Basel Committee
on Banking Supervision

Consultative Document

Voluntary disclosure of sovereign exposures

Issued for comment by 14 February 2020

November 2019

BANK FOR INTERNATIONAL SETTLEMENTS

This publication is available on the BIS website (www.bis.org).

ISBN 978-92-9259-315-5 (online)

Contents

Voluntary disclosures of sovereign exposures

1. Introduction

In December 2017, the Basel Committee on Banking Supervision published a discussion paper on the regulatory treatment of sovereign exposures.[1] The Committee noted that it had not reached a consensus at that stage to make any changes to the regulatory treatment of sovereign exposures. The paper set out a range of potential ideas which the Committee sought the views of stakeholders to inform its longer-term thinking on the topic. One of these potential ideas related to disclosure requirements of banks' sovereign exposures.

The Committee reviewed the feedback received to the discussion paper on the potential ideas related to disclosure requirements, and further evaluated the merits and demerits of pursuing such measures. Through this consultation paper, the Committee is further seeking the views of interested stakeholders on three potential disclosure templates, which would require banks to disclose their sovereign exposures and risk-weighted assets by jurisdictional breakdown, by currency breakdown, and according to the accounting classification of the exposures.

The Committee has not reached a consensus to make any changes to the regulatory treatment of sovereign exposures at this stage. For this reason, these potential disclosure templates would be voluntary in nature, with jurisdictions free to decide whether or not to require their banks to implement them.

Section 2 of this paper outlines the proposed disclosure templates, while Section 3 sets out the next steps. The Annex contains the proposed new chapter in the format of the consolidated Basel framework that would contain the disclosure requirements for sovereign exposures.

2. Proposed disclosure templates

The templates in this consultative document generally build upon the ideas set out in the 2017 discussion paper. However, there are some important changes to those templates, as highlighted below.

First, the classification into types of sovereign exposures used in the templates proposed in this chapter are consistent with the credit risk framework, and not with the specific classification proposed by the 2017 discussion paper. Additionally, the market risk definitions used for the trading book sovereign exposures have been aligned with the January 2019 revised market risk standard.[2] More generally, the definitions used in the templates that are associated with the credit risk and market risk frameworks are aligned with the version of these frameworks that will take effect as of 1 January 2022.

Template SOV1: Exposures to sovereign entities – country and currency breakdown now includes, for each jurisdiction that is material enough to be disclosed separately, a breakdown of the amounts that is denominated in domestic currency.

[1] Basel Committee on Banking Supervision. *Discussion paper – the regulatory treatment of sovereign exposures*. December 2017. https://www.bis.org/bcbs/publ/d425.htm

[2] Basel Committee on Banking Supervision. *Minimum capital requirements for market risk*. January 2019. https://www.bis.org/bcbs/publ/d457.htm

Template SOV1 and Template SOV2: Exposures to sovereign entities – currency denomination breakdown no longer require disclosure of exposure amounts before the application of credit conversion factors (CCF) or credit risk mitigation (CRM). These changes should prevent the unwarranted disclosure of central bank liquidity assistance. Also, the column disclosing the concentration of exposure as percentage of Tier 1 capital is no longer present in these two templates.

The substance and definitions used in Template SOV3: Exposures to sovereign entities – accounting classification breakdown have been updated. This template now also includes a breakdown of sovereign exposures according to their residual maturity.

3. Next steps

The Committee welcomes comments from the public, including Pillar 3 disclosure users and preparers, on all aspects of this consultative document.

Comments must be submitted by 14 February 2020. Comments will be published on the Bank for International Settlements website, unless the respondent specifically requests confidential treatment.

The Committee will review the responses received and undertake its own further analyses, with a view to publishing a final version of the templates in a timely manner.

Annex 1: Proposed new chapter DIS45 – Sovereign exposures

This annex sets out below the text to be inserted in a newly created chapter in the DIS standard of consolidated Basel framework, chapter 45 – Sovereign exposures. This chapter would be first introduced in the framework in the version effective as of 1 January 2022.

Introduction

45.1 This chapter sets out disclosure requirements for sovereign exposures. Implementation of the templates set out in this chapter is only mandatory when required by national supervisors at a jurisdictional level.

45.2 The definitions used throughout the templates are consistent with CRE20, MAR22 and MAR40.

45.3 The disclosure requirements under this section are:

(1) Template SOV1: Exposures to sovereign entities – country and currency breakdown

(2) Template SOV2: Exposures to sovereign entities – currency denomination breakdown

(3) Template SOV3: Exposures to sovereign entities – accounting classification breakdown

Template SOV1: Exposures to sovereign entities – country and currency breakdown

Purpose: To decompose banks' sovereign exposures and risk-weighted assets by significant jurisdictions.
Scope of application: The template is mandatory for all banks only when required by national supervisors at a jurisdictional level.
Content: Regulatory exposure amounts.
Frequency: Semiannual.
Format: Fixed. (The columns cannot be altered, the rows will vary based on each banks' country breakdown).
Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant changes in sovereign exposures across countries. Banks should provide an explanation of cases where the figure shown in column c is not fully representative of the contribution of the relevant exposures to actual RWAs. In particular, banks may provide further details on short positions that provide hedging benefits against trading book sovereign exposures where these hedging benefits are not recognised in the calculations used for columns b and c (ie they are not recognised in the net JTD calculation set out in MAR22.19 – MAR22.21, or, for firms subject to the simplified standardised approach for market risk, the net long position calculation set out in MAR 40). For example, this could include information on short positions that are not fully recognised due to maturity mismatches, or any index or proxy single-name CDS hedges.

