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## CEBS guidelines on Supervisory Disclosure

### Executive Summary

1. This paper sets out CEBS' guidelines for implementing a common European framework for supervisory disclosure. The framework is intended to make supervisory practices more transparent, which should in turn promote the legitimacy and credibility of supervisors from the perspective of the institutions that they supervise. This paper should therefore be of key interest to supervised institutions.
2. The need for transparency is all the more pressing in the context of increasing integration of European financial markets in Europe, which requires consistent implementation of EU legislation and convergence of supervisory practices. CEBS members recognise that supervisory disclosure promotes sound governance and is a powerful tool for convergence of supervisory practices across Europe.
3. The importance of supervisory transparency and accountability has been stressed by the Basel Committee on Banking Supervision and by the new European legislation<sup>1</sup>, which will require supervisors to make disclosures that permit meaningful comparisons of supervisory rules and practices across Europe.
4. The guidelines developed by CEBS implement a framework for supervisory disclosure at both the European and national levels.
5. The framework will make it easier to compare national texts that implement the Capital Requirements Directive (CRD), and to compare the ways in which Member States exercise the options and national discretions available to them in the CRD. In addition, the framework will enable institutions to compare the criteria and methodologies that supervisors use in evaluating and reviewing them. Finally, it will provide aggregate statistical data on key aspects of the implementation of the CRD.
6. The scope of the framework has been limited to the provisions of the CRD that implement Basel II. The framework is based on the

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<sup>1</sup> See the European Commission's proposal for a new Capital Requirements Directive ('the CRD'), which will replace the existing Consolidated Banking Directive (2000/12/EC) and Capital Adequacy Directive (93/6/EEC), Article 144. (MARKT/1050/04)

Commission's proposal of the CRD dated 14 July 2004 and will need to be revisited to reflect the final version of the CRD.

7. The form of disclosures plays an important role in allowing meaningful comparisons. The proposals set forth in this document seek to permit meaningful comparison in the following ways:
  - Disclosures will be accessible via the Internet, using both the CEBS website and national websites, which will be linked to each other.
  - CEBS recommends using a common format, consisting of a series of simple and similar information tables in standard formats which can be posted on websites. These tables have been designed to show two complementary levels of detail: summary tables on the CEBS website for ease of cross-country comparisons, linked to tables on the websites of national authorities that provide more detailed information.
8. CEBS has provided tentative templates for these tables. The templates are subject to change, to reflect the final version of the CRD and the final outcome of other CEBS work streams.
9. A demonstration of the functionality of the framework is available on the CEBS website at [www.c-ebs.org/SD/SDTF.htm](http://www.c-ebs.org/SD/SDTF.htm).
10. The framework is written in English, the working language of CEBS. The information displayed on the CEBS website will be disclosed in English. Information on the national websites of non English-speaking countries will be available in English on a best-efforts basis. In any case, the information should be made available in national language prior to any translation.
11. The framework will be implemented by CEBS and the national authorities in charge of the supervision of credit institutions and investment firms by year-end 2006 as a target date for qualitative information, and by mid-2008 for the statistical data, recognising that some of the intended content may not yet be available at the time.
12. The CEBS draft guidelines went through a three-month public consultation and overall received a positive response. Attached to this paper is a feedback table which contains a summary of the key points arising from the consultation and the responses made to address them. It includes an annex reflecting CEBS' views on the detailed comments received. With regard to the internet mechanics of the framework, new functionalities have been added to reflect the comments made. The website demo has been amended accordingly (see. [www.c-ebs.org/SD/SDTF.htm](http://www.c-ebs.org/SD/SDTF.htm)).

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## **I. Introduction**

1. Transparency is a key element in effective banking supervision, as evidenced by its inclusion in Principle 1 of the Core Principles on Effective Banking Supervision.<sup>2</sup> The effectiveness of supervision is closely related to the legitimacy and credibility of the competent supervisory authorities. Quite apart from any formal legal requirements, supervisors are accountable to governmental and parliamentary authorities, to the regulated industry, and to the general public for the conduct of supervision. They are accountable both for how they enforce compliance with prudential regulations and for how they foster sound governance practices on the part of the institutions<sup>3</sup> they oversee. Appropriate disclosure by supervisory authorities is desirable to ensure proper accountability, which in turn helps to promote sound governance practices on the part of the supervisors themselves.
2. Supervisory transparency and accountability are also stressed in the Basel Committee on Banking Supervision's "Revised Framework for International Convergence of Capital Measurement and Capital Standards" (Basel II), which notes: "the supervision of banks is not an exact science, and therefore, discretionary elements within the supervisory review process are inevitable. Supervisors must take care to carry out their obligations in a transparent and accountable manner."<sup>4</sup>
3. Structures that encourage transparency are all the more important, given that the new capital adequacy framework will introduce more complex rules that place greater reliance on the qualitative judgement of supervisors. This will increase the scope for supervisory discretion in a number of areas, at a time when the integration of the European banking market places a premium on supervisory convergence.
4. European supervisory authorities recognise the importance of increased convergence in achieving an integrated banking market. They understand that supervisory disclosure will foster sound governance and promote convergence of supervisory practices across Europe.

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<sup>2</sup> Principle 1 states that "an effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banks". This requirement is developed further in the Core Principles Methodology, the implementation guide used by the IMF and the World Bank in their joint Financial Sector Assessment Program (FSAP). The Core Principles Methodology states that supervisory agencies should set out their objectives, should be subject to regular review of their performance against their responsibilities and objectives through a transparent reporting and assessment process, and should ensure that information on the financial strength and performance of the industry under their jurisdiction is publicly available. (see Core Principles Methodology, "additional criteria" for assessing compliance with Core Principle 1 and also IMF Working Paper WP/02/163: "Crisis Prevention and Crisis Management: The Role of Regulatory Governance.")

<sup>3</sup> For the purpose of this paper, 'institutions' refers to both credit institutions and investment firms.

<sup>4</sup> See paragraph 779 of the Revised Framework for International Convergence of Capital Measurement and Capital Standards, June 2004.

5. The role of disclosure is specifically set forth in the European Commission's proposal for a new Capital Requirements Directive ('the CRD'), which will replace the existing Consolidated Banking Directive (2000/12/EC) and Capital Adequacy Directive (93/6/EEC).<sup>5</sup> In particular, Article 144 of the CRD provides that:

"1. Competent authorities shall disclose the following information:

- (a) the texts of laws, regulations, administrative rules and general guidance adopted in their Member State in the field of prudential regulation;
- (b) the manner of exercise of the options and discretions available in Community legislation;
- (c) the general criteria and methodologies they use in the review and evaluation referred to in Article 124;
- (d) without prejudice to the provisions laid down in Title V, Chapter 1, Section 2, aggregate statistical data on key aspects of the implementation of the prudential framework in each Member State.

The disclosures provided for in the first subparagraph shall be sufficient to enable a meaningful comparison of the approaches adopted by the competent authorities of the different Member States."

6. In addition, the other disclosure provisions in the CRD have been taken into account for the sake of consistency and completeness.<sup>6</sup>
7. What matters here is not so much the volume or the content of disclosure – national authorities already disclose a substantial amount of information – but rather the way in which disclosures are presented<sup>7</sup>.
8. The CRD's requirement that disclosures should be sufficient to enable a meaningful comparison of approaches provides an opportunity to develop a framework for disclosure that will ensure a certain degree of standardisation, notably in terms of language and of where the disclosures can be found. In this way, disclosures made by supervisors throughout Europe can be made more readily accessible and easier to compare.

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<sup>5</sup> See MARKT/1050/04. The framework is based upon the Commission's proposal of the CRD dated 14 July 2004 and will need to be revisited to reflect the final version of the CRD.

