

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 (Text with EEA relevance)

PART EIGHT

DISCLOSURE BY INSTITUTIONS

TITLE II

TECHNICAL CRITERIA ON TRANSPARENCY AND DISCLOSURE

Article 435

Risk management objectives and policies

1 Institutions shall disclose their risk management objectives and policies for each separate category of risk, including the risks referred to under this Title. These disclosures shall include:

- a the strategies and processes to manage those risks;
- b the structure and organisation of the relevant risk management function including information on its authority and statute, or other appropriate arrangements;
- c the scope and nature of risk reporting and measurement systems;
- d the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants;
- e a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy;
- f a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body.

2 Institutions shall disclose the following information, including regular, at least annual updates, regarding governance arrangements:

- a the number of directorships held by members of the management body;
- b the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise;
- c the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved;
- d whether or not the institution has set up a separate risk committee and the number of times the risk committee has met;
- e the description of the information flow on risk to the management body.

Article 436

Scope of application

Institutions shall disclose the following information regarding the scope of application of the requirements of this Regulation in accordance with Directive 2013/36/EU:

- (a) the name of the institution to which the requirements of this Regulation apply;
- (b) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are:
 - (i) fully consolidated;
 - (ii) proportionally consolidated;
 - (iii) deducted from own funds;
 - (iv) neither consolidated nor deducted;
- (c) any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries;
- (d) the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries;
- (e) if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9.

Article 437

Own funds

- 1 Institutions shall disclose the following information regarding their own funds:
 - a a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;
 - b a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;
 - c the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;
 - d separate disclosure of the nature and amounts of the following:
 - (i) each prudential filter applied pursuant to Articles 32 to 35;
 - (ii) each deduction made pursuant to Articles 36, 56 and 66;
 - (iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79;
 - e a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;

- f where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.

2 EBA shall develop draft implementing technical standards to specify uniform templates for disclosure under points (a), (b), (d) and (e) of paragraph 1.

EBA shall submit those draft implementing technical standards to the Commission by 1 February 2015.

Power is conferred on the Commission to adopt the implementing technical standards referred to in the first subparagraph in accordance with Article 15 of Regulation (EU) No 1093/2010.

Article 438

Capital requirements

Institutions shall disclose the following information regarding the compliance by the institution with the requirements laid down in Article 92 of this Regulation and in Article 73 of Directive 2013/36/EU:

- (a) a summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities;
- (b) upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process 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;
- (c) for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112;
- (d) for institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147. For the retail exposure class, this requirement applies to each of the categories of exposures to which the different correlations in Article 154(1) to (4) correspond. For the equity exposure class, this requirement applies to:
 - (i) each of the approaches provided in Article 155;
 - (ii) exchange traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;
 - (iii) exposures subject to supervisory transition regarding own funds requirements;
 - (iv) exposures subject to grandfathering provisions regarding own funds requirements;
- (e) own funds requirements calculated in accordance with points (b) and (c) of Article 92(3);
- (f) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.

The institutions calculating the risk-weighted exposure amounts in accordance with Article 153(5) or Article 155(2) shall disclose the exposures assigned to each category in Table 1 of Article 153(5), or to each risk weight mentioned in Article 155(2).

Article 439

Exposure to counterparty credit risk

Institutions shall disclose the following information regarding the institution's exposure to counterparty credit risk as referred to in Part Three, Title II, Chapter 6:

- (a) a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;
- (b) a discussion of policies for securing collateral and establishing credit reserves;
- (c) a discussion of policies with respect to wrong-way risk exposures;
- (d) a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating;
- (e) gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements;
- (f) measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable;
- (g) the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure;
- (h) the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group;
- (i) the estimate of α if the institution has received the permission of the competent authorities to estimate α .

Article 440

Capital buffers

1 An institution shall disclose the following information in relation to its compliance with the requirement for a countercyclical capital buffer referred to in Title VII, Chapter 4 of Directive 2013/36/EU:

- a the geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer;
- b the amount of its institution specific countercyclical capital buffer.

2 EBA shall develop draft regulatory technical standards specifying the disclosure requirements set out in paragraph 1.

EBA shall submit those draft regulatory technical standards to the Commission by 31 December 2014.

Power is delegated to the Commission to adopt the regulatory technical standards referred to in the first subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.

Article 441

Indicators of global systemic importance

1 Institutions identified as G-SIIs in accordance with Article 131 of Directive 2013/36/EU shall disclose, on an annual basis, the values of the indicators used for determining the score of the institutions in accordance with the identification methodology referred to in that Article.

2 EBA shall develop draft implementing technical standards to specify the uniform formats and date for the purposes of the disclosure referred to in paragraph 1. In developing those technical standards, EBA shall take into account international standards.

EBA shall submit those draft implementing technical standards to the Commission by 1 July 2014.

Power is conferred on the Commission to adopt the implementing technical standards referred to in the first subparagraph in accordance with Article 15 of Regulation (EU) No 1093/2010.

Article 442

Credit risk adjustments

Institutions shall disclose the following information regarding the institution's exposure to credit risk and dilution risk:

- (a) the definitions for accounting purposes of 'past due' and 'impaired';
- (b) a description of the approaches and methods adopted for determining specific and general credit risk adjustments;
- (c) the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes;
- (d) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;
- (e) the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate;
- (f) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;
- (g) by significant industry or counterparty type, the amount of:
 - (i) impaired exposures and past due exposures, provided separately;

- (ii) specific and general credit risk adjustments;
 - (iii) charges for specific and general credit risk adjustments during the reporting period;
- (h) the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area;
- (i) the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately. The information shall comprise:
 - (i) a description of the type of specific and general credit risk adjustments;
 - (ii) the opening balances;
 - (iii) the amounts taken against the credit risk adjustments during the reporting period;
 - (iv) the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments;
 - (v) the closing balances.

Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately.

Article 443

Unencumbered assets

EBA shall issue guidelines specifying the disclosure of unencumbered assets, taking into account Recommendation ESRB/2012/2 of the European Systemic Risk Board of 20 December 2012 on funding of credit institutions⁽¹⁾ and in particular Recommendation D - Market transparency on asset encumbrance, by 30 June 2014. Those guidelines shall be adopted in accordance with Article 16 of Regulation (EU) No 1093/2010.

EBA shall develop draft regulatory technical standards to specify disclosure of the balance sheet value per exposure class broken down by asset quality and the total amount of the balance sheet value that is unencumbered, taking into account Recommendation ESRB/2012/2 and conditional on EBA considering in its report that such additional disclosure offers reliable and meaningful information.

EBA shall submit those draft regulatory technical standards to the Commission by 1 January 2016.

Power is delegated to the Commission to adopt the regulatory technical standards referred to in the first subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.

Article 444

Use of ECAIs

For institutions calculating the risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 2, the following information shall be disclosed for each of the exposure classes specified in Article 112:

- (a) the names of the nominated ECAIs and ECAs and the reasons for any changes;
- (b) the exposure classes for which each ECAI or ECA is used;
- (c) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;
- (d) the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA;
- (e) the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2 as well as those deducted from own funds.

Article 445

Exposure to market risk

The institutions calculating their own funds requirements in accordance with points (b) and (c) of Article 92(3) shall disclose those requirements separately for each risk referred to in those provisions. In addition, the own funds requirement for specific interest rate risk of securitisation positions shall be disclosed separately.

Article 446

Operational risk

Institutions shall disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2), if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used.

Article 447

Exposures in equities not included in the trading book

Institutions shall disclose the following information regarding the exposures in equities not included in the trading book:

- (a) the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques

- and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices;
- (b) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value;
 - (c) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;
 - (d) the cumulative realised gains or losses arising from sales and liquidations in the period; and
 - (e) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.

Article 448

Exposure to interest rate risk on positions not included in the trading book

Institutions shall disclose the following information on their exposure to interest rate risk on positions not included in the trading book:

- (a) the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk;
- (b) the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.

Article 449

Exposure to securitisation positions

Institutions calculating risk weighted exposure amounts in accordance with Part Three, Title II, Chapter 5 or own funds requirements in accordance with Article 337 or 338 shall disclose the following information, where relevant, separately for their trading and non-trading book:

- (a) a description of the institution's objectives in relation to securitisation activity;
- (b) the nature of other risks including liquidity risk inherent in securitised assets;
- (c) the type of risks in terms of seniority of underlying securitisation positions and in terms of assets underlying those latter securitisation positions assumed and retained with re-securitisation activity;
- (d) the different roles played by the institution in the securitisation process;
- (e) an indication of the extent of the institution's involvement in each of the roles referred to in point (d);
- (f) a description of the processes in place to monitor changes in the credit and market risk of securitisation exposures including, how the behaviour of the underlying assets impacts securitisation exposures and a description of how those processes differ for re-securitisation exposures;

- (g) a description of the institution's policy governing the use of hedging and unfunded protection to mitigate the risks of retained securitisation and re-securitisation exposures, including identification of material hedge counterparties by relevant type of risk exposure;
- (h) the approaches to calculating risk weighted exposure amounts that the institution follows for its securitisation activities including the types of securitisation exposures to which each approach applies;
- (i) the types of SSPE that the institution, as sponsor, uses to securitise third-party exposures including whether and in what form and to what extent the institution has exposures to those SSPEs, separately for on- and off-balance sheet exposures, as well as a list of the entities that the institution manages or advises and that invest in either the securitisation positions that the institution has securitised or in SSPEs that the institution sponsors;
- (j) a summary of the institution's accounting policies for securitisation activities, including:
 - (i) whether the transactions are treated as sales or financings;
 - (ii) the recognition of gains on sales;
 - (iii) the methods, key assumptions, inputs and changes from the previous period for valuing securitisation positions;
 - (iv) the treatment of synthetic securitisations if not covered by other accounting policies;
 - (v) how assets awaiting securitisation are valued and whether they are recorded in the institution's non-trading book or the trading book;
 - (vi) policies for recognising liabilities on the balance sheet for arrangements that could require the institution to provide financial support for securitised assets;
- (k) the names of the ECAs used for securitisations and the types of exposure for which each agency is used;
- (l) where applicable, a description of the Internal Assessment Approach as set out in Part Three, Title II, Chapter 5, Section 3, including the structure of the internal assessment process and relation between internal assessment and external ratings, the use of internal assessment other than for Internal Assessment Approach capital purposes, the control mechanisms for the internal assessment process including discussion of independence, accountability, and internal assessment process review, the exposure types to which the internal assessment process is applied and the stress factors used for determining credit enhancement levels, by exposure type;
- (m) an explanation of significant changes to any of the quantitative disclosures in points (n) to (q) since the last reporting period;
- (n) separately for the trading and the non-trading book, the following information broken down by exposure type:
 - (i) the total amount of outstanding exposures securitised by the institution, separately for traditional and synthetic securitisations and securitisations for which the institution acts only as sponsor;

- (ii) the aggregate amount of on-balance sheet securitisation positions retained or purchased and off-balance sheet securitisation exposures;
 - (iii) the aggregate amount of assets awaiting securitisation;
 - (iv) for securitised facilities subject to the early amortisation treatment, the aggregate drawn exposures attributed to the originator's and investors' interests respectively, the aggregate capital requirements incurred by the institution against the originator's interest and the aggregate capital requirements incurred by the institution against the investor's shares of drawn balances and undrawn lines;
 - (v) the amount of securitