

EBA REPORT

ON BANKS' TRANSPARENCY IN THEIR 2014
PILLAR 3 REPORTS



EBA

EUROPEAN
BANKING
AUTHORITY

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Executive Summary

This report assesses the compliance of institutions' disclosures in their 2014 annual Pillar 3 disclosure reports with the disclosure requirements in Part Eight of Regulation (EU) 575/2013 (the Capital Requirements Regulation, hereinafter 'the CRR'), which forms the European Union's (EU) implementation of the Basel Pillar 3 disclosure framework. The assessment sample comprises 17 European institutions.

This assessment is the first to be conducted after the CRR came into force on 1 January 2014. 2014 also saw the entry into force of several implementing Regulations or Guidelines ('Level 2 requirements') that specify the format and content of the CRR regarding disclosure requirements for own funds, indicators to identify globally systemically important institutions (G-SIIs), and asset encumbrance. The compliance of the disclosures of institutions against these Level 2 requirements has also been assessed.

This assessment focuses on areas where the CRR introduced changes compared to the previous requirements of Directive 2006/48/EC (CRD), namely: risk management, own funds, capital requirements, indicators of global systemic importance, unencumbered assets, market risk, remuneration policy, and use of the Internal Ratings-Based (IRB) approach to credit risk. Some of these areas match with the areas assessed in 2013 based on the identified needs at that time for improvement in information disclosed by institutions. Securitisation is not covered given that the Basel framework has recently been comprehensively updated as regards disclosure requirements for securitisation.

The Basel Committee on Banking Supervision (BCBS) released in January 2015 a revised Pillar 3 framework¹ that includes mandatory templates for the disclosure of quantitative information. This revised Pillar 3 framework has not yet been implemented in either EU law or banks' disclosures, but this report's thematic study compares the revised Pillar 3 framework and the disclosure requirements in the CRR to assess the extent of the changes introduced by the BCBS.

General observations: timeline, frequency, location, presentation and assurance of disclosures

Pillar 3 reports tended to be released closer to the date of the financial statements than was previously the case, although some lag was generally observed between remuneration disclosures, which were often included in a separate report, and other Pillar 3 disclosures. A majority of banks now publish a separate Pillar 3 report and a sizeable minority provide disclosure indexes to allow users to navigate between the different locations of disclosures where all the information is not located in a single report. The level of assurance of Pillar 3 information remains heterogeneous, and somewhat dependent on the location of the disclosures, but a full audit of Pillar 3 information has not been observed in the sample.

¹ <http://www.bis.org/bcbs/publ/d309.pdf>

Specific findings

In general, the development of standardised formats has increased the consistency of the information disclosed in accordance with these formats. Nevertheless, the challenges of consistency and comparability remain for the other disclosure requirements where such standardised formats do not exist, and further improvements are still needed to fully comply with disclosure requirements, especially those newly introduced by the CRR.

Risk management (Article 435 CRR)

The disclosures in accordance with the requirements carried over from the CRD were, in general, satisfactory. However, the majority of banks could improve their compliance with the new disclosure requirements introduced by the CRR, especially as the relevant information was often scattered throughout the report and difficult to find.

Own funds (Article 437 CRR)

Apart from a few outliers, most banks in the sample provide the required disclosures in accordance with the dedicated templates provided in the applicable Commission Implementing Regulation. Improvement is, however, expected regarding the cross-referencing of the summarised and full terms and conditions of own funds instruments—which tend to be on a separate section of the website but not appropriately referenced in the Pillar 3 reports—. Improvement is also needed on the granularity of information disclosed in accordance with the templates regarding separate identification of the different Common Equity Tier 1 (CET 1) instruments and the different adjustments due to prudential filters.

Capital requirements (Article 438 CRR)

In general, disclosures could be improved as regards the breakdown of capital requirements by exposure class or approach, and the practice of providing risk-weighted assets figures instead of the required disclosures on capital requirements. In addition, too little information is provided on the applicability or non-applicability of exposure classes, including when they are subject to specific disclosure requirements, like specialised lending exposures. The use of different breakdowns and bases for disclosures—phased-in or fully loaded figures—undermines their comparability.

Indicators of global systemic importance (Article 441 CRR)

Apart from a few exceptions, all institutions in the sample disclose information according to the required template. Improvements are nevertheless needed regarding cross-referencing between those disclosures—which tend to be provided in separate documents—and the other Pillar 3 disclosures.

Credit risk under the IRB approach (Article 452 CRR)

Despite increased compliance with some requirements compared to previous assessments, like backtesting, and some banks having increased the level of detail available, room for improvement, in general, remains. This has to do with comparability overall and especially with

the presentation and granularity of the qualitative and quantitative information provided regarding risk management, model parameters, modelling assumptions and the breakdown of risk parameters by exposures and by geography.

Market risk (Article 445 and Article 455 CRR)

The compliance of disclosures with the requirements has remained stable since the last assessment. Although the lack of specificity of some requirements may explain some of the currently needed improvements (such as disclosures at the sub-portfolio level, disclosures on liquidity horizons or capital requirements), gaps in information also arise regarding the nature of the risk models and associated figures (regulatory or management, use of multipliers), the exposure to correlation trading portfolios, the methodologies for the valuation of positions, the backtesting of models, and the stress-testing framework.

Unencumbered assets (Article 443 CRR)

Despite being new requirements, disclosures on encumbered and unencumbered assets present a high degree of compliance with the mandatory requirements in the quantitative templates. As regards the non-mandatory qualitative information, however, it was observed that many institutions do not provide information or provide too little information to give proper context to their quantitative disclosures.

Remuneration policy (Article 450 CRR)

Compliance with the disclosure requirements improved compared with previous assessments, notwithstanding the enhancement in requirements brought about by the CRR. However, as in previous assessments, qualitative and quantitative information on remuneration would benefit from the same level of detail being provided for senior management and other staff whose professional activities have a material impact on institutions' risk profiles.

Thematic Study: mapping between the revised BCBS Pillar 3 framework and the current CRR disclosure requirements

The thematic study provides an overview of the commonalities and differences between the revised BCBS Pillar 3 and the current CRR disclosure requirements. It finds that some disclosure requirements appear specific to the revised BCBS Pillar 3, such as disclosures on the linkages between financial and regulatory exposures, and others to the CRR, like disclosures on unencumbered assets.

In addition, the revised BCBS Pillar 3 framework is more specific than the current CRR, due to the provision of templates for the presentation of quantitative information regarding credit risk, market risk and securitisation, and of additional specifications regarding qualitative requirements. This is especially the case for the requirements for describing the characteristics of internal models for credit risk and market risk and for the capital requirements for market risk, for which the disclosure requirements in the CRR appear less detailed and lack a common format.

1. Introduction, objectives and methodology

1.1 The context of this report

This report presents the results of the EBA's annual assessment of banks'² Pillar 3 disclosures and monitors how banks comply with the Pillar 3 disclosure requirements listed in Part Eight of Regulation (EU) 575/2013 (the Capital Requirements Regulation, hereinafter 'the CRR')³ which forms the European Union's (EU) implementation of the Basel Pillar 3 disclosure framework.

These requirements have replaced those previously in force under Directive 2006/48/EC, specifically with regard to Title V, Chapter 5 of this Directive, 'Disclosure by credit institutions' and Annex XII of this Directive, 'Technical criteria on transparency and disclosures'. While the disclosure requirements from the CRR are mostly consistent with those that were in force in Directive 2006/48/EC,⁴ the CRR introduces some new components, especially as regards disclosure requirements on governance and remuneration, as well as on own funds, countercyclical buffers, asset encumbrance and leverage ratio. To a lesser extent, new disclosure requirements have also been introduced in relation to capital requirements as well as to the use of internal models for credit and market risks.

The EBA had been assessing the compliance of banks with Pillar 3 disclosure requirements since 2008. The practice of the assessment was, however, discontinued last year, when the EBA focused on the delivery of the Guidelines mandated by Articles 432 and 433 of the CRR regarding (i) how institutions have to apply materiality in relation to the disclosure requirements of Title II of Part Eight of the CRR; (ii) how institutions have to apply proprietary and confidentiality in relation to the disclosure requirements of Titles II and III of Part Eight of the CRR; and (iii) on institutions assessing more frequent disclosures of Titles II and III of Part Eight of the CRR. These Guidelines relied partly on the findings of the Thematic Study in the 2013 Follow-up report. They were published in December 2014, and are in the process of being implemented by competent authorities in the EU.⁵

² In this report, the terms 'institutions' and 'banks' are used as synonyms and refer to credit institutions within the scope of Article 4 of the CRR.

³ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012: <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1437995723106&uri=CELEX:02013R0575-20150118>

⁴ Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast): <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1437996941546&uri=CELEX:32006L0048>

⁵ EBA/GL/2014/14 Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013: <https://www.eba.europa.eu/regulation-and-policy/transparency-and-pillar-3/guidelines-on-materiality-proprietary-and-confidentiality-and-on-disclosure-frequency>

In its previous assessments of Pillar 3 disclosures in accordance with Directive 2006/48/EC, the EBA had noted a slow but real improvement in disclosures by some banks in its sample since 2008, despite the enduring need for enhancements. With the entry into force of the CRR, resuming the assessment was deemed necessary to test whether this positive trend had continued under the new regime while new requirements had become applicable.

Therefore, this year's report assesses the progress made by financial institutions in their compliance with selected areas of Pillar 3 disclosure requirements as applicable in the EU.

1.2 This report and other recent disclosure-related initiatives

At the EU level, besides the Guidelines in accordance with Articles 432 and 433 of the CRR mentioned above, the EBA issued Guidelines on disclosures for encumbered and unencumbered assets in accordance with Article 443 of the CRR⁶ (which have been in force since June 2014) and the technical standards on disclosure for information on the countercyclical buffer in accordance with Article 440 of the CRR⁷ (which were published in December 2014 but turned into a Regulation only in May 2015 and were, therefore, not in force for 2014 year-end Pillar 3 disclosures). The EBA, in addition, issued both technical standards and Guidelines as regards the disclosure of indicators for global systemically important institutions (G-SIIs),⁸ which have been in force since September 2014. In mid-2015, following the Commission's adoption of the Delegated Act on the Leverage Ratio on 10 October 2014, the EBA also updated the technical standards for disclosure on the leverage ratio in accordance with Article 451 of the CRR. These regulatory products specify formats and definitions to be implemented in Pillar 3 disclosures, following the way paved by the technical standards for disclosures on own funds in accordance with Article 437, issued and turned into a Regulation in 2013.⁹

At the global level, the Basel Committee on Banking Supervision (BCBS) issued a Revised Pillar 3 Framework in January 2015,¹⁰ applicable for the first time at year-end 2016. This revised framework focuses on credit risk, counterparty credit risk, securitisation and market risk, and

⁶ EBA/GL/2014/03 Guidelines on disclosure of encumbered and unencumbered assets: <https://www.eba.europa.eu/regulation-and-policy/transparency-and-pillar-3/guidelines-on-disclosure-of-encumbered-and-unencumbered-assets>

⁷ Commission Delegated Regulation (EU) 2015/1555 of 28 May 2015 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:JOL_2015_244_R_0001

⁸ Commission Implementing Regulation (EU) No 1030/2014 of 29 September 2014 laying down implementing technical standards with regard to the uniform formats and date for the disclosure of the values used to identify G-SIIs according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:JOL_2014_284_R_0006) and EBA/GL/2014/02 Guidelines on the disclosure of indicators of global systemic importance (<http://www.eba.europa.eu/documents/10180/717755/EBA-GL-2014-02+%28Guidelines+on+disclosure+of+indicators+of+systemic+importance%29.pdf/a017aea5-ceba-4d74-a1ee-fe513f7dbbdf>).

⁹ Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council: <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1400597718546&uri=CELEX:32013R1423>

¹⁰ BCBS Standards Revised Pillar 3 disclosure requirements: <http://www.bis.org/bcb/publ/d309.htm>

includes new requirements on the linkages between the accounting and regulatory exposures. In all these areas, quantitative information is now required to be presented according to standardised templates, following a quarterly frequency for a limited set of key templates and a semi-annual frequency for other data. This revision is not at this stage applicable in the EU and will be supplemented by a second phase currently under development.

In addition, the Financial Stability Board (FSB)-sponsored Enhanced Disclosures Task Force (EDTF) has issued monitoring reports with proposals to further develop its recommendations for enhanced disclosures issued in 2012, for instance regarding risk-weighted assets (RWA) flow statements, asset encumbrance and market risk.¹¹ The EDTF recommendations are part of a private sector initiative to improve the disclosures of banks, but they were not formulated using a regulatory compliance assessment, and their primary objective is not to enhance compliance with disclosure requirements. In addition, unlike the CRR requirements, they are not legally binding requirements at the European level.

Lastly, although not directly linked to regulatory disclosures, it is worth noting that the International Accounting Standards Board (IASB) has launched a project to look specifically at disclosures, and that this disclosure initiative may lead to some amendments in accounting standards; for instance, regarding presentation, information required to be disclosed, and materiality.¹²

The EBA report focuses on the compliance of banks' disclosures with Pillar 3 requirements, which is a focus that may be narrower than that of the other initiatives described above. The regulatory compliance test is, however, an essential part of the broader objective of making sure that banks' disclosures are relevant and, in consequence, reducing the information expectation gap.