<sup>6</sup> See Annex I

<sup>7</sup> Article 150 of the CRD states that the Commission may adopt implementing measures using the Comitology procedure specifying the format, structure, contents list and annual publication date of the disclosures provided for in Article 144, and the key aspects on which aggregate statistical data are to be disclosed under Article 144 (1)(d).

9. The Commission and the BAC have asked CEBS to play a leading role in coordinating disclosures by national authorities, and, in particular, to design a transparent and efficient common framework in the EU. The framework is constructed along the following lines:
10. The framework focuses primarily on the provisions of the CRD that relate to Basel II. However, in view of the fact that capital requirements are expressed in the form of a ratio, CEBS judged that failing to consider the numerator of the ratio could undermine the usefulness of the disclosures. The CRD's provisions concerning own funds<sup>8</sup> are therefore included in the framework as well. CEBS also recommends including the provisions of the CRD dealing with internal control mechanisms insofar as they relate to the Supervisory Review Process<sup>9</sup> and to Pillar 2 measures. In addition, the framework includes national provisions extending the requirements set forth in the recast Directive 93/6/EEC to investment firms, as well as provisions of Directive 93/6/EEC relating to capital requirements for market risks and to the definition and prudential treatment of the trading book.
11. The framework will be implemented by CEBS and the national authorities in charge of the prudential supervision of both investment firms and credit institutions. When investment firms are supervised by a different authority than the one that supervises credit institutions, coordination in implementing the framework will take place in the countries concerned.
12. It respects the following principles. It simply displays disclosures without interpreting nor validating them. It is not meant to limit the capacity of supervisors to act in a flexible and timely manner. No individual decision regarding specific supervised institutions should be disclosed.
13. The framework is constructed in English. Non English-speaking countries will provide disclosures in English on a best-efforts basis, but in any case in their national language prior to any translation<sup>10</sup>. The framework aims at avoiding excessive administrative and translation burden. Its overall structure and format have been designed to be simple and flexible enough to be updated and adapted within a reasonable time schedule. It will be subject to regular monitoring by the CEBS Secretariat.
14. Disclosures will be accessible on the Internet, via the CEBS website and the national supervisory authorities' websites, interacting with each other. As common format, sets of simple tables in consistent

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<sup>8</sup> Articles 56 to 67 of the CRD

<sup>9</sup> Article 22 and Annex V, Section V of the CRD

<sup>10</sup> CEBS has noted that in many countries only the texts in national language are deemed to have legal force.

formats<sup>11</sup> will be posted on the websites. Of course, the use of Internet will not preclude supervisors using alternative vehicles of disclosure.

15. This framework is the first step towards greater transparency on the part of supervisors. It is also an evolutionary process capable of adapting gradually to future changes in the rules, needs and practices of both supervisors and institutions.

## **II. Transparency of supervision**

### **A. Definition**

16. Supervisory disclosure is defined as a comprehensive policy of transparency. Its aim is to make information related to prudential supervision available in a timely manner to all interested parties, including credit institutions, investment firms, other market participants, other supervisors, and consumers. The framework for supervisory disclosure is meant only to provide information. It is not meant to limit in any way the ability of individual national supervisors to act in a flexible, timely and independent manner, when required.

### **B. Objectives**

17. The supervisory disclosure framework has two main goals:
  - *Enhancing the effectiveness of supervision*, by facilitating interaction between institutions and competent authorities; addressing the legitimate expectations of institutions, which need clarity and transparency of the rules they must comply with; and providing easy access to the disclosed information.
  - *Helping to promote a level-playing field throughout Europe*, by facilitating meaningful comparisons of supervisory approaches. Disclosure can be viewed as one tool among many for promoting convergence in supervisory practices across Europe.
18. In this respect, the disclosure framework will serve to enhance the transparency of the legislative and regulatory process in each Member State as it implements the CRD.
19. The primary users of the disclosure framework will be the supervised institutions, other market participants, and competent authorities. All of them should benefit from a more user-friendly framework that contributes to an improved exchange of information.
20. The framework is designed to satisfy the requirements of the CRD and to permit meaningful comparisons of the approaches adopted by national supervisors. Achieving these objectives calls for different approaches to each of the sub-paragraphs of Article 144. Specifically:

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<sup>11</sup> At this stage, these are tentative tables subject to changes to reflect the final version of the CRD and the outcome of the other current CEBS work streams.

21. When disclosing the texts of laws, regulations, administrative rules, and general guidance under Article 144(1)(a), the emphasis should be on providing the most exhaustive and up-to-date information.
22. However, when disclosing the manner of exercise of the options and national discretions under Article 144(1)(b), enabling end-users to make quick and meaningful comparisons should be considered a more important objective than providing exhaustive information in a single location.
23. The disclosure under Article 144(1)(c) of supervisory review criteria and methodologies referred to in Article 124 is viewed as a tool to help institutions understand broadly how competent authorities will assess the systems and procedures required by the CRD. It may also provide an incentive for institutions to improve their own risk-management systems and procedures.
24. The disclosure of aggregate statistical data under Article 144(1)(d) is intended to provide general information on the national banking sectors as well as on the implementation process in each Member State. The disclosures should cover both Pillar 1 and Pillar 2, with aggregate data reported in comparable terms over time.

### **III. Basic principles**

25. The supervisory disclosure framework is based on the following set of principles:
  - i. The framework must be neutral with regard to the legal framework of each Member State. It aims at simply recording and transmitting factual information, without seeking to interpret or validate the disclosures. Moreover, the framework must not conflict with the normal process of transposing European legislation into national laws or regulations, which does not rely exclusively on supervisory authorities, but is legally the responsibility of the Member States under the Treaties.
  - ii. The members of CEBS recognise that making disclosures in a common language will facilitate meaningful comparisons between the approaches adopted by the competent authorities in different Member States. The framework is therefore constructed in English, the working language of CEBS. All the information displayed on the CEBS website - including short texts such as the executive summaries required under Article 144(1)(c) - will be in English. The texts and documents disclosed on national websites under the framework will be made available in English on a best-efforts basis by the non English-speaking countries. They should at a minimum make their national texts available in their own language prior to any translation, and, for the sake of clarity, should state whether their national texts and documents are also available in English. In countries where only the texts in national



language are deemed to have legal force, a disclaimer may need to be added to national websites –if such disclaimers have not already been made- in order to avoid any unintended legal liability arising from the translation. CEBS has drafted a disclaimer for its own use which it will post on its website.

- iii. The need for disclosure does not override the confidentiality principle dealing with the exchange of information and professional secrecy. Consequently, no supervisory actions or decisions directed at specific institutions are to be disclosed. In particular, disclosures relating to the supervisory process under Article 144(1)(c) should exclude any supervisory measures directed at specific institutions, whether taken with respect to a single institution or to a group of institutions. Likewise, the aggregate statistical data referred to under Article 144(1)(d) shall be disclosed only insofar as institution-specific data cannot be derived from the aggregate data. However, any data that an institution would itself be required to disclose, e.g. under Pillar 3, can be considered by the competent authorities not to raise a confidentiality issue. Competent authorities retain sole responsibility for determining when information may not be disclosed because of a potential breach of confidentiality. This principle will be flagged in the framework by a specific waiver.
  - iv. The supervisory disclosure should be resource-efficient and should avoid excessive burden on supervisors. Accordingly, the framework is based on currently available information and no additional reporting should be required on the part of supervisors or institutions. The overall structure and the format of the framework have been designed to be simple and flexible enough to be updated and adapted within a reasonable time schedule.
  - v. The disclosure framework will be regularly monitored by CEBS, through its Secretariat. An annual report will be provided to the European Commission with a view to helping the Commission assess whether the objective of 'meaningful comparison' as stated in Article 144 is achieved.
26. Flexibility will be needed in order to make these principles workable in practice. Flexibility in a technical sense will be provided by using IT systems and the Internet, which will enable the framework to be easily accessible and quickly updated. Flexibility will also be needed with respect to the detail and scope of disclosures. For example, the framework will need to provide clear scope for competent authorities in small jurisdictions to benefit from the proportionality principle. Finally, flexibility will be needed when dealing with confidentiality issues, such as those raised by differences in size between European banking systems.

