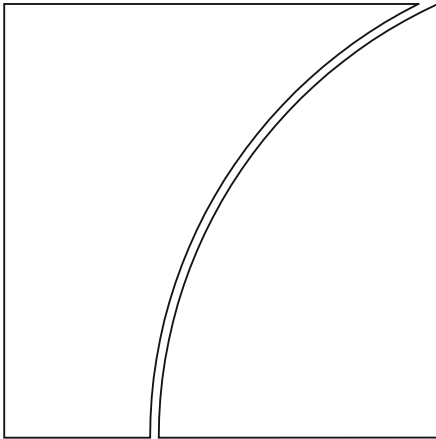


Basel Committee on Banking Supervision

Technical Amendment

Pillar 3 disclosure requirements – regulatory treatment of accounting provisions



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Introduction

To promote a consistent global implementation of the Basel framework, the Committee regularly monitors and reviews issues that arise from the implementation of its standards. Where necessary, it publishes clarifications and interpretative guidance. In some instances, implementation issues can be clarified in the form of answers to frequently asked questions (FAQs), without any changes to the standard. On other occasions, the issue, though minor in effect, cannot be resolved unambiguously without an amendment to the text of the standard itself. In these cases, the Committee has decided to publish the clarification as a proposed technical amendment. Such amendments are published for a short consultation period, typically for 45 calendar days.

The following rules text is related to additional Pillar 3 disclosure requirements for those jurisdictions implementing an expected credit loss (ECL) accounting model as well as for those adopting transitional arrangements for the regulatory treatment of accounting provisions.¹

Technical amendment to the Pillar 3 disclosure standard

The consolidated Pillar 3 disclosure standard issued in March 2017 introduced two new disclosure templates (Templates KM1 and KM2) to provide users of Pillar 3 data with a set of key prudential metrics in a format that facilitates comparisons of a bank's performance and trends over time, improving market discipline in the process. Template KM1 will provide users of Pillar 3 data with a time series set of key prudential metrics covering a bank's available capital (including buffer requirements and ratios), its risk-weighted assets (RWA), leverage ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio. Template KM2 requires G-SIBs to disclose key metrics on Total Loss-Absorbing Capacity (TLAC). Both templates must be published quarterly.²

As set out in the Committee's publication on the regulatory treatment of accounting provisions, the standard requires banks to publicly disclose whether they are applying a transitional arrangement for the impact of expected credit loss accounting on regulatory capital. If a transitional arrangement is applied, Template KM1 will provide users with information on the impact on the bank's regulatory capital and leverage ratios compared to the bank's "fully loaded" capital and leverage ratios had the transitional arrangement not been applied.

In order to provide users with disclosures that fully reflect any transitional effects for the impact expected credit loss accounting on regulatory capital, as well as to provide further information on the allocation of ECL accounting provisions in the regulatory categories of general and specific provisions for standardised exposures during the interim period, the following disclosures in the Pillar 3 standard will apply:

- **Template KM2 (Key metrics – Total Loss-Absorbing Capacity (TLAC) requirements at resolution group level).** Additional disclosures require banks to disclose the "fully loaded" impact of ECL transitional arrangements used in TLAC resources and ratios.
- **Template CR1 (Credit quality of assets).** Given that the existing regulatory distinction between general provisions (GP) and special provisions (SP) does not directly correspond to how provisions would be measured under the new ECL accounting standards, additional disclosures

¹ See *Regulatory treatment of accounting provisions - interim approach and transitional arrangements*, March 2017 found at www.bis.org/bcbs/publ/d401.htm

² See *Pillar 3 disclosure requirements - consolidated and enhanced framework*, March 2017 found at www.bis.org/bcbs/publ/d400.htm

are required on the allocation between general and specific provisions for standardised approach exposures.

- **Table CRB (Additional disclosures related to credit quality of assets).** This amendment accompanies those related to CR1. Banks are required to disclose the rationale for their categorisation of ECL accounting provisions in general and specific categories for standardised approach exposures.

The revised templates are in Annex 1.