The aforementioned developments were, therefore, taken into consideration differently in the assessment of the compliance of the disclosures with the Pillar 3 requirements:

- the regulatory products issued by the EBA were considered to the extent that they were applicable in 2014 and covered areas included in the scope of the assessment hereafter;
- taking into account the difference in nature between the regulatory disclosure requirements and the EDTF recommendation, this EBA report does not highlight whether banks have complied with EDTF recommendations. Nevertheless, this report may have identified some of them as examples of good practice;
- since the Basel III Revised Pillar 3 Framework was only released in January 2015 and is not at this stage legally binding in the EU, this report does not consider it in the compliance

¹¹ 2014 Progress Report on Implementation of the EDTF Principles and Recommendations: http://www.financialstabilityboard.org/2014/09/r_140930a/

¹² See the IASB Disclosure Initiative webpage: <http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Pages/Disclosure-Initiative.aspx>

assessment. Nevertheless, this report may have identified as good practice cases where banks have already implemented the Revised Pillar 3 Framework on a voluntary basis.

1.3 Sample of banks for the 2015 assessment

The exercise was based on the Pillar 3 information disclosed by 17 European banks with cross-border activities (see Annex I).¹³

1.4 Scope of the 2015 disclosure assessment

Due to the implementation of the CRR on 1 January 2014, the assessment focuses on those areas where the new requirements introduced by the CRR were applicable on 1 January 2014, even though their specification via the Guidelines or technical standards may have taken place only later in 2014. These areas are the following:

- Risk management objectives and policies (Article 435 CRR)
- Own funds (Article 437 CRR)
- Capital requirements (Article 438 CRR)
- Indicators of global systemic importance – G-SII indicators (Article 440 CRR)
- Unencumbered assets (Article 443 CRR)
- Market risk (Article 445 and Article 455 CRR)
- Remuneration policy (Article 450 CRR)
- Use of the Internal Ratings Based (IRB) approach to credit risk (Article 452 CRR)

As for the disclosure requirements published in 2014, which did not enter into force in 2014, they were not included in the scope of the assessment related to disclosures in 2014 Pillar 3 reports.

Some of these areas (own funds, market risk, remuneration policy, and use of the IRB approach to credit risk) match with the areas assessed in 2013 based on the identified need for improvement in information. The lack of new disclosure requirements introduced by the CRR led to this year's non-assessment of disclosure requirements on the scope of application.

Despite the introduction of a new disclosure requirement pertaining to the provision of extra-contractual support to unconsolidated securitisation entities and the impact of this support on own funds, and even if the previous reports highlighted some shortcomings for securitisation, the disclosure requirements on securitisation are not covered in this year's assessment. It was considered that the complete overhaul of disclosure requirements on securitisation in the BCBS' Revised Pillar 3 Framework rendered the review of this part of less relevance compared to other areas where the CRR introduces new requirements.

¹³ The sample of banks used for the 2015 assessment is mostly similar to the sample used for the 2013 assessment.

1.5 Thematic Study

As in the previous reports, this issue includes a Thematic Study which, unlike the overall assessment of disclosures provided in the rest of the report, is not related to a compliance assessment but is rather a fact-finding exercise.

While the current Regulation leaves discretion to banks on the format of the disclosure requirements (despite some specification of format for specific requirements like own funds and leverage ratio), the revised Pillar 3 framework introduced standardised templates. In this context, it was decided to focus the Thematic Study on a comparison between the Revised Pillar 3 Framework and the current CRR requirements, so as to provide a preliminary analysis of the distance between the EU requirements and the new Basel standard.

1.6 Assessment methodology

The assessment methodology has remained the same as in the previous Follow-up reports.¹⁴ It involves both an analysis at individual bank level carried out by national supervisors, and a thematic ('horizontal') assessment across each disclosure area for all credit institutions in the sample, carried out by dedicated small teams of two or three national supervisors.

Supervisors discuss the final assessments and scores with the banks. This provides direct and immediate feedback about the outcome of the analysis and also gives the supervisors an opportunity to understand any specific issues facing particular banks (e.g. the applicability of specific disclosure requirements).

The purpose of this approach is to reduce the potential bias implicit in any assessment and to promote greater consistency in the assessment of the banks sampled. Nonetheless, a degree of judgement is inherent in the nature of the assessment.

1.7 Scoring scale and other issues considered

1.7.1 Overview of the scoring methodology

The same scoring scale used in previous assessments also applies for this year's analysis, with a further specification for the score of 3.

The scores are as follows:

N/A = Item is not applicable. It is then expected that no information would be provided for this item/sub-item. This N/A mark was also used for cases where information was not available in English in due time.

¹⁴ Previous issues of this report are available at: <http://www.eba.europa.eu/regulation-and-policy/transparency-and-pillar-3>

0 = **No information is provided.** If information is regarded as immaterial, proprietary or confidential, and as such it is not disclosed, then the lack of disclosure should not be penalised.

1 = **Insufficient information is provided.** The disclosure is non-compliant with the CRR requirements, considering that this assessment remains a matter of judgement.

2 = **Sufficient information is provided, but disclosures could be improved.** In particular, the disclosures are largely compliant but some disclosure items or sub-items are missing to the extent that there is no explicit statement regarding the non-applicability of this requirement or sub-requirement—see section 1.7.2 below.

3 = **Information provided is adequate.** The disclosure is considered adequate when compliant with the CRR requirements or, on an exceptional basis, almost fully compliant.

3* = **Information that is compliant** (or, on an exceptional basis, almost fully compliant) **with the letter and the spirit of the CRR.** It often goes beyond the CRR requirements or leads to the disclosure of information in a meaningful and useful way, thus being regarded as best practice disclosure.¹⁵

Appropriate and extensive/detailed disclosures can, therefore, be awarded a score of 2, despite their quality, if one or some disclosure items or sub-items are not provided. Similarly, a disclosure area with a score of 2 does not exclude individual items or sub-items of this disclosure area from being regarded as examples of best practice.

This approach enhances consistency and reduces subjectivity in the assessment of disclosures, while preserving the use of judgement at a reasonable level. However, it also means that all disclosure improvements noted since the last assessments do not automatically lead to an upgrade due to better compliance, as disclosures may be of higher quality without improvement in overall compliance (i.e. more details and granularity can be provided on a specific disclosure requirement, but there are still other disclosure requirements that are not complied with). The improvement in disclosure quality is, however, taken into account by the EBA in its assessment, as it often leads to an increase in identified examples of best practice or an increase in the number of institutions identified as using them.

The EBA has taken into consideration in its assessments that some of the disclosure requirements are now specified by implementing regulatory technical standards, which are mandatorily and directly applicable, while others are specified by Guidelines, for which only the local transposition is binding (see section 1.7.3 below).

¹⁵ The examples of best practice are not intended to be exhaustive or exclusive. Rather, they are considered to be particularly useful and conducive to increasing comparability and promoting disclosures that are deemed to be compliant with the spirit of Regulation (EU) 575/2013.

1.7.2 Immaterial, proprietary or confidential information – applicability of information in accordance with Article 432 of the CRR

As in the previous assessments of Pillar 3 disclosures, the following approach has been applied regarding the immaterial, proprietary or confidential nature of information and the applicability of information provided in each item:

- The score will be lower than 3:
 - if information is not disclosed because it is immaterial, proprietary or confidential, but there is no specific reference to this;
 - if information is not provided, but the national supervisor has confirmed that it is applicable.
- The score will be 3 when information is not disclosed because it is immaterial, proprietary or confidential and there is specific reference to this.

The EBA has not taken into consideration in its scoring the compliance with the provisions in its Guidelines,¹⁶ and especially those dealing with the disclosures that have to be provided when the materiality waiver is used (paragraph 19 of the said Guidelines), given that the Guidelines were not in force during the time period covered by the Pillar 3 reports under review.

1.7.3 Application of the scoring scale when standardised templates are provided by technical standards

Technical standards require the use of a standardised format for disclosures on own funds and G-SII indicators;¹⁷ however, it is acknowledged that these new formats leave room for—or sometimes require—institutions to add extra rows when necessary to better explain their situation.

When a template was disclosed in a different format than what the technical standards issued by the EBA provide for, the general principle is that the score should be less than 3. However, the score may have been set at 3 in the following cases:

¹⁶ EBA/GL/2014/14 on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013: <http://www.eba.europa.eu/documents/10180/937948/EBA+GL+2014+14+%28Guidelines+on+disclosure%29.pdf/ea55f6be-8d55-4bd4-bc74-ed77466823b9>

¹⁷ Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (<http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1400597718546&uri=CELEX:32013R1423>) and Commission Implementing Regulation (EU) No 1030/2014 of 29 September 2014 laying down implementing technical standards with regard to the uniform formats and date for the disclosure of the values used to identify G-SIIs according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:JOL_2014_284_R_0006).

- in the case where a row/column has been added and this addition was explicitly allowed by the technical standards or the Guidelines;
- in the case where a row/column has been deleted for the reason of inapplicability, and it is simultaneously obvious (i) based on the aggregated elements that the deleted rows are nil, and (ii) that the original row numbering has been kept.

1.7.4 Disclosure of Pillar 3 information in English

Although nothing is specified in the CRR about this matter, the EBA considers that, for banks with cross-border activities, providing an English translation of Pillar 3 information would allow a wider range of stakeholders to access the information. Pillar 3 disclosures not provided in English were, therefore, given a score lower than 3.

1.7.5 Examples of best practice

As in its previous assessments, the EBA has identified examples of best practice. These are separately identified in each section of the report.

The EBA sees the adoption of these best practices by most banks as a way of enhancing both the compliance and the consistency of disclosures.

2. General observations

The complementary character of Pillar 3 and the nature of market discipline lead many supervisors to adopt a non-prescriptive approach to the practical aspects of the publication of Pillar 3 information, such as timing, presentation formats, or verification of disclosures.

The introduction of the CRR, which left the requirements from Directive 2006/48/EU mostly intact while wording them in a more precise way, has left the state of play broadly unchanged.

2.1 Timeframe and frequency (Article 433 CRR)

Article 433 in Part Eight of the CRR explicitly requires that 'Annual disclosures shall be published in conjunction with the date of publication of the financial statements', which is stronger wording than that in Article 147 of Directive 2006/48/EC, in which publication was expected to take place as soon as was practicable.

This enhanced requirement has led to a significant reduction in the time lag between the availability of the financial statements and Pillar 3 reports. Indeed, banks published their Pillar 3 reports before the end of April, with most institutions publishing their Pillar 3 report at the same time as their annual report. However, the share of banks with a lag increases when the publication date of the remuneration report is taken into consideration.

2.2 Presentation and location (Article 434 CRR)

Article 434 of the CRR states that '[...] To the degree feasible, all disclosures shall be provided in one medium or location. If a similar piece of information is disclosed in two or more media, a reference to the synonymous information in the other media shall be included within each medium. [...] If disclosures are not included in the financial statements, institutions shall unambiguously indicate in the financial statements where they can be found'.

As regards presentation, in the 2014 year-end Pillar 3 disclosures, a majority of banks in the sample (65%) produce a standalone Pillar 3 report (i.e. outside their annual report). The other banks opt either to have Pillar 3 disclosures in their annual reports or to use a hybrid approach by producing a separate Pillar 3 document with various cross-references to the annual report. A majority of the banks also publish remuneration-related disclosures in a separate remuneration report. Information on indicators for global systemically important banks is also provided separately by a majority of G-SII and other non-G-SII required to disclose that information

The EBA has never advocated one presentation format over another. Nevertheless, Article 434 of the CRR now clearly emphasises the importance of cross-referencing between the various disclosure means. It was observed that an increased number of banks now adhere to the good practice of providing a disclosure index identifying where information required by the CRR could be found (Barclays, Erste Bank, RBS, Société Générale, Commerzbank, Deutsche Bank, ING, UBS).

In addition, banks also refer to their website for disclosures related to own funds or G-SII indicators. The EBA, however, stresses that the cross-reference provided must be as accurate as possible to meet the requirements in Article 434 of the CRR (see above in section 1.7.4).

Regarding location, Article 431 of the CRR requires the public disclosure of Pillar 3 information. All the banks included in the sample published the Pillar 3 information on their website, which is currently the best way to make information easily accessible.

2.3 Other considerations

Regarding the provision of the Pillar 3 information in English, one bank in the sample did not provide translations into English. This may, however, be justified by the mostly national/regional character of this bank's business activity. Another one provided an English-translated report too late for it to be considered in the assessment process. Banks are advised to consider the needs of disclosure users when choosing the language for their disclosures: a diverse investor or funding base may make it relevant to provide information in both the national language(s) and English.

