaches**

775. An important part of the New Accord is the introduction of an IRB approach for the assessment of regulatory capital for credit risk. To varying degrees, banks will have discretion to use internal inputs in their regulatory capital calculations. In this sub-section, the

<sup>123</sup> This may already be covered by accounting standards, in which case banks may wish to use the same maturity groupings used in accounting.

<sup>124</sup> Banks are encouraged also to provide an analysis of the ageing of past-due loans.

<sup>125</sup> The portion of general allowance that is not allocated to a geographical area should be disclosed separately.

<sup>126</sup> The reconciliation shows separately specific and general allowances; the information comprises: a description of the type of allowance; the opening balance of the allowance; charge-offs taken against the allowance during the period; amounts set aside (or reversed) for estimated probable loan losses during the period, any other adjustments (e.g. exchange rate differences, business combinations, acquisitions and disposals of subsidiaries), including transfers between allowances; and the closing of the allowance. Charge-offs and recoveries that have been recorded directly to the income statement should be disclosed separately.

<sup>127</sup> A *de minimis* exception would apply where ratings are used for less than 1% of the total loan portfolio.

<sup>128</sup> This information need not be disclosed if the bank complies with a standard mapping which is published by the relevant supervisor.

IRB approach is used as the basis for a set of disclosures intended to provide market participants with information about asset quality. In addition, these disclosures are important to allow market participants to assess the resulting capital in light of the exposures. There are two categories of quantitative disclosures: those focussing on an analysis of risk exposure and assessment (i.e. the inputs) and those focussing on the actual outcomes (as the basis for providing an indication of the likely reliability of the disclosed information). These are supplemented by a qualitative disclosure regime which provides background information on the assumptions underlying the IRB framework, the use of the IRB system as part of a risk management framework and the means for validating the results of the IRB system. The disclosure regime is intended to enable market participants to assess the credit risk exposure of IRB banks and the overall application and suitability of the IRB framework, without revealing proprietary information or duplicating the role of the supervisor in validating the detail of the IRB framework in place.

Table 6

**Credit risk: disclosures for portfolios subject to IRB approaches**

<b>Qualitative disclosures*</b>	(a)	Supervisor's acceptance of approach/ supervisory approved transition
	(b)	Explanation and review of the: <ul style="list-style-type: none"> <li>• Structure of internal rating systems and relation between internal and external ratings;</li> <li>• use of internal estimates other than for IRB capital purposes;</li> <li>• process for managing and recognising credit risk mitigation; and</li> <li>• Control mechanisms for the rating system including discussion of independence, accountability, and rating systems review.</li> </ul>

	(c)	<p>Description of the internal ratings process, provided separately for five distinct portfolios:</p> <ul style="list-style-type: none"> <li>• Corporate (including SMEs, specialised lending and purchased corporate receivables), sovereign and bank;</li> <li>• Equities;<sup>129</sup></li> <li>• Residential mortgage;</li> <li>• Qualifying revolving retail ;<sup>130</sup> and</li> <li>• Other retail.</li> </ul> <p>The description should include, for each portfolio:</p> <ul style="list-style-type: none"> <li>• The types of exposure included in the portfolio;</li> <li>• The definitions, methods and data for estimation and validation of PD, and (for portfolios subject to the IRB advanced approach) LGD and/or EAD, including assumptions employed in the derivation of these variables;<sup>131</sup> and</li> <li>• Description of deviations as permitted under paragraph 418 and footnote 84 from the reference definition of default where determined to be material, including the broad segments of the portfolio(s) affected by such deviations.<sup>132</sup></li> </ul>
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<sup>129</sup> Equities need only be disclosed here as a separate portfolio where the bank uses the PD/LGD approach for equities held in the banking book.

<sup>130</sup> In both the qualitative disclosures and quantitative disclosures that follow, banks should distinguish between the qualifying revolving retail exposures and other retail exposures unless these portfolios are insignificant in size (relative to overall credit exposures) and the risk profile of each portfolio is sufficiently similar such that separate disclosure would not help users' understanding of the risk profile of the banks' retail business.