#### **IV. Main features**

##### **A. Internet architecture and format of publication**

27. The framework should provide easy access to relevant information and enable a meaningful comparison of approaches across EU countries. The use of the Internet is seen as the most technically suitable and user-friendly means to achieve these goals.
28. A two-tiered architecture is proposed, in which:
  - i. The CEBS website will serve as a centralised electronic repository. It will allow for quick and easy comparison of relevant information, and will provide links to the websites of the national supervisory authorities.
  - ii. The websites of national competent authorities will provide the exhaustive and detailed information required by the CRD.
29. This two-tiered architecture is intended to strike an appropriate balance between the objectives of easy comparability (at CEBS level) and exhaustiveness (at national level). For instance, regarding the disclosures under Article 144(1)(b), CEBS will post on its website only the information provided by the national authorities which is needed to permit meaningful comparisons of the ways in which options and national discretions are exercised in the different Member States. This basic information will then serve as a quick reference to the more detailed information available on national websites.
30. The two-tiered architecture should not undermine the ability of competent authorities to set or change their national transparency policies, since they will not be prevented from disclosing additional material, and will remain solely responsible for the information made available on their websites.
31. On the technical side, competent authorities will retain control over the design (the use of a logo, of certain colours, etc.) and technical organisation of their national websites, as long as the templates for information tables provided by CEBS are inserted into the supervisory disclosure section of their websites.
32. The two-tiered architecture appears to be technically feasible, with the interaction between the two levels consisting of hyperlinks between web pages. To avoid unnecessary duplication of work and to ease the burden of updating of information at both national and CEBS levels, CEBS recommends that links to the actual texts of documents from the CEBS website be used only on an exception basis.
33. To ensure the comparability of information provided by different countries represented in CEBS, a certain degree of standardisation is considered necessary. CEBS therefore recommends that it and national competent authorities incorporate similarly-structured web pages

devoted to supervisory disclosure into their own websites, and that they use a common format for their information tables.

34. Thanks to electronic links between websites, webpages and tables, the end-user should find it easy to navigate on both CEBS website and national websites, from one table to another, from one webpage to another, from the CEBS website to the national websites and vice versa.
35. The use of similar web pages and common templates for information tables is viewed as an appropriate means of ensuring consistency, at CEBS and national levels, across the four areas of disclosure. It should facilitate the meaningful comparison of supervisory policies and practices while allowing for easy access to information.
36. The use of common templates is not meant to require any modifications to the existing disclosure systems of national authorities. The disclosure framework provides technical flexibility to use disclosures made at the national level in their current form. This can be accomplished either by setting up hyperlinks from the CEBS-formatted tables to the relevant national documents displayed on national websites, or by displaying the information, if short enough, directly in the tables. National authorities will be free to choose between these two methods. Finally, use of the CEBS' templates will not preclude national authorities from disclosing additional information.
37. The templates consist of a set of information tables, to be filled in with the information and documents required under Article 144(1). They are divided into four sections, corresponding to the four sub-paragraphs of Article 144(1). The templates are only tentative. They will be amended at a later date to reflect the final version of the CRD and the outcome of the CEBS' current work. The proposed templates are accessible by clicking here: [www.c-eps.org/SD/SDTF.htm](http://www.c-eps.org/SD/SDTF.htm).
38. At the current stage of development, the disclosures required under Article 144(1)(a), will be displayed in eight tables. ([www.c-eps.org/SD/Rules.htm](http://www.c-eps.org/SD/Rules.htm)).
39. Two tables have been designed for Article 144(1)(b): one for the list of options and national discretions, and the other for mutual recognition provisions. They will be accompanied by short explanatory notes on how to use them. ([www.c-eps.org/SD/Options.htm](http://www.c-eps.org/SD/Options.htm)).
40. The disclosures required under Article 144(1)(c) will be collected in a single table. ([www.c-eps.org/SD/Review.htm](http://www.c-eps.org/SD/Review.htm)).
41. The disclosures referred to in Article 144(1)(d) will be displayed in five tables. They will include aggregate data on national banking sectors, credit risk, operational risk and market risk data for Pillar 1 and data on supervisory actions and measures for Pillar 2. The aggregate statistical data will be provided by national authorities to CEBS and posted on the CEBS website. For the sake of clarity and simplicity, the

national websites will disclose the same templates with the same information. ([www.c-eps.org/SD/Data.htm](http://www.c-eps.org/SD/Data.htm)).

42. Aggregate data will be stored on CEBS' computers, creating a database that can be used for statistical analysis. Users will be given the tools to analyse historical data.
43. It has not been considered necessary to specify a common structure or format for explanatory text or other relevant information that competent authorities may wish to release (e.g. FAQs). ([www.c-eps.org/SD/FAQ.htm](http://www.c-eps.org/SD/FAQ.htm)).
44. The framework will also include a page for disclosing contact information. At a minimum, this should include contact information for the country's CEBS members, the CEBS Secretariat members and the communication officers of the competent authorities. The information should include at least the name of each person and his or her exact title and/or area of expertise. The framework will provide flexibility for entering additional information of the contact person (such as personal e-mail address, direct telephone and fax numbers) or general contact information (e.g., the organisation's or functional e-mail address and switchboard number). ([www.c-eps.org/SD/Contacts.htm](http://www.c-eps.org/SD/Contacts.htm)).

## **B. Content of disclosure**

45. The content follows the structure of Article 144 quoted above:
  - 'Rules and guidance' covers national laws and regulations in the field of prudential supervision and regulation,
  - 'Options and national discretions' refers to the information about how options and national discretions are exercised,
  - 'Supervisory review' deals with the general criteria and methodologies used by competent authorities in their supervisory review and evaluation process referred to in Article 124,
  - 'Statistical data' refers to statistical data on key aspects of the implementation of the prudential framework.

### **1. Rules and guidance**

46. Article 144(1)(a) of the CRD requires competent authorities to disclose the texts of laws, regulations, administrative rules and general guidance adopted in their Member State in the field of prudential regulation.
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47. The information tables related to 'rules and guidance' are accessible by clicking here: [www.c-eps.org/SD/Rules\\_table1.htm](http://www.c-eps.org/SD/Rules_table1.htm), [www.c-eps.org/SD/Rules\\_table2.htm](http://www.c-eps.org/SD/Rules_table2.htm).
48. The supervisory disclosure framework will display the texts of the laws, regulations, and administrative rules used by each Member State to transpose the Basel II-related provisions of the recast Directives

2000/12/EC and 93/6/ECC. Depending on how much of the EU legislation has already been transposed, these may take the form either of new legislative and regulatory texts adapting these Directives into national law, or existing legislative texts or regulations amended accordingly.