2.4 Verification of the disclosures (Article 431(3) CRR)

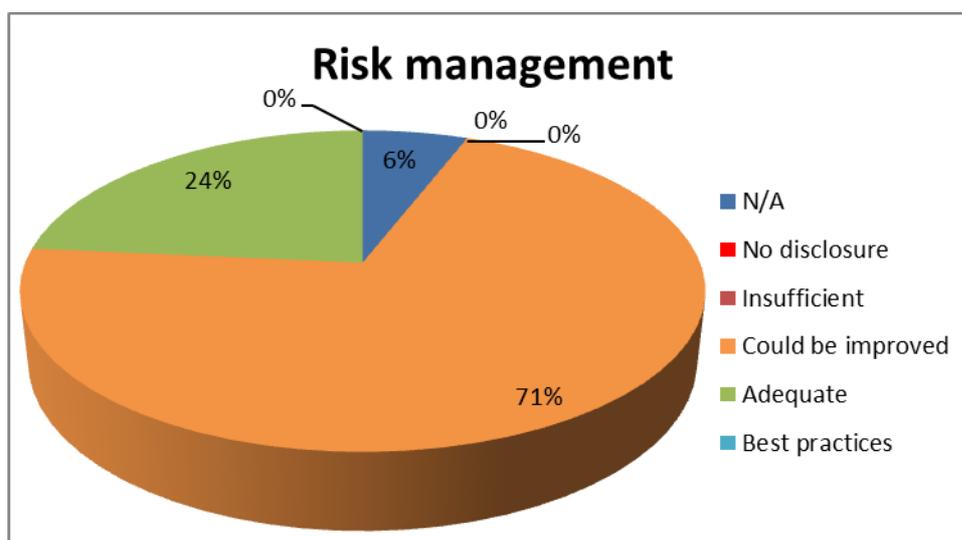
Article 431(3) of the CRR only requires banks to have policies for assessing the appropriateness of their disclosures, including their verification, as did Article 145(3) of Directive 2006/48/EC. In all countries but one,¹⁸ Pillar 3 disclosures do not have to be externally audited.

¹⁸ In Germany, an external audit of the processes for the determination and disclosure of Pillar 3 information (not equivalent to a certification of the content) is formally required. In the Netherlands, if some parts of the supervisory reporting are required to be audited, Pillar 3 disclosures are not. In Austria, the external auditor is required to perform similar tests, but in the broader context of the review of the overall control environment of the bank, thus including procedures to comply with the Basel capital requirements. Nevertheless, the results of this audit work, in the cases of both Germany and Austria, are not disclosed to the public, only the national supervisor.

3. Findings on specific Pillar 3 disclosure areas

3.1 Risk management objectives and policies (Article 435 CRR)

3.1.1 Findings and observations



Disclosure requirements on risk management have been comprehensively modified by the CRR via the addition of new disclosure requirements regarding statements on the adequacy of risk management and the risk profile, as well as on governance arrangements. In great part due to this overhaul, almost three quarters of institutions could improve their disclosures. One institution in the sample is marked as N/A due to the non-availability of its disclosures in English in due time.

In general, disclosures on risk management were compliant with the requirements, albeit with varying level of granularity.

Risk management disclosure requirements carried over from the previously in force CRD were assessed to be basically compliant with the disclosure requirements. Institutions in general provide information on more risks (and on the way they arise and are managed) than only those listed in Part Eight of the CRR. Some institutions separately identify, within the risks they face, top and emerging risks or material risks, providing definitions and descriptions of them.

However disclosures differ in terms of granularity, and the types of risks listed are not always consistent between the many places where information on risk is disclosed or cross-referred to. Some institutions supplement disclosures on risk management with comprehensive discussions on their different types of risks (and risk factors within these risks), including, in some case,

pending litigations. Information regarding policies for hedging and mitigating risk is often too general.

The situation regarding disclosures according to the new requirements offers a more mixed picture. It was observed that these disclosures were often scattered throughout the Pillar 3 reports, and sometimes throughout the annual report when cross-referenced, rendering them difficult to find.

Information on governance (directorship, recruitment, diversity policy) is generally cross-referenced to other publications or to other parts of the institution's website. Information on members of the management body, including their skills and recruitment/diversity policy, is always communicated, although the level of detail on each of these points varies between institutions. As for the number of directorships held, information may not always be clear, though some institutions provide clear information on directorships in their Pillar 3 report.

Almost all institutions state whether there is a risk committee and some provide extensive disclosure on the issues dealt with by the risk committee during the year. A description of the information flow to this committee is also generally disclosed, but may be less easily accessible and understandable, especially when the description is provided as part of the discussion on the organisational aspect of risk management, instead of being presented as a single section. In one case, this information flow is described in a separate document.

Only a few institutions disclosed the required statements on the adequacy of risk management with regards to the institution's profile and strategy.

As regards the description of the overall risk profile associated with the business strategy, including how it interacts with the risk tolerance (sometimes referred to as risk appetite) set by management, more banks provide disclosures. When disclosed, it is not always easy to assert that this statement, which is rather a section in the disclosures on risk management, has been approved by the management body as it is disclosed within other information on risk management, and as a consequence it can be difficult to differentiate this statement from other disclosures on risk management.

Key ratios and figures expected to be provided as part of the concise statement tend, in general, to be disclosed, either in a single location or throughout the Pillar 3 document, and sometimes via a cross-reference to the annual report.

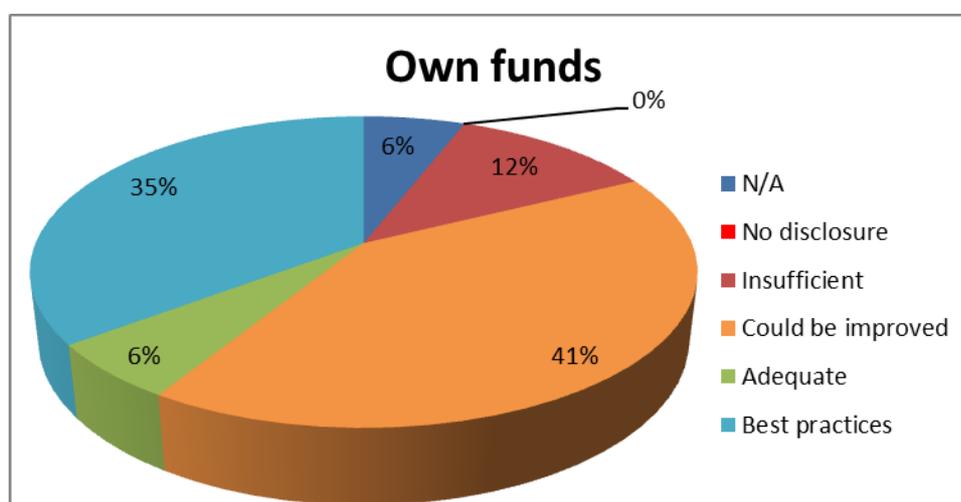
3.1.2 Best practices

- Organisation charts or tables clearly presenting the governance arrangements in force for risk management (BNPP, Barclays, Deutsche Bank, HSBC, ING, Rabobank, RBS, RZB, Société Générale, UBS).
- Detailed information on the activities of the risk committee during the year (HSBC, RBS).

- Clear table with number of directorships held by members of the management body (RZB, Intesa, RBS, Société Générale) and the professional expertise of board members (Société Générale).
- Key ratios used in the assessment of the risk profile explained (Barclays), with targets (UBS) provided for three scenarios (normal, critical, crisis) (Deutsche Bank), or under time horizon (Commerzbank, Rabobank).

3.2 Own funds (Article 437 CRR)

3.2.1 Findings and observations



Disclosure requirements on own funds have experienced fundamental changes—compared to the 2012 year-end Pillar 3 disclosures assessment—with the introduction of the CRR, as they are now specified by the Commission Implementing Regulation (EU) No 1423/2013 that lays out the formats to be used for disclosure.¹⁹

Overall, the compliance of institutions with the disclosure requirements could be improved as only 41% of them are estimated to be fully compliant, with one bank graded N/A due to the non-availability of an English version of its disclosures at the time of the assessment.

Regarding the **reconciliation** between the own funds items (CET 1, Additional Tier 1, Tier 2) and the audited financial statements, information is provided by all banks, except for one for which the accounting and regulatory scopes do not differ.

However, in the absence of a binding format for reconciliation, the practices vary, limiting comparability between institutions. Some institutions disclose regulatory and accounting balance sheets limited to showing own funds items side by side or provide a reconciliation of their full

¹⁹ <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1400597718546&uri=CELEX:32013R1423>

accounting and regulatory balance sheets that separately identifies their accounting assets and liabilities that are considered regulatory capital.

Other credit institutions instead provide a reconciliation between the accounting shareholders' equity and the regulatory aggregates under a flow statement or a comparative table, or even adopt other reconciliation practices. Regardless of the format of the reconciliation, not all banks provide the linkages required in Annex I of Commission Implementing Regulation 1423/2013.

In addition, it is worth noting that, on top of regulatory requirements, some banks disclose a full reconciliation of their accounting and regulatory consolidated balance sheets, although this reconciliation does not always identify in detail all the reasons for differences between the accounting and regulatory figures.

As regards the summary of the main **terms and conditions** and the disclosures of the full terms and conditions of own funds instruments, most banks provide these disclosures on their website, either in a separate section or in a separate document. In the case of disclosures on the main or full terms and conditions of own funds instruments being provided in a separate document from the Pillar 3 report, the exact reference to the location of this document has to be provided in the Pillar 3 report; to the greatest extent possible, the document should be made available on the same webpage as the Pillar 3 report or in the section of the website where information on issued instruments is made available to investors.

In addition to the full main features templates, some banks also continued disclosing a summarised version of it in their Pillar 3 report or cross-referred to their financial statements.

As regards the content of disclosures of the main features and full terms and conditions by types of instruments, in a few cases information on the main terms and conditions of CET 1 instruments is missing, and such pieces of information are also missing or have not been found in almost all cases as regards the full terms and conditions.

As regards the **identification of all elements and deductions from own funds**, a couple of institutions do not provide the disclosures in accordance with the format required in Annex IV and Annex VI of the Commission Implementing Regulation. When the required template is in use, it is in most cases included the Pillar 3 report, but in one case it is substituted with a separate Excel file. Most institutions use the transitional disclosure template from Annex VI, which is to be used from 2014 to 2017. However, not all provide information for column B (which provides the reference to the CRR) or column C (which displays the residual amount of own funds elements or deductions from transition). Some institutions that provide column C information supplement it with an additional column displaying the fully loaded amount of each element and deduction from own funds.

In a few cases, banks adjust the template and do not disclose some rows that they identify as not applicable to them, or, without explaining the reason for non-disclosure, omit to disclose nil amounts, or change the positions of the rows. In case banks choose not to disclose some of the

required rows due to their non-applicability, they should keep the numbering of rows unchanged, to ease comparison with institutions that disclose all the rows.

Some institutions provide additional explanatory notes for specific items, or additional breakdowns for adjustments, although some disclosures still present rows with important amounts of aggregated value adjustments. However, some institutions do not provide adequate granularity regarding their CET 1 instruments or regarding some or all of the adjustments to own funds due to prudential filters or other adjustments and deductions.

To provide meaningful information to users, the capital instruments and the related share premium accounts (row 1 of the transitional own funds disclosure template) shall be broken down by types of instruments as per the EBA list of CET 1 instruments;²⁰ additionally, the deductions and the impact of prudential filters (especially rows 26a, 26b, 41a, 41b, 41c, 56a, 56b and 56c) need to be broken down by type of deduction and prudential filter with a suitable level of granularity to avoid having rows featuring high amounts of deductions without explanation of the nature and cause of these deductions.

Lastly, no institution but one discloses **own funds ratios determined on a basis other than the requirements from the CRR**, reflecting the non-applicability of such ratios for almost all institutions in the sample.

3.2.2 Best practices

Although the share of banks demonstrating best practices has doubled compared to the last assessment (16%), fewer best practices have been identified than in previous assessments due to many of them (such as reconciliation of accounting and regulatory amounts or details on capital instruments) having become requirements in the CRR.

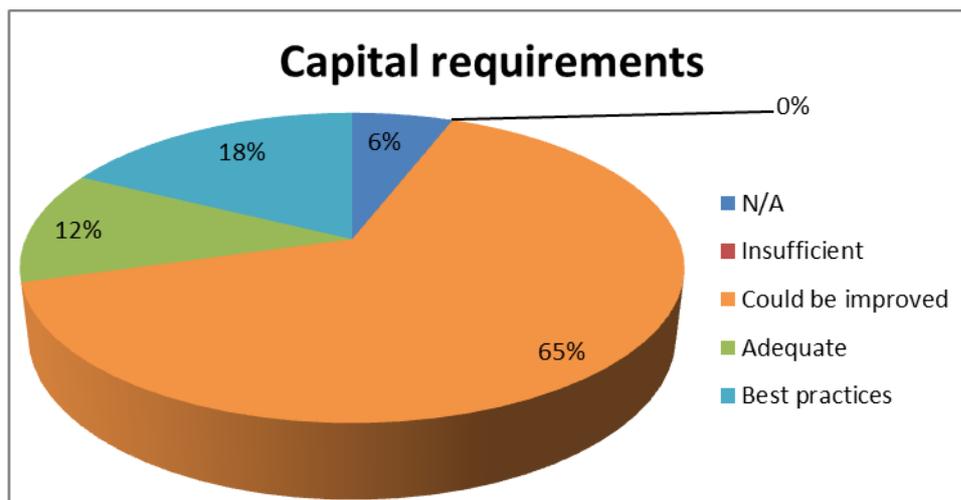
- Own funds flow statement for regulatory capital changes from the last reporting period (Barclays, Commerzbank, Deutsche Bank, Credit Agricole Group, Erste Bank, HSBC, ING, Rabobank, UBS and UniCredit), with specific flow statements for eligible debt instruments (BNPP, Société Générale).
- Additional explanatory notes or separate tables where appropriate for specific rows of the own funds disclosure template; for instance, on the applicable thresholds for inclusion or exclusion from equity or on the valuation reserves (Erste Bank, Intesa, UniCredit, Société Générale and HSBC).
- Disclosures of the main features or the composition of capital in an editable format (Commerzbank, Credit Agricole Group, Deutsche Bank, ING, RBS).