<sup>131</sup> This disclosure does not require a detailed description of the model in full – it should provide the reader with a broad overview of the model approach, describing definitions of the variables, and methods for estimating and validating those variables set out in the quantitative risk disclosures below. This should be done for each of the five portfolios. Banks should draw out any significant differences in approach to estimating these variables within each portfolio.

<sup>132</sup> This is to provide the reader with context for the quantitative disclosures that follow. Banks need only describe main areas where there has been material divergence from the reference definition of default such that it would affect the readers' ability to compare and understand the disclosure of exposures by PD grade.

<b>Quantitative disclosures: risk assessment*</b>	(d)	Percentage of total credit exposures (drawn plus EAD on the undrawn) to which IRB approach disclosures relate. <sup>133</sup>
	(e)	For each portfolio (as defined above) except retail: <sup>134</sup> <ul style="list-style-type: none"> <li>• Presentation of exposures (outstanding loans and EAD on undrawn commitments,<sup>135</sup> outstanding equities) across a sufficient number of PD grades (including default) to allow for a meaningful differentiation of credit risk;<sup>136</sup></li> <li>• For banks on the IRB advanced approach, default-weighted average LGD (percentage) for each PD grade (as defined above); and</li> <li>• For banks on the IRB advanced approach, amount of undrawn commitments and default-weighted average EAD;<sup>137</sup></li> </ul> For retail portfolios (as defined above), either: <sup>138</sup> <ul style="list-style-type: none"> <li>• Disclosures outlined above on a pool basis (i.e. same as for non-retail portfolios); or</li> <li>• Analysis of exposures on a pool basis (outstanding loans and EAD on commitments) against a sufficient number of EL grades to allow for a meaningful differentiation of credit risk.</li> </ul>
<b>Quantitative disclosures: historical results*</b>	(f)	Actual losses (e.g. charge-offs and specific provisions) in the preceding period for each portfolio (as defined above) and how this differs from past experience. A discussion of the factors that impacted on the loss experience in the preceding period – for example, has the bank experienced higher than average default rates, or higher than average LGDs and EADs.

<sup>133</sup> This information enables the user to understand the relative significance of the IRB quantitative disclosures as a measure of asset quality. Banks should show the percentage of total exposures (in aggregate) subject to the following: (1) foundation IRB; (2) advanced IRB (including retail) and (3) PD/LGD approach for equities (where applicable).

<sup>134</sup> The PD, LGD and EAD disclosures below should reflect the effects of collateral, netting and guarantees/credit derivatives, where recognised under Pillar 1.

<sup>135</sup> Outstanding loans and EAD on undrawn commitments can be presented on a combined basis for these disclosures.

<sup>136</sup> Where banks are aggregating PD grades for the purposes of disclosure, this should be a representative breakdown of the distribution of PD grades used in the IRB approach.

<sup>137</sup> Banks need only provide one estimate of EAD for each portfolio. However, where banks believe it is helpful, in order to give a more meaningful assessment of risk, they may also disclose EAD estimates across a number of EAD categories, against the undrawn exposures to which these relate.

<sup>138</sup> Banks would normally be expected to follow the disclosures provided for the non-retail portfolios. However, banks may choose to adopt EL grades as the basis of disclosure where they believe this can provide the reader with a meaningful differentiation of credit risk. Where banks are aggregating internal grades (either PD/LGD or EL) for the purposes of disclosure, this should be a representative breakdown of the distribution of those grades used in the IRB approach.

	(g)	Banks' estimates against actual outcomes over a longer period. <sup>139</sup> At a minimum, this should include information on estimates of losses against actual losses in each portfolio (as defined above) over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each portfolio. <sup>140</sup> Where appropriate, banks should further decompose this to provide analysis of PD and, for banks on the advanced IRB approach, LGD and EAD outcomes against estimates provided in the quantitative risk assessment disclosures above. <sup>141</sup>
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Table 7

**Equities: disclosures for banking book positions**

<b>Qualitative Disclosures</b>	(a)	The general qualitative disclosure requirement (above) with respect to equity risk, including: <ul style="list-style-type: none"> <li>• differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and</li> <li>• discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.</li> </ul>
	(b)	Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.
<b>Quantitative Disclosures*</b>	(c)	The types and nature of investments, including the amount that can be classified as: <ul style="list-style-type: none"> <li>• Publicly traded; and</li> <li>• Privately held.</li> </ul>
	(d)	The cumulative realised gains (losses) arising from sales and liquidations in the reporting period.
	(e)	Total unrealised or latent revaluation gains (losses) and any amounts included in Tier 1 and/or Tier 2 capital.
	(f)	Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory transition or grandfathering provisions regarding regulatory capital requirements.