49. For the purpose of supervisory disclosure, the term 'administrative rules' is understood to refer to documents that instruct supervised institutions on how to fulfil legislative and regulatory requirements. The character and legal enforceability of administrative rules is likely to vary from one Member State to the next. Nevertheless, for the sake of clarity and simplicity, they are considered here as 'third-level' documents – as compared to texts of laws ('first level') and regulations ('second level'). This definition does not restrict the disclosure policies of competent authorities; they retain sole responsibility for deciding what types of documents (e.g. instructions, methodological notes, administrative notices) are appropriate to disclose under the generic heading of 'administrative rules.' The same holds true for 'general guidance'. In general, however, competent authorities should strive for the widest possible disclosure, regardless of what legal instruments they use.
50. The following paragraphs provide illustrations of what might be disclosed under 'general guidance':
  1. *Explicit disclosure requirements laid down in the CRD.*<sup>12</sup>
51. Articles 81(4) and 97(4) of the CRD require competent authorities to publish an explanation of the recognition process for External Credit Assessment Institutions (ECAIs) and a list of eligible ECAIs.
52. To meet this requirement, competent authorities should disclose the methodologies or key questions they use to assess the eligibility of ECAIs. CEBS recommends that competent authorities disclose the application process, indicating whether eligibility is based on the decision of another EU Member State's competent authorities, or on direct recognition. In the latter case, the disclosure should indicate whether this is done by accepting applications, either from credit institutions or from the ECAIs themselves; or using both methods. Competent authorities will indicate the main market segments for which the ECAIs have been recognised: 'public finance', 'commercial entities' (including corporate and financial companies) and/or 'structured finance' (including securitisation positions).
53. The CRD does not require competent authorities to disclose the mapping process they use to assign an ECAI's credit assessments to the steps in a credit-quality assessment scale. However, since this mapping is a key element in understanding how supervisors use ECAIs, CEBS recommends that the results of the mapping should be disclosed for each eligible ECAI.

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<sup>12</sup> See Annex 1

54. Article 87(5) requires competent authorities to publish guidance on how institutions should assign risk weights to specialised lending exposures under the Internal Ratings Based approaches. To comply with this requirement, competent authorities should publish the slotting criteria that supervised institutions are required to use for specialised lending exposures when they cannot satisfy the minimum requirements for estimating the probability of default.
55. Article 100 requires the publication of any specific treatment of securitisations subject to early amortisation provision of retail exposures referred to in Article 100(3) and (4) when it becomes part of the general approach of competent authorities.
56. To cover these requirements, CEBS proposes information tables that will be amended at a later stage to take into account the final version of the CRD and the outcome of CEBS' current work on ECAIs. ([www.c-ebs.org/SD/ECAI\\_table.htm](http://www.c-ebs.org/SD/ECAI_table.htm)).
2. *Disclosures judged necessary to explain how the rules should be applied by supervised institutions.*
57. At this stage, this refers essentially to the disclosure of guidance dealing with the validation of the IRB and AMA approaches. The disclosures should include validation guidelines published by national authorities, whatever their form (e.g. detailed technical guidance, working documents, supervisory rules, informal documents, interpretations, circulars, responses to industry questions). General information on the supervisory approval process itself should also be disclosed, as this may provide end-users with useful practical information.
58. The paper on validation standards and related supervisory processes and practices that is currently being revised by the CEBS working group in the wake of the consultation launched in July 2005 will also form part of the disclosure framework.
59. The definitive template for information tables will be provided once the CEBS working group on validation has completed its work. At this stage, they are only provided by way of illustration. ([www.c-ebs.org/SD/Model\\_table1.htm](http://www.c-ebs.org/SD/Model_table1.htm), [www.c-ebs.org/SD/Model\\_table2.htm](http://www.c-ebs.org/SD/Model_table2.htm)).
3. *Additional information.*
60. CEBS is currently considering requiring the disclosure of certain lists as this will support convergence in practices. National competent authorities would have to release either the lists or the general criteria to identify those exposures. Disclosures would include a list of regional governments and local authorities risk-weighted like central governments, a list of public-sector entities risk-weighted like institutions, and a list of core market participants referred to in Annex VIII of the CRD. The exact format and content of those lists are still

under consideration. The proposed templates will be amended to take the outcome of this work into account ([www.c-eps.org/SD/Add\\_table.htm](http://www.c-eps.org/SD/Add_table.htm)).

61. General guidance could cover any other relevant explanatory information to which competent authorities may wish to draw the attention of end-users in order to provide a basic understanding of the new capital adequacy framework. This information might take the form of frequently asked questions (FAQs) at the national level, relating for instance to the national texts of laws, regulations or administrative rules referred to above.

## **2. Options and national discretions**

62. Article 144(1)(b) of the CRD requires competent authorities to disclose the manner in which they exercise the options and national discretions available in Community legislation.
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63. The information tables are accessible by clicking here: [www.c-eps.org/SD/Options.htm](http://www.c-eps.org/SD/Options.htm).

64. Since many of the policy decisions regarding options and national discretions will be implemented via regulation, subparagraphs (a) and (b) of Article 144(1) are likely to overlap. This duplication is considered acceptable and even desirable, since it highlights the different focus of the two subparagraphs. Subparagraph (a) is intended to present a given Member State's national texts as a cohesive whole. Subparagraph (b) focuses on the differences between the national banking legislations of different Member States. Such differences should be presented together in order to facilitate comparative analysis. Moreover, specific issues related to investment firms might require some minor adjustments in the future, so as to take into account their particularities, in accordance with Article 37 of the recast Directive 93/6/EEC.

65. For the sake of clarity, a consistent terminology has been adopted. 'Option' refers to a situation in which competent authorities or Member States are given a choice on how to comply with a given provision, selecting from a range of alternatives set forth in Community legislation.<sup>13</sup> 'Discretion' or 'national discretion' refers to a situation in which competent authorities or Member States are given a choice as to whether to apply, or not to apply, a given provision.<sup>14</sup>

66. Special attention has been paid to discretions for which mutual recognition is specifically allowed by the CRD. They are disclosed under a separate table. ([www.c-eps.org/SD/Mutual\\_table.htm](http://www.c-eps.org/SD/Mutual_table.htm)).

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<sup>13</sup> For example, national authorities have the *option*, in determining the risk weights for exposures to institutions, of using either the central government risk-weight based method or the credit assessment based method.

<sup>14</sup> For example, Member States may, at *national discretion*, impose sub-consolidation in cases where it is not required and, if they do so, they may set the conditions.

67. As noted in section III of this paper, the supervisory disclosure framework specifically excludes supervisory actions or decisions directed at specific institutions. Consequently, options and discretions which are exercised with respect to individual institutions or to a given set of institutions, rather than being generally applicable, should not be disclosed under Article 144(1)(b). In particular, when Directives refer to the need for an institution to obtain a competent authority's approval or authorisation for various purposes, such authorisation or approval might be discretionary, but it does not constitute a national discretion in the sense described above.
68. Finally, not all options or national discretions that might fall within the scope of the framework and meet the above definition are necessarily of interest for supervisory disclosure purposes. In particular, some options or discretions are exercised not by competent authorities or Member States, but by the institutions themselves. Competent authorities are not required to make disclosures concerning options which they do not have the power to exercise.
69. As a result, 81 out of the 143 identified options and national discretions in the CRD<sup>15</sup> would be disclosed. This number is likely to shrink, in accordance with the recommendation from CEBS to the Council Working Group in September 2004. Therefore, the tables designed by CEBS will be revisited at a later stage to reflect the final version of the CRD and the outcome of CEBS' current work on convergence. ([www.c-eps.org/SD/Options\\_table.htm](http://www.c-eps.org/SD/Options_table.htm)).