Sovereigns and their central banks

		a	b	c
		Banking book sovereign exposures (after CCF and CRM)	**Trading book sovereign exposures**	**Risk-weighted assets**
	Significant jurisdiction (in descending order of total exposure value)	Amount (including on- and off- balance sheet)	Amount	Amount
1	Total			
2	Jurisdiction 1			
2a	*of which: denominated in domestic currency*			
3	Jurisdiction 2			
3a	*of which: denominated in domestic currency*			
4	…			

Multilateral development banks and non-central government public sector entities

[idem]

Definitions

Columns

(a) Banking book sovereign exposures (after CCF and CRM): Banks should provide the total value of all sovereign exposures in the banking book, after CCF and CRM, including both on- and off-balance sheet exposures. This should include exposures with a 0% risk weight.

(b) Trading book sovereign exposures: Banks should provide the exposure value for their entire trading book portfolios that results in a loss in the case of a default (ie long position as defined in [MAR22.10]), without applying the applicable risk weights. Therefore, banks are required to provide exposure value even when they apply a zero risk weight to claims on sovereigns per [MAR22.7]. All banks should report the net long jump-to-default (JTD) risk positions for each sovereign as calculated per [MAR22.19] to [MAR22.21]. As an exception to this, any bank that is subject to the simplified standardised approach for market risk per [MAR40] should report the net long position calculated for specific risk, recognising any full offsetting allowances per MAR40.16, but without applying any partial offsetting allowances per [MAR40.17] or [MAR40.18].

(c) Risk-weighted assets: Banks should report total RWAs including both banking book and trading book exposures. For trading book exposures, banks (including those that use the internal models approach for market risk) should report 12.5 times the sum of the risk-weighted net long JTDs. As an exception to this, any bank that is subject to the simplified standardised approach for market risk should apply 12.5 times the percentage capital requirements per [MAR40.6] Table 1 to the position reported in column b.

Rows

Banks should provide a jurisdiction breakdown of all jurisdictions to which they have a material exposure. If total exposures across all MDBs are material, then banks should include a combined row for all MDBs, without the currency breakdown. Information about individual MDBs is not expected regardless of materiality. Exposures to PSEs from each jurisdiction should be reported in a separate row.

Total: This row should include the total exposures to all jurisdictions, whether or not they are included in the jurisdiction breakdown. This row may therefore not be equal to the sum of the rows for individual jurisdictions.

Linkages across templates

Amount in [SOV1:1/a] is equal to [SOV2:1/a]

Amount in [SOV1:1/b] is equal to [SOV2:1/b]

Amount in [SOV1:1/c] is equal to [SOV2:1/c]

Template SOV2: Exposures to sovereign entities – currency denomination breakdown

Purpose: To decompose banks' sovereign exposures and risk-weighted assets by currency denomination.

Scope of application: The template is mandatory for all banks only when required by national supervisors at a jurisdictional level.

Content: Regulatory exposure amounts.

Frequency: Semiannual.

Format: Fixed. (The columns cannot be altered, the rows will vary based on each banks' currency breakdown).

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant changes in sovereign exposures across countries. Banks should provide an explanation of cases where the figure shown in column c is not fully representative of the contribution of the relevant exposures to actual RWAs. In particular, banks may provide further details on short positions that provide hedging benefits against trading book sovereign exposures where these hedging benefits are not recognised in the calculations used for columns b and c (ie they are not recognised in the net JTD calculation set out in MAR22.19 – MAR22.21, or, for firms subject to the simplified standardised approach for market risk, the net long position calculation set out in MAR 40). For example, this could include information on short positions that are not fully recognised due to maturity mismatches, or any index or proxy single-name CDS hedges.

Sovereigns and their central banks

		a	b	c
		Banking book sovereign exposures (after CCF and CRM)	**Trading book sovereign exposures**	**Risk-weighted assets**
	Significant currency denomination (in descending order of exposure value)	Amount (including on- and off-balance sheet)	Amount	Amount
1	Total			
2	Currency 1			
3	Currency 2			
	…			

Multilateral development banks and non-central government public sector entities

[idem]

Definitions

Columns

Banking book sovereign exposures (after CCF and CRM): Banks should provide the total value of all sovereign exposures in the banking book, after CCF and CRM, including both on- and off-balance sheet exposures. This should include exposures with a 0% risk weight.