<sup>139</sup> These disclosures are a way of further informing the reader about the reliability of the information provided in the "quantitative disclosures: risk assessment" over the long run. The disclosures are requirements from year-end 2008; In the meantime, early adoption would be encouraged. The phased implementation is to allow banks sufficient time to build up a longer run of data that will make these disclosures meaningful.

<sup>140</sup> The Committee will not be prescriptive about the period used for this assessment. Upon implementation, it might be expected that banks would provide these disclosures for as long run of data as possible – for example, if banks have 10 years of data, they might choose to disclose the average default rates for each PD grade over that 10-year period.

<sup>141</sup> Banks should provide this further decomposition where it will allow users greater insight into the reliability of the estimates provided in the 'quantitative disclosures: risk assessment'. In particular, banks should provide this information where there are material differences between the PD, LGD or EAD estimates given by banks compared to actual outcomes over the long run. Banks should also provide explanations for such differences.

Table 8

**Credit risk mitigation: disclosures for standardised and IRB approaches**<sup>142,143</sup>

<b>Qualitative Disclosures*</b>	(a)	The general qualitative disclosure requirement (above) with respect to credit risk mitigation including: <ul style="list-style-type: none"> <li>• policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting;</li> <li>• policies and processes for collateral valuation and management;</li> <li>• a description of the main types of collateral taken by the bank;</li> <li>• the main types of guarantor/credit derivative counterparty and their creditworthiness; and</li> <li>• information about (market or credit) risk concentrations within the mitigation taken.</li> </ul>
<b>Quantitative Disclosures*</b>	(b)	For each separately disclosed credit risk portfolio under the standardised and/or foundation IRB approach, the total exposure (after netting) that is covered by: <ul style="list-style-type: none"> <li>• eligible financial collateral; and</li> <li>• other eligible IRB collateral;</li> </ul> before the application of haircuts.
	(c)	For each separately disclosed portfolio under the standardised and/or IRB approach, the total exposure (after netting) that is covered by guarantees/credit derivatives.

Table 9

**Securitisation: disclosure for standardised and IRB approaches**<sup>143</sup>

<b>Qualitative disclosures*</b>	(a)	The general qualitative disclosure requirement (above) with respect to securitisation (including synthetics), including a discussion of: <ul style="list-style-type: none"> <li>• the bank's objectives in relation to securitisation activity; and</li> <li>• the roles played by the bank in the securitisation process<sup>144</sup> and an indication of the extent of the bank's involvement in each of them.</li> </ul>
	(b)	Summarise the bank's accounting policies for securitisation activities, including: <ul style="list-style-type: none"> <li>• whether the transactions are treated as sales or financings;</li> <li>• recognition of gain on sale;</li> <li>• key assumptions for valuing retained interests; and</li> <li>• treatment of synthetic securitisations if this is not covered by other accounting policies (e.g. on derivatives).</li> </ul>
	(c)	Names of ECAs used for securitisations and the types of securitisation exposure for which each agency is used.

<sup>142</sup> As a minimum, banks must give the disclosures below in relation to credit risk mitigation that has been recognised for the purposes of reducing capital requirements under the New Accord. Where relevant, banks are encouraged to give further information about mitigants that have not been recognised for that purpose.

<sup>143</sup> Credit derivatives that are treated, for the purposes of the New Accord, as part of synthetic securitisation structures should be excluded from the credit risk mitigation disclosures and included within those relating to securitisation.

<sup>144</sup> For example: originator, investor, servicer, provider of credit enhancement, sponsor of asset backed commercial paper facility, liquidity provider, swap provider.