### **3. Supervisory review**

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| 70. | Article 144(1)(c) requires competent authorities to disclose the general criteria and methodologies they use in the review and evaluation referred to in Article 124 (the Supervisory Review and Evaluation Process). |
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71. The Supervisory Review and Evaluation Process (SREP) is one element of the larger Supervisory Review Process, the other element being the Internal Capital Adequacy Assessment Process (ICAAP).
- The ICAAP is conducted by the *institution*. It is a comprehensive process including the management body and senior management oversight, monitoring, reporting and internal control reviews, that institutions must have to identify and measure their risks, allowing them to ensure that adequate provision is made for holding internal capital in relation to their risk profile.<sup>16</sup>

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<sup>15</sup> See the list posted on the CEBS website.

<sup>16</sup> See para 20 of CEBS CP03 posted on the CEBS website. For the sake of clarity, the references to CP03 will be retained until the final Guidelines on the '**Application of the Supervisory Review Process under Pillar 2**' are released by CEBS. Please note that CP03 is under a second round of public consultation which ends on 21 October 2005.



- The SREP is conducted by the *competent authority*. It is also a comprehensive process which supervisors use to review and evaluate the institution's exposure to risks, the adequacy and reliability of the institution's ICAAP, the adequacy of the institution's own funds and internal capital in relation to the assessment of its overall risk profile, to monitor ongoing compliance with standards laid down in the CRD and to identify any weakness or inadequacies and necessary prudential measures<sup>17</sup>.
72. The supervisory disclosure framework should provide information both on minimum standards and requirements for ICAAP and on how competent authorities conduct their own SREPs starting with the ICAAP/SREP dialogue. In practice, minimum standards for ICAAPs will already have been disclosed under Article 144(1)(a). However, the disclosure of the same requirements under Article 144(1)(c) is considered useful, as it provides end-users with a different perspective. The rationale for this overlap is the fact that the competent authority's review and evaluation of the ICAAP is an integral part of the SREP.
73. The high-level principles developed by CEBS in this area (which will be issued later as guidelines after the second consultation process), have been organised into an overall structure that groups SREP topics under broad categories or stages. The objective was to identify the conceptual building blocks of supervisory activity that constitute the core of the SREP.
74. Four categories have emerged as common to all competent authorities. While specific definitions or details may vary over time or from one national authority to the next, the basic themes remain similar.
75. The organisation of these categories, as presented below, is derived mainly from the CEBS Consultation Paper on the Application of the Supervisory Review Process Under Pillar 2 (CEBS CP03 as of May 2004). It also reflects the work done on internal governance. Further it takes into account the principles set out in the CEBS Consultation Paper on Home Host Cooperation (CEBS CP09).
76. This structure should be easy to revise in order to reflect any changes in guidelines that may be forthcoming from CEBS, whose work on SREP criteria and methodologies is still in progress.
77. The four categories are the following:
- (i) Scope and classification (including proportionality)
  - (ii) Individual Risk Assessment
  - (iii) Review and Evaluation of ICAAP
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<sup>17</sup> See para 28 of the CEBS CP03 posted on the CEBS website

(iv) Overall assessment and supervisory measures

78. Competent authorities will be required to disclose the criteria and methodologies used in the first three categories and for the overall assessments in the fourth category. The authorities may, on a voluntary basis, also disclose the policies that guide their decisions for taking supervisory measures (within the meaning of Article 136(1)) whenever their assessment of an institution identifies weaknesses or inadequacies that call for supervisory intervention. Such disclosures might include the publication of internal guidelines or other documents describing general supervisory practices. However, no disclosure will be required regarding decisions on individual institutions, to respect the confidentiality principle.
79. Standing above the four categories, an overarching column, 'Dialogue/Interaction', will be used to describe the close relationship between competent authority and institution during all four stages of the SREP, from scope and classification to overall assessment and supervisory measures. While they are presented as separate stages in the supervisory process, all four categories involve interaction between institutions and competent authorities, particularly for larger, more complex and systemically important institutions. Moreover, in practice, all four stages of the SREP are closely intertwined.
80. Another overarching dimension is proportionality. Both the requirements for the ICAAP<sup>18</sup> and the frequency and intensity of supervisory review and evaluation of those requirements<sup>19</sup> should be proportional to the nature, scale, and complexity of the activities of the institution concerned. This proportionality aspect has been integrated into the first category for easy reference, but it is relevant to the other categories as well.
81. Disclosures relating to the SREP will employ the same two-tiered architecture described in section IV of this paper :
- Guidelines and explanatory notes posted on the CEBS website will provide an overall understanding of the general features to be implemented by national authorities under each category.
  - An executive summary written by each national authority, and posted on both its website and the CEBS website, will give an overview of how it implements its SREP. This summary may consist either of separate summaries for each of the categories or a single summary covering all four categories. The executive summary will also include supplementary information on any aspect of the general criteria and methodologies used in conducting the SREP that goes beyond the harmonised rules and regulations or converged supervisory practices in this area.

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<sup>18</sup> see Article 123 of the CRD

<sup>19</sup> see Article 124 of the CRD

82. The organisation of topics in the various explanatory notes is still under review and will be revisited once CEBS CP03 and CEBS CP09 have been finalised in view of the comments received in their respective consultation processes. The information table is accessible by clicking here: [www.c.ebs.org/SD/Review\\_table.htm](http://www.c.ebs.org/SD/Review_table.htm).

83. At this stage of the CEBS' work, special attention has been given to the source material (the CRD Articles and CEBS CP03' sections that provide guidance to institutions on conducting SREPs). This is meant to facilitate revisions to this paper to conform with upcoming changes in the SREP. The supervisory disclosure framework will take into account other CEBS works when they are finalised.

*(i) Information to be disclosed under the category 'Scope and classification' (including proportionality)*

84. The explanatory note will cover Articles 22, 68-73, 123 and 124 of the CRD and paragraphs 14 and 19 of CEBS CP03 (for scope of application).- It will also cover CEBS guidelines on home-host issues, which will deal with cross-border co-operation and information exchange in more detail. Finally, it will cover the general principle of proportionality, i.e. for the time being paragraphs 15 and 26 of CEBS CP03. After finalisation of the work currently under way on home/host issues, some of the guidelines and explanations in this regard may be shifted to Category 2 or 3, as home/host cooperation is part of an operational network mechanism.

85. Disclosure under this heading should also include the general principles and methodologies used by competent authorities to classify institutions. The disclosure should cover both quantitative analysis and qualitative criteria. In addition, any criteria and methodology used to categorise an institution's overall impact on financial stability or other overall supervisory objectives should be disclosed.

*(ii) Information to be disclosed under the category 'Individual Risk Assessment'*

86. The explanatory note will initially cover High Level Principles I to XI for SREP in CEBS CP03, paragraphs 11, 28 to 32 and 33 in CEBS CP03, High Level Principles I to VII –for Risk Assessment Systems (RAS) in Annex A of CEBS CP03, and the Business Risk and Control Factors in Annex B of CEBS CP03. Subject to proportionality, each supervisor should outline the criteria and methodologies used in individualised off-site supervision (as compared with the more automated, largely IT-based rating of banks under the category of 'classification'). The intensity and degree of scrutiny applied by a supervisor may vary widely, ranging from no individual assessment beyond the classification rating, to a highly complex and detailed process of risk profiling.

*(iii) Information to be disclosed under the category 'Review and Evaluation of ICAAP'*

87. The explanatory note will cover the High Level Principles I to XI for ICAAP in CEBS CP03, paragraphs 16, 17, 20 to 27 in CEBS CP 03, and guidelines on Internal Governance. Competent authorities may disclose their policies on the frequency and intensity of supervision<sup>20</sup> for the purpose of reviewing and evaluating a bank's internal ICAAP. The intensity of the interaction between the competent authority and the institution is subject to proportionality, as are any guidelines or minimum requirements for the ICAAP that the competent authority may issue. In addition, competent authorities may consider disclosing internal guidance relating to their on-site review and evaluation of ICAAP, such as examination manuals and other relevant material.

