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Implementation of Revised Pillar 3 Disclosure Requirements

HONG KONG MONETARY AUTHORITY
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I INTRODUCTION

1 Overview

1 In January 2015, the BCBS published a set of revised Pillar 3 disclosure requirements[1] (2015 package) focusing on the disclosure of RWA for Pillar 1 risks and covering credit risk, counterparty credit risk, securitization, and market risk. The 2015 package was the outcome of the first phase of a Pillar 3 review currently being conducted by the BCBS. This review will ultimately consolidate all BCBS disclosure requirements into a single comprehensive and coherent Pillar 3 package.

2 The disclosure requirements in the 2015 package will supersede the corresponding requirements issued in 2004 under Basel II (as subsequently enhanced in 2009 under Basel 2.5). Those areas not covered by the 2015 package, such as the disclosure requirements associated with the composition of capital and the capital buffers, the leverage ratio, and the liquidity coverage ratio under Basel III, as well as disclosure related to on-going reforms of the BCBS regulatory policy framework (such as those concerning operational risk, market risk and total loss-absorbing capacity requirement for global systemically important banks) will be included in the second (or later) phase of the Pillar 3 review. It is expected that a consultation paper on the results of the second phase will be published by the BCBS in early 2016.

3 The key objective of the Pillar 3 review is to promote market discipline and improve the comparability and consistency of disclosure between banks and across jurisdictions. To this end, the 2015 package introduced:

- a requirement that the Pillar 3 report should be provided in a standalone document or a discrete section of a bank's financial reporting to serve as a readily identifiable and available source of prudential risk measures;
- greater use of standard templates (primarily for quantitative information) and tables (primarily for qualitative explanatory descriptions), and standardisation of a number of key definitions;
- consistency in the required frequency and timing of the publication of Pillar 3 reports by banks;

[1] See BCBS, January 2015, *Standards: Revised Pillar 3 disclosure requirements*, which is accessible at http://www.bis.org/bcbs/publ/d309.pdf.

- enhanced disclosure on the linkages between banks' financial statements and the regulatory exposures data in their Pillar 3 reports by setting out a process to map individual items of banks' financial statements to exposure amounts in their Pillar 3 reports; and

- a requirement for information in Pillar 3 reports to be subject to at least the same level of internal review and control processes as the information provided by banks in their financial reporting.

4 According to the BCBS implementation timetable, the 2015 package is scheduled to take effect from year-end 2016, which means that it will first apply to banks in respect of their annual financial disclosures for a period ending on or after 31 December 2016. The MA intends to implement the revised disclosure requirements, in accordance with the BCBS timetable, through appropriate amendments to the BDR and relevant supervisory guidelines.

5 The MA also proposes to take this opportunity to:

(i) streamline the financial disclosure requirements contained in Parts 3 and 4 of the BDR (i.e. those which reflect the currently applicable financial reporting standards for AIs, as opposed to those that are regulatory requirements as promulgated by the BCBS or otherwise required by the MA for prudential reasons); and

(ii) address the lack of a quarterly disclosure requirement as identified in the report released by the BCBS in March 2015 on the *Assessment of Basel III risk-based capital regulations – Hong Kong* under its RCAP.

6 Finally, the MA proposes to incorporate a few consequential amendments to align with changes introduced under the BCAR 2015.

7 This consultation paper outlines the MA's proposals for implementing the revised disclosure requirements described above. These are relevant to all locally incorporated AIs. For overseas incorporated AIs, the existing requirements applicable to them under the BDR (i.e. mainly those set out in Part 8 of the BDR) will remain unchanged save, potentially, for some adjustments to align them with other BDR amendments necessary to implement the 2015 package.

8 The consultation will close on 17 February 2016.

2 Structure of this Consultation Paper

9 This consultation paper is organised as follows:

- **Section II** – provides a broad outline of the revised disclosure requirements in the 2015 package and the MA's proposed approach to implementing them;
- **Section III** – sets out other proposed revisions to the local disclosure framework mentioned in paragraphs 5 and 6 above;
- **Section IV** – describes the proposed approach to, and timeline for, implementing the proposed revisions to the local disclosure framework; and
- **Sections V and VI** – respectively provide a glossary of the terms used in this paper and an annex summarising the required format for the various disclosure requirements.