<b>Quantitative disclosures*</b>	(d)	The total outstanding exposures securitised by the bank and subject to the securitisation framework (broken down into traditional/synthetic), by exposure type. <sup>145,146</sup>
	(e)	For exposures securitised by the bank and subject to the securitisation framework: <ul style="list-style-type: none"> <li>• amount of impaired/past due assets securitised; and</li> <li>• losses recognised by the bank during the current period<sup>147</sup></li> </ul> broken down by exposure type.
	(f)	Aggregate amount of securitisation exposures retained or purchased <sup>148</sup> broken down by exposure type. <sup>145</sup>
	(g)	Aggregate amount of securitisation exposures retained or purchased <sup>148</sup> broken down into a meaningful number of risk weight bands. <sup>149</sup> Exposures that have been deducted should be disclosed separately.
	(h)	Aggregate outstanding amount of securitised revolving exposures segregated by originator's interest and investors' interest.
	(i)	Summary of current year's securitisation activity, including the amount of exposures securitised (by exposure type), and recognised gain or loss on sale by asset type.

(iii) *Market risk*

Table 10

**Market risk: disclosures for banks using the standardised approach**

<b>Qualitative disclosures</b>	(a)	The general qualitative disclosure requirement (above) for market risk including the portfolios covered by the standardised approach.
<b>Quantitative disclosures</b>	(b)	The capital requirements for: <ul style="list-style-type: none"> <li>• interest rate risk;</li> <li>• equity position risk;</li> <li>• foreign exchange risk; and</li> <li>• commodity risk.</li> </ul>

<sup>145</sup> For example, credit cards, home equity, auto, etc.

<sup>146</sup> Securitisation transactions in which the originating bank does not retain any securitisation exposure should be shown separately but need only be reported for the year of inception.

<sup>147</sup> For example, charge-offs/allowances (if the assets remain on the bank's balance sheet) or write-downs of I/O strips and other residual interests.

<sup>148</sup> Including, but not restricted to, securities, liquidity facilities, other commitments and credit enhancements such as I/O strips, cash collateral accounts and other subordinated assets.

<sup>149</sup> Banks using the standardised approach for securitisation transactions should base their analysis on the standard risk weight buckets.

Table 11

**Market risk: disclosures for banks using the internal models approach (IMA) for trading portfolios**

<b>Qualitative disclosures</b>	(a)	The general qualitative disclosure requirement (above) for market risk including the portfolios covered by the IMA.
	(b)	For each portfolio covered by the IMA: <ul style="list-style-type: none"> <li>• the characteristics of the models used;</li> <li>• a description of stress testing applied to the portfolio; and</li> <li>• a description of the approach used for backtesting/validating the accuracy and consistency of the internal models and modelling processes.</li> </ul>
	(c)	The scope of acceptance by the supervisor.
<b>Quantitative disclosures</b>	(d)	For trading portfolios under the IMA: <ul style="list-style-type: none"> <li>• The aggregate value-at-risk (VaR);</li> <li>• The high, mean and low VaR values over the reporting period and period-end; and</li> <li>• A comparison of VaR estimates with actual outcomes, with analysis of important "outliers" in backtest results.</li> </ul>

(iv) *Operational risk*

Table 12

**Operational risk**

<b>Qualitative disclosures</b>	(a)	In addition to the general qualitative disclosure requirement (above), the approach(es) for operational risk capital assessment for which the bank qualifies.
	(b)	Description of the AMA, if used by the bank, including a discussion of relevant internal and external factors considered in the bank's measurement approach. In the case of partial use, the scope and coverage of the different approaches used.
<b>Quantitative disclosures*</b>	(c)	For banks using the AMA, the operational risk charge before and after any reduction in capital resulting from the use of insurance.

(v) *Interest rate risk in the banking book*

Table 13

**Interest rate risk in the banking book (IRRBB)**

<b>Qualitative disclosures</b>	(a)	The general qualitative disclosure requirement (above), including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of IRRBB measurement.
<b>Quantitative disclosures</b>	(b)	The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).