*(iv) Information to be disclosed under the category 'Overall Assessment and supervisory measures'*

88. The explanatory note will cover paragraph 18 in CEBS CP03. The overall assessment by the competent authority is based on a review of all the activities referred to under categories 1 through 3, along with any other relevant information about the institution that the competent authority may obtain. The form and level of detail of the assessment is, once again, subject to proportionality, particularly with respect to the individual risk profile as described in category 2.
89. Based on this overall assessment, each competent authority decides if supervisory measures are necessary and, if so, what measures are appropriate. As stated in paragraph 78 of this paper, policies that guide decisions on taking supervisory measures may be published by competent authorities.

**4. Statistical data**

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| 90. | Article 144(1)(d) of the CRD requires competent authorities to disclose aggregate statistical data on key aspects of the implementation of the prudential framework. |
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91. The 'key aspects' should include information about banks and investment firms on both the supervisory process (e.g. the number of institutions supervised) and supervisory outcomes (e.g. tier-1 ratios or Pillar-1 credit-risk capital requirements). This information should cover both banks and investment firms.
92. Disclosures should have both a descriptive and a quantitative component. For the methodology used to define and calculate the aggregate statistical data, reference is made to Annex II which

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<sup>20</sup> In this context, supervision is understood as a broad approach including on-site inspections/on-site examinations by examiners (narrow approach) and any other supervisory contact on-site such as visits with risk management, management accounting, internal audit or any other unit of an institution

provides a list of definitions. These definitions will be revisited once the CEBS' work on a Common Reporting framework is finalised.

93. In principle, the aggregate statistical data will be based on information that is already available to the competent authority. The disclosures should therefore not involve any additional burden for the supervised institutions.
94. Possible sources of information include the CEBS Common Reporting framework for Pillar 1 data, internal data from competent authorities for Pillar 2 data, and Central Bank data (e.g. structural reports of the European Central Bank) for national data.
95. The table on national data presents key statistics for banks and investment firms on a domestic basis, together with key solvency data on a national consolidated basis. The other tables present more detailed risk data for each country, also on a national consolidated basis rather than a solo basis.
96. To facilitate comparison of the data in the tables, the key statistics are displayed in relative terms, using percentages, instead of using absolute values.
97. In principle, the aggregate data should cover 100 percent of the supervised institutions. Less than 100 percent coverage will be permitted only if the omitted data are not considered to be material. Data will be considered material if their omission or misstatement might influence the assessment of the user.
98. To address the issue of confidentiality, the following disclaimer will be posted on each of the tables ([www.c-ebs.org/SD/Data.htm](http://www.c-ebs.org/SD/Data.htm)) :  
  
"No confidential information which competent authorities may receive in the course of their duties may be divulged to any person or authority whatsoever, except in summary or collective form, such that individual credit institutions cannot be identified, without prejudice to cases covered by criminal law.<sup>21</sup> Accordingly, whenever the disclosure of aggregate statistical data would result in a breach of confidentiality as determined by the national competent authority, those data should not be disclosed."
99. If data are not being disclosed, the reason for non-disclosure will be mentioned for that 'blank' cell. More specifically, an index will be used that specifies whether the data for that cell are not available (N/A), confidential (C) or not material (N/M).
100. With respect to the Pillar 2 data which will be provided on a country-by-country basis, it should be stressed that, due to differences in national regulations as well as in supervisory practices and approaches across Member States, the figures provided might not be fully comparable,

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<sup>21</sup> The first sentence of the disclaimer is taken directly from Article 44(1) of the CRD.

and before drawing any conclusions, these differences should be carefully considered.

### **C. Implementation and updating**

101. The Supervisory Disclosure Framework consistent with the present guidelines is expected to be implemented gradually, for several reasons.
102. First, some of the information required (e.g. laws and regulations transposing the Directives into national legislation) will not be available before the CRD has been definitively adopted. Second, Member States will probably disclose gradually how they implement their Supervisory Review Process. Third, aggregate statistical data will be available only at year end. Finally, translation burden may delay the whole process, even if competent authorities commit to disclose information in English on a best-efforts basis and in a timely manner.
103. Nevertheless, in view of the legitimate interest of end-users in having disclosures available as early as possible, year-end 2006 is set as a target date with respect to paragraphs (1)(a) through (1)(c) of Article 144, and mid-2008 with respect to paragraph (1)(d).
104. In order to keep the disclosure framework up to date, competent authorities will update their disclosures at least once a year. Disclosures under Article 144(1)(a) through (1)(c) should be updated no later than the end of January of each year, while disclosures under Article 144(1)(d) should be updated by July to allow time for data processing and aggregation of the previous year's data.
105. The process used for updating the disclosure framework should respect the current disclosure practices of national competent authorities, since they remain responsible for the information they disclose. This would automatically be the case if full use is made of the two-tiered structure described in section IV of this paper. If the structure relies on hyperlinks between webpages, any updates made to a national website should automatically result in updating the CEBS website. Should there be no automatic update, national authorities will be responsible for notifying CEBS when an update of information contained in the national part of the supervisory disclosure framework is made. Accordingly, the general principle should be that any national update triggers an update of the CEBS website.
106. In order to keep end-users informed of the status of the information disclosed, a list of updates will be displayed in the front page of each of the four current sections (Rules and Guidance, National Discretions and Options, Supervisory Review, and Statistical Data), in the following format (see also the CEBS website demo).

Latest updates

Date	Country
11.9.2006	<u>Austria</u> (with a link to the updated page of the national website)
18.9.2006	<u>Belgium</u>

107. An email alert system will allow users allow the user to be informed automatically each time a change has been made in the framework or in specific parts of the framework, depending on the various types of information requests that the user subscribes to (see the CEBS website demo).

## **V. The review of the framework**

108. In accordance with its Charter<sup>22</sup>, CEBS, through its Secretariat, will conduct an annual review of the implementation of the disclosure framework.

109. The CEBS Secretariat will carry out a fact-finding and stock taking exercise to monitor whether the required information is provided and disclosed.

110. CEBS is not responsible for the quality of the information provided by competent national authorities. The CEBS Secretariat's annual review will examine *only*:

- i. whether the tables have actually been filled in,
- ii. whether the information has been updated,
- iii. whether the information is disclosed in English and
- iv. whether any technical problems arising from the use of hyperlinks on the CEBS website have been resolved on a best-efforts basis.

111. The CEBS Secretariat will then test its preliminary findings with the relevant competent authorities and come up with a final outcome.

112. The results of this review will be summarised in the annual report of CEBS and will be provided to the Commission for information. This should assist the European Commission to assess whether the framework effectively contributes to the objective of an on-going 'meaningful comparison of approaches,' as stated in Article 144 of the CRD.

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<sup>22</sup> Article 4.3 of its Charter, which states that "The Committee will foster and review common and uniform day to day implementation and consistent application of Community legislation. [...] It may also conduct surveys of regulatory/supervisory practices within the single market

**List of the articles related to supervisory disclosure***Recast Directive 2000/12/EC<sup>23</sup>*

Recital (54): "in order for the internal market in banking to operate with increasing effectiveness and for citizens of the Community to be afforded adequate levels of transparency, it is necessary that competent authorities disclose publicly and in a way which allows for meaningful comparison the manner in which this Directive is implemented."

*Article 81.4*

"Competent authorities shall make publicly available an explanation of the recognition process, and a list of eligible ECAIs."