²⁰ The list is available at: <http://www.eba.europa.eu/-/eba-updates-list-of-common-equity-tier-1-cet1-capital-instruments>

- Reconciliation of the full balance sheet under an accounting and a regulatory scope of consolidation (Barclays, BNPP, Deutsche Bank, Erste Bank, Credit Agricole Group, HSBC, Intesa, RZB, Société Générale, UBS, UniCredit).

3.3 Capital requirements (Article 438 CRR)

3.3.1 Findings and observations



Capital requirements were last assessed by the EBA during its 2011 assessment of 2010 year-end Pillar 3. The CRR introduces, as a novelty, the possibility for institutions to disclose, upon demand from their competent authorities, the result of their Internal Capital Adequacy Assessment Process (ICAAP), including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU (Pillar 2 requirements).

Overall, the compliance of institutions with the requirements in Article 438 could be improved, as only 30% of institutions fully comply with the disclosure requirements. One institution in the sample is marked as N/A due to the non-availability of disclosures in English in due time.

a. Information on minimum capital requirements

Information on capital requirements tends to be provided in a single section of the Pillar 3 report, although different tables by types of risks can be used.

Regarding the breakdown of capital requirements for credit risks, the EBA observes that, if institutions have all provided such a breakdown separately for the Standardised and the IRB approaches—with the IRB sometimes being broken down between Foundation and Advanced where these two approaches are used—not all the institutions use the appropriate breakdown by exposure classes specified in Article 112 of the CRR for the Standardised approach. For instance, some institutions do not break down the exposure classes under the Standardised approach or provide a breakdown of the Standardised exposures according to the IRB portfolios. In addition,

not all institutions provide disclosures for all the exposure classes under the Standardised approach or the breakdown by exposure class may not always be consistent across the different locations of disclosures.

While the non-disclosure of information on specific exposure classes can be justified when institutions have no exposure to these classes, an aggregation of exposure classes (exposure classes grouped together or use of an 'Other' row instead of the exposure classes specified in the CRR) can only be acceptable if the sum of the different rows matches the total capital requirement under the given approach, and only then if the aggregated exposure classes are not material.

Varying practices can also be observed regarding the provision of information and the specific granularity in disclosures required for the retail, equity and specialised lending exposure classes under the IRB approach. It is advised that institutions clarify when a disclosure requirement does not apply to them

Some institutions do not break down the retail exposures into the exposure classes required by the CRR, and provide only the capital requirements for the total retail exposure class, or for some retail exposure classes.

Banks may nevertheless disclose the amount of RWA separately for the different retail exposure classes or the different regulatory approaches for equity exposures, thus making it possible to determine the amount of capital requirements.

Information on the exposure value by risk weight (or by the category to which the CRR associates a risk weight) of equity exposures under the simple risk-weight approach is generally disclosed, or banks provide information when this approach is not applicable. Despite the differences in practices as regards the exposure values chosen, it can allow approximation of the RWA and thus the capital requirements for those exposures.

Indeed, for exposures to equities under the IRB approach, institutions tend not to provide the breakdowns of capital requirements by approach or by type of exposures as required by the CRR, without clarifying the reasons for not doing so, but may provide the RWA instead, which makes it possible to determine the capital requirements. Alternatively, some banks that make it clear that a single regulatory approach is being used may disclose the amount of RWA for equity exposures.

Lastly, information on equity exposures that are subject to transitional provisions (equity instruments issued by financial sector entities) or grandfathering (private equity exposures acquired before 1 January 2008) regarding their inclusion in own funds requirements is often not disclosed, without any indication of whether such exposures exist.

As for exposures to specialised lending, they are generally provided when applicable, though sometimes the maturity breakdown is not included or appears unclear, and some institutions clearly indicate whether specialised lending is included within the IRB model. However, for other institutions, disclosures are missing or are not provided according to the specifications of the CRR

(exposure values are instead included within the other disclosures on exposures under the IRB approach) without an indication that it is because there are no such exposures or no exposures for which the institution is not able to determine a probability of default (PD).

All institutions provided disclosures on capital requirements for market risk, but various practices were observed, as described in the market risk section of this report.

Disclosure requirements for operational risk were generally fully complied with, except in two cases where the Pillar 3 reports only display RWA, with capital requirements either disclosed in the annual report but not cross-referred, or not disclosed.

In general, the following elements restrain the comparability of the quantitative disclosures:

- disclosures on counterparty credit risk: some credit institutions include counterparty credit risk within their credit risk capital requirements, though specific information on capital requirements due to counterparty credit risk can be provided in the dedicated part of the report. Some on the contrary provide separate disclosures on counterparty credit risk, and for others the consideration of counterparty credit risk in disclosure is uncertain. However, even when counterparty credit risk is disclosed within credit risk capital requirements, institutions tend to separately identify the capital requirements due to central counterparties default fund and the credit valuation adjustment (CVA) charge ;
- the use of another minimum requirement (for instance, 11%);
- different bases for disclosure: some institutions provide their disclosures of capital requirements and RWA under a Basel III fully loaded basis, and others under a phased-in basis, with some providing disclosures under either basis, or a reconciliation between the two bases. In most cases, however, banks do not specify the basis for their disclosures, while in some cases they provide disclosure on capital under both phased-in and fully loaded views. Although in the absence of further specification the basis of disclosure could logically be assumed to be phased-in, its specification would be a good practice as it would improve the ability of users to compare disclosures of different banks between them.

b. Information on internal capital

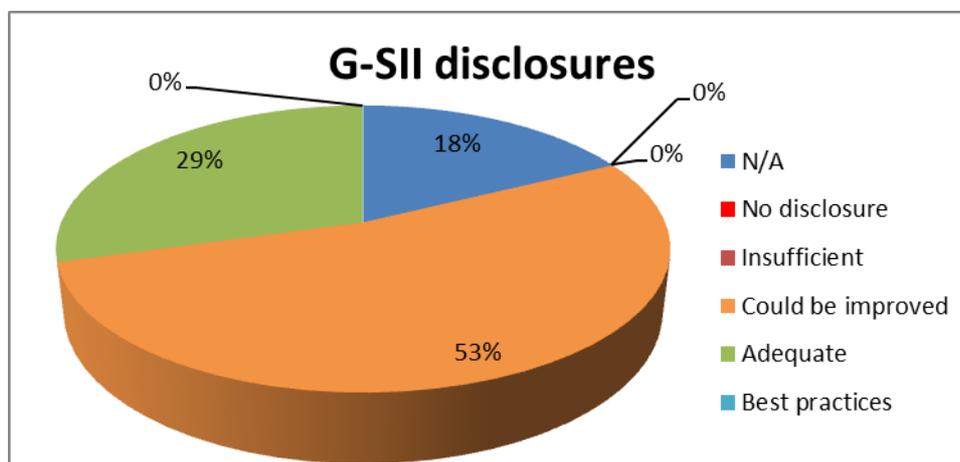
As regards qualitative information, institutions have all provided their processes for managing and determining their internal capital. With a varying level of granularity, comprehensiveness and structure depending on the institutions, disclosures generally provide the risks in scope of the internal capital assessment, the methodology used to determine internal capital and allocate it across the different entities of the group, how the internal capital models fit into the overall risk management of an institution, the different tools used for such allocation (for instance, limits, stress tests), and the governance of the ICAAP. Some institutions even provide the breakdown of their internal capital allocation by business lines and/or types of risks. No supervisor currently requires institutions to disclose their Pillar 2 capital requirements.

3.3.2 Best practices

- Information on RWA (Rabobank, Barclays, HSBC, Intesa, BNPP, UBS, credit Agricole Group, RZB, Commerzbank, Deutsche Bank, ING, RBS) with exposures—Exposure At Default (EAD) and/or gross exposures disclosed alongside information on capital requirements—(UBS, Deutsche Bank, Intesa, Société Générale, UniCredit) .
- RWA or capital requirements by business lines or geographical regions (BNPP, Barclays, Credit Agricole Group, Deutsche Bank, HSBC).
- Graph providing an overview of the ICAAP (RBS) and details about the different stress-testing methodologies used in that context (Barclays).
- Quantitative information on economic capital across regions, subsidiaries, business lines or risks (Deutsche Bank, Erste Bank, ING, Intesa, Rabobank, Barclays, RZB, Commerzbank, UniCredit) with a comparison with regulatory capital and a list of conceptual differences between these two concepts (ING), or a comparison between internal capital supply and internal capital demands (Commerzbank, Deutsche Bank, Erste Bank).
- RWA flow statements for different types of risk, including credit risk, market risk or operational risk (Rabobank, HSBC, Barclays, Deutsche Bank, BNPP, Société Générale, Commerzbank, UniCredit, RBS, UBS), and for different geographies or business lines (HSBC, UBS).
- Table/developments scheduling the future level of ratios applicable up to 2019 (Rabobank, BNPP, Credit Agricole Group).
- Impact of the Basel I floor separately disclosed (UniCredit, ING).
- More granularity in the exposure classes than the CRR requires (Credit Agricole Group, Commerzbank, RZB, UniCredit).

3.4 Indicators of global systemic importance (Article 441 CRR)

3.4.1 Findings and observations



Disclosures of the indicators used to determine the global systemic importance of an institution have been introduced by the CRR and specified via the technical standards and Guidelines. The technical standards specify the format of the disclosures that institutions identified as G-SIIs should use, and the Guidelines expand the use of this format to all institutions with an overall exposure, according to the rules for the leverage ratio, exceeding EUR 200 billion, even when they are not identified as G-SIIs.²¹

As a result of these criteria, three institutions are not covered by the disclosure requirements, neither by the EBA technical standards nor by the Guidelines; ten institutions in the sample are in the scope of the EBA technical standards; and four institutions have to follow the Guidelines.

Disclosures on G-SII indicators can, in the majority of cases, be improved, as only 29% of institutions fully comply with the disclosure requirements as specified in the EBA technical standards and Guidelines. The low rate of compliance is mainly explained by the lack of cross-referencing of the disclosures on indicators of global systemic importance in the Pillar 3 reports.

In terms of the location of disclosures, all banks disclose the required information in a separate document, available on their website. Nevertheless, finding this document is sometimes difficult, either because of the absence of a cross-reference in the Pillar 3 report or because, despite the reference in the report, no direct link is provided or the disclosures are difficult to find. Thus, some disclosures are located in the sustainability or bondholders' information sections of the

²¹ See the technical standards (http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:JOL_2014_284_R_0006) and Guidelines (<http://www.eba.europa.eu/documents/10180/717755/EBA-GL-2014-02+%28Guidelines+on+disclosure+of+indicators+of+systemic+importance%29.pdf/a017aea5-ceba-4d74-a1ee-fe513f7dbbdf>).

website. One bank also discloses the full list of indicators in its Pillar 3 report. In addition, the format used for disclosures varies.²²

In terms of the content of disclosures, the compliance with the disclosure requirements set out in Article 441 of the CRR and the related technical standards and Guidelines necessitates providing the full breakdown of sections 1-13 of the Annex to the technical standards, meaning the disclosure of general information (included in section 1) and of the twelve indicators and their components (included in sections 2–13). Concerning the indicators, four institutions only disclose the twelve actual indicators and not the full breakdown as required by the technical standards and Guidelines.

For the banks that provide the full breakdown according to the format specified in the technical standards and Guidelines, it has been observed that the majority of them provide information according to the new template,²³ while a couple provide information according to the old template that currently remains in force.

In addition, when this breakdown is not provided in the same location as the other Pillar 3 information, a reference to this other location via the specific weblink, as appropriate, shall be included in the Pillar 3 report. Finally, it is desirable that even if the disclosures on G-SII indicators are inserted in a separate document they are made available on the same webpage as the Pillar 3 report.

3.4.2 Best practices

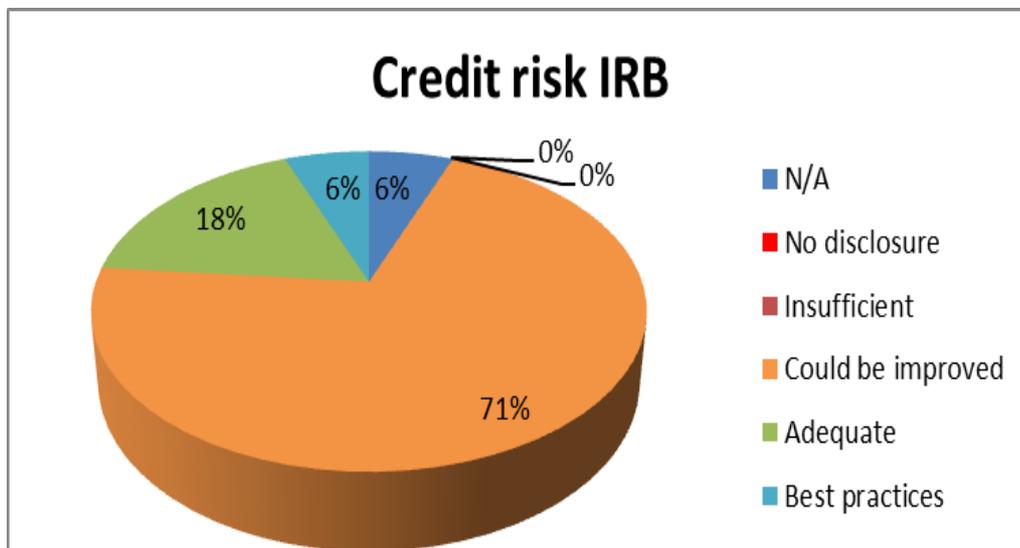
- Disclosure in Excel files (Barclays, Erste Bank, UniCredit).
- Reference in Pillar 3 report with full link to webpage (Rabobank, Intesa, GCA).

