

Basel Committee on Banking Supervision

DIS

Disclosure requirements

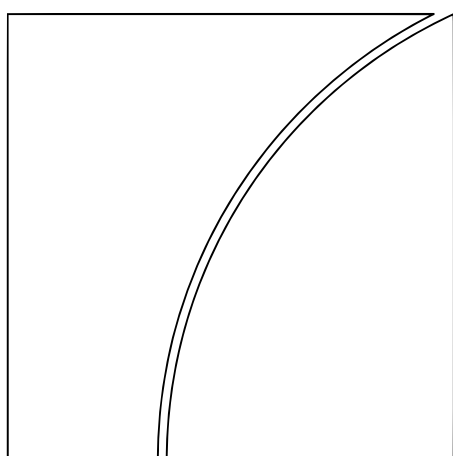
DIS30

Links between financial statements and regulatory exposures

This chapter describes requirements for banks to disclose reconciliations between elements of the calculation of regulatory capital to audited financial statements.

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First version in the format of the consolidated framework.



BANK FOR INTERNATIONAL SETTLEMENTS

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Introduction

30.1

The disclosure requirements set out in this chapter are:

1. Table LIA – Explanations of differences between accounting and regulatory exposure amounts
2. Template LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories
3. Template LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements
4. Template PV1 – Prudent valuation adjustments (PVAs)

30.2

Table LIA provides qualitative explanations on the differences observed between accounting carrying value (as defined in Template LI1) and amounts considered for regulatory purposes (as defined in Template LI2) under each framework.

30.3

Template LI1 provides information on how the amounts reported in banks' financial statements correspond to regulatory risk categories. Template LI2 provides information on the main sources of differences (other than due to different scopes of consolidation which are shown in Template LI1) between the financial statements' carrying value amounts and the exposure amounts used for regulatory purposes.

30.4

Template PV1 will provide users with a detailed breakdown of how the aggregate PVAs have been derived. In light of instances where the underlying exposures cannot be easily classified as a banking book or trading book exposure due to the varied implementation of PVAs across jurisdictions, national supervisors are allowed discretion to tailor the format of the template to reflect the implementation of PVAs in their jurisdiction. Where such discretion has been exercised, the allocation methodology should be explained in the narrative commentary to the disclosure requirement.

Table LIA: Explanations of differences between accounting and regulatory exposure amounts

TABLE.1

Purpose: Provide qualitative explanations on the differences observed between accounting carrying value (as defined in Template LI1) and amounts considered for regulatory purposes (as defined in Template LI2) under each framework.

Scope of application: The template is mandatory for all banks.

Content: Qualitative information.

Frequency: Annual.

Format: Flexible.

Banks must explain the origins of the differences between accounting amounts, as reported in financial statements amounts and regulatory exposure amounts, as displayed in Templates LI1 and LI2.

- (a) Banks must explain the origins of any significant differences between the amounts in columns (a) and (b) in Template LI1.
-
- (b) Banks must explain the origins of differences between carrying values and amounts considered for regulatory purposes shown in Template LI2.
-

In accordance with the implementation of the guidance on prudent valuation (see [CAP50](#)), banks must describe systems and controls to ensure that the valuation estimates are prudent and reliable. Disclosure must include:

- (c)
 - Valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used.
 - Description of the independent price verification process.
 - Procedures for valuation adjustments or reserves (including a description of the process and the methodology for valuing trading positions by type of instrument).
-

Banks with insurance subsidiaries must disclose:

- (d)
 - the national regulatory approach used with respect to insurance entities in determining a bank's reported capital positions (ie deduction of investments in insurance subsidiaries or alternative approaches, as discussed in [SCO30.5](#); and
 - any surplus capital in insurance subsidiaries recognised when calculating the bank's capital adequacy (see [SCO30.6](#)).
-

Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

TABLE.2

Purpose: Columns (a) and (b) enable users to identify the differences between the scope of accounting consolidation and the scope of regulatory consolidation; and columns (c)-(g) break down how the amounts reported in banks' financial statements (rows) correspond to regulatory risk categories.

Scope of application: The template is mandatory for all banks.

Content: Carrying values (corresponding to the values reported in financial statements).

Frequency: Annual.

Format: Flexible (but the rows must align with the presentation of the bank's financial report).

Accompanying narrative: See Table LIA. Banks are expected to provide qualitative explanation on items that are subject to regulatory capital charges in more than one risk category.

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital

Assets							
Cash and balances at central banks							
Items in the course of collection from other banks							
Trading portfolio assets							
Financial assets designated at fair value							
Derivative financial instruments							
Loans and advances to banks							
Loans and advances to customers							
Reverse repurchase agreements and other similar secured lending							
Available for sale financial investments							
-.							
Total assets							
Liabilities							
Deposits from banks							
Items in the course of collection due to other banks							
Customer accounts							
Repurchase agreements and other similar secured borrowings							
Trading portfolio liabilities							
Financial liabilities designated at fair value							
Derivative financial instruments							
-.							
Total liabilities							

Instructions

Rows

The rows must strictly follow the balance sheet presentation used by the bank in its financial reporting.

