Financial Services Commission

Guidance Notes

Capital Requirements Directive - Pillar 3

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V3	

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Pillar 3 – Market Disclosure

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1.1. This Guidance Note applies to all locally incorporated credit institutions and investment firms. Capital Adequacy Directive, comprising Directive 2006/48/EC and Directive 2006/49/EC which have been implemented in Gibraltar via the Banking (Capital Adequacy of Credit Institutions) Regulations, and Financial Services (Capital Adequacy of Investment Firms) Regulations. The aim of the Guidance Note is to provide guidance on the market disclosure requirements that firms must comply with.

Background information

1.2. Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to access key pieces of information about a firm's capital, risk exposures, and risk assessment processes. Market discipline encourages sound risk management practices and fosters financial stability. Likewise, reliable and timely information allows investors, depositors and counterparties, to assess key information about a firm's risk profile, capital structure, and level of capital. It also creates a strong incentive for firms to conduct business in a safe, sound and efficient manner.

1.3. The disclosures that are required under Pillar 3 are to be made to the market, for the benefit of the market. It is therefore meant to be a process via which information about existing conditions, decisions and actions is made accessible, visible and understandable.

1.4. In order for market discipline to be effective, a sufficient amount of accurate and timely information regarding a firm's conditions and operations must be provided to the public. Improved public disclosure of such information leads to increased transparency and should lead directly to more effective market discipline. The information should have clarity, be understandable and help to inform market experts.

1.5. The enhanced financial disclosures are another lever whose aim is strengthen the safety and soundness of the banking system. The required disclosures are particularly important given that under the new provisions, firms now have more discretion in determining their own capital requirements.

Basis of disclosures

Who should make Pillar 3 disclosures?

In general a firm's Pillar 3 disclosures should be completed for the top consolidated level of the group and be consistent.

Disclosure on an individual basis

2. The following firms must comply with the disclosure obligations outlined in this guidance note on an individual basis:

2.1. a firm which is neither a parent undertaking nor a subsidiary undertaking;

2.2. a firm which is excluded from a Gibraltar consolidation group or a non-EEA sub-group; and

2.3. a firm which is part of a group which has been allowed to <u>not</u> report on a consolidated level.

3. The following firms do not need to make disclosures:

   3.1. Locally incorporated firms which are subsidiaries of head offices located within the EEA and regulated in accordance with the directive. If the firm is a significant subsidiary it should, however, disclose as per paragraph 6.

   3.2. Branches of EEA firms.

   3.3. Locally incorporated firms which are subsidiaries of head offices located in third countries that have been granted an exemption from the Pillar 3 disclosure requirements by the FSC in accordance with paragraph 7 (in its entirety).

   3.4. Branches of firms located in third countries that have been granted an exemption from the pillar 3 disclosure requirements by the FSC in accordance with paragraph 7 (in its entirety).

EEA parent institutions

4. A firm which is an EEA parent institution must comply with the obligations outlined in this guidance note on the basis of its consolidated financial situation. A firm which is a significant subsidiary of an EEA parent institution must also disclose the information specified under this guidance note.

Firms controlled by an EEA parent financial holding company

5. A firm controlled by an EEA parent financial holding company must comply with the obligations in paragraphs 10 to 27 on the basis of the consolidated financial situation of that EEA parent financial holding company.

6. A firm which is a significant subsidiary of an EEA parent financial holding company must disclose the information specified in paragraph 35 on significant subsidiaries on an individual or sub-consolidated basis.

Firms controlled by Non EEA parent financial holding company

7. The Commission may allow comparable disclosures provided on a consolidated basis by a parent undertaking established in a third country. A firm which falls into this category may request the Commission for an exemption from the relevant disclosure requirements, similar to the exemption that applies to those firms with EEA parent institutions. A local firms with a third country parent undertaking will need to:

   7.1.1. satisfy the FSC that it is included within comparable disclosures provided on a consolidated basis by a parent undertaking whose head office is not in an EEA State; and

   7.1.2. notify the FSC of the location where the comparable disclosures are provided.

The Commission does not intend to apply wholesale exemptions to countries and therefore each individual firm proposing to take advantage of comparable disclosures will need to apply for such an exemption.

Disclosure requirements for smaller firms

8. Disclosure requirements will also apply to a small investment firm or credit institution at a consolidated level. This is because a small firm could be the parent company of a small group, if the structure of the group is made up of small-sized firms. However, the requirement to disclose on a consolidated requirement may be

waived by the Commission if, for example, the group is not supervised at a consolidated level. The disclosure requirements will then apply to these firms on an individual basis within the group.