*Article 87.5*

"Notwithstanding paragraph 3, the calculation of risk weighted exposure amounts for credit risk for special lending exposures may be calculated in accordance with Annex VII, Part 1, paragraph 5. Competent authorities shall publish guidance on how institutions should assign risk weights to specialised lending exposures under Annex VII, Part 1, paragraph 5 and shall approve institutions assignment methodologies."

*Article 97.4*

"The competent authorities shall make publicly available an explanation of the recognition process and a list of eligible ECAIs."

*Article 100.4*

"Where a competent authority intends to apply a treatment in accordance with paragraph 3 in respect of a particular securitisation, it shall first of all inform the relevant competent authorities of all the other Member States. Before the application of such a treatment becomes part of the general policy approach of the competent authority to securitisations containing early amortisation clauses of the type in question, the competent authority shall consult the relevant competent authorities of all the other member States and take into consideration the views expressed. The views expressed in such consultation and the treatment adopted shall be publicly disclosed by the competent authority in question."

*Article 144*

"1. Competent authorities shall disclose the following information:

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<sup>23</sup> See MARKT/1050/04



- (a) the texts of laws, regulations, administrative rules and general guidance adopted in their Member State in the field of prudential regulation;
- (b) the manner of exercise of the options and discretions available in Community legislation;
- (c) the general criteria and methodologies they use in the review and evaluation referred to in article 124;
- (d) without prejudice to the provisions laid down in Title V, Chapter 1, Section 2, aggregate statistical data on key aspects of the implementation of the prudential framework in each Member State.

The disclosures provided for in the first subparagraph shall be sufficient to enable a meaningful comparison of the approaches adopted by the competent authorities of the different Member States. "

#### Article 150.2

"The Commission may adopt the following implementing measures in accordance with the procedure in Article 151:

- (d) specification of the key aspects on which aggregate statistical data are to be disclosed under Article 144 (1) (d)
- (e) specification of the format, structure, contents list and annual publication date of the disclosures provided for in Article 144.

#### ANNEX VIII – Credit risk mitigation, Part 1- Eligibility 1. Funded credit protection, Real estate collateral

§ 16: "The competent authorities may waive the requirement for their credit institutions to comply with condition (b) in paragraph 13 for exposures secured by residential real estate property situated within the territory of that Member State, if the competent authorities have evidence that the relevant market is well-developed and long established with loss-rates which are sufficiently low to justify such action. (...) Member States shall disclose publicly the use they make of this waiver."

#### Recast Directive 93/6/EEC <sup>24</sup> Recital n°30

"In order for the internal market to operate with increasing effectiveness and for citizens of the Community to be afforded adequate levels of transparency it is necessary that competent authorities disclose publicly and in a way which allows for meaningful comparison the manner in which the requirements of this Directive are implemented."

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<sup>24</sup> See MARKT/1050/04

**Preliminary definitions for calculating the 'statistical data' part of the supervisory disclosure framework**

**Definitions on data on the national banking sectors in the EU**

1. *Number of credit institutions (CI):*  
A credit institution is a company that meets the description, as laid down in Article 1 and 4 of Directive 2000/12/EC (re-cast). The figure includes domestically incorporated institutions, branches of the EEA as well as non-EEA credit institutions. Any number of places of business set up in the respective country by a credit institution with headquarters in another country, is counted as one credit institution. The definition includes branches / subsidiaries of foreign banks but not foreign branches / subsidiaries of domestic banks (host country approach).
2. *Total assets of CI*  
Total assets of credit institutions. Non-consolidated data required. Calculated on a residential basis (host country approach, with a population that corresponds to the principles, as laid down under 1).
3. *Gross Domestic Product*  
At market price (suggested source Eurostat/ECB).
4. *Number of branches of CI from EEA countries*  
A branch is a place of business which forms a legally dependent part of a credit institution and which carries out directly all or some of the transactions inherent in the business of credit institutions. Any number of places of business set up in the same country by a credit institution with headquarters in another country should be counted as a single branch.
5. *Total assets of branches of CI from EEA countries*  
The sum of the total assets of branches as defined in number 4.
6. *Number of subsidiaries of CI from EEA countries*  
A subsidiary is a separate incorporated credit institution in which another (EEA) credit institution has a majority or full participation. Any subsidiary of a subsidiary undertaking shall be regarded as a subsidiary of the parent undertaking which is at the head of those undertakings.
7. *Total assets of subsidiaries of CI from EEA countries*  
The sum of the total unconsolidated assets of the subsidiaries as defined in number 6.
8. Number of branches (see number 4) of CI from third countries
9. Total assets of branches (see number 5) of CI from third countries
10. Number of subsidiaries (see number 6) of CI from third countries

11. Total assets of subsidiaries (see number 7) of CI from third countries
12. *Total tier I capital*  
Original own funds as composed by items (a), (b) and (c) of Article 57 of the DIRECTIVE 2000/12/EC (RE-CAST), deducted by items (i), (j), (k) and by 50% of items (l) to (r) of Article 57 of the DIRECTIVE 2000/12/EC (RE-CAST) according to Article 66 paragraph 2 of this Directive.
13. *Total tier II capital*  
Additional own funds as composed by items (d), (e), (f), (g) and (h) of Article 57 of the DIRECTIVE 2000/12/EC (RE-CAST) and deducted by 50 % of items (l) to (r) of Article 57 after application of the limits of Article 66 paragraph 1 according to Article 66 paragraph 2 of this Directive.
14. *Total capital*  
The Tier I (see number 12) and Tier II (see number 13) capital plus ancillary own funds as defined in Articles 13-15 of the Directive 93/6/EC.
15. *Total risk weighted assets*  
The total assets and off-balance sheet items, risk-adjusted in accordance with the Sections 3 and 4 of the DIRECTIVE 2000/12/EC (RE-CAST).
16. *Total capital adequacy ratio*  
Total capital (see number 14) as a proportion of total risk weighted assets (see number 15) plus the calculated total of market risk positions (converted into risk weighted assets).
17. *Number of investment firms*  
Firms that meet the investment firm definition of Article 4 of Directive 2004/39/EC.
18. *Total assets of investment firms*  
The total assets of investment firms. Non-consolidated data required. Calculated on a residential basis (host country approach, see number 1).

## **Definitions on Credit Risk data**

19. *Standardised Approach to credit risk*  
Standardised Approach for calculating the risk weighted exposure amount, as provided in Title V, Chapter 2, Section 3, Subsection 1, Articles 78-83 as well as Annex VI of the DIRECTIVE 2000/12/EC (RE-CAST).
20. *Foundation IRB approach to credit risk*  
Internal Ratings Based Approach for calculating the risk weighted exposure amounts as provided in Section 3, Subsection 2, Articles 84-89 of the Directive 2000/12/EC (re-cast) based on values for LGDs and conversion factors, as provided in Section 3, Subsection 2, Article 87(8) of Directive 2000/12/EC (re-cast).
21. *Advanced IRB*

Internal Ratings Based Approach for calculating the risk weighted exposure amounts as provided in Section 3, Subsection 2, Articles-84-89 of the Directive 2000/12/EC based own estimates for LGDs and/or conversion factors as provided in Section 3, Subsection 2, Articles 87(7) and 87(9) of the DIRECTIVE 2000/12/EC (RE-CAST).