II REVISED PILLAR 3 DISCLOSURE REQUIREMENTS

1 Scope of Application

10 The 2015 package is designed to apply to "internationally active banks at the top consolidated level"[2]. Following the approach adopted in the existing BDR (section 11), the MA proposes to apply the disclosure requirements in the 2015 package to all locally incorporated AIs (except those exempted under the *de minimis criteria* referred to in the next paragraph) on a consolidated basis where they are also required under the BCR to comply with the regulatory capital requirements on a consolidated basis, and on a solo or solo-consolidated basis for other locally incorporated AIs.

11 Sections 3(7) and 3(8) of the current BDR contain *de minimis criteria* under which any locally incorporated DTCs or RLBs with total assets of less than HK$1 billion and total customer deposits of less than HK$300 million can be exempted from general and annual disclosure requirements respectively under Parts 2 and 4[3], and interim disclosure requirements under Part 3, of the BDR. The MA proposes to retain these exemption criteria in respect of the revised disclosure requirements in the 2015 package. Nevertheless, following existing policy and practice, the MA encourages exempted AIs to adopt the revised disclosure requirements to the greatest extent possible.

Q1. Do you agree with the proposed scope of application?

12 For those AIs that are not exempt and that use the Basic Approach to calculate their credit risk exposures under Part 5 of the BCR, the "Credit Risk" part of the 2015 package (which has been designed for STC and IRB approach users) will be modified as necessary in order to be applicable to them.

13 Existing Basel III disclosure requirements under the BDR (i.e. those specified in standard formats in relation to the composition of capital and the capital buffers, the

[2] Paragraph 4 of the 2015 package.

[3] Any AI which is exempted from the annual disclosure requirements under Part 4 is also exempted from the other "approach-specific" annual disclosure requirements under Parts 5 to 7 of the BDR.

leverage ratio, the liquidity coverage ratio and the liquidity maintenance ratio)[4] will be consolidated into the Pillar 3 package in the second phase of the BCBS Pillar 3 review. These disclosure requirements will accordingly remain in effect until the second phase of the disclosure package is implemented in Hong Kong.

2 Presentation of Disclosure

2.1 Format of presentation

14 A key feature and objective of the 2015 package is to promote the use of standard templates and tables to enhance consistency and comparability of disclosures among banks and across jurisdictions. To strike a balance between the use of mandatory forms and the need to permit a degree of flexibility for banks' senior management to provide tailored institution-specific information, a hierarchy of disclosure formats (i.e. templates, tables and accompanying narratives) has been introduced under the 2015 package. In general, templates must be completed with quantitative data in accordance with the definitions provided. Tables, on the other hand, relate mostly to qualitative requirements (though in some instances, quantitative information is also required). Given that this approach is a continuation of the international effort under Basel III to promote market discipline through enhanced bank disclosure, the MA proposes to adopt these disclosure formats as an integral part of its implementation of the 2015 package in Hong Kong.

15 A summary of the required format for each disclosure requirement in the 2015 package is included in the **Annex** to this consultation paper. Please refer to the 2015 package for further information regarding the detailed design of the templates and tables.

2.2 Fixed format templates

16 Where the format of a template is described as fixed, a bank must complete the template in accordance with the definitions and instructions provided, unless the template is not relevant to its operations (e.g. a bank which uses the STC approach is not required to complete a template for credit risk under the IRB approach). A bank may however delete specific rows / columns from the template to remove information considered not relevant to its activities or not meaningful to market participants (e.g. immaterial from a quantitative perspective), or it may insert

[4] These disclosure requirements are currently stipulated under sections 24, 24A, 24B, 30, 30A, 30B, 45, 45A, 45B, 45C, 51, 51A, 51B, 103, 103A and 103B of, and supplemented by standard disclosure templates designated by the MA under, the BDR.

sub-rows or sub-columns to provide additional detail, but in either case without altering the numbering of the prescribed rows and columns in the template.

2.3 Flexible format templates / tables

17 Where the format is a table or is a template described as flexible, a bank may present the required information either in the format provided in the 2015 package, or in one that better suits its own situation. However, where a customized presentation format is used, the disclosure made must be comparable with the information required in the flexible disclosure template (i.e. at a similar level of granularity as if the BCBS disclosure template had been used for the disclosure).