Columns

If a bank's scope of accounting consolidation and its scope of regulatory consolidation are exactly the same, columns (a) and (b) should be merged.

The breakdown of regulatory categories (c) to (f) corresponds to the breakdown prescribed in the rest of DIS, ie column (c) corresponds to the carrying values of items other than off-balance sheet items reported in DIS40; column (d) corresponds to the carrying values of items other than off-balance sheet items reported in DIS42, column (e) corresponds to carrying values of items in the banking book other than off-balance sheet items reported in DIS43; and column (f) corresponds to the carrying values of items other than off-balance sheet items reported in DIS50.

Column (g) includes amounts not subject to capital requirements according to the Basel framework or subject to deductions from regulatory capital.

Note: Where a single item attracts capital charges according to more than one risk category framework, it should be reported in all columns that it attracts a capital charge. As a consequence, the sum of amounts in columns (c) to (g) may not equal the amounts in column (b) as some items may be subject to regulatory capital charges in more than one risk category.

For example, derivative assets/liabilities held in the regulatory trading book may relate to both column (d) and column (f). In such circumstances, the sum of the values in columns (c)-(g) would not equal to that in column (b). When amounts disclosed in two or more different columns are material and result in a difference between column (b) and the sum of columns (c)-(g), the reasons for this difference should be explained by banks in the accompanying narrative.

Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

TABLE.3

Purpose: Provide information on the main sources of differences (other than due to different scopes of consolidation which are shown in Template LI1) between the financial statements' carrying value amounts and the exposure amounts used for regulatory purposes.

Scope of application: The template is mandatory for all banks.

Content: Carrying values that correspond to values reported in financial statements but according to the scope of regulatory consolidation (rows 1-3) and amounts considered for regulatory exposure purposes (row 10).

Frequency: Annual.

Format: Flexible. Row headings shown below are provided for illustrative purposes only and should be adapted by the bank to describe the most meaningful drivers for differences between its financial statement carrying values and the amounts considered for regulatory purposes.

Accompanying narrative: See Table LIA.

		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per Template LI1)					
2	Liabilities carrying value amount under regulatory scope of consolidation (as per Template LI1)					
3	Total net amount under regulatory scope of consolidation (Row 1 - Row 2)					
4	Off-balance sheet amounts					
5	Differences in valuations					
6	Differences due to different netting rules, other than those already included in row 2					
7	Differences due to consideration of provisions					
8	Differences due to prudential filters					
9	⋮					

10	Exposure amounts considered for regulatory purposes					
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Instructions

Amounts in rows 1 and 2, columns (b)-(e) correspond to the amounts in columns (c)-(f) of Template LI1.

Row 1 of Template LI2 includes only assets that are risk-weighted under the Basel framework, while row 2 includes liabilities that are considered for the application of the risk weighting requirements, either as short positions, trading or derivative liabilities, or through the application of the netting rules to calculate the net position of assets to be risk-weighted. These liabilities are not included in column (g) in Template LI1. Assets that are risk-weighted under the Basel framework include assets that are not deducted from capital because they are under the applicable thresholds or due to the netting with liabilities.

Off-balance sheet amounts include off-balance sheet original exposure in column (a) and the amounts subject to regulatory framework, after application of the credit conversion factors (CCFs) where relevant in columns (b)-(d).

Column (a) is not necessarily equal to the sum of columns (b)-(e) due to assets being risk-weighted more than once (see Template LI1). In addition, exposure values used for risk weighting may differ under each risk framework depending on whether standardised approaches or internal models are used in the computation of this exposure value. Therefore, for any type of risk framework, the exposure values under different regulatory approaches can be presented separately in each of the columns if a separate presentation eases the reconciliation of the exposure values for banks.

The breakdown of columns in regulatory risk categories (b)-(e) corresponds to the breakdown prescribed in the rest of the document, ie column (b) credit risk corresponds to the exposures reported in [DIS40](#), column (c) corresponds to the exposures reported in [DIS43](#), column (d) corresponds to exposures reported in [DIS42](#), and column (e) corresponds to the exposures reported in [DIS50](#).

Differences due to consideration of provisions: The exposure values under row 1 are the carrying amounts and hence net of provisions (ie specific and general provisions, as set out in [CAP10.18](#)). Nevertheless, exposures under the foundation internal ratings-based (F-IRB) and advanced internal ratings-based (A-IRB) approaches are risk-weighted gross of provisions. Row 7 therefore is the re-inclusion of general and specific provisions in the carrying amount of exposures in the F-IRB and A-IRB approaches so that the carrying amount of those exposures is reconciled with their regulatory exposure value. Row 7 may also include the elements qualifying as general provisions that may have been deducted from the carrying amount of exposures under the standardised approach and that therefore need to be reintegrated in the regulatory exposure value of those exposures. Any differences between the accounting impairment and the regulatory provisions under the Basel framework that have an impact on the exposure amounts considered for regulatory purposes should also be included in row 7.