²² The full breakdown of sections 1-13 of the Annex to the ITS is available in editable format for all G-SIIs on the EBA website: <http://www.eba.europa.eu/risk-analysis-and-data/global-systemically-important-institutions>

²³ Banks that are in the scope of the EBA technical standards shall fill out the template as published on the website of the EBA and shall publicly disclose the financial year-end information no later than four months after each financial year end. So, for a large proportion of banks in the sample, the format related to year-end 2014 was not available when they published their Pillar 3 reports.

3.5 Credit risk under the IRB approach (Article 452 CRR)

3.5.1 Findings and observations



Only approximately one-quarter of banks have been assessed as fully compliant with the disclosure requirements. This marks a decrease compared to 2012 year-end Pillar 3 disclosures, where 37% of banks were assessed as compliant. However, progress should not be underestimated, as the last assessment also identified 11% of banks as providing insufficient disclosures—the disclosures of these banks have now improved, albeit not to the extent that they fully comply with the CRR disclosure requirements. One institution in the sample is marked as N/A due to the non-availability of disclosures in English in due time.

The slight decrease can also be explained by the entry into force of new disclosure requirements, for which the non-compliance can offset the improvement noted on other requirements.

All banks except one provide the **scope of approval** of the authorisation for using IRB models, sometimes with details on the use of different approaches (Standardised approach, Foundation IRB, Advanced IRB) by entities in the group or the approved transition plans by entities. However, the information is sometimes too vague.

The **structure of the internal rating systems** is compared to the external ratings schemes from rating agencies via correspondence tables, with explanations of the differences that may exist between the internal and external ratings for a given counterparty sometimes being given. However, proper disclosure on the linkages between internal and external ratings is also missing in some institutions: some banks do not provide details and limit their disclosures to a statement regarding the consideration of external ratings in the internal rating system or explanations about the relations between the internal and external ratings.

In general, banks provide the description of their main rating process separately for their different exposure classes. If some disclosures are very detailed, there are, however, a few exceptions with

banks that provide only general or low granularity information, or do not provide disclosures for all the exposure classes. In addition, specific information regarding the assumptions made when entering into the computation of Loss Given Default (LGD), PD, and Credit Conversion Factors (CCF) and the variations or the absence of variation in the definition of default may not be provided or may need to be enhanced. Conversely, some banks may provide detailed disclosures on the assumptions used to derive model parameters.

Enhancement is, in general, expected regarding disclosures on the processes for taking **risk mitigation** into account and on the governance of the model validation function. Indeed, the description of the processes for recognising and managing credit risk mitigation can be more or less detailed and relate to the different forms of mitigation techniques—collateral, guarantees, netting—that can be implemented, along with quantitative information. Disclosure may be missing despite statements that credit risk mitigation is taken into account in the values of the exposures or risk parameters that are disclosed.

The requirements on disclosing **exposure values by class** is always complied with sometimes with supplementary breakdowns regarding the geographical or sectorial location of exposures or with explanations of the content of exposure classes or the aggregation operated when all the exposure classes required in the CRR are not disclosed. Banks that use both the Foundation IRB and the Advanced IRB approaches disclose the exposure values separately, as required.

Information on the **model parameters** and outcomes (EAD, credit conversion factor, and risk weight) by internal rating is generally provided, but with different levels of granularity.

Especially, the number of grades for the breakdown varies, ranging from 3 grades to 27. This number of grades tends to be the same for the retail and non-retail exposure classes, although retail may sometimes be more or less granular

One bank does not provide a breakdown of exposures and risk parameters by internal grades and only provides disclosure of PD, LGD, CCF, Risk-Weight and RWA at the exposure class level. In addition, some banks do not include defaulted exposures in their breakdown, despite the requirement to include them.

The new requirements regarding the **breakdown of PD and LGD by geography** are met by all but a few institutions, although some institutions only disclose a breakdown by LGD, and the extent of granularity may vary, with disclosures either provided at the level of individual jurisdictions or provided using broader geographical aggregates. Disclosures are expected to be provided on a country-by-country basis (meaning by Member State for EU jurisdictions), although provision of disclosure on a more aggregated level is possible for reasons of materiality.

Disclosures on the value adjustments and the factors that have impacted losses should be improved. Disclosures on value adjustments tend to be missing or tend not to apply specifically to exposures under the IRB approach, though banks can provide their stock of defaulted/impaired exposures under the IRB approach by exposure class. Similarly, the factors that have impacted losses are not always provided, and references made to disclosures in the annual report or the

financial statements may be unspecific. When provided, disclosures on value adjustments and their evolution can, however, be extensive and detailed.

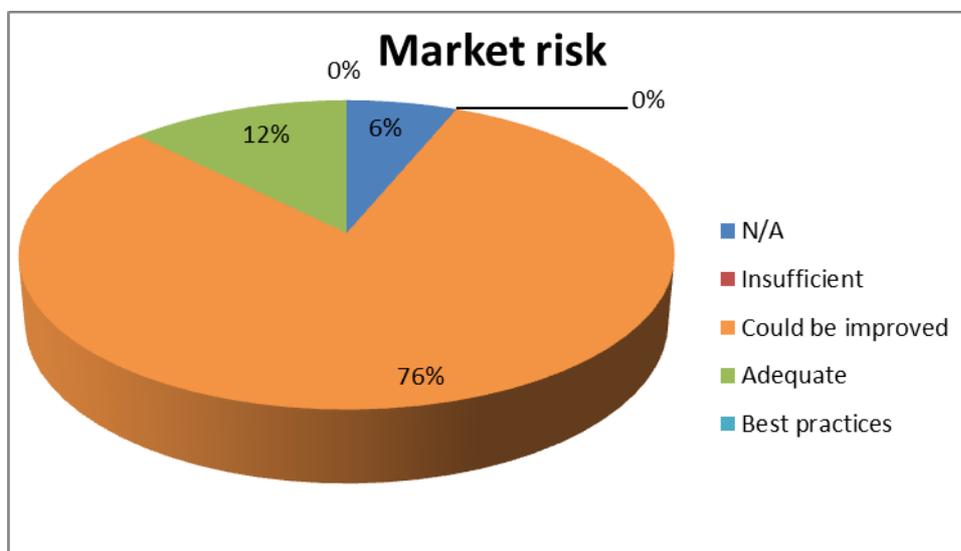
Room for improvement was also noted for disclosures on backtesting. Backtesting of model parameters is disclosed with varying levels of granularity; for instance, with a breakdown by all or some regulatory exposure classes, separately by different management portfolios that are not CRR portfolios, or by both with the regulatory portfolios broken down into institution-specific portfolios. Variability can also be observed regarding the year to which the backtested figures relate, and the backtesting horizons. These horizons can run up to five years for some institutions, but for some other banks the horizons may be shorter or they may provide backtesting figures that correspond to the full duration of the economic cycle. Data availability can also constrain these disclosures. In addition, not all banks backtest the parameters, with some focusing on the backtesting of EL only or EL and PD, while others provide backtesting for PD only, for PD and LGD only, or for PD, LGD and CCF only.

3.5.2 Best practices

- Clear description of the process for managing and recognising credit risk mitigation (Intesa).
- Clear or user-friendly description of the internal ratings process (Intesa, RZB, Erste Bank, Commerzbank, UniCredit), of the derivation of risk parameters (Barclays, ING), or of the IRB concepts (Credit Agricole Group, UBS).
- Tabular and granular presentation of the main features (business unit/portfolio, regulatory exposure class, number of models, amount of RWA covered, model description and methodology, length of data series, floors and adjustments) of different rating models used to derive the different regulatory parameters for various exposure classes (Barclays, BNPP, HSBC, Société Générale, UBS), or the number of models by exposure class (Rabobank), with the amount of exposure by model (ING).

3.6 Market risk (Article 445 and Article 455 CRR)

3.6.1 Findings and observations



Overall, three quarters of institutions need to improve their disclosures, a share consistent with the findings of the previous assessments. One institution in the sample is marked as N/A due to the non-availability of disclosures in English in due time.

a. Qualitative requirements

Overall, most of the institutions permitted to use internal models to calculate their own funds requirements for one or more of the market risk categories provide qualitative information about the model used. Nevertheless, the information provided is often very general and is not accurate enough to fully meet the specific requirements in the CRR.

This lack of specificity in disclosures may, among other causes, partly originate from unclear disclosure requirements. When implemented in the EU, the revised Pillar 3 requirements published by the BCBS in January 2015 are likely to help improve the quality of information to the extent that it is more accurate in terms of the information expected on the model's qualitative requirements and prudent valuation.

Characteristics of the models used for each sub-portfolio covered

The institutions in the sample generally provide the main characteristics of the Value at Risk (VaR) model commonly used, but disclosures are less developed about the specificities of the Stressed VaR model, and very few institutions specify their key modelling assumptions. It is not always clear if the description of the model is related to the regulatory VaR (10-day 99%), or to the management VaR model. Moreover, when the publication is related to the management VaR model, there is rarely information about the way the institution determines the regulatory 10-day holding period from the holding period used in the management VaR model (the CRR allows the

possibility to use VaR numbers calculated according to shorter holding periods if they are scaled up to 10 days using an appropriate methodology).

Information by institutions on the characteristics of the models used is insufficient considering the requirement to provide such information at the sub-portfolio level. Very few institutions provide short descriptions of VaR model specificities either at the subsidiary level or for business units. The CRR does not define the concept of 'sub-portfolio' for which disclosures are expected. Since Article 455 of the CRR refers to institutions calculating their capital requirements in accordance with Article 363 of the CRR, it could be understood that sub-portfolios should be aligned to the categories listed in Article 363(1). Nevertheless, a different level of sub-portfolio could be deemed appropriate as long as it properly reflects the specific characteristics of the main types of model used.

Methodologies used and risks measured via the internal models for incremental default and migration risk and for correlation trading

It is not always clear if the institution is not subject to the requirement or if the information required is only missing in its disclosures.

When the requirement is clearly applicable to institutions, there is often at least a more or less developed description of the models used, but very often the description of the methodology used to determine liquidity horizons is limited to disclosure of the chosen liquidity horizon without any information on the approach used to determine it.

The methodologies used to check the adequacy of the measures provided by the models, as well as the approaches used in the validation of the models, are almost never disclosed for the specific models used for incremental default and migration risk or correlation trading.

Description of stress testing applied to the sub-portfolio

Overall, institutions provide a description of the stress-testing process; nevertheless, some descriptions are short and general without any complementary information, neither on the scenarios nor the results. Conversely, other disclosures are rather detailed, with information about the stressed parameters, the stress scenarios implemented, and the losses they could give rise to. Similarly to the requirement on the characteristics of internal models, almost no institution provides information detailed by sub-portfolios. Some descriptions of stress testing apply to a wider scope than the internal model referred to in the requirement (covering all trading book positions, including positions managed under the standardised approach) without details regarding how stress testing applies, especially to the internal models used.

Description of the approaches used for backtesting and validating the accuracy and consistency of the internal models and modelling processes

Institutions provide a description of the approaches used for the backtesting and validation of the VaR model, and often explain the exceptions and their consequences, if any. The information provided is more or less specific and, like the information concerning VaR and stressed VaR

models, is not broken down by sub-portfolios. In addition, more disclosures are provided on backtesting than on other validation methodologies.

The scope of permission by the competent authority

All institutions disclose at least the fact that they have received permission to use models for own funds calculation for market risks but with a different level of granularity. The sample however offers a mixed picture in terms of the level of granularity of disclosures.

Description of the extent and methodologies for compliance with the requirements set out in Articles 104 and 105 of the CRR

For the majority of institutions, information disclosed regarding the methodologies for compliance with Articles 104 (inclusion in the trading book) and 105 (requirements for prudent valuation) of the CRR should be enhanced as they fare poorly compared to what these Articles require. Indeed, a lot of institutions, including those that deduct a prudent valuation adjustment from their own funds, only provide information about the accounting valuation of financial instruments and fair value hierarchy or refer directly to the notes related to the valuation of financial instruments in the financial statements in accordance with IFRS 13, whereas prudent valuation is intended to be a process distinct from the valuation methodologies applied in the financial statements. As a consequence, referring to the accounting valuation processes and adjustments is considered insufficient to ensure compliance with the CRR requirements.

Only a few institutions specifically refer to the provisions of these articles and provide relevant information, although information tends to have a low degree of granularity. One institution informs that it did not implement prudent valuation. The amount of the prudent valuation adjustments incurred is disclosed within the own funds template, and a couple of institutions inform about the status of their prudent valuation adjustment methodology as regards the final regulatory technical standards on this issue.²⁴

b. Quantitative disclosures

Generally speaking, the quantitative disclosure is often provided according to the CRR requirements; in several cases, the format of the disclosure anticipates the format included in the Revised Pillar 3 Framework issued by the Basel Committee in January 2015.