9. Firms are also allowed to apply the concepts of materiality and proprietary. If the firm's senior management deems it appropriate, smaller firms might not need to disclose information (or a substantial amount of information) due to materiality or proprietary and confidentiality reasons. However, where such an approach is to be adopted, this would need to meet the criteria set out under materiality and proprietary (paragraphs 16 to 18 and 28 to 32).

Information to be disclosed, frequency, media and location of disclosures, verification

Information to be disclosed

10. A firm must publicly disclose the information set out in paragraphs 10 to 27 subject to the criterion of materiality or proprietary or confidential information.
11. Firms using the IRB approach for credit risk, the advanced measurement approach for operational risk, or firms recognising credit risk mitigation, must publicly disclose the information set out in the respective sections below.

Disclosure policy

12. A firm must adopt a formal policy to comply with the disclosure requirements set out in paragraphs 19 and 20 and have policies for assessing the appropriateness of its disclosures, including their verification and frequency.
13. The firm's formal disclosure policy should be approved by the board.
14. The approach should determine what disclosures will be made and the internal controls over disclosure processes, as well as the processes for assessing appropriateness of disclosures, including their validation and frequency.
15. The Commission does not currently intend to issue formal guidance on the level of verification to be applied to disclosures which will not be covered by statutory audits. This is a matter for senior management.

Materiality (exemption from disclosure)

16. A firm may omit one or more of the disclosures listed under paragraphs 10 to 27 if the information provided by such disclosures is not, in the light of the criterion specified in paragraphs 28 and 29 regarded as material.

Proprietary or confidential information (exemption from disclosure)

17. A firm may omit one or more items of information included in the disclosures listed in paragraphs 10 to 27 and paragraphs 52 to 56 if those items include information, which is regarded as proprietary or confidential, as described in this guidance note.
18. In the exceptional cases referred to in paragraphs 24 to 26, a firm must:

    18.1. state in its disclosures:

    18.1.1. the fact that the specific items of information are not disclosed; and

    18.1.2. the reason for non-disclosure; and

18.2. publish more general information about the subject matter of the disclosure requirement, except where these are to be classified as secret or confidential under the criteria set out in paragraphs 24 to 26.

Frequency of Pillar 3 disclosures

19. A firm will need to make its Pillar 3 disclosures when it has calculated its capital requirements. Disclosures should be made on an annual basis as a minimum and as soon as practicable. The precise date for the Pillar 3 disclosures will need to be determined by the firm. It will be influenced by a variety of factors such as the accounting period and the legal status of the firm.
20. A firm must also determine whether more frequent publication is necessary in the light of the criteria set out in paragraph 33 on the frequency of publication.

Where Pillar 3 disclosures should be made

21. It is up to each firm to determine the most appropriate medium (e.g. website or annual report), location and means of verification to enable it comply effectively with the disclosure requirements.
22. Management has the discretion to determine the appropriate medium and location of the disclosures. To the degree feasible, all disclosures should be made in one medium or location. If Pillar 3 disclosures are not included in a firm's financial statements, the firm must indicate where they can be found.
23. Equivalent disclosures made by a firm under accounting, listing or other requirements may be deemed to constitute compliance with the requirements.

How Pillar 3 interacts with other disclosure requirements

24. There will be some overlap between the Pillar 3 disclosure requirements and other disclosure requirements, such as accounting disclosures.
25. It is expected that the greatest overlap will be with accounting standards. Overall, the focus of Pillar 3 is different from disclosures required by other sources, because they are underpinned by prudential reporting rather than statutory reporting and this therefore generates certain differences.
26. The Commission will not however be publishing a list of accounting disclosures that could be considered to be equivalent to Pillar 3 disclosures. The reason for that is that firstly, accounting disclosures are based on financial accounting whereas Pillar 3 is based on prudential accounting and secondly what is deemed to be equivalent for one firm might not be equivalent for another firm.
27. It is expected that disclosures included with audited financial statements will be subject to statutory and audit procedures. Information disclosed within the same document will also be subject to review by the auditor.

Technical criteria on disclosure (General criteria)

Criterion for materiality

28. The Commission does not expect disclosures to be made if the information is regarded as immaterial or proprietary/confidential.
29. Information should be considered as material if its omission or mis-statement could change or influence the assessment or decision of a user relying on it to make economic decisions.