Exposure amounts considered for regulatory purposes: The expression designates the aggregate amount considered as a starting point of the RWA calculation for each of the risk categories. Under the credit risk framework this should correspond either to the exposure amount applied in the standardised approach for credit risk (see [CRE20](#)) or to the exposures at default (EAD) in the IRB approach for credit risk (see [CRE32.29](#)); securitisation exposures should be defined as in the securitisation framework (see [CRE40.4](#) and [CRE40.5](#)); and counterparty credit exposures are defined as the EAD considered for counterparty credit risk purposes (see [CRE51](#)).

Linkages across templates

Template LI2 is focused on assets in the regulatory scope of consolidation that are subject to the regulatory framework. Therefore, column (g) in Template LI1, which includes the elements of the balance sheet that are **not** subject to the regulatory framework, is not included in Template LI2. The following linkage holds: column (a) in Template LI2 = column (b) in Template LI1 - column (g) in Template LI1.

Template PV1: Prudent valuation adjustments (PVAs)

TABLE.4

Purpose: Provide a breakdown of the constituent elements of a bank's PVAs according to the requirements of [CAP50](#), taking into account the guidance set out in *Supervisory guidance for assessing banks' financial instrument fair value practices*, April 2009 (in particular Principle 10).

Scope of application: The template is mandatory for all banks which record PVAs.

Content: PVAs for all assets measured at fair value (marked to market or marked to model) and for which PVAs are required. Assets can be non-derivative or derivative instruments.

Frequency: Annual.

Format: Fixed. The row number cannot be altered. Rows which are not applicable to the reporting bank should be filled with "0" and the reason why they are not applicable should be explained in the accompanying narrative. Supervisors have the discretion to tailor the format of the template to reflect the implementation of PVA in their jurisdictions.

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such changes. In particular, banks are expected to detail "Other adjustments", where significant, and to define them when they are not listed in the Basel framework. Banks are also expected to explain the types of financial instruments for which the highest amounts of PVAs are observed.

	a	b	c	d	e	f	g	h
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		Equity	Interest rates	Foreign exchange	Credit	Commodities	Total	Of which: in the trading book	Of which: in the banking book
1	Closeout uncertainty, of which:								
2	<i>Mid-market value</i>								
3	<i>Closeout cost</i>								
4	<i>Concentration</i>								
5	Early termination								
6	Model risk								
7	Operational risk								
8	Investing and funding costs								
9	Unearned credit spreads								
10	Future administrative costs								
11	Other								
12	Total adjustment								

Definitions and instructions

Row number	Explanation
3	<i>Closeout cost</i> : PVAs required to take account of the valuation uncertainty to adjust for the fact that the position level valuations calculated do not reflect an exit price for the position or portfolio (for example, where such valuations are calibrated to a mid-market price).
4	<i>Concentration</i> : PVAs over and above market price and closeout costs that would be required to get to a prudent exit price for positions that are larger than the size of positions for which the valuation has been calculated (ie cases where the aggregate position held by the bank is larger than normal traded volume or larger than the position sizes on which observable quotes or trades that are used to calibrate the price or inputs used by the core valuation model are based).
5	<i>Early termination</i> : PVAs to take into account the potential losses arising from contractual or non-contractual early terminations of customer trades that are not reflected in the valuation.

6	<i>Model risk:</i> PVAs to take into account valuation model risk which arises due to: (i) the potential existence of a range of different models or model calibrations which are used by users of Pillar 3 data; (ii) the lack of a firm exit price for the specific product being valued; (iii) the use of an incorrect valuation methodology; (iv) the risk of using unobservable and possibly incorrect calibration parameters; or (v) the fact that market or product factors are not captured by the core valuation model.
7	<i>Operational risk:</i> PVAs to take into account the potential losses that may be incurred as a result of operational risk related to valuation processes.
8	<i>Investing and funding costs:</i> PVAs to reflect the valuation uncertainty in the funding costs that other users of Pillar 3 data would factor into the exit price for a position or portfolio. It includes funding valuation adjustments on derivatives exposures.
9	<i>Unearned credit spreads:</i> PVAs to take account of the valuation uncertainty in the adjustment necessary to include the current value of expected losses due to counterparty default on derivative positions, including the valuation uncertainty on CVA.
10	<i>Future administrative costs:</i> PVAs to take into account the administrative costs and future hedging costs over the expected life of the exposures for which a direct exit price is not applied for the closeout costs. This valuation adjustment has to include the operational costs arising from hedging, administration and settlement of contracts in the portfolio. The future administrative costs are incurred by the portfolio or position but are not reflected in the core valuation model or the prices used to calibrate inputs to that model.
11	<i>Other:</i> "Other" PVAs which are required to take into account factors that will influence the exit price but which do not fall in any of the categories listed in CAP50.10 . These should be described by banks in the narrative commentary that supports the disclosure.

Linkages across templates

[PV1:12/f] is equal to [CC1:7/a]