2.4 Accompanying qualitative narrative

18 Banks are expected to supplement the quantitative information provided in both fixed and flexible templates with a narrative commentary to explain at least: any significant changes between reporting periods; the key drivers of any such changes; and any other issues that might be of interest to market participants. The form of this additional narrative is left to the bank's discretion.

19 A bank may also disclose additional information on its specific circumstances, business model and risk profile if such information is not adequately captured by the standard templates and tables. Additional quantitative information must be accompanied by a qualitative discussion. Any additional disclosure must comply with the five guiding principles[5] set out in the 2015 package.

3 Frequency and timing of disclosures

20 To ensure the relevance and usefulness of the disclosed information to its users, the 2015 package requires banks to publish Pillar 3 reports concurrently with their financial reports for the corresponding period. The MA intends to retain the existing BDR requirements on the timing for the making of disclosures by a locally incorporated AI[6] accordingly, together with the condition that such disclosures must be made concurrently with the publication of financial statements, viz.:

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[5] As set out in paragraph 13 of the 2015 package, these principles are: *Disclosures should be clear* (Principle 1); *Disclosures should be comprehensive* (Principle 2); *Disclosures should be meaningful to users* (Principle 3); *Disclosures should be consistent over time* (Principle 4); and *Disclosures should be comparable across banks* (Principle 5).

[6] In the case of an overseas incorporated AI, the timing of making both semi-annual and annual disclosures will remain as 3 months after the end of the respective reporting periods.

- for semi-annual disclosures, concurrently with the publication of the AI's interim financial statements, which must be within 3 months after the end of the interim financial reporting period; and

- for annual disclosures, concurrently with the publication of the AI's annual financial statements, which must be within 4 months after the end of the annual financial reporting period.

21 As shown in the **Annex** to this consultation paper, under the 2015 package, each of the standard disclosure templates and tables will be subject to either a quarterly, semi-annual or annual reporting frequency.

22 The 2015 package contains four templates on a quarterly disclosure frequency (regarding the "overview of risk-weighted assets (RWA)" which is applicable to all banks and three "flow-statements" which are applicable to banks that are model-users to explain variations in their risk-weighted assets in respect of their credit risk, counterparty credit risk, and market risk). Implementing the 2015 package will therefore mean introducing quarterly disclosure requirements into the regulatory disclosure regime in Hong Kong for the first time. In this context, the MA also considers it an opportune time to incorporate in the BDR those quarterly disclosure requirements in relation to key ratios and their components, which were identified in the RCAP report as lacking in Hong Kong (please also see paragraph 5 and section III of this consultation paper for more details). As opposed to a general requirement for quarterly financial reporting, these proposed quarterly disclosure requirements involve only key prudential ratios and their components which are regulatory in nature and the disclosure of which will complement the overview of RWA figures introduced by the 2015 package in order to present a more complete picture of the overall capital position of an AI to information users.

23 As far as the timing for making quarterly disclosure is concerned, the MA proposes that AIs should be allowed 8 weeks after the end of each quarter to publish the required disclosures (in line with the submission deadline for the CAR Return) unless the end of a quarter coincides with the end of an interim or an annual reporting period, in which case the timing for disclosure should follow that of the interim or the annual disclosure.

Q2. Do you see any major practical issues in relation to the proposed timing for the quarterly disclosures?

4 Medium and location of disclosure

24 The flexibility allowed under the existing disclosure regime for banks to decide on the medium and location for making regulatory disclosures often results in these disclosures being spread and duplicated across and between financial statements and Pillar 3 reports in an inconsistent manner. Lack of clear sign-posting between financial statements and Pillar 3 reports also makes it difficult for users to locate disclosures.

25 In order to address these issues, the 2015 package requires banks to publish their Pillar 3 reports in a standalone document that provides a readily accessible source of prudential information for users. A Pillar 3 report must be easily identifiable to users but may be appended to, or form a discrete section of, a bank's periodic financial reports. Banks must also make available an archive of their Pillar 3 reports relating to prior reporting periods on their websites.

