Annex 4

PROPOSED AMENDMENTS TO BANKING (DISCLOSURE) RULES ("BDR")

New disclosure requirements

Amendments in the Basel II enhancements	Proposed amendments in the BDR and Rationale
Guiding Principles of Pillar 3 (paragraph 809)	
The purpose of Pillar 3 – market discipline is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The Committee aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution. The Committee believes that such disclosures have particular relevance under the framework, where reliance on internal methodologies gives banks more discretion in assessing capital requirements. The Committee emphasises that, beyond disclosure requirements as set forth in Part 4, Section II of this framework, banks are responsible for conveying their actual risk profile to market participants. The information banks disclose must be adequate to fulfil this objective.	s.5 on Disclosure Policy: *The section will be modified to require an AI's disclosure policy to include the objective of conveying its actual risk profile to market participants.*

Table 9 – Securitization exposures		
I. Qualitative disclosures **(Banks should provide separate qualitative disclosures for banking book and trading book exposures where relevant)**		
(a)	The general qualitative disclosure requirement (paragraph 824) with respect to securitization (including synthetics), including a discussion of: ▪ the bank's objectives in relation to securitization activity, including the extent to which these activities transfer credit risk of the underlying securitised exposures away from the bank to other entities and including the type of risks assumed and retained with resecuritization activity[1], ▪ the nature of other risks (e.g. liquidity risk) inherent in securitised assets; ▪ the various roles played by the bank in the securitization process[2] and an indication of the extent of the bank's involvement on each of them; ▪ a description of the processes in place to monitor changes in the credit and market risk of securitization exposures[3] (for example, how the behaviour of the underlying assets impacts securitization exposures) including how those processes differ for securitization exposures; ▪ a description of the bank's policy governing the use of credit risk mitigation to mitigate the risks retained through securitization and resecuritization exposures; and ▪ the regulatory capital approaches (e.g. Standardised Approach	s.60(1) (STC) and s.82(1) (IRB): *The sections will be expanded to: (i) require additional qualitative disclosures for banking book; and (ii) extend the enhanced qualitative disclosure requirements to trading book. There should be separate disclosures for banking book and trading book.*

Amendments in the Basel II enhancements		Proposed amendments in the BDR and Rationale
	(SA); Ratings Based Approach (RBA); Internal Assessment Approach (IAA); Supervisory Formula Approach (SFA); standardised measurement method and Comprehensive Risk Measure) that the bank uses for its securitization activities including the type of securitization exposures to which each approach applies[4].	
(b)	A list of: ▪ the types of SPEs that the bank, as sponsor[5], uses to securitize third-party exposures. Indicate whether the bank has exposure to these SPEs, either on- or off-balance sheet; and ▪ affiliated entities i) that the bank manages or advises and ii) that invest either in the securitization exposures that the bank has securitised or in SPEs that the bank sponsors[6]	s.60 (STC) and s.82 (IRB) : *The term "sponsor" will be defined, thereby requiring that AIs include in the qualitative disclosures all securitization activities which the institution sponsors, regardless of whether they are in the banking or trading book, on- or off-balance sheet, and whether or not they are subject to the securitization framework. AIs will also be required to list any related entities that invest either in the securitization exposures that the AI has securitised or in vehicles that the AI sponsors.*
(c)	Summary of the bank's accounting policies for securitization activities, including: ▪ whether the transactions are treated as sales or financings; ▪ recognition of gain on sale; ▪ methods and key assumptions (including inputs) applied in valuing positions retained or purchased[7]; ▪ changes in methods and key assumptions from the previous period and impact of the changes; ▪ treatment of synthetic securitizations if this is not covered by other accounting policies (e.g. on derivatives); ▪ how exposures intended to be securitised (e.g. in the pipeline or warehouse) are valued and whether they are recorded in the banking book or trading book; and ▪ policies for recognising liabilities on the balance sheet for arrangements that could require the bank to provide financial support for securitized assets.	s.60(1)(b) (STC) and s.82(1)(b) (IRB): *The sections will be modified to enhance qualitative disclosures on the accounting and valuation of an AI's exposures to securitization activities.*
(f)	An explanation of significant changes to any of the quantitative information (e.g. amounts of assets intended to be securitised, movement of assets between banking book and trading book) since the last reporting period.	s.60 (STC) and s.82 (IRB) : *A new provision will be added to require explanation of significant changes to any of the quantitative information since the last reporting period.*

