

Chapter 11

Disclosure (Pillar 3)

11.6 Qualifying requirements for the use of particular instruments or methodologies

Disclosures: Firms using the IRB approach

11.6.1

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A firm calculating *risk weighted exposure amounts* in accordance with the *IRB approach* must disclose the following information:

- (1) the scope of the *firm's IRB permission*;
- (2) an explanation and review of:
 - (a) the structure of internal *rating systems* and relation between internal and external ratings;
 - (b) the use of internal estimates other than for calculating *risk weighted exposure amounts* in accordance with the *IRB approach*;
 - (c) the process for managing and recognising *credit risk mitigation*; and
 - (d) the control mechanisms for *rating systems* including a description of independence, accountability, and *rating systems review*;
- (3) a description of the internal ratings process, provided separately for the following *IRB exposure classes*:
 - (a) central governments and *central banks*;
 - (b) *institutions*;
 - (c) corporate, including SMEs, *specialised lending* and purchased corporate receivables;
 - (d) retail, for *exposures to retail SMEs exposures, retail exposures secured by real estate collateral, qualifying revolving retail exposures, and other retail exposures*; and
 - (e) *equities*;
- (4) the *exposure values* for each of the *IRB exposure classes*;
- (5) for each of the *IRB exposure classes* central governments and *central banks, institutions, corporate and equity*, and across a sufficient number of *obligor grades* (including *default*) to allow for a meaningful differentiation of credit risk, a *firm* must disclose:
 - (a) the total *exposures* (for the *IRB exposure classes* central governments and *central banks, institutions and corporate exposures*, the sum of outstanding loans and *exposure values* for

undrawn commitments; for *equity exposures*, the outstanding amount);

(b) for a *firm* using own *LGD* estimates for the calculation of *risk weighted exposure amounts*, the *exposure-weighted average LGD* in percentage;

(c) the *exposure-weighted average risk weight*; and

(d) for a *firm* using own estimates of *conversion factors* for the calculation of *risk weighted exposure amounts*, the amount of undrawn commitments and *exposure-weighted average exposure* values for each *IRB exposure class*;

(6) for the *retail exposure* class and for each of the categories of:

(a) *exposures to retail SMEs*;

(b) *retail exposures* secured by real estate collateral;

(c) *qualifying revolving retail exposures*; and

(d) other *retail exposures*;

either the disclosures outlined under (5) (if applicable, on a pooled basis), or an analysis of *exposures* (outstanding loans and *exposure* values for undrawn commitments) against a sufficient number of *EL* grades to allow for a meaningful differentiation of credit risk (if applicable, on a pooled basis);

(7) the actual value adjustments in the preceding period for each *IRB exposure class* (for *retail exposures*, for each of the categories in (6)(a) to (d)) and how they differ from past experience;

(8) a description of the factors that impacted on the loss experience in the preceding period (for example, whether the *firm* experienced higher than average *default* rates, or higher than average *LGDs* and *conversion factors*); and

(9) the *firm's* estimates against actual outcomes over a longer period including, at a minimum, information on estimates of losses against actual losses in each *IRB exposure class* (for *retail exposures*, for each of the categories in (6)(a) to (d)) over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each *IRB exposure class* (for *retail exposures*, for each of the categories in (6)(a) to (d)).

[Note: BCD Annex XII Part 3 point 1 (part)]

11.6.2

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For the purposes of ■ BIPRU 11.6.1 R (3), the description must include the types of *exposure* included in the *IRB exposure class*, the definitions, methods and data for estimation and validation of *PD* and, if applicable, *LGD* and *conversion factors*, including assumptions employed in the derivation of these variables, and the descriptions of material deviations from the definition of *default*, including the broad segments affected by such deviations.

[Note: BCD Annex XII Part 3 point 1 (part)]

11.6.3

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For the purposes of ■ BIPRU 11.6.1 R (4), where a *firm* uses its own estimates of *LGDs* or *conversion factors* for the calculation of *risk weighted exposure*

amounts for exposures falling into the *sovereign, institution and corporate IRB exposure class*, the *firm* must disclose those *exposures* separately from *exposures* for which it does not use such estimates.

[Note: BCD Annex XII Part 3 point 1 (part)]

11.6.4

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For the purposes of ■ BIPRU 11.6.1 R (9), where appropriate, a *firm* must further decompose the information to provide analysis of *PD* and, for a *firm* using own estimates of *LGDs* and/or *conversion factors*, *LGD* and *conversion factor* outcomes against estimates provided in the quantitative risk assessment disclosures under ■ BIPRU 11.6.1 R to ■ BIPRU 11.6.4 R.

[Note: BCD Annex XII Part 3 point 1 (part)]

Disclosures: Credit risk mitigation

11.6.5

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A *firm* applying *credit risk mitigation* techniques must disclose the following information:

- (1) the policies and processes for, and an indication of the extent to which the *firm* makes use of, on- and off-balance sheet netting;
- (2) the policies and processes for collateral valuation and management;
- (3) a description of the main types of collateral taken by the *firm*;
- (4) the main types of guarantor and credit derivative counterparty and their creditworthiness;
- (5) information about *market risk* or credit risk concentrations within the credit mitigation taken;
- (6) for *firms* calculating *risk weighted exposure amounts* using the *standardised approach* to credit risk or the *IRB approach*, but not providing own estimates of *LGDs* or *conversion factors* in respect of the *exposure class*, separately for each *exposure class*, the total *exposure value* (after, where applicable, on- or off-balance sheet netting) that is covered - after the application of volatility adjustments - by eligible financial collateral, and other eligible collateral; and
- (7) for *firms* calculating *risk weighted exposure amounts* using the *standardised approach* or the *IRB approach*, separately for each *exposure class*, the total *exposure* (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives; for *equity exposures*, this requirement applies to 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.

[Note: BCD Annex XII Part 3 point 2]