The application of ECL accounting models and introduction of any transitional arrangements took effect from 1 January 2018. The additional amendments to the Pillar 3 standard will therefore come into effect from 1 January 2019 and are applicable for banks using an ECL accounting model after this date as well as for those banks using transitional arrangements for the regulatory treatment of accounting provisions.

Annex 1

(Part 2: Overview of risk management, key prudential metrics and RWA³)

Template KM2: Key metrics - TLAC requirements (at resolution group level)

Purpose: Provide summary information about Total Loss-Absorbing Capacity (TLAC) available, and TLAC requirements applied, at resolution group level under the Single Point of Entry (SPE) and Multiple Point of Entry (MPE) approaches.

Scope of application: The template is mandatory for all resolution groups of G-SIBs.

Content: Key prudential metrics related to TLAC. Banks are required to disclose the figure as of the end of the reporting period (designated by T in the template below) as well as the previous four quarter ends (designated by T-1 to T-4 in the template below). When the banking group includes more than one resolution group (MPE approach), this template is to be reproduced for each resolution group.

Frequency: Quarterly.

Format: Fixed.

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant change over the reporting period and the key drivers of such changes.

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
Resolution group 1						
1	Total Loss Absorbing Capacity (TLAC) available					
1a	Fully loaded ECL accounting model TLAC available					
2	Total RWA at the level of the resolution group					
3	TLAC as a percentage of RWA (row1/row2) (%)					
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA (%)					
4	Leverage exposure measure at the level of the resolution group					
5	TLAC as a percentage of leverage exposure measure (row1/row4) (%)					
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model Leverage exposure measure (%)					
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?					
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?					
6c	If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with Excluded Liabilities and that is recognised as external TLAC, divided by funding issued that ranks pari passu with Excluded Liabilities and that would be recognised as external TLAC if no cap was applied (%)					

³ www.bis.org/bcbs/publ/d400.pdf page 20.

Linkages across templates

Amount in [KM2:1/a] is equal to [resolution group-level TLAC1:22/a]

Amount in [KM2:2/a] is equal to [resolution group-level TLAC1:23/a]

Aggregate amounts in [KM2:2/a] across all resolution groups will not necessarily equal or directly correspond to amount in [KM1:4/a]

Amount in [KM2:3/a] is equal to [resolution group-level TLAC1:25/a]

Amount in [KM2:4/a] is equal to [resolution group-level TLAC1:24/a]

Amount in [KM2:5/a] is equal to [resolution group-level TLAC1:26/a]

[KM2:6a/a] refers to the uncapped exemption in Section 11 of the FSB TLAC Term Sheet, for jurisdictions in which all liabilities excluded from TLAC specified in Section 10 are statutorily excluded from the scope of the bail-in tool and therefore cannot legally be written down or converted to equity in a bail-in resolution. Possible answers for [KM2:6a/a]: [Yes], [No].

[KM2:6b/a] refers to the capped exemption in Section 11 of the FSB TLAC Term Sheet, for jurisdictions where the resolution authority may, under exceptional circumstances specified in the applicable resolution law, exclude or partially exclude from bail-in all of the liabilities excluded from TLAC specified in Section 10, and where the relevant authorities have permitted liabilities that would otherwise be eligible to count as external TLAC but which rank alongside those excluded liabilities in the insolvency creditor hierarchy to contribute a quantum equivalent of up to 2.5% RWA (from 2019) or 3.5% RWA (from 2022). Possible answers for [KM2:6b/a]: [Yes], [No].

Amount in [KM2:6c/a] is equal to [resolution group-level TLAC1:14 divided by TLAC1:13]. This only needs to be completed if the answer to [KM2:6b] is [Yes].

(Part 8: Credit risk⁴)

Table CRB: Additional disclosure related to the credit quality of assets

Purpose: Supplement the quantitative templates with information on the credit quality of a bank's assets.
Scope of application: The table is mandatory for all banks.
Content: Additional qualitative and quantitative information (carrying values).
Frequency: Annual.
Format: Flexible.

