Chapter 11

Disclosure (Pillar 3)
11.5 Technical criteria on disclosure: General requirements

Disclosure: Risk management objectives and policies

11.5.1 A firm must disclose its risk management objectives and policies for each separate category of risk, including the risks referred to under R11.5.1 to R11.5.17. These disclosures must include:

1. the strategies and processes to manage those risks;
2. the structure and organisation of the relevant risk management function or other appropriate arrangements;
3. the scope and nature of risk reporting and measurement systems; and
4. the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

[Note: BCD Annex XII Part 2 point 1]

Disclosure: Scope of application of directive requirements

11.5.2 A firm must disclose the following information regarding the scope of application of the requirements of the Banking Consolidation Directive:

1. the name of the firm which is the subject of the disclosures;
2. an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities that are:
   (a) fully consolidated;
   (b) proportionally consolidated;
   (c) deducted from capital resources;
   (d) neither consolidated nor deducted;
3. any current or foreseen material practical or legal impediment to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiary undertakings;
4. the aggregate amount by which the actual capital resources are less than the required minimum in all subsidiary undertakings not included in the consolidation, and the name or names of such subsidiary undertakings; and
Disclosure: Capital resources

A firm must disclose the following information regarding its capital resources:

1. Summary information on the terms and conditions of the main features of all capital resources items and components thereof, including:
   a. hybrid capital;
   b. capital instruments which provide an incentive for the firm to redeem them; and
   c. capital instruments which the firm treats as tier one capital under GENPRU TP8A;

2. Tier one capital resources, with separate disclosure of:
   a. all positive items and deductions;
   b. the overall amount of hybrid capital, with specification of those instruments treated as tier one capital under GENPRU TP8A.1; and
   c. the overall amount of capital instruments that provide for an incentive to redeem them, with specification of those instruments treated as tier one capital under GENPRU TP8A.1;

3. The total amount (for the purposes of (3), the total amount must be stated gross of deductions) of:
   a. tier two capital resources plus any innovative tier one capital resources; and
   b. tier three capital resources;

4. Deductions from tier one capital resources and tier two capital resources, with separate disclosure of items referred to in GENPRU 2.2.236 R; and

5. Total capital resources, net of deductions in GENPRU 2.2 and limits laid down in GENPRU 2.25 R to GENPRU 2.2.30 R and GENPRU 2.2.42 R to GENPRU 2.2.50 R.

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 7 and the overall Pillar 2 rule

A firm must disclose the following information regarding compliance with BIPRU 3, BIPRU 4, BIPRU 7, and the overall Pillar 2 rule:

1. A summary of the firm's approach to assessing the adequacy of its internal capital to support current and future activities;
(2) for a firm calculating risk weighted exposure amounts in accordance with the standardised approach to credit risk, 8% of the risk weighted exposure amounts for each of the standardised credit risk exposure classes;

(3) for a firm calculating risk weighted exposure amounts in accordance with the IRB approach, 8% of the risk weighted exposure amounts for each of the IRB exposure classes;

[Note: BCD Annex XII Part 2 point 4 (part)]

(4) the firm’s minimum capital requirements for the following:
   (a) in respect of its trading-book business, its:
      (i) interest rate PRR;
      (ii) equity PRR;
      (iii) option PRR;
      (iv) collective investment schemes PRR;
      (v) counterparty risk capital component; and
      (vi) [deleted]
   (b) in respect of all of its business activities, its:
      (i) commodity PRR; and
      (ii) foreign currency PRR.

(5) [deleted]

For retail exposures, the requirement under BIPRU 11.5.4 R (3) applies to each of the following categories:

(1) exposures to retail SMEs;

(2) retail exposures secured by real estate collateral;

(3) qualifying revolving retail exposures; and

(4) other retail exposures.