Similarly to what can be observed for qualitative disclosures, there are cases where banks include part of the market risk disclosure (even those connected with regulatory figures) within their annual report or securitisation disclosure; this choice—particularly when the parts outside the Pillar 3 report are not referenced—makes the disclosure less comprehensive and more fragmented.

²⁴ EBA final draft regulatory technical standards on prudent valuation under Article 105(14) of Regulation (EU) No 575/2013 (Capital Requirements Regulation — CRR): <http://www.eba.europa.eu/documents/10180/642449/EBA-RTS-2014-06+RTS+on+Prudent+Valuation.pdf/1d93ef17-d7c5-47a6-bdbc-cfdb2cf1d072>

Own funds requirements for market risk

The breakdown of the own funds requirements by risk categories is provided with some variety. Only some banks disclose the market risk capital requirements by approaches and in a single table, ensuring a comprehensive and detailed disclosure of market risk capital requirements.

In some cases, the capital requirements are disclosed in a single table with a clear breakdown by the types of risk listed in Article 92(3) of the CRR (position risk, large exposures exceeding the regulatory limits risk, foreign exchange risk, settlement risk) for the standardised approach and by methodologies (VaR, stressed VaR, Incremental Risk Charge – IRC - , Comprehensive Risk Measure - CRM) for the internal model approach. Some institutions complement this breakdown by splitting capital requirements according to risk type instead of methodology. This breakdown is consistent with the one that is required in the Revised Pillar 3 Framework issued by the BCBS in January 2015.

One institution, however, provides the breakdown by type of risk for the Standardised approach but not the breakdown by type of methodology for the internal model approach. Another provides the breakdown by methodologies for the internal model approach, but not the breakdown by type of risk for the Standardised approach. Other institutions provide only the information required by Article 92 of the CRR without separate identification of internal models and Standardised approach. Still other institutions identify separately the requirements by type of risks for the Standardised approach and the internal model capital requirements without breakdown by methodologies, or do only identify capital requirements under the internal model approach broken down by models and risks as well as the capital requirements under the Standardised approach without breakdown by risks.

One institution only uses internal models and only provides a breakdown of capital requirements by methodologies and not by the risks listed in Article 92 of the CRR; conversely, another uses only the Standardised approach and only provides the breakdown of capital requirements according to the risks listed in that Article.

The requirements on securitisation referred to in Article 445 of the CRR are often disclosed separately (i.e. to the securitisation section jointly with other securitisation capital requirements, or as part of the capital requirements disclosures), and consequently it is not easy to have a comprehensive view on market risk capital requirements.

Values for VaR, stressed VaR, IRC and CRM models

Institutions generally disclose the required quantitative information, sometimes following the format specified in the revised Pillar 3 requirements issued by the BCBS in January 2015.

Most of the banks in the sample provide disclosure on VaR and stressed VaR (showing minimum, maximum and average VaR and stressed VaR values for the reporting period). Some banks disclose regulatory VaR and stressed VaR (10-day holding period, 99%), while others disclose management VaR and stressed VaR (generally a one-day holding period, 99%), and others disclosed a management VaR (one-day holding period, 99%) and a regulatory stressed VaR (10-day holding period, 99%). Still other institutions provide disclosures on both the management and

the regulatory VaR. However, only the disclosure of a regulatory VaR and a regulatory stressed VaR complies with the disclosure requirements, although the 10-day 99% regulatory VaR can in practice be scaled up from the one-day 99% management VaR or the stressed VaR.

In some cases, VaR values are broken down by risk factors, and in other cases there is a breakdown by both the risk factors and the main contributors within the group. As for stressed VaR values, they are mostly not broken down by risk factors or contributors. Only a few banks disclose the stressed VaR broken-down-by-risk factors, the main contributors within the group, or both the contributor and the risk factors.

Most of the banks disclose the information to be provided on the IRC for incremental default and migration risk and on the CRM for the specific risk of the correlation trading portfolio over the reporting period, and as per the period end. Information tends to not be broken down by business units or products, except in some banks. In addition, institutions do not always inform about their lack of exposure to correlation trading portfolios, and in one case that IRC for incremental default is not applicable, making it difficult to assess the reason for the lack of disclosure.

Elements of own funds requirements

As per Article 364, own funds requirements are derived from measurements based on VaR, sVaR, IRC and CRM, including the use of a multiplier and consideration of the relevant average and floor. As a consequence, for banks deriving their capital requirements from average values to which a multiplier is applied, the disclosures to be provided differ from disclosures required on the end-of-period value for VaR, sVaR, IRC, and CRM.

However, it is not always stated clearly when own funds requirements proceed from the end of the period value and when they come from the use of an average value with a multiplier, with only a few banks informing when the capital requirements proceed from the use of a multiplier. This and the fact that the risk numbers are disseminated in different tables (i.e. tables showing minimum, maximum and mean values for VaR, sVaR or IRC) make it difficult to distinguish the own funds requirements from the generally disclosed end-of-period values of the regulatory models used for market risk purposes as required in Article 455(d).

For a couple of institutions, however, the difference between the own funds requirements for market risk under the internal model and the sum of the end-of-period values of the outcome of the model make it possible to infer that the required disclosure is not provided. For institutions that disclose figures for management VaR without explaining how these figures can be scaled up, the figures disclosed do not qualify as disclosures on the components of own funds requirements.

Weighted average liquidity horizons

No bank in the sample disclosed information on the weighted average liquidity horizon for each sub-portfolio covered by the internal models for incremental default and migration risk and for correlation trading portfolios. In some cases, a single, constant number is provided, but it is unclear whether it represents a weighted average or is the chosen liquidity horizon that is also required to be disclosed separately. Additionally, breakdowns by sub-portfolios are missing. The

high level of non-compliance might be explained by a lack of understanding of the requirements by banks.

Disclosures on backtesting of internal models

Most banks disclose a graph of comparison between VaR and actual or hypothetical profit and losses, and a few break disclosures down at the level of risk type (forex, equities, etc.) or by entities of the group. In some cases both clean and dirty P&L are considered, while in other cases the graph includes only the VaR numbers. While the number of backtesting exceptions is often provided, sometimes in a granular way, explanations regarding outliers' figures are rarer, except in a few institutions.

Some banks describe the backtesting in a different sub-section and include the results of backtesting at the end of the qualitative description. In these cases, the graphs are presented without any further detail, rendering interpretation of the outcomes difficult.

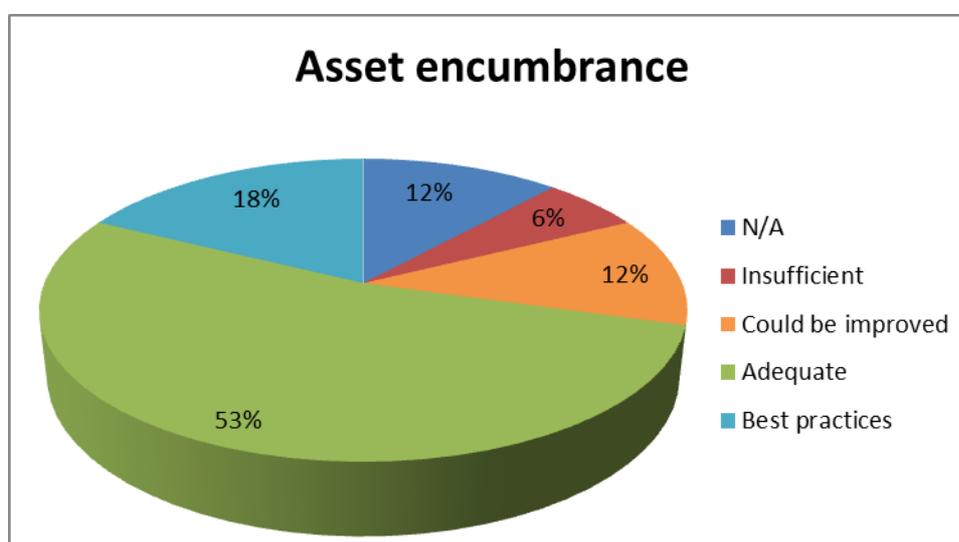
3.6.2 Best practice

- Breakdown of the assets and liabilities exposure classes of the regulatory balance sheet between the banking and the trading book (Barclays, BNPP, Deutsche Bank, HSBC, RBS) or of the market risk assets and liabilities portfolios by market risk measurement method (Intesa, UniCredit).
- Detailed information on the scope of the market risk models, such as number of models by types of models, risk factors covered, percentage of RWA covered and not covered, exposures amount and VaR covered by types of risk, breakdown of the scope of internal models by main subsidiaries, with details on the type of models validated (VaR, SVaR, IRC, CRM), description and methodology, and evolution of the acceptance related to the change in the modelling process (Barclays, HSBC, RBS).
- Detailed information on the contribution of risk factors to VaR (Intesa).
- Developed description of the management VaR and the differences from the regulatory VaR (Barclays, UBS, BNPP, Deutsche Bank, RBS).
- List of limitations of VaR models (RBS, Société Générale).
- Detailed description of the stress tests and results by scenarios (Société Générale, UniCredit) and by main subsidiaries (UniCredit).
- Table of the market risk model measures used and the specific portfolio business lines against which they are deployed (HSBC, Rabobank, RBS).
- Graph of the trading VaR for the year, with different curves by risk factors (HSBC).
- Sensitivity analysis by risk factors (UniCredit, ING).

- Distribution of daily trading revenue by number of days (Barclays, BNPP, Deutsche Bank, Société Générale, UBS).
- Comprehensive and clear analysis of the market risk factors affecting business units, products or accounting items (HSBC, RBS, UBS, UniCredit).

3.7 Unencumbered assets (Article 443 CRR)

3.7.1 Findings and observations



Asset encumbrance disclosures as per Article 443 of the CRR are specified by Guidelines released in June 2014.²⁵

The degree of compliance (adequate and best practice disclosures) among banks in the sample is relatively high at 71%, with all three standardised quantitative templates provided by all the banks reviewed for which the Guidelines were applicable and disclosures were available in English in due time. This is particularly encouraging bearing in mind that the Guidelines were only published by the EBA at the end of June 2014 and that, as Guidelines, their enforcement depends on their implementation into each national legal framework.

Compliance levels appear to have been aided by the Guidelines' use of standardised templates based on regulatory reporting. There was, however, less consistency in the 'freeform' narrative information provided to users and this is the main area where there is scope for general improvement. Given the short time allowed for firms to develop these freeform narrative disclosures, less emphasis was attributed to them in the above scoring for the current year's assessment, although improvements are expected in the 2015 Pillar 3 disclosures.

²⁵ <http://www.eba.europa.eu/regulation-and-policy/transparency-and-pillar-3/guidelines-on-disclosure-of-encumbered-and-unencumbered-assets>

a. Standardised numerical templates A-C

The use of standardised templates is intended to foster comparisons across institutions. While all institutions provide these templates, the fact that they are included in the Guidelines but not in the technical standards means their implementation is open to some national specificity. For instance, the Guidelines state that median values are to be used unless approval has been given by the competent authority, and this was not always the case. Additional narrative information should be provided in future to ensure that users understand that median values are being used and that the rows are not additive. Moreover, the national implementation may waive some requirements; for instance, the requirement to disclose template B on encumbered and unencumbered collateral received in some situations. Institutions should set the level of granularity of their quantitative disclosures and their accompanying narrative based on their significant business activities so as to ensure that the level and evolution of assets encumbered to central banks, as well as the amount of liquidity assistance given by central banks, cannot be detected. It was observed that not all firms were consistent with the types of asset that were included within 'other assets' in template A on encumbered and unencumbered assets.

b. Freeform narrative template D

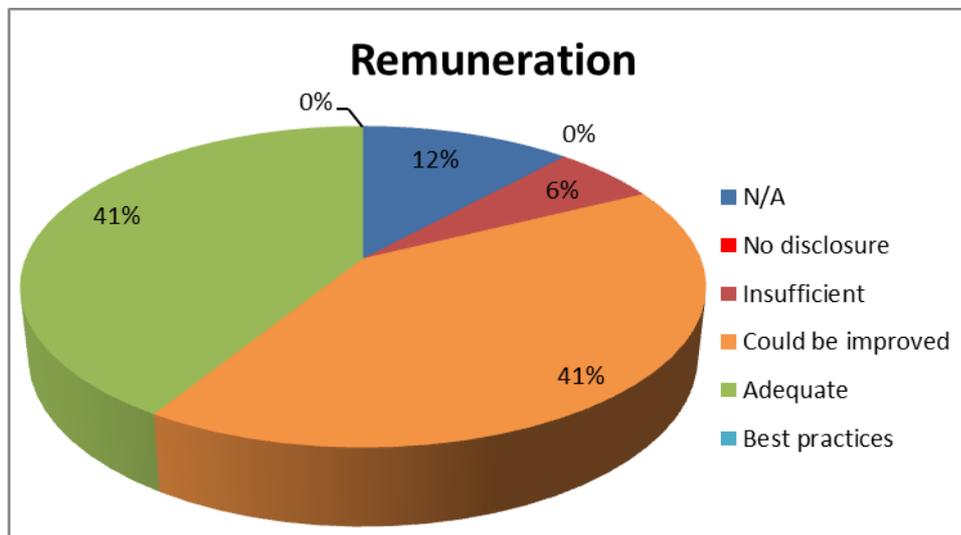
There was scope for general improvement in the freeform narrative information. Most institutions described the main sources and types of encumbrance, drawing linkages with their significant business activities. However, there was a high level of non-compliance for other narrative disclosures, particularly those relating to information on over-collateralisation and the structure of encumbrance between entities within a group.