Banks must provide the following disclosures:

Qualitative disclosures

- (a) The scope and definitions of "past due" and "impaired"⁵ exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.
- (b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.
- (c) Description of methods used for determining accounting provisions for credit losses. In addition, banks that have adopted an ECL accounting model must provide information on the rationale for categorisation of ECL accounting provisions in general and specific categories for standardised approach exposures.
- (d) The bank's own definition of a restructured exposure.

Quantitative disclosures

- (e) Breakdown of exposures by geographical areas, industry and residual maturity.
- (f) Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related accounting provisions, broken down by geographical areas and industry.
- (g) Ageing analysis of accounting past-due exposures.
- (h) Breakdown of restructured exposures between impaired and not impaired exposures.

⁴ www.bis.org/bcbs/publ/d400.pdf page 65 ; www.bis.org/bcbs/publ/d309.pdf pages 21 and 19.

⁵ When the accounting framework is IFRS 9, "impaired exposures" are those that are considered "credit-impaired" in the meaning of IFRS 9 Appendix A. When the accounting framework is US GAAP, "impaired exposures" are those exposures for which credit losses are measured under ASC Topic 326 and for which the bank has recorded a partial write-off/write-down.

Template CR1: Credit quality of assets

Purpose: Provide a comprehensive picture of the credit quality of a bank's (on- and off-balance sheet) assets.
Scope of application: The template is mandatory for all banks. Columns d, e and f are only applicable for banks that have adopted an ECL accounting model.
Content: Carrying values (corresponding to the accounting values reported in financial statements but according to the scope of regulatory consolidation).
Frequency: Semiannual.
Format: Fixed. (Jurisdictions may require a more granular breakdown of asset classes, but rows 1 to 4 as defined below are mandatory for all banks).
Accompanying narrative: Banks must include their definition of default in an accompanying narrative.

		a	b	c	d	e	f	g
		Gross carrying values of		Allowances/ impairments	Of which ECL accounting provisions for credit losses on SA exposures		Of which ECL accounting provisions for credit losses on IRB exposures	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General		
1	Loans							
2	Debt Securities							
3	Off-balance sheet exposures							
4	Total							

Definitions

Gross carrying values: on- and off-balance sheet items that give rise to a credit risk exposure according to the Basel framework. On-balance sheet items include loans and debt securities. Off-balance sheet items must be measured according to the following criteria: (a) guarantees given – the maximum amount that the bank would have to pay if the guarantee were called. The amount must be gross of any credit conversion factor (CCF) or credit risk mitigation (CRM) techniques. (b) Irrevocable loan commitments – total amount that the bank has committed to lend. The amount must be gross of any CCF or CRM techniques. Revocable loan commitments must not be included. The gross value is the accounting value before any allowance/impairments but after considering write-offs. Banks must not take into account any credit risk mitigation technique.

Write-offs for the purpose of this template are related to a direct reduction of the carrying amount when the entity has no reasonable expectations of recovery.

Defaulted exposures: banks should use the definition of default that they also use for regulatory purposes. Banks must provide this definition of default in the accompanying narrative.

Non-defaulted exposures: any exposure not meeting the above definition of default.

Accounting provisions for credit losses: total amount of provisions, made via an allowance against impaired and not impaired exposures (may correspond to general reserves in certain jurisdictions or may be made via allowance account or direct reduction – direct write-down in some jurisdictions) according to the applicable accounting framework. For example, when the accounting framework is IFRS 9, "impaired exposures" are those that are considered "credit-impaired" in the meaning of IFRS 9 Appendix A. When the accounting framework is US GAAP, "impaired exposures" are those exposures for which credit losses are measured under ASC Topic 326 and for which the bank has recorded a partial write-off/write-down.

Banks must fill in column d to f in accordance with the categorisation of accounting provisions distinguishing those meeting the conditions to be categorised in general provisions, as defined in Basel III paragraph 60 in their jurisdiction, and those that are categorised as specific provisions. This categorisation must be consistent with information provided in Table CRB.

Net values: Total gross value less allowances/impairments.

Linkages across templates

Amount in [CR1:1/g] is equal to the sum [CR3:1/a] + [CR3:1/b].

Amount in [CR1:2/g] is equal to the sum [CR3:2/a] + [CR3:2/b].

Amount in [CR1:4/a] is equal to [CR2:6/a]