Amendments in the Basel II enhancements				Proposed amendments in the BDR and Rationale
II. <u>Quantitative</u> disclosures		*Applicable to banking book exposures*	*Applicable to trading book exposures*	**(There will be <u>separate sections requiring AIs to provide separate quantitative disclosures for banking book and trading book where relevant</u>)**
(g) & (o)	The total amount of outstanding exposures securitised[9] by the bank and defined under the securitization framework (broken down into traditional/synthetic) by exposure type[8], regardless of whether there is a capital charge under Pillar 1, separately for securitizations of third-party exposures for which the bank acts only as sponsor[5].	√	√	s.60(1)(c) (STC) and s.82(1)(c) (IRB) : *The sections will be amended to clarify the meaning of "exposures securitised by an AI" and make separate disclosure on sponsorship mandatory.*
(h)	For exposures securitised[9] by the bank and defined under the securitization framework, regardless of whether there is a capital charge under Pillar 1: ▪ amount of impaired/past due assets securitised broken down by exposure type[8]; and ▪ losses recognised by the bank during the current period broken down by exposure type[8], regardless of whether there is a capital charge under Pillar 1.	√		s.60(1)(f) (STC) and s.82(1)(f) (IRB): *The sections will be revised to clarify that disclosures on securitization activities are required whether or not they are subject to the securitization framework.*
(i) & (p)	The total amount of outstanding exposures intended to be securitised broken down by exposure type[8], regardless of whether there is a capital charge under Pillar 1.	√	√	s.60(1) (STC) and s.82(1) (IRB) : *A new provision will be added to require quantitative disclosure on assets awaiting securitization broken down by exposure type (i.e. pipeline and warehousing risks).*
(j) & (q)	Summary of current period's securitization activity, including the total amount of exposures securitised[9] (by exposure type[8]), and recognised gain or loss on sale by exposure type[8], regardless of whether there is a capital charge under Pillar 1.	√	√	s.60(3) (STC) and s.82(3) (IRB): *The sections will be revised to clarify that disclosures on securitization activities are required whether or not they are subject to the securitization framework.*
(k) & (s)	Aggregate amount of: ▪ on-balance sheet securitization exposures[3] retained or purchased broken down by exposure type[8]; and ▪ off-balance sheet securitization exposures[3] broken down by exposure type[8].	√	√	s.60(1)(g) (STC) and s.82(1)(g) (IRB): *The sections will be revised to require disclosures on on-balance sheet securitization exposures separately from off-balance sheet exposures.*

Amendments in the Basel II enhancements				Proposed amendments in the BDR and Rationale
(l)	▪ Aggregate amount of securitization exposures[3] retained or purchased and the associated capital charges, broken down between securitization and re-securitization exposures and further broken down into a meaningful number of risk weight bands for each regulatory capital approach (e.g. SA, RBA, IAA and SFA) used.	√		s.60(1)(h) (STC) and s.82(1)(h) (IRB): *The sections will be revised to require some quantitative information on the banking book, broken down between securitization and re-securitization exposures, for each regulatory capital approach.*
(t)	Aggregate amount of securitization exposures[4] retained or purchased separately for: ▪ securitization exposures[3] retained or purchased subject to Comprehensive Risk Measure for specific risk; and ▪ securitization exposures[3] subject to securitization framework for specific risk broken down into a meaningful number of risk weight bands for each regulatory capital approach (e.g. SA, RBA, SFA and concentration ratio approach).		√	s.60 (STC) and s.82 (IRB): *New provisions will be added to require quantitative disclosure of securitization exposures in trading book broadly in line with those within the banking book.*
(u)	Aggregate amount of: ▪ the capital requirements for the securitization exposures[3] subject to Comprehensive Risk Measure, broken down into appropriate risk classifications (e.g. default risk, migration risk and correlation risk)[4]. ▪ the capital requirements for the securitization exposures[3] (resecuritization or securitization), subject to the securitization framework broken down into a meaningful number of risk weight bands for each regulatory capital approach (e.g. SA, RBA, SFA and concentration ratio approach). ▪ securitization exposures[3] that are deducted entirely from Tier 1 capital, credit enhancing I/Os deducted from total capital, and other exposures deducted from total capital should be disclosed separately by exposure type[8].		√	
(m) & (v)	For securitizations subject to the early amortisation treatment, the following items by exposure type[8] for securitised facilities: ▪ the aggregate drawn exposures attributed to the seller's and investors' interests; ▪ the aggregate capital charges incurred by the bank against its retained (i.e. the seller's) shares of the drawn balances and undrawn lines; and ▪ the aggregate capital charges incurred by	√	√	s.60(2) (STC) and s.82(2) (IRB): *Clarification will be made to the meaning of "exposure type" in line with footnote 8 wherever the term is used in sections 60 and 82.*