Proprietary or confidential information

30. A firm may regard information as proprietary information if sharing that information with the public would undermine its competitive position.
31. Proprietary information may include information on products or systems which, if shared with competitors, would render a firm's investments therein less valuable.
32. A firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the firm to confidentiality.

Frequency of publication

33. A firm must assess the need to publish some or all of its disclosures more frequently than annually in the light of the relevant characteristics of its business such as:

    33.1. scale of operations;

    33.2. range of activities;

    33.3. presence in different countries;

    33.4. involvement in different financial sectors;

    33.5. participation in international financial markets; and

    33.6. participation in payment, settlement and clearing systems.

34. In making its assessment under paragraph 27, a firm must pay particular attention to the possible need for more frequent disclosure of:

    34.1. items of information set out in paragraphs 37.6.3.2 to 37.6.5 and 38.4 to 38.5.

    34.2. information on risk exposures and other items prone to rapid change.

Significant subsidiaries

35. A firm which is a significant subsidiary of:

    35.1. an EEA parent institution; or

    35.2. an EEA parent financial holding company;

must disclose the information set out in paragraphs 36.3 and 36.4 on an individual or sub-consolidated basis.

Technical criteria on disclosure (General requirements)

Risk management objectives and policies

36. A firm must disclose its risk management objectives and policies for each separate category of risk, including the risks referred to in this guidance note. These disclosures must include:

    36.1. the strategies and processes to manage those risks;

    36.2. the structure and organisation of the relevant risk management function or other appropriate arrangements;

    36.3. the scope and nature of risk reporting and measurement systems; and

    36.4. the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing the effectiveness of any hedges and mitigants.

Scope of application of directive requirements

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

37.1. the name of the firm which is the subject of the disclosures;

37.2. an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities that are:

37.2.1. fully consolidated;

37.2.2. proportionally consolidated;

37.2.3. deducted from capital resources;

37.2.4. neither consolidated nor deducted;

37.3. 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;

37.4. 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

Capital resources

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

37.5.1. summary information on the terms and conditions of the main features of all own-funds items and components thereof, including instruments referred to in regulation 7(1)(ca) of the FSCACI Regulations, instruments the provisions of which provide an incentive for the credit institution to redeem them, and instruments subject to paragraph 6(1) and (2) of Schedule 1 of the FSCACI Regulations;

37.5.2. the amount of the original own funds, with separate disclosure of all positive items and deductions; the overall amount of instruments referred to in regulation 7(1)(ca) of the FSCACI and instruments the provisions of which provide an incentive for the credit institution to redeem them, shall also be disclosed separately; those disclosures shall each specify instruments subject to paragraph 6(1) and (2) of Schedule 1 of the FSCACI;

37.5.3. the total amount[1] of:

37.5.3.1. tier two capital resources plus any innovative tier one capital resources; and

37.5.3.2. tier three capital resources;

37.5.4. deductions from tier one capital resources and tier two capital resources, with separate disclosure of items; and

37.5.5. total capital resources, net of deductions and limits.

[1] for the purposes of this paragraph, the total amount must be stated gross of deductions

Compliance with guidance on Pillar 1 and Pillar 2

38. A firm must disclose the following information regarding compliance with Pillar 1 and Pillar 2:

38.1. a summary of the firm's approach to assessing the adequacy of its internal capital to support current and future activities;

38.2. 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;

38.3. 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;

38.4. the firm's minimum capital requirements for the following:

38.4.1. in respect of its trading-book business, its:

38.4.1.1. interest rate PRR;

38.4.1.2. equity PRR;

38.4.1.3. option PRR;

38.4.1.4. collective investment schemes PRR;

38.4.1.5. counterparty risk capital component;

38.4.1.6. concentration risk capital component; and

38.4.2. in respect of all of its business activities, its:

38.4.2.1. commodity PRR; and

38.4.2.2. foreign currency PRR;

38.5. its operational risk capital requirement calculated in accordance with the basic indicator approach, the standardised approach or the advanced measurement approach and disclosed separately.

39. For retail exposures, the requirement set out in paragraph 37.3 applies to each of the following categories:

39.1. exposures to retail SMRs;

39.2. retail exposures secured by real estate collateral;

39.3. qualifying revolving retail exposures; and

39.4. other retail exposures

40. For equity exposures, the requirement under paragraph 37.3 applies to:

40.1. each of the approaches (the simple risk weight approach, the PD/LGD approach and the internal models approach) as explained in the guidance note on the IRB approach.