3.7.2 Best practices

- Disclosure of the amount of additional collateral to be provided in the case of a downgrade (Rabobank).
- Discussion of overcollateralisation (UniCredit, Commerzbank).
- General description of the terms and conditions of the collateralisation agreements entered into (ING).
- Evolution of encumbrance over the period (ING, Santander).
- Structure of encumbrance between entities within a group (RZB).

3.8 Remuneration (Article 450 CRR)

3.8.1 Findings and observations



The introduction of the CRR has led to an enhancement of the disclosures to be provided on remuneration matters. Nevertheless, the share of institutions complying with the requirements has increased since the last assessment (32%), rising to 41%. As in the previous assessments, the disclosure requirements are not applicable to one institution in the sample. In addition, one institution in the sample did not make disclosures available in English in due time.

The EBA has launched a consultation on guidelines for sound remuneration practices, in which some parts may come to specify certain disclosure requirements.²⁶

Disclosures tended to be provided either in the Pillar 3 report or in a separate report, with information disclosed in the Pillar 3 report sometimes only covering some of the remuneration disclosure requirements (for instance, the quantitative requirements), with the rest being disclosed in a separate report or in the annual report. In the majority of cases, though, information was provided in a separate remuneration report.

Regarding the description of the **governance process**, all institutions provide information on their remuneration committee or equivalent body. Disclosures on governance and the role of the different committees are, in general, quite detailed, but in some instances it was observed that disclosures could be enhanced regarding the composition of the body, the number of meetings held during the year its role in the remuneration decision-making process, and the role of the external stakeholder.

Information regarding the **link between pay and performance** is disclosed, but in a couple of institutions the level of granularity of this disclosure is higher for management/board members

²⁶ <http://www.eba.europa.eu/regulation-and-policy/remuneration/guidelines-on-sound-remuneration-policies>

than it is for other risk takers. Disclosure of the link between pay and performance often includes the disclosure of performance targets and their alignment with objectives, sometimes by different types of variable remuneration plans, although the granularity of such disclosures may again be higher at the management level, with, for instance, the disclosure of individual targets for board members. This information can, therefore, be usefully supported by tables and graphs (for instance, on the targets and various possible pay-out scenarios, or on the possible forfeiture clauses).

The disclosure of the **main characteristics of the compensation system** may overlap with some disclosures on the link between remuneration and performance. Disclosures entail the description of the main mechanisms implemented within the remuneration framework and display varying levels of detail. In most cases, they give details on the procedures for determining the amount of variable compensations, the criteria used for performance measurement, vesting criteria and deferral policy, as well as risk adjustments. Some institutions may, however, need to improve the level of granularity in their disclosures by providing quantitative details. These disclosures may be provided separately for risk takers and management, or only for board members.

As regards the **ratio between fixed and variable remuneration**, information is, in general, provided with some additional breakdown by subsidiaries or business lines accompanied by graphs and tables. Only a few institutions do not provide sufficient disclosures on the ratio.

Quantitative information is, in general, provided, but with varying level of granularity. The brackets used to break down variable pay in tables were not the same in the different institutions. In addition, the various tables used by institutions were not always clear; some institutions provided more details than others, including quantitative information, on the implementation of their remuneration policies.

Not all institutions defined management and risk takers, though this area has experienced a marked improvement since the last assessment, which has been linked to the entry into force in 2014 of a Commission Delegated Regulation governing the identification of material risk takers.²⁷

In some institutions, a significant delay was observed between the publication of the Pillar 3 report and the publication of the remuneration report. While the peculiarities of the remuneration policy and the timing of the award/payment of deferred remuneration may explain that information on remuneration may be made available later than other Pillar 3 disclosures, compliance with Article 433 of the CRR requires institutions to comply with any publication deadline set by their supervisory authorities in application of Article 106 of the CRD and, in any case, to minimise the delay between the publication date of their financial statements and the

²⁷ Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.167.01.0030.01.ENG

publication date of their Pillar 3 report, including the remuneration disclosures, irrespective of whether they are provided in a separate report.

3.8.2 Best practices

- Key features of the compensation framework summed up at the beginning of each section in a table (UBS, Barclays).
- Illustration of the functioning of the whole remuneration process in graphs (UBS, Intesa, Commerzbank, UniCredit).
- Graphs and tables breaking down and providing the key features of the variable compensation framework for CEO and executive board members, and/or other risk takers, including applicable performance and forfeiture metrics (UBS, Société Générale, Deutsche Bank, Credit Agricole, HSBC, RBS).
- Graphical illustration of the governance process and the involvement of each relevant unit in the design of the remuneration framework (BNPP, UBS, Commerzbank, Deutsche Bank).
- Details on the implementation of the remuneration framework in local jurisdictions and the identification of variations of the compensation framework in geographies (UBS).
- Definition and quantification of key risk takers and staff in the scope of the remuneration system (BNPP, Commerzbank, UBS, Barclays, Deutsche Bank, Credit Agricole Group, Rabobank, Société Générale), with criteria that allow them to be identified (BNPP, UBS, Commerzbank, Deutsche Bank, Credit Agricole Group, Intesa, Rabobank, Société Générale).

4. Thematic Study: comparative overview of the disclosure requirements in the EU Capital Requirements Regulation and in the Revised Basel Pillar 3 framework

The Pillar 3 disclosure requirements were finalised in 2004 along with the Basel II agreement.²⁸ They were subsequently updated to stay in line with the changes to the other Basel requirements: in 2009 with the enhancement of disclosures on market risk²⁹ and securitisation,³⁰ as well as in 2011 with the introduction of disclosure requirements regarding remuneration.³¹ Pillar 3 requirements were also amended in 2012 with the revision of the disclosures on own funds³² following the finalisation of the Basel III agreement.³³

In January 2015, the BCBS issued a revised version of the Pillar 3 disclosure requirements, having concluded that 'the existing Pillar 3 framework, even after its market risk and securitisation parts were enhanced in July 2009, failed to promote the identification of a bank's material risks and did not provide sufficient, and sufficiently comparable, information to enable market participants to assess a bank's overall capital adequacy and to compare it with its peers'.³⁴ At this stage, other disclosure requirements remain outside this revised framework. As outlined in the introductory section of this report, the BCBS has already undertaken the second phase of its work on Pillar 3 requirements, which encompasses in particular the consolidation of all disclosure requirements within a single text.³⁵

As it currently stands, the Revised Pillar 3 framework includes 40 templates (for the presentation of quantitative requirements) and tables (listing qualitative disclosure requirements) to improve the comparability of disclosures by standardising their presentation. The templates and tables cover all the areas in the first phase of the Pillar 3 review, namely linkages with financial statements, credit risk (general requirements approach, standardised approach, and IRB

²⁸ International Convergence of Capital Measurement and Capital Standards A Revised Framework Comprehensive Version (June 2004, revised in June 2006): <http://www.bis.org/publ/bcbs128.pdf>

²⁹ Revisions to the Basel II market risk framework (July 2009): <http://www.bis.org/publ/bcbs158.pdf>

³⁰ Enhancements to the Basel II framework (July 2009): <http://www.bis.org/publ/bcbs157.pdf>

³¹ Pillar 3 disclosure requirements for remuneration (July 2011): <http://www.bis.org/publ/bcbs197.pdf>

³² Composition of capital disclosure requirements rules text (June 2012): <http://www.bis.org/publ/bcbs221.pdf>

³³ Basel III: A global regulatory framework for more resilient banks and banking systems (December 2010, revised in June 2011): <http://www.bis.org/publ/bcbs189.pdf>

³⁴ Standards Revised Pillar 3 disclosure requirements (January 2015): <http://www.bis.org/bcbs/publ/d309.pdf>

³⁵ See the Appendix on disclosure requirements in the CRR included in the Basel standards other than the revised Pillar 3 framework.

approach), counterparty credit risk, credit risk mitigation, securitisation, and market risk (standardised approach and internal models approach). The revised framework also includes disclosure requirements regarding risks and risk management in general, and qualitative information is expected to complement the quantitative disclosures provided in the templates.

These templates come under a prescriptive fixed format for information that is considered essential for the analysis of a bank's regulatory capital requirements, or under a flexible format for information that is considered meaningful but not central to the analysis of a bank's regulatory capital adequacy.

The first disclosures according to the revised Pillar 3 requirements are expected for the 2016 year-end reporting date. This new framework has not yet been incorporated into EU legislation.

This revised version of Pillar 3 includes disclosure requirements that diverge from the currently applicable requirements in Part Eight of the CRR. Given that it was released only in January 2015, an assessment of the compliance of banks with these requirements was considered premature, even though some banks' disclosures could already comply, to some extent, with the revised framework given the bottom-up approach that was adopted when designing this framework.³⁶

This year's Thematic Study therefore, intends to provide a first overview of the similarities and differences between the current CRR disclosure requirements and the disclosure requirements in the revised Pillar 3 framework. Below is the comparison of the revised Pillar 3 framework with the analogue one in the CRR disclosure requirements.

4.1 Scope of the comparison

This thematic study compares the disclosure requirements from Part Eight of the CRR with the disclosure requirements in the revised Pillar 3 framework. Only the requirements that are included in the revised Pillar 3 framework are compared, which leaves out some disclosure requirements in the CRR that may, however, be covered by other Basel standards.

The disclosure requirements in the CRR that are covered in this Thematic Study are the ones in the following table:

³⁶ The requirements in the revised framework were designed considering the disclosure practices of global banks in their 2011 and 2012 Pillar 3 reports, the conclusions from the review of the implementation of the Basel framework, the recommendations from the EDTF, and the needs expressed by users of disclosures during outreaches and the consultation period (see Consultative Document Standards Review of the Pillar 3 disclosure requirements (June 2014), paragraphs 10 and following: <http://www.bis.org/publ/bcbs286.pdf>).

Table 1: Disclosure requirements included in both the CRR and the revised Pillar 3 framework

Part Eight Capital Requirements Regulation	Revised Pillar 3 Framework
Article 431 – Scope of the disclosure requirements	Part 1: Guide for disclosure of Pillar 3 information
Article 432 – Non-material, proprietary or confidential information	Part 1: Guide for disclosure of Pillar 3 information
Article 433 – Frequency of disclosures	Part 1: Guide for disclosure of Pillar 3 information
Article 434 – Means of disclosures	Part 1: Guide for disclosure of Pillar 3 information
Article 435 – Risk management objectives and policies	Part 2: Overview of risk management and RWA
Article 438 – Capital requirements	Part 2: Overview of risk management and RWA
Article 439 – Exposure to counterparty credit risk	Part 5: Counterparty credit risk
Article 442 – Credit risk adjustments	Part 4: Credit risk
Article 444 – Use of external credit assessment institution (ECAI)	Part 4: Credit risk
Article 445 – Exposure to market risk	Part 7: Market risk
Article 449 – Exposure to securitisation positions	Part 6: Securitisation
Article 452 – Use of the IRB approach to credit risk	Part 4: Credit risk
Article 453 – Use of credit risk mitigation techniques	Part 4: Credit risk
Article 455 – Use of internal market risk models	Part 7: Market risk

The Revised Pillar 3 Framework contains some disclosure requirements that are not specifically identified in an article within the CRR but are rather sub-requirements, where applicable:

Table 2: Disclosure requirements in the Revised Pillar 3 framework only partially included in the CRR

Part Eight CRR (partial mapping)	Revised Pillar 3 Framework
Article 437(1)(a) – Own funds	Part 3: Linkages between financial statements and regulatory exposures
Article 435(1)(e) and (f) – Risk management objectives and policies	Part 4: Credit risk – Credit risk management
Article 452(e) – Use of the IRB approach to credit risk	Part 4: Credit risk – Credit risk overview

The following sections provide a comparison between the respective disclosure requirements listed in Tables 1 and 2 above. A synthetic overview is provided at the end of the comparison.

4.2 General features: scope, materiality, location, frequency, assurance of disclosures, and treatment of confidential information

4.2.1 Scope of information

The scope of the Revised Pillar 3 Framework follows the scope of application of the Basel Agreement, i.e. large internationally active banks. Although disclosures are to be provided using standardised templates, banks remain responsible for providing additional information when risks are not captured by the standardised template format.³⁷

In the CRR, disclosure requirements have a broader scope of application. They are to be provided by all institutions, and not only large internationally active banks with some exemptions or specific requirements for subsidiaries (Article 6 and Article 13 CRR).

4.2.2 Materiality

The Revised Pillar 3 Framework does not contain the concept of materiality any more, unlike the Basel II Pillar 3 framework. However, it is made clear³⁸ that disclosures should *highlight* the most significant and meaningful information to users. In addition, it is explicitly mentioned in the revised Pillar 3 framework (paragraph 15) that, when preparing their disclosures, banks need to assess whether information is meaningful to users and if it is not (for example, in the case of information being deemed immaterial) explain this in the disclosure.

The Revised Pillar 3 Framework, however, explicitly refers to proportionality in the implementation of the disclosure requirements (Principle 2).

The CRR still refers to materiality. It provides a definition of material information (information whose omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making an economic decision), and refers to the Guidelines³⁹ detailing how the materiality of disclosures should be assessed, the criteria to take into consideration in this assessment, and the information to provide in case an item of information is not disclosed for reasons of immateriality. The Guidelines clarify that if immaterial information may be omitted, material information may need to be more detailed than the minimum requirements provide for.