26 The 2015 package does however allow some limited flexibility for banks to "sign-post" to regulatory disclosures in a document separate from their Pillar 3 report, but only in specified circumstances[7]. In general, clear references must be included in the Pillar 3 to enable the user to locate the required disclosures in the separate document. For any template in fixed format, the flexibility of signposting is additionally subject to the conditions that the information contained in the separate document is equivalent (in presentation, content, scope of consolidation etc.) to that required in the fixed template; that the disclosure in the separate document is mandatory; and that the supervisory authority is "subject to legal constraints in its ability to require the reporting of duplicative information", as is the case with the US, for instance. It follows that, in the case of Hong Kong, where the MA is not subject to such legal constraints, sign-posting will only be allowed for AIs in respect of their disclosure in the form of tables or templates that are described in the 2015 package as flexible.

27 As far as the quarterly disclosure requirements in the 2015 package are concerned, given the lack of quarterly financial reporting in Hong Kong, and the proposed shorter disclosure timeframe of 8 weeks as mentioned in paragraph 23 above, AIs may inevitably need to utilize internet websites as the most practical means to comply with the new requirements.

28 As some smaller AIs may encounter practical difficulties in making disclosure, and in maintaining an archive of their Pillar 3 reports, on their own websites (e.g. AIs that

[7] The conditions to be met are set out in paragraphs 20 to 22 of the 2015 package.

do not maintain their own websites), the MA proposes that such AIs should be allowed to make disclosure and maintain an archive of their disclosures on their parent banks' internet website.

Q3. Do you see the alternative of making and maintaining required disclosures through parent bank websites as feasible? Are there any other practical alternatives you can think of in respect of AIs which cannot make or maintain disclosures on their own websites?

5 Assurance on information disclosed

29 To provide a suitable level of assurance on the quality of information disclosed by banks, two key requirements under the 2015 package are that banks should:

- ensure that the information provided in their Pillar 3 report is subject, at a minimum, to the same level of internal review and control processes as the information provided by them in their financial reporting (i.e. the level of assurance must be the same as for information provided within the management discussion and analysis part of the financial report); and

- establish a formal board-approved disclosure policy for Pillar 3 information that sets out the internal controls and procedures governing disclosure of such information. Banks are required to describe the key elements of this policy in their year-end Pillar 3 reports or provide relevant cross-references to another location where the relevant information can be found.

The MA considers these requirements broadly consistent with those now in sections 5 and 8 of the BDR.

30 The 2015 package also emphasises the fact that the board of directors and senior management of a bank are responsible for establishing and maintaining an effective internal control structure over the disclosure of financial information, including Pillar 3 reports. They must also ensure that appropriate reviews of the disclosure take place. One or more senior officers of the bank, ideally at board level or equivalent, must attest in writing that the Pillar 3 report has been prepared in accordance with the board-agreed internal control processes as well as the board-approved disclosure policy.

31 In addition to the above requirements (which the MA intends to reflect in the BDR by aligning the current wording of the relevant provisions), AIs should be fully aware of their legal obligations under the CO in respect of their publication of any 'non-statutory accounts in relation to the company' (which may broadly cover Pillar 3 reports). Pursuant to section 436(1) of the CO, where a company makes financial statements or accounts available for public inspection in a manner calculated to invite members of the public generally, or any class of them, to read the financial statements or accounts, it must observe the associated documentary requirements (pertaining to assurance in respect of such financial information disclosure) as mandated under section 436(3) of the CO.

6 Proprietary and confidential information

32 Consistent with the principles underlying section 9 of the existing BDR, the 2015 package contains a safeguard for banks which enables them to refrain, in exceptional cases, from disclosing required information in so far as this may reveal the (commercially sensitive) position of the disclosing bank or contravene its legal obligations by making public information that is proprietary or confidential in nature. In such cases, a bank must instead disclose more general information about the subject matter of the requirement, and explain in the narrative commentary accompanying the disclosure requirement (referred to in paragraphs 18 and 19 above) the fact that the specific items of information have not been disclosed and the reasons for not disclosing. The MA proposes to retain the "MA prior consent" requirement for this exemption under section 9 of the BDR and expand its scope of protection to cover disclosures required to be made under the 2015 package.

III OTHER PROPOSED REVISIONS

1 Quarterly disclosure requirement under Basel II

33 There is an existing BCBS Pillar 3 disclosure requirement for large internationally active banks and other significant banks (and their significant bank subsidiaries) to disclose certain key ratios (i.e. key capital ratios and the leverage ratio) and their key components (i.e. numerator, denominator, and ratio) on a quarterly basis.[8,9] In the absence of quarterly reporting in general in Hong Kong, the MA has not to date implemented this quarterly disclosure requirement, and this was identified as a material finding in the March 2015 RCAP report on Hong Kong.