[Note: BCD Annex XII Part 2 point 4(part)]

For equity exposures, the requirement under BIPRU 11.5.4 R (3) applies to:

(1) each of the approaches (the simple risk weight approach, the PD/LGD approach and the internal models approach) provided for in BIPRU 4.7.5 R to BIPRU 4.7.6 R, BIPRU 4.7.9 R to BIPRU 4.7.11 R, BIPRU 4.7.14 R to BIPRU 4.7.16 R, BIPRU 4.7.24 R to BIPRU 4.7.25 R;

(2) exchange traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;

(3) exposures subject to supervisory transition regarding capital requirements; and
A firm must disclose the following information regarding its exposure to counterparty credit risk:

1. A discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;
2. A discussion of policies for securing collateral and establishing credit reserves;
3. A discussion of policies with respect to wrong-way risk exposures;
4. A discussion of the impact of the amount of collateral the firm would have to provide given a downgrade in its credit rating;
5. Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and 'net derivatives credit exposure', where 'net derivatives credit exposure' is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements;
6. Measures for exposure value under the CCR mark to market method, the CCR standardised method or the CCR internal model method, whichever is applicable;
7. The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure;
8. Credit derivative transactions (notional), segregated between use for the firm's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group; and
9. The estimate of alpha (α) if the firm's CCR internal model method permission permits it to estimate α.

Disclosure: Credit risk and dilution risk

A firm must disclose the following information regarding its exposure to credit risk and dilution risk:

1. The definitions for accounting purposes of past due and impaired;
2. A description of the approaches and methods adopted for determining value adjustments and provisions;
3. The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes;
(4) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;

(5) the distribution of the exposures by industry or counterparty type, broken down by exposure classes, and further detailed if appropriate;

(6) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;

(7) by significant industry or counterparty type, the amount of:
   (a) impaired exposures and past due exposures, provided separately;
   (b) value adjustments and provisions; and
   (c) charges for value adjustments during the period;

(8) the amount of the impaired exposures and past due exposures, provided separately, broken down by the significant geographical areas including, if practical, the amounts of value adjustments and provisions related to each geographical area;

(9) the reconciliation of changes in the value adjustments and provisions for impaired exposures, shown separately; and

(10) value adjustments and recoveries recorded directly to the income statement must be disclosed separately.

[Note: BCD Annex XII Part 2 point 6 (part)]

The information to be disclosed under BIPRU 11.5.8 R (9) must comprise:

(1) a description of the type of value adjustments and provisions;

(2) the opening balances;

(3) the amounts taken against the provisions during the period;

(4) the amounts set aside or reversed for estimated probable losses on exposures during the period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiary undertakings, and transfers between provisions; and

(5) the closing balances.

[Note: BCD Annex XII Part 2 point 6 (part)]

Disclosure: Firms calculating risk weighted exposure amounts in accordance with the standardised approach

For a firm calculating risk weighted exposure amounts in accordance with the standardised approach to credit risk, the following information must be disclosed for each of the standardised credit risk exposure classes:

(1) the names of the nominated ECAIs and export credit agencies and the reasons for any changes;
(2) the standardised credit risk exposure classes for which each ECAI or export credit agency is used;

(3) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;

(4) the association of the external rating of each nominated ECAI or export credit agency with the credit quality steps prescribed in BIPRU 3, taking into account that this information need not be disclosed if the firm complies with the credit quality assessment scale; and

(5) the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in BIPRU 3, as well as those deducted from capital resources.

[Note: BCD Annex XII Part 2 point 7]

Disclosure: Firms calculating risk weighted exposure amounts using the IRB approach

11.5.11 A firm calculating risk weighted exposure amounts for specialised lending exposures in accordance with BIPRU 4.5.8 R to BIPRU 4.5.10 R or equity exposures in accordance with BIPRU 4.7.9 R to BIPRU 4.7.10 R (the simple risk weight approach) must disclose the exposures assigned:

(1) to each category of the table in BIPRU 4.5.9 R; or

(2) to each risk weight mentioned in BIPRU 4.7.9 R to BIPRU 4.7.10 R.

[Note: BCD Annex XII Part 2 point 8]

Disclosure: Market risk

11.5.12 A firm must disclose its capital resources requirements separately for each risk referred to in (1), (2) and (3):

(1) in respect of its trading-book business, its:
   (a) interest rate PRR;
   (b) equity PRR;
   (c) option PRR;
   (d) collective investment schemes PRR;
   (e) counterparty risk capital component; and
   (f) [deleted]

(2) in respect of all of its business activities, its:
   (a) commodity PRR; and
   (b) foreign currency PRR; and

(3) its specific interest-rate risk of securitisation positions.