The Guidelines stress the notion of proportionality less than the revised Pillar 3 framework; however, the accompanying documents make it clear that they are intended to be implemented in a proportionate way. Similarly, if the possibility to remove disclosure over time is not as

³⁷ See Principle 2 of the revised Pillar 3 Framework on comprehensiveness of disclosure.

³⁸ See Principle 3 of the revised Pillar 3 Framework on the meaningfulness of disclosure.

³⁹ Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013: <http://www.eba.europa.eu/documents/10180/937948/EBA+GL+2014+14+%28Guidelines+on+disclosure%29.pdf/ea55f6be-8d55-4bd4-bc74-ed77466823b9>

straightforward as in the revised Pillar 3, the Guidelines state that the dynamic nature of materiality - the material nature of a piece of information may vary as circumstances change or risks evolve - may lead to changes in the information disclosed over time.

4.2.3 Location of disclosures

The Revised Pillar 3 Framework is specific about the location of disclosures, which have to be published in a standalone document, or at least be appended to, or form a discrete section of, a bank's financial reporting, provided Pillar 3 disclosures are easily identifiable as such to users. The possibility to signpost information between the Pillar 3 disclosures and the financial statements is limited to information that is considered meaningful to the market but not central to the analysis of a bank's regulatory capital adequacy, meaning that, for instance, information on RWA and capital requirements cannot be signposted to the financial statements. How the signposting has to be done, i.e. the type of references to provide, is clearly outlined.

Article 434 of the CRR, however, is less strict regarding the location of information and the possibility to signpost it, since institutions are free to choose the medium of disclosure, and there is no limit to the signposting ability, although the CRR calls for the provision of all information in one medium 'to the degree feasible'.

4.2.4 Frequency of disclosures

The Revised Pillar 3 Framework applies differentiated frequencies depending on the nature of the information. A very limited subset of key regulatory information, such as capital requirements, RWA by types of risks and their variations, is to be published on a quarterly basis, while all the quantitative information is required to be published on a semi-annual basis, and the qualitative information (tables) is required to be published on an annual basis.

The Revised Pillar 3 framework is also very specific as regards the timing of disclosures, which are to be made available 'concurrently' (paragraph 8) with the financial information related to the same period, or within the same delay of the production of financial information after the end of a period, for those periods where a bank does not release financial information.

The CRR in Article 433 is less specific. If information has to be made available 'in conjunction' with financial statements (wording that may be weaker than 'concurrently'), the by-default frequency is annual. According to their own characteristics, institutions shall assess the need to disclose some information more frequently; for instance, information on capital and capital requirements. Guidelines⁴⁰ have come to specify the conduct of this assessment, and have recommended that G-SIIs publish key quantitative information on capital and leverage ratio quarterly and other quantitative summary information on solvency semi-annually, while other important institutions are recommended to provide these pieces of information semi-annually.

⁴⁰ See footnote 39.

4.2.5 Level of assurance of disclosures

The Revised Pillar 3 Framework expressly requires Pillar 3 disclosures to, at a minimum, have the same level of assurance as for information provided in the management discussion and analysis part of the financial report. Signposting is only possible towards documents other than the Pillar 3 report that provide a level of assurance equivalent to or greater than the level of assurance in the Pillar 3 report. A disclosure policy setting out the internal controls and procedures for the disclosure of Pillar 3 information should be approved by the board (paragraph 10).

The CRR is less specific regarding the level of assurance of disclosures and the disclosure policy. Article 431 of the CRR also requires a disclosure policy setting out the level of assurance of Pillar 3 information, but this policy does not have to be approved by the board (except as provided for in the Guidelines⁴¹ concerning the part of the policy that relates to materiality of information, among other things). Article 434 of the CRR clearly states that institutions have to determine for themselves means of verifying disclosures.

4.2.6 Proprietary and confidential information

The Revised Pillar 3 Framework allows for the non-disclosure of a required piece of information when the information is deemed proprietary or confidential (paragraph 11). The bank shall then disclose more generic information and explain the reason why there has been no disclosure of the omitted piece of information.

Article 432 of the CRR contains the same possibility of non-disclosure. In addition, the Guidelines⁴² intend to frame the use of these disclosure exceptions for information of a confidential or proprietary nature by providing criteria along which to assess the confidential or proprietary nature of information, and stress that non-disclosure for these reasons should only be in exceptional cases.

4.3 Synthetic overview

The table below provides a synthetic overview of the differences between the CRR disclosure requirements and the Revised Pillar 3 Framework regarding templates and tables. Parts with supplementary requirements introduced by the CRR are separately identified in green; in orange are disclosure requirements that do not exist in the CRR and are specific to the Revised Pillar 3 Framework.

⁴¹ Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013: <http://www.eba.europa.eu/documents/10180/937948/EBA+GL+2014+14+%28Guidelines+on+disclosure%29.pdf/ea55f6be-8d55-4bd4-bc74-ed77466823b9>

⁴² Ibid.

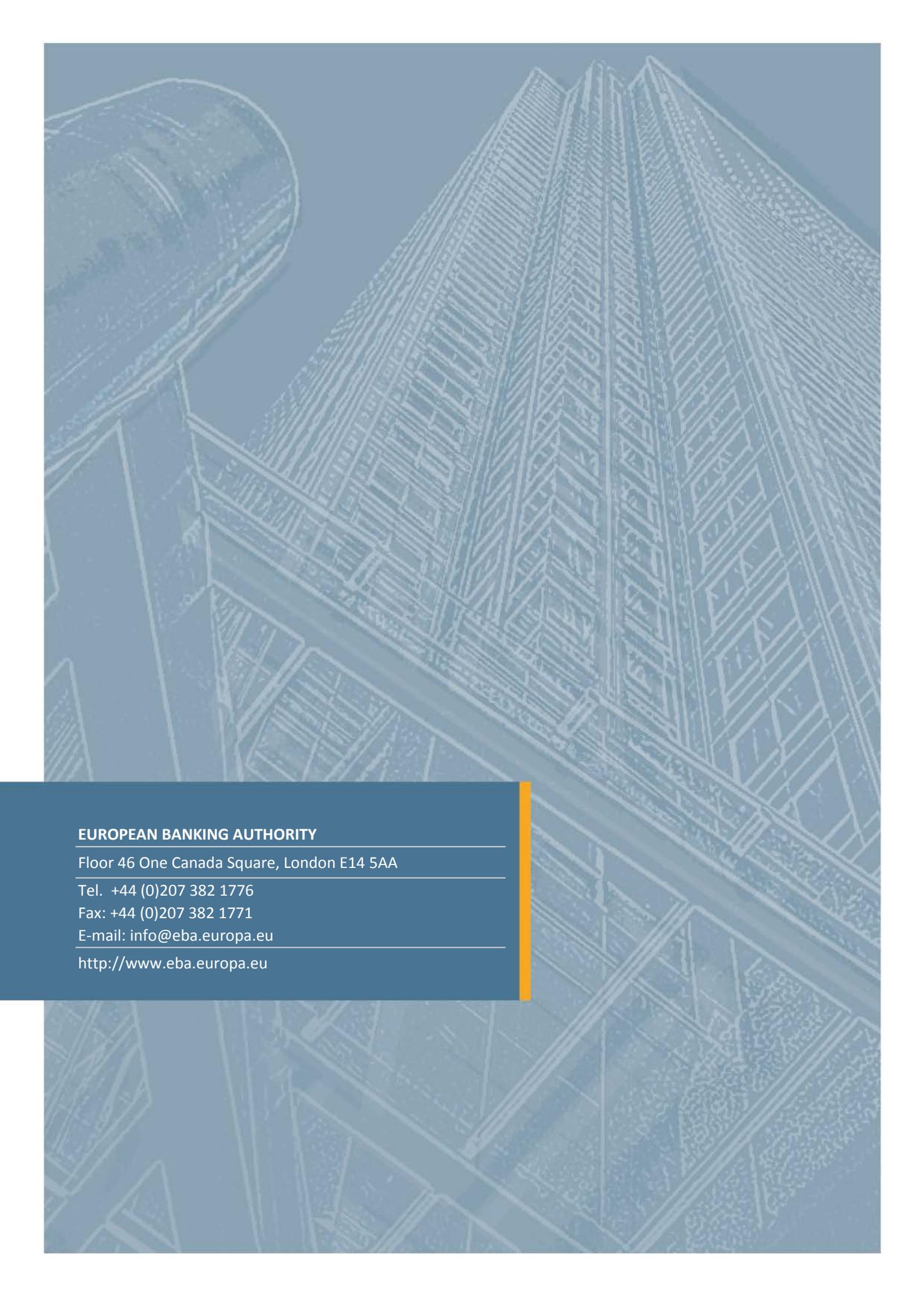
Table 3: Overview of the differences and similarities between the CRR disclosure requirements and the disclosure requirements (templates and tables) of the Revised Basel Pillar 3 Framework

Disclosure requirements in the CRR and in the Revised Pillar 3 Framework (RPF)	Comparison between the CRR requirements and the Revised Pillar 3 Framework (RPF)
Risk and risk management (Article 435, template OVA)	The CRR is more developed on the governance arrangements (absent from the RPF), but the RPF has specific requirements regarding risk culture and stress-testing.
Capital requirements (Article 438, templates OV1 and CR10)	The CRR requires more information on ICAAP, which is not included in the RPF. The breakdowns required in the CRR are more detailed (by exposure class, and not only by regulatory approach). Nevertheless, the RPF requires separate identification of CCR capital requirements and standardised and internal model market risk capital requirements.
Linkages (templates LIA, LI1 and LI2)	This part does not exist in the CRR, although there is a requirement in Article 437 to provide reconciliation between the accounting and the regulatory own fund items (similar to part of LI1), but it does not cover the exposure reconciliation by regulatory framework.
Counterparty credit risk (Article 439, templates CCRA and CCR1 to CCR8)	The qualitative disclosures are identical but the RPF requires more quantitative information, such as a breakdown of the RWA and EAD by approach for capital requirement (IRB or standard) instead of only by approach to compute the exposure value, information on the CVA capital charge, RWA flow statement, and exposures to CCP, collateral received and posted.
General information on credit risk (templates CRA, CRB, CR1 and CR2)	This part does not exist in the CRR, although the requirements are similar to the general risk management disclosure requirements, just with a credit risk focus, and the CRR also provides information on defaulted exposures and allowances as part of the credit risk adjustments and the IRB-related disclosures.
Credit risk adjustments (Article 442, templates CR1 and CRB)	The CRR requires more information on impairment with a focus on the regulatory concepts of specific and general credit risk adjustments, but the RPF requires information on allowance/impairments related to defaulted exposures instead of impaired exposures, and information on restructured exposures; these requirements are absent from the CRR.
Credit risk under the standardised approach (Article 444, templates CRD and CR5)	The requirements are identical but the RPF provides for a template with a breakdown of exposures along standardised risk-weight/asset-quality bands.
Credit risk under the IRB approach (Article 452, templates CRE, CR6, CR8 and CR9)	The RPF is more specific regarding what should be disclosed for assumptions used in models' parameters, roll-outs and internal controls, but the CRR requires information on the other uses of the internal rating, which is not required in the RPF. The RPF requires more quantitative information than the CRR about model parameters and IRB exposures (original and EAD, EL, RWA, flow statements) and enforces a fixed-

	PD scale to disclose such information. However, the CRR offers more granularity for LGD and PD (geographical breakdown required) and on backtesting disclosures (PD, LGD, EL, CCF required, while the RPF focuses on PD).
Credit risk mitigation (Article 453, templates CRC, CR3, CR4 and CR7)	The CRR requires a more granular breakdown of collateralised exposures, but the RPF requires information (not explicitly required in the CRR) on the impact of CRM on exposure values and RWA.
Securitisation (Article 449, templates SECA and SEC1 to SEC4)	Due to the complete overhaul of disclosure requirements regarding this topic, which led to the streamlining of RPF requirements, the CRR remains more detailed regarding information on the risks associated with securitisation transactions, as well as on quantitative information regarding securitised exposures, securitisation transactions during the period, and securitisation exposures. The information called for on capital requirements is similar to that requested under the RPF. The RPF adopts a broader scope for disclosure on securitisation exposures, and is more specific regarding information on the consolidation status of SSPEs.
Market risk (Article 445 and Article 455, templates MRA, MRB and MR1 to MR4)	The RPF requires more detailed and specific information about market risk management and internal models and their assumptions. Quantitative information is in line, although the RPF requires a RWA flow statement.
Equities not included in the trading book (Article 447)	There is no specific template, but equities RWA and capital requirements are included in OV1 as well as partly in templates CR4 and CR6.

Annex I – Sample for the 2015 assessment

a/a	Country	Credit institution
1.	AT	Erste Bank
2.	AT	RZB
3.	CH	UBS
4.	DE	Commerzbank
5.	DE	Deutsche Bank
6.	DE	DZ Bank
7.	FR	BNP Paribas
8.	FR	Credit Agricole Group
9.	FR	Société Générale
10.	IT	IntesaSanPaolo
11.	IT	UniCredit Group
12.	LU	BCEE
13.	NL	ING
14.	NL	Rabobank International
15.	UK	Barclays
16.	UK	HSBC
17.	UK	Royal Bank of Scotland



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