34 To address the RCAP finding, the MA is proposing to incorporate quarterly disclosure requirements into the BDR including, not only those contained in the 2015 package, but also those in the existing Pillar 3 disclosure framework referred to in the previous paragraph.

35 As all locally incorporated AIs should have readily available data from their capital and leverage ratios computations, the MA proposes that all such AIs (save for those meeting the *de minimis criteria*) should be subject to the required quarterly disclosure requirements on key ratios and components mentioned in paragraph 33 to complement their quarterly "overview of RWA" disclosures under the 2015 package. AIs may make such disclosures in flexible format within their Pillar 3 report, until such time as the BCBS may specify an applicable standard format.

Q4. Do you agree with the proposed scope of application in respect of the MA's policy intention to introduce the quarterly disclosure of key ratios and their key components into the existing disclosure framework in Hong Kong?

2 Streamlining existing financial disclosure requirements

36 Paragraph 11 of the Seventh Schedule to the BO specifies, as one of the on-going authorization criteria for any locally incorporated AI, the need for the MA to be satisfied that the AI discloses adequate information in relation to the state of its affairs, including its profit and loss and its financial resources in its audited annual

8 Paragraph 818, Basel II

9 Paragraph 46, *Basel III leverage ratio framework and disclosure requirements*

accounts or in other parts of its annual report. The MA's expectations in respect of the information to be disclosed in an AI's annual accounts were first set out in the Financial Disclosure Guidelines issued by the MA under section 16(10) of the BO. These expectations were subsequently prescribed in the BDR at the time of the implementation of Basel II in Hong Kong.

37 The current disclosure requirements in the BDR therefore prescribe not only "regulatory disclosures" (i.e. those that are regulatory in nature as promulgated by the BCBS, or otherwise required by the MA for prudential reasons), but also "financial disclosures" (i.e. those that are financial in nature and driven by the applicable financial reporting standards, including income statement and equity information, balance sheet information, etc.[10]).

38 Some views have been expressed by the industry, which the MA also shares, that it may generally no longer be desirable for the BDR to prescribe disclosure requirements associated with the financial reporting standards (and which are not part of the regulatory disclosure requirements) because, for instance:

- it has become increasingly difficult and cumbersome for the BDR as secondary legislation to keep pace with constantly evolving international developments in financial reporting standards;

- under section 380(4)(b) of the CO, locally incorporated AIs are already required to prepare annual financial statements in compliance with the applicable accounting standards which, pursuant to the Companies (Accounting Standards (Prescribed Body)) Regulation (Cap. 622C), refers to those issued by the HKICPA. It will also be simpler for AIs to refer to a single set of standards for making financial disclosures (rather than having to observe two sets of standards containing definitional differences in certain areas); and

- focusing the requirements in the BDR on regulatory disclosure tallies with the general consensus among banking supervisors internationally that the Pillar 3 report should focus on regulatory disclosures.

39 Having regard to the above considerations, the MA is proposing to remove from the BDR the existing disclosure requirements associated with the financial reporting standards, with which AIs already have a legal obligation to comply when preparing and publishing their annual financial statements. However, to maintain an appropriate level of interim financial disclosures, the MA proposes to retain in the

[10] These financial disclosure requirements are mainly contained in sections 19 to 22, 35 to 38 and 40 to 42 of the BDR.

BDR a requirement for AIs to make interim financial disclosure based on applicable financial reporting standards for preparing half-yearly disclosures (i.e. instead of a prescribed list in the BDR).

Q5. Do you agree with the proposed approach to streamlining the existing financial disclosure requirements in the BDR?

40 The MA is mindful of the fact that the assessment of systemically important AIs (including both G-SIBs and D-SIBs) relies substantially on certain financial disclosures AIs are presently required to make under the BDR (e.g. total assets, deposits from customers, loans and advances to customers)[11]. The removal from the BDR of the requirement to make such disclosures may have implications for this assessment and may in this context necessitate the identification of other appropriate sources for such indicators. In this regard, corresponding references in the relevant guidance (e.g. SPM module CA-B-2) will be revised, where necessary, in consultation with the industry.