22. *Own funds requirements for credit risk*  
Total minimum level of own funds for credit risk as defined by Article 75 (a), Article 76, Annex VI and Annex VII of the DIRECTIVE 2000/12/EC (RE-CAST). The requirement calculation must also take into account a number of other elements in the directive.
23. *Total own funds requirements*  
Total minimum level of own funds as defined by Article 75 (a)-(d) of the DIRECTIVE 2000/12/EC (RE-CAST).
24. *Own funds requirements*  
For a particular approach, the minimum level of own funds for credit risk as defined by Title V, Chapter 2, Section 3, Articles 76-93, Annex VI and Annex VII of the DIRECTIVE 2000/12/EC (RE-CAST).
25. *Exposure*  
An asset or off-balance sheet item as defined by Article 77 of the DIRECTIVE 2000/12/EC (RE-CAST).
26. *Asset class*  
Asset classes are broadly defined to achieve the highest degree of commonality between the exposure classes as defined in Article 79(1) of the CRD for the Standardised Approach and Article 86(1) for the Internal Ratings Based approach.  
  
The proposed definitions of asset classes below are indicative and subject to further review once the CEBS' work on the Common reporting framework is finalised.  
  
All exposures are mapped onto 8 exposure classes. The 8 exposure classes are: Central Governments & Central banks, Institutions, Corporate, Retail, Equity, Securitisation positions, Other non-credit obligation assets, Other items.
27. *Central Governments & Central Banks*  
Exposure class as defined by Article 86(1)(a) of the CRD for the Internal Ratings Based Approach. For the Standardised Approach, this exposure class includes the exposure classes defined in Article 79(1)(a)-(e).
28. *Institutions*  
Exposure class as defined by Article 86(1)(b) of the CRD for the Internal Ratings Based Approach. For the Standardised Approach, this exposure class includes the exposure classes defined in Article 79(1)(f) and (1)(l).
29. *Corporate*

Exposure class as defined by Article 86(1)(c) of the CRD for the Internal Ratings Based Approach. For the Standardised Approach, this exposure class includes the exposure classes defined in Article 79(1)(g) and (1)(i), and Annex VI, Part I, point 9.2 Exposure secured by mortgages on commercial real estate.

30. *Retail*

Exposure class as defined by Article 86(1)(d) of the CRD for the Internal Ratings Based Approach. For the Standardised Approach, this exposure class includes the exposure classes defined in Article 79(1)(h) and (1)(i), and Annex VI, Part I, point 9.1 Exposure secured by mortgages on residential property.

31. *Equity*

Exposure class as defined by Article 86(1)(e) of the CRD for the Internal Ratings Based Approach. For the Standardised Approach, this exposure class includes the exposure classes defined in Article 79(1)(k) and (1)(o).

32. *Securitisation positions*

Exposure class as defined by Article 86(1)(f) of the CRD for the Internal Ratings Based Approach. For the Standardised Approach, this exposure class includes the exposure classes defined in Article 79(1)(m).

33. *Other non-credit obligation assets*

Exposure class as defined by Article 86(1)(g) of the CRD for the Internal Ratings Based Approach.

34. *Other items*

Exposure class as defined by Article 79(1)(j), (1)(n) and (1)(p) of the CRD for the Standardised Approach.

35. *Credit risk mitigation*

A technique used by a credit institution to reduce the credit risk associated with an exposure or exposures which the credit institution continues to hold, as defined in Article 4 (30) and Section 3, subsection 3, Articles 90-93 and Annex VIII of the DIRECTIVE 2000/12/EC (RE-CAST).

36. *Financial Collateral Simple Method*

Under this valuation method, recognised financial collateral as a credit risk mitigation technique is assigned a value equal to its market value. This method is only available where risk weighted exposure amounts are calculated under the Standardised Approach. See Annex VIII, part 3, paragraphs 25 and following of the DIRECTIVE 2000/12/EC (RE-CAST).

37. *Financial Collateral Comprehensive Method*

Under this valuation method, financial collateral as a credit risk mitigation technique is assigned a value after applying volatility adjustments, in order to take account of market price volatility. See Annex VIII of the DIRECTIVE 2000/12/EC (RE-CAST).

## **Definitions on Operational Risk data**

38. *Basic Indicator Approach*  
Basic Indicator Approach for calculating the capital requirement for operational risk is a certain percentage of a relevant indicator, in accordance with the parameters set out in Annex X, Part 1 of the DIRECTIVE 2000/12/EC (RE-CAST), as provided in Section 4, Article 103.
39. *Standardised Approach*  
Under the Standardised Approach for calculating the capital requirement for operational risk, the institutions shall divide their activities into a number of business lines and shall apply a certain percentage of a relevant indicator for each of these business lines, in accordance with Annex X, Part 2 of the DIRECTIVE 2000/12/EC (RE-CAST), as provided in Section 4, Article 104 of this Directive.
40. *Advanced Measurement Approaches*  
Advanced Measurement Approaches for calculating the capital requirements for operational risk are based on the institutions' own internal risk measurement systems. Institutions must satisfy their competent authorities that they meet the qualifying criteria set out in Annex X, Part 3 of the DIRECTIVE 2000/12/EC (RE-CAST), as provided in Section 4, Article 105 of this Directive.
41. *Own funds requirements for operational risk*  
The minimum level of own funds for operational risk as provided in Section 4, Article 102 of the DIRECTIVE 2000/12/EC (RE-CAST).

#### **Definitions on Market Risk data**

42. *Own funds requirements market risk*  
Total minimum level of own funds for market risk as defined by Article 75 (b) and Article 75 (c) of the DIRECTIVE 2000/12/EC (RE-CAST).
43. *Own funds requirements standardised approach*  
Total minimum level of own funds as defined by Annex 1, III, IV & VI of Directive 93/6/EEC.
44. *Own funds requirements VAR*  
Total minimum level of own funds as defined by Annex V of the DIRECTIVE 1993/6/EEC (RE-CAST).
45. *Own funds requirements standardised approach traded debt instruments*  
Total minimum level of own funds as defined by Annex 1, sections 1-12, sections 13-32, sections 41-56 and Annex VI of the DIRECTIVE 1993/6/EEC (RE-CAST).
46. *Own funds requirements standardised approach equities*  
Total minimum level of own funds as defined by Annex 1, sections 1-12, sections 33-40, sections 41-56 and Annex VI of the DIRECTIVE 1993/6/EEC (RE-CAST).
47. *Own funds requirements standardised approach foreign exchange*

Total minimum level of own funds as defined by Annex III of the DIRECTIVE 1993/6/EEC (RE-CAST).

48. *Own funds requirements standardised approach commodities*  
Total minimum level of own funds as defined by Annex VII of the DIRECTIVE 1993/6/EEC (RE-CAST). .
49. *Own funds requirements VAR defined towards risk categories*  
Total minimum level of own funds as defined by Annex VIII of the DIRECTIVE 1993/6/EEC (RE-CAST). Section 4 contains conditions for calculating specific risk associated with traded debt and equity positions by an internal model. If these conditions are not met by the institution, the standardized approach applies. Sections 8 and 9 also relate to *specific risks*. Reference to general interest rate and equity risk, foreign exchange risk and commodity risk is made in section 13.

### **Definitions on Supervisory actions and measures**

50. *Number of on-site inspections*  
This refers to predefined examinations, conducted within the institution either by the supervisors' own staff or external auditors with a view to:
- providing independent verification that adequate internal governance (including risk management and internal control systems) exists at individual banks;
  - determining that information provided by banks is reliable;
  - obtaining additional information needed to assess the condition of the bank.
- It does not include any other supervisory contact on-site, such as visits. It does, however, include regular on-site inspections.
51. *Number of overall-assessments performed*  
These assessments refer to the review and evaluation as described in Article 124 of the DIRECTIVE 2000/12/EC (RE-CAST).
52. *Number of institutions for which Art 136 – 1 measures have been taken*  
These measures refer to Article 136, section 1 of the DIRECTIVE 2000/12/EC (RE-CAST).