[Note: BCD Annex XII Part 2 point 9]
Disclosure: Use of VaR model for calculation of market risk capital requirement

11.5.13 R

The following information must be disclosed by a firm which calculates its market risk capital requirement using a VaR model:

(1) for each sub-portfolio covered:
   (a) the characteristics of the models used;
   (b) a description of stress testing applied to the sub-portfolio;
   (c) a description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes;
   (d) for the capital charges calculated according to the incremental risk charge and the all price risk measure separately, the methodologies used and the risks measured through the use of an internal model, including a description of the approach used by the firm to determine liquidity horizons, the methodologies used to achieve a capital assessment that is consistent with the required soundness standard and the approaches used in the validation of the model;

(2) the scope of the firm’s VaR model permission;

(3) a description of the extent and methodologies for compliance with the requirements set out in GENPRU 1.3.13 R (2) and GENPRU 1.3.13 R (3) and GENPRU 1.3.14 R to GENPRU 1.3.34 R;

(4) the highest, the lowest and the mean of the following:
   (a) the daily VaR measures over the reporting period and the VaR measure as per the period end;
   (b) the stressed VaR measures over the reporting period and the stressed VaR measure as per the period end;
   (c) the capital charge according to the incremental risk charge over the reporting period and as per the period end;
   (d) the capital charge according to the all price risk measure over the reporting period and as per the period end;

(5) the amount of capital according to the incremental risk charge and the amount of capital according to the all price risk measure shown separately, together with the weighted average liquidity horizon for each sub-portfolio covered; and

(6) a comparison of the daily end-of-day VaR measures to the one-day changes of the portfolio’s value by the end of the subsequent business day together with an analysis of any important overshooting during the reporting period.

[Note: BCD Annex XII Part 2 point 10]

Disclosure: Non-trading book exposures in equities

11.5.15 R

A firm must disclose the following information regarding the exposures in equities not included in the trading book:
(1) the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices;

(2) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value;

(3) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;

(4) the cumulative realised gains or losses arising from sales and liquidations in the period; and

(5) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in tier one, tier two or tier three capital resources.

[Note: BCD Annex XII Part 2 point 12]

Disclosures: Exposures to interest rate risk in the non-trading book

11.5.16 A firm must disclose the following information on its exposure to interest rate risk on positions not included in the trading book:

(1) the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk; and

(2) the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management’s method for measuring the interest rate risk, broken down by currency.

[Note: BCD Annex XII Part 2 point 13]

Disclosures: Securitisation

11.5.17 A firm calculating risk weighted exposure amounts in accordance with BIPRU 9 or capital resource requirements according to BIPRU 7.2.48A R to BIPRU 7.2.48K R must disclose the following information, where relevant separately for its trading book and non-trading book:

(1) a description of the firm’s objectives in relation to securitisation activity;

(1A) the nature of other risks, including liquidity risk inherent in securitised assets;

(1B) the type of risks in terms of seniority of underlying securitisation positions and in terms of assets underlying these latter securitisation positions assumed and retained with resecuritisation activity;
(2) the different roles played by the firm in the securitisation process;

(3) an indication of the extent of the firm’s involvement in each of them;

(3A) a description of the processes in place to monitor changes in the credit and market risk of securitisation exposures, including how the behaviour of the underlying assets impacts securitisation positions and a description of how those processes differ for resecuritisation positions;

(3B) a description of the firm’s policy governing the use of hedging and unfunded protection to mitigate the risks of retained securitisation and resecuritisation positions, including identification of material hedge counterparties by relevant type of risk exposure;

(4) the approaches to calculating risk weighted exposure amounts that the firm follows for its securitisation activities, including the types of securitisation exposures to which each approach applies;

(4A) the types of SSPEs that the firm, as sponsor, uses to securitise third-party exposures, including whether, and in what form, and to what extent, the firm has exposures to these SSPEs, separately for on and off-balance sheet exposures, as well as a list of the entities that the firm manages, or advises, and that invest in either the securitisation positions that the firm has securitised or in SSPEs that the firm sponsors;

(5) a summary of the firm’s accounting policies for securitisation activities, including:
   (a) whether the transactions are treated as sales or financings;
   (b) the recognition of gains on sales;
   (c) the methods, key assumptions, inputs and the changes from the previous period for valuing securitisation positions;
   (d) the treatment of synthetic securitisations if this is not covered by other accounting policies;
   (e) how assets awaiting securitisation are valued and whether they are recorded in the firm’s non-trading book or trading book; and
   (f) policies for recognising liabilities on the balance sheet for arrangements that could require the firm to provide financial support for securitised assets;

(6) the names of the ECAIs used for securitisations and the types of exposure for which each agency is used;