3 Consequential amendments arising from BCAR 2015

41 One of the amendments in the BCAR 2015 was to the effect that an AI will no longer be permitted to adopt the approach used by its parent bank to calculate its market risk capital (i.e. "parent bank approach"). This amendment effectively renders the related provisions in the BDR obsolete. In this connection, the MA will take the opportunity to update the BDR accordingly.

[11] See paragraph 3 of the SPM module CA-B-2 *Systemically Important Banks*

IV APPROACH TO IMPLEMENTING 2015 PACKAGE AND OTHER PROPOSED CHANGES

1 Implementation approach

42 In line with the approach adopted in implementing the disclosure requirements associated with Basel III, the MA proposes to amend the BDR by replacing the relevant provisions on the areas covered in the 2015 package (viz., mainly Parts 5, 6 and 7 of the BDR which concern RWA), with a broad outline of the revised disclosure requirements, supported by the issuance of standard disclosure templates specified by the MA.

43 To streamline financial disclosure requirements as proposed in section III of this consultation paper, the MA proposes to remove the financial disclosure requirements prescribed in detail under Parts 3 and 4 of the BDR, and restyle those requirements under Part 3 (i.e. interim financial disclosures) in the form of cross references to applicable financial reporting standards for the preparation of half-yearly disclosures.

44 Parts 1, 2, 3 and 4 of the BDR will be aligned with the structural design of the 2015 package (i.e. in respect of scope of application; frequency and timing, medium and location of disclosure; quality assurance etc.).

45 Areas of the existing BDR other than those covered above (these include disclosure requirements associated with Basel III standards and other local regulatory disclosure requirements under Parts 3 and 4 for AIs incorporated in Hong Kong[12], as well as those under Part 8 for AIs not incorporated in Hong Kong) will be retained subject to alignment where necessary to ensure consistency with the 2015 package, and further amendment when revised disclosure requirements under the second phase of the BCBS Pillar 3 review are implemented in Hong Kong.

2 Implementation timeline

46 In order to implement the 2015 package in accordance with the BCBS timeline (i.e. for the 2015 package to start being applied to the first annual disclosure of AIs for a financial reporting period ending on or after 31 December 2016), the MA proposes

[12] These include those set out in sections 23 to 30B under Part 3, as well as sections 39 and 43 to 52 under Part 4 of the BDR.

to bring the new disclosure requirements described in this consultation paper into force by Q1 2017.

47 The proposed implementation timeline is as follows:

	Legislative changes	Implementation guidance
Q3 2016	Statutory consultation on text of draft amendments to the BDR	Industry consultation on draft implementation guidance incorporating the standard disclosure templates and tables contained in the 2015 Package
By mid-Oct 2016	◆ Finalization of revised rules taking into account industry comments ◆ Gazettal of revised rules and tabling of the rules at the Legislative Council for negative vetting	-
31 Mar 2017	Revised rules come into effect	-
Q1 2017	-	Release of finalised implementation guidance
Q1 2017 onwards	-	AIs begin to use the new disclosure templates and tables for making regulatory disclosures

V GLOSSARY

AI	Authorized institution
Basel II	*International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)*, Basel Committee on Banking Supervision, June 2006
Basel 2.5	*Enhancements to the Basel II framework,* Basel Committee on Banking Supervision, July 2009
Basel III	*A global regulatory framework for more resilient banks and banking systems,* Basel Committee on Banking Supervision, December 2010 (revised June 2011)
BCAR 2015	Banking (Capital) (Amendment) Rules 2015
BCBS	Basel Committee on Banking Supervision
BCR	Banking (Capital) Rules (Cap. 155L)
BDR	Banking (Disclosure) Rules (Cap. 155M)
BO	Banking Ordinance (Cap. 155)
CAR return	Return of Capital Adequacy Ratio – MA(BS)3
CO	Companies Ordinance (Cap. 622)
D-SIB	Domestic Systemically Important Authorized Institution
DTC	Deposit-taking company within the meaning of the BO
G-SIB	Global Systemically Important Authorized Institution
HKICPA	Hong Kong Institute of Certified Public Accountants
IRB approach	Internal ratings-based approach to credit risk
MA	Monetary Authority
Pillar 1	The minimum capital requirements in banking supervision as prescribed in Basel II
Pillar 3	The Third Pillar, or market discipline, that complements the minimum capital requirements (Pillar 1) and supervisory review process (Pillar 2) in banking supervision as prescribed in Basel II