	Amendments in the Basel II enhancements			Proposed amendments in the BDR and Rationale
	the bank against the investor's shares of drawn balances and undrawn lines.			
(n) & (w)	Aggregate amount of re-securitization exposures[3] retained or purchased broken down according to: ▪ exposures to which the credit risk mitigation is applied and those not applied; and ▪ exposures to guarantors broken down according to guarantor credit worthiness categories or guarantor name.	√	√	s.60 (STC) and s.82 (IRB) : *New provisions will be added to require additional quantitative disclosure on resecuritization exposures in line with the enhancements to the securitization framework in Pillar 1.*
(r)	Aggregate amount of exposures securitised[9] by the bank for which the bank has retained some exposures and which is subject to the market risk approach (broken down into traditional/synthetic), by exposure type[8].		√	s.60 (STC) and s.82 (IRB): *New provisions will be added to require quantitative disclosure of retained securitization exposures which are subject to the market risk approach.*

<u>Footnotes</u>:

[1] For example, if a bank is particularly active in the market of senior tranche of resecuritizations of mezzanine tranches related to securitizations of residential mortgages, it should describe the structure of resecuritizations (e.g. senior tranche of mezzanine tranche of residential mortgage); this description should be provided for the main categories of resecuritization products in which the bank is active.

[2] For example: originator, investor, servicer, provider of credit enhancement, sponsor, liquidity provider, swap provider, protection provider.

[3] Securitization exposures, as noted in Part 2, Section IV, include, but are not restricted to, securities, liquidity facilities, protection provided to securitization positions, other commitments and credit enhancements such as I/O strips, cash collateral accounts and other subordinated assets.

[4] See "Table 10" for market risk approach used.

[5] A bank would generally be considered a "sponsor" if it, in fact or in substance, manages or advises the programme, places securities into the market, or provides liquidity and/or credit enhancements. The programme may include, for example, ABCP conduit programmes and structured investment vehicles.

[6] For example, money market mutual funds, to be listed individually, and personal and private trusts, to be noted collectively.

[7] Where relevant, banks are encouraged to differentiate between valuation of securitization exposures and re-securitization exposures.

[8] For example, credit cards, home equity, auto, and securitization exposures detailed by underlying exposure type and security type (e.g. RMBS, CMBS, ABS, CDOs) etc.

[9] "Exposures securitised" include underlying exposures originated by the bank, whether generated by them or purchased into the balance sheet from third parties, and third-party exposures included in sponsored schemes. Securitization transactions (including underlying exposures originally on the bank's balance sheet and underlying exposures acquired by the bank from third-party entities) in which the originating bank does not retain any securitization exposure should be shown separately but need only be reported for the year of inception.

<table>
<tr><th colspan="2">Amendments in the Basel II enhancements</th><th>Proposed amendments in the BDR and Rationale</th></tr>
<tr><td colspan="3">Table 10 – Market Risk: disclosures for banks using the standardised approach</td></tr>
<tr><td colspan="3">Quantitative disclosures</td></tr>
<tr><td>(b)</td><td>The capital requirements for:
▪ interest rate risk;*
▪ equity position risk;
▪ foreign exchange risk; and
▪ commodity risk.
*Require separate disclosure for capital requirements for interest rate risk associated with securitization positions and non-securitization positions.</td><td>s.61(2) (STC) and
s.70(2) (BSC) and
s.83(1) (IRB):
The sections will be revised to clarify that the capital requirements for interest rate risk associated with securitization and non-securitization positions should be disclosed separately.</td></tr>
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<tr><th colspan="2">Amendments in the Basel II enhancements</th><th>Proposed amendments in the BDR and Rationale</th></tr>
<tr><td colspan="3">Table 11 – Market Risk: disclosures for banks using the internal models approach (IMA) for trading portfolios</td></tr>
<tr><td colspan="3">I. <u>Qualitative</u> disclosures</td></tr>
<tr><td>(e)</td><td>For the incremental risk capital charge and the comprehensive risk capital charge the methodologies used and the risks measured through the use of internal models. Included in the qualitative description should be:
▪ the approach used by the bank 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 models.</td><td>s.61 (STC) and
s.70 (BSC) and
s.80 (IRB):
The Rules will be updated to include the new qualitative disclosure requirements in relation to risks measured through the use of internal models as a result of the enhancements to the market risk framework.</td></tr>
<tr><td colspan="3">II. <u>Quantitative</u> disclosures</td></tr>
<tr><td>(f)</td><td>For trading portfolios under the IMA:
▪ the high, mean and low VaR values over the reporting period and period-end;
▪ the high, mean and low stressed VaR values over the reporting period and period-end;
▪ the high, mean and low incremental and comprehensive risk capital charges over the reporting period and period-end; and
▪ a comparison of VaR estimates with actual gains/losses experienced by the bank, with analysis of important "outliers" in back test results.</td><td>s.61(3)(e) (STC) and
s.70(3)(e) (BSC) and
s.80(2)(e) (IRB):
The Rules will be updated to include the additional quantitative disclosures in relation to trading portfolios under the Internal Model Approach as a result of the enhancements to the market risk framework.</td></tr>
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