(6A) where applicable, a description of the ABCP internal assessment approach as set out in BIPRU 9.12.20 R including the structure of the internal assessment process and relation between internal assessment and external ratings, the use of internal assessment other than for ABCP internal assessment approach capital purposes, the control mechanisms for the internal assessment process (including discussion of independence, accountability, and internal assessment process review), the exposure types to which the internal assessment process is applied and the stress factors used for determining credit enhancement levels, by exposure type;
(68) an explanation of significant changes to any of the quantitative disclosures in (8) and (13) to (15) since the last reporting period;

(7) [deleted]

(8) for the non-trading book and for exposures securitised by the firm, the amount of impaired and past due exposures securitised, and the losses recognised by the firm during the current period, broken down by exposure type;

(9) [deleted]

(10) [deleted]

(11) [deleted]

(12) [deleted]

(13) separately for the trading book and the non-trading book, the following information broken down by exposure type:

(a) the total outstanding amount of exposures securitised by the firm, separately for traditional securitisations and synthetic securitisations, and securitisations for which the firm acts only as sponsor;

(b) the aggregate amount of on-balance sheet securitisation positions retained or purchased, and off-balance sheet securitisation exposures;

(c) the aggregate amount of assets awaiting securitisation;

(d) for securitised facilities subject to an early amortisation provision, the aggregate drawn-down exposures attributed to the originator’s and investors’ interests respectively, the aggregate capital resources requirement incurred by the firm against the originator’s interest and the aggregate capital resources requirement incurred by the firm against the investors’ shares of drawn balances and undrawn lines;

(e) the amount of securitisation positions that have been risk weighted at 1250% or deducted; and

(f) a summary of the securitisation activity of the current period, including the amount of exposures securitised and recognised gain or loss on sale;

(14) separately for the trading book and the non-trading book, the following information:

(a) the aggregate amount of securitisation positions retained or purchased and the associated capital resources requirements, broken down by securitisation and resecuritisation exposures, and further broken down into a meaningful number of risk weight or capital resources requirement bands, for each capital resources requirement approach used; and

(b) the aggregate amount of resecuritisation exposures retained or purchased, broken down according to the exposure before and after hedging or insurance, and the exposure to financial guarantors, broken down according to guarantor credit worthiness categories or guarantor name; and
Disclosures: remuneration

A firm must disclose the following information, including regular, at least annual, updates, regarding its remuneration policy and practices for those categories of staff whose professional activities have a material impact on its risk profile:

(1) information concerning the decision-making process used for determining the remuneration policy, including if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;

(2) information on the link between pay and performance;

(3) the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;

(4) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;

(5) the main parameters and rationale for any variable component scheme and any other non-cash benefits;

(6) aggregate quantitative information on remuneration, broken down by business area;

(7) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the firm, indicating the following:
   (a) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;
   (b) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;
   (c) the amounts of outstanding deferred remuneration, split into vested and unvested portions;
   (d) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;
   (e) new sign-on and severance payments made during the financial year, and the number of beneficiaries of those payments;
(f) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person.

[Note: Paragraph 15 of Annex XII to the Banking Consolidation Directive.]

11.5.19 The appropriate regulator would normally consider the requirements to publish disclosures in accordance with BIPRU 11.3.8 R and 11.3.9 R in respect of BIPRU 11.5 as a whole to meet the requirement in paragraph 15 of Annex XII to the Banking Consolidation Directive to publish “regular, at least annual, updates” (as implemented in BIPRU 11.5.18 R).

11.5.20 (1) A firm that is significant in terms of its size, internal organisation and the nature, scope and the complexity of its activities must also disclose the quantitative information referred to in BIPRU 11.5.18 R at the level of senior personnel.

(2) Firms must comply with the requirements set out in BIPRU 11.5.18 R in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities and without prejudice to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

[Note: Paragraph 15 of Annex XII to the Banking Consolidation Directive.]

[Note: The appropriate regulator has given guidance for the purpose of providing a framework for complying with the disclosure requirements of BIPRU 11.5.18 R in accordance with the proportionality test set out in BIPRU 11.5.20 R (2).]

11.5.21 In the appropriate regulator’s view, the exemptions from disclosure provided for in BIPRU 11.3.5 R (materiality) and BIPRU 11.3.6 R (proprietary or confidential information) are unlikely to apply to the disclosure required by BIPRU 11.5.18 R (having regard, amongst other things, to the fact that the requirements set out in BIPRU 11.5.18 R are to be complied with in the manner described in BIPRU 11.5.20 R (2)).