RCAP	Regulatory Consistency Assessment Programme
RLB	Restricted licence bank within the meaning of the BO
RWA	Risk-weighted assets
SPM	Supervisory Policy Manual
STC approach	Standardized (credit risk) approach

VI ANNEX

1 The following table presents the required disclosures, presentation formats and frequencies:

Disclosure requirement	Tables and templates*	Fixed format	Flexible format	Quarterly	Semi-annually	Annually
Part 2 – Overview of risk management and RWA	OVA – Bank risk management approach		✓			✓
	OV1 – Overview of RWA	✓		✓		
Part 3 – Linkages between financial statements and regulatory exposures	LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories		✓			✓
	LI2 – Main sources of differences between regulatory exposure amounts compared with amounts in financial statements		✓			✓
	LIA – Qualitative disclosures of differences from financial to regulatory exposures		✓			✓
Part 4 – Credit risk	CRA – General information about credit risk		✓			✓
	CR1 – Credit quality of assets	✓			✓	
	CR2 – Changes in defaulted loans and debt securities	✓			✓	
	CRB – Additional disclosure related to the credit quality of assets		✓			✓
	CRC – Qualitative disclosure requirements related to credit risk mitigation techniques		✓			✓
	CR3 – Credit risk mitigation techniques – overview	✓			✓	
	CRD – Qualitative disclosures on banks' use of External Credit Rating Agencies under the standardised approach for credit risk		✓			✓
	CR4 - Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects	✓			✓	
	CR5 - Standardised approach – exposures by asset classes and risk weights	✓			✓	
	CRE - Qualitative disclosures related to IRB models		✓			✓
	CR6 - IRB - Credit risk exposures by portfolio and PD range	✓			✓	

Disclosure requirement	Tables and templates*	Fixed format	Flexible format	Quarterly	Semi-annually	Annually
	CR7 - IRB – Impact on RWA of credit derivatives used as CRM techniques	✓			✓	
	CR8 - IRB – RWA statement for credit risk	✓		✓		
	CR9 - IRB – Back-testing of probability of default (PD) per portfolio		✓			✓
	CR10 - IRB (specialised lending and equities under the simple risk weight method)		✓		✓	
Part 5 – Counterparty credit risk	CCRA - Qualitative disclosure related to counterparty credit risk		✓			✓
	CCR1 - Analysis of counterparty credit risk exposure (CCR) by approach	✓			✓	
	CCR2 - Credit valuation adjustment (CVA) capital charge	✓			✓	
	CCR3 - Standardised approach - CCR exposures by regulatory portfolio and risk weights	✓			✓	
	CCR4 - IRB - CCR exposures by portfolio and PD scale	✓			✓	
	CCR5 - Composition of collateral for counterparty credit risk exposure		✓		✓	
	CCR6 - Credit derivatives exposures		✓		✓	
	CCR7 - RWA flow statements- exposures under Internal Model Method (IMM)	✓		✓		
	CCR8 - Exposures to central counterparties	✓			✓	
Part 6 - Securitisation	SECA - Qualitative disclosure requirements for all banks		✓			✓
	SEC1 - Securitisation activities in the banking book over the last semester		✓		✓	
	SEC2 - Securitisation activities in the trading book over the last semester		✓		✓	
	SEC3 - Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor	✓			✓	
	SEC4 - Securitisation exposures in the banking book and associated capital requirements – bank acting as investor	✓			✓	
Part 7 – Market risk	MRA - Qualitative disclosure requirements		✓			✓
	MRB - Qualitative disclosures for banks using the IMA		✓			✓
	MR1 - Market risk under standardised approach	✓			✓	
	MR2 - RWA movement by key driver	✓		✓		
	MR3 - Internal models approach (IMA) for trading portfolios	✓			✓	
	MR4 - Comparison of VaR estimates with gains/losses		✓		✓	

Disclosure requirement	Tables and templates*	Fixed format	Flexible format	Quarterly	Semi-annually	Annually
		20	20	4	22	14

*The shaded rows refer to tables (11 in total) and the unshaded rows are templates (29 in total).

2 For details, please refer to BSBC's *Standards – Revised Pillar 3 disclosure requirements* published in January 2015; individual templates and tables will be issued separately for industry consultation before local implementation.