Trading book sovereign exposures: Banks should provide the exposure value for their entire trading book portfolios that results in a loss in the case of a default (ie long position as defined in [MAR22.10]), without applying the applicable risk weights. Therefore, banks are required to provide exposure value even when they apply a zero risk weight to claims on sovereigns per [MAR22.7]. All banks should report the net long jump-to-default (JTD) risk positions for each sovereign as calculated per [MAR22.19] to [MAR22.21]. As an exception to this, any bank that is subject to the simplified standardised approach for market risk per [MAR40] should report the net long position calculated for specific risk, recognising any full offsetting allowances per [MAR40.16], but without applying any partial offsetting allowances per [MAR40.17] or [MAR40.18].

Risk-weighted assets: Banks should report total RWAs including both banking book and trading book exposures. For trading book exposures, banks (including those that use the internal models approach for market risk) should report 12.5 times the sum of the risk-weighted net long JTDs. As an exception to this, any bank that is subject to the simplified standardised approach for market risk should apply 12.5 times the percentage capital requirements per [MAR40.6] Table 1 to the position reported in column b.

Rows

Banks should provide a currency breakdown of all currencies to which they have a material exposure.

Total: This row should include the total exposures to all currencies, whether or not they are included in the currency breakdown. This row may therefore not be equal to the sum of the rows for individual currencies.

Linkages across templates

Amount in [SOV2:1/a] is equal to [SOV1:1/a]

Amount in [SOV2:1/b] is equal to [SOV1:1/b]

Amount in [SOV2:1/c] is equal to [SOV1:1/c]

Template SOV3: Exposures to sovereign entities – accounting classification breakdown

Purpose: To decompose banks' sovereign exposures by accounting classification.

Scope of application: The template is mandatory for all banks only when required by national supervisors at a jurisdictional level.

Content: Carrying value (under regulatory scope of consolidation)

Frequency: Semiannual.

Format: Fixed. (The columns and rows cannot be altered).

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant changes in the classification of sovereign exposures across countries.

Sovereigns and their central banks

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r
		Debt instruments			**Loans and receivables**	**Direct sovereign exposures in derivatives**				**Indirect sovereign exposures in derivatives**				**Total exposures**					
						Positive fair value		Negative fair value		Positive fair value		Negative fair value		On-balance sheet					
		Fair value (*FVTPL)	Available-for-sale financial assets (*FVTOCI)	Financial assets held at amortised cost (*AC)	(*AC)	Notional value	Fair value (*FVTPL)	Notional value	Fair value (*FVTPL)	Notional value	Fair value (*FVTPL)	Notional value	Fair value (*FVTPL)	< 12 months	12 months to < 2 years	2 years to < 5 years	5 years and more	No maturity	Total
1	**Gross value**																		
2	**Net value**																		

Multilateral development banks and non-central government public sector entities

[idem]

* Provides guidance for banks that have adopted IFRS9.

Rows:

(2) Net value: Total gross value less allowances.

Columns: The following explanation provides guidance on how columns a to l should be disclosed by banks that have adopted IFRS9.

(a) Debt instruments – Fair Value: Banks must disclose the carrying value of debt instruments (held in the banking book and trading book) that are measured at FVTPL (Fair Value Through Profit and Loss). May comprise:

- Instruments held for trading
- Instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling assets and they do not qualify for SPPI test (Solely payments of principal and interest).
- When the entity has exercised the option to designate instruments at FVTPL that would have been otherwise classified at amortised cost or at FVOCI provided that if doing so eliminates or significantly reduces a measurement or recognition inconsistency (referred to an "accounting mismatch").

(b) Debt instruments – Available for sale financial assets: Banks must disclose the carrying value of debt instruments measured at FVTOCI (Fair Value through Other Comprehensive Income). Comprise the instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling assets and it qualifies for SPPI test.

(c) Debt instruments – Financial assets held at amortised cost: Banks must disclose the carrying value of debt instruments measured at amortised cost. Comprise the instruments that are held within a business model whose objective is to collect contractual cash flows and it qualifies for SPPI test.

(d) Loans and receivables: Banks must report the carrying value of loans and receivables that are measured at amortised cost. Comprise the loans and receivables that are held within a business model whose objective is to collect contractual cash flows and qualifies for SPPI test.

(e) – (h) Direct exposures in derivatives: In the notional column banks should disclose the notional amount of written direct derivatives. In the fair value column, banks should disclose the carrying value of derivatives measured at FVTPL.

(i) – (l) Indirect exposures in derivatives: In the notional column banks should disclose the notional amount of written derivatives where the underlying is a sovereign. In the fair value column, banks should disclose the carrying value of derivatives measured at FVTPL. Exposures collateralised by a sovereign must not be included.

(m) – (r) Total exposures: Banks should disclose the amount according to the residual maturity of each exposure. Residual maturity should be computed as the difference between the contractual date of maturity and the reporting reference date. When the reporting reference date is after the contractual date of maturity (i.e. the difference between reporting reference date and maturity date is a negative value), the exposure shall be allocated to the bucket [< 12 months] and therefore reported in the column (m).

- Callable instruments should be disclosed according to the contractual date of maturity.
- Perpetual bonds and other exposures without defined maturity should be reported in the "no maturity" column (q).