40.2. exchange traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;

40.3. exposures subject to supervisory transition regarding capital requirements; and

41. A firm must disclose the following information regarding its exposure to counterparty credit risk:

41.1. a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;

41.2. a discussion of policies for securing collateral and establishing credit reserves;

41.3. a discussion of policies with respect to wrong-way risk exposures;

41.4. a discussion of the impact of the amount of collateral the firm would have to provide given a downgrade in its credit rating;

41.5. 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;

41.6. measures for exposure value under the CCR mark to market method, the CCR standardised method or the CCR internal model method, whichever is applicable;

41.7. the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure;

41.8. 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

41.9. the estimate of alpha (α) if the firm's CCR internal model method permission permits it to estimate .

Credit risk and dilution risk

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

42.1. the definitions for accounting purposes of past due and impaired;

42.2. a description of the approaches and methods adopted for determining value adjustments and provisions;

42.3. 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;

42.4. the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;

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

42.6. the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;

42.7. by significant industry or counterparty type, the amount of:

42.7.1. impaired exposures and past due exposures, provided separately;

42.7.2. value adjustments and provisions; and

42.7.3. charges for value adjustments during the period;

42.8. 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;

42.9. the reconciliation of changes in the value adjustments and provisions for impaired exposures, shown separately; and

42.10. value adjustments and recoveries recorded directly to the income statement must be disclosed separately.

43. The information to be disclosed under paragraph 41.9 must comprise of:

43.1. a description of the type of value adjustments and provisions;

43.2. the opening balances;

43.3. the amounts taken against the provisions during the period;

43.4. 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

43.5. the closing balances.

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

44. 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;

44.1. the names of the nominated ECAIs and export credit agencies and the reasons for any changes;

44.2. the standardised credit risk exposure classes for which each ECAI or export credit agency is used;

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

44.4. the association of the external rating of each nominated ECAI or export credit agency with the credit quality steps prescribed in the guidance note on the standardised approach to credit risk, taking into account that this information need not be disclosed if the firm complies with the credit quality assessment scale; and

44.5. the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in the guidance note on the standardised approach to credit risk, as well as those deducted from capital resources.

Firms calculating risk weighted exposure amounts using the IRB approach

45. A firm calculating risk weighted exposure amounts for specialised lending exposures or equity exposures, in accordance with the guidance not on the IRB approach to credit risk, must disclose the exposures assigned:

45.1. to each category of the table in 5.9 in the guidance note to the IRB approach; or

45.2. to each risk weight mentioned in paragraphs 7.9 to 7.10 in the guidance note to the IRB approach.

Market risk

46. A firm must disclose its capital resources requirements separately for each risk referred to in 4.5.1 and 4.5.2.

46.1. in respect of its trading-book business, its:

46.1.1. interest rate PRR;

46.1.2. equity PRR;

46.1.3. option PRR;

46.1.4. collective investment schemes PRR;

46.1.5. counterparty risk capital component; and

46.1.6. concentration risk capital component; and

46.2. in respect of all of its business activities, its:

46.2.1. commodity PRR; and

46.2.2. foreign currency PRR.

Use of VaR model for calculation of market risk capital requirement

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

47.1. for each sub-portfolio covered:

47.1.1. the characteristics of the models used;

47.1.2. a description of stress testing applied to the sub-portfolio;

47.1.3. a description of the approaches used for backtesting and validating the accuracy and consistency of the internal models and modelling processes;

47.2 the highest, the lowest and the mean of the daily value-at-risk measures over the reporting period and the value-at-risk measure as per the end of the period;

47.3 a comparison of the daily end-of-day value-at-risk 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 overshootings during the reporting period.

Operational risk

48 The following information must be disclosed by a firm on operational risk:

48.2 the approaches for the assessment of the operational risk capital requirement that the firm qualifies for; and

48.3 if the firm uses the advanced measurement approach:

48.3.1 a description of the methodology used in the advanced measurement approach, including a discussion of relevant internal and external factors considered in the firm's measurement approach; and

48.3.2 in the case of partial use, the scope and coverage of the different methodologies used.

Non-trading book exposures in equities

49 A firm must disclose the following information regarding the exposures in equities not included in the trading book:

49.2 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;

49.3 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;

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

49.5 the cumulative realised gains or losses arising from sales and liquidations in the period; and

49.6 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.

Exposures to interest rate risk in the non-trading book

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

50.2 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

50.3 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.

Securitisation

51 A firm calculating risk weighted exposure amounts in accordance with the guidance note on securitisation must disclose the following information:

51.2 a description of the firm's objectives in relation to securitisation activity;

51.3 the roles played by the firm in the securitisation process;

51.4 an indication of the extent of the firm's involvement in each of them;

51.5 the approaches to calculating risk weighted exposure amounts that the firm follows for its securitisation activities;

51.6 a summary of the firm's accounting policies for securitisation activities, including:

51.6.1 whether the transactions are treated as sales or financings;

51.6.2 the recognition of gains on sales;

51.6.3 the key assumptions for valuing retained interests; and

51.6.4 the treatment of synthetic securitisations if this is not covered by other accounting policies;

51.7 the names of the ECAIs used for securitisations and the types of exposure for which each agency is used;

51.8 the total outstanding amount of exposures securitised by the firm and subject to the securitisation framework (broken down into traditional and synthetic), by exposure type;

51.9 for exposures securitised by the firm and subject to the securitisation framework, a breakdown by exposure type of the amount of impaired and past due exposures securitised, and the losses recognised by the firm during the period;

51.10 the aggregate amount of securitisation positions retained or purchased, broken down by exposure type;

51.11 the aggregate amount of securitisation positions retained or purchased:

51.11.1 broken down into a meaningful number of risk weight bands; and

51.11.2 with separate disclosure of positions that have been risk weighted at 1250% or deducted;

51.12 the aggregate outstanding amount of securitised revolving exposures segregated by the originator's interest and the investors' interest; and

51.13 a summary of the securitisation activity in the period, including the amount of exposures securitised (by exposure type), and recognised gain or loss on sale by exposure type.

Qualifying requirements for the use of particular instruments or methodologies

Firms using the IRB approach

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

52.2 the scope of the firm's IRB permission;

52.3 an explanation and review of:

52.3.1 the structure of internal rating systems and relation between internal and external ratings;

52.3.2 the use of internal estimates other than for calculating risk weighted exposure amounts in accordance with the IRB approach;

52.3.3 the process for managing and recognising credit risk mitigation; and

52.3.4 the control mechanisms for rating systems including a description of independence, accountability, and rating systems review;

52.4 a description of the internal ratings process, provided separately for the following IRB exposure classes:

52.4.1 central governments and central banks;

52.4.2 institutions;

52.4.3 corporate, including SMEs, specialised lending and purchased corporate receivables;

52.4.4 retail, exposures to retail SMEs exposures, retail exposures secured by real estate collateral, qualifying revolving retail exposures, and other retail exposures; and

52.4.5 equities;

52.5 the exposure values for each of the IRB exposure classes;

52.6 or 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:

52.6.1 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);

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

52.6.3 the exposure-weighted average risk weight; and

52.6.4 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;

52.7 for the retail exposure class and for each of the categories of:

52.7.1 exposures to retail SMEs;

52.7.2 retail exposures secured by real estate collateral;

52.7.3 qualifying revolving retail exposures; and

52.7.4 other retail exposures;

either the disclosures outlined in paragraph 51.5 (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);

52.8 the actual value adjustments in the preceding period for each IRB exposure class (for retail exposures, for each of the categories in 51.6.1 to 51.6.4) and how they differ from past experience;

52.9 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

52.10 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 51.6.1 to 51.6.4) 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 51.6.1 to 51.6.4).

53 For the purposes of paragraph 51.3, 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.

54 For the purposes of paragraph 51.4, 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.

55 For the purposes of paragraph 51.9, where appropriate, a firm must further detail 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 paragraphs 51.1 to 51.4.

Credit risk mitigation

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

56.2 the policies and processes for, and an indication of the extent to which the firm makes use of, on- and off-balance sheet netting;

56.3 the policies and processes for collateral valuation and management;

56.4 a description of the main types of collateral taken by the firm;

56.5 the main types of guarantor and credit derivative counterparty and their creditworthiness;

56.6 information about market risk or credit risk concentrations within the credit mitigation taken;

56.7 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

56.8 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 the guidance note to the IRB approach.

Insurance for the purpose of mitigating operational risk

57 A firm using the advanced measurement approach for the calculation of its operational risk capital requirement must disclose a description of the use of insurance and other risk transfer mechanisms for the purpose of mitigating the risk.

Rating decisions

58 A firm must, if requested, explain its rating decisions to SMEs and other corporate applicants for loans, providing an explanation in writing when asked. The administrative costs of the explanation have to be at an appropriate rate to the size of the loan.

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