11.6 Qualifying requirements for the use of particular instruments or methodologies

Disclosures: Firms using the IRB approach

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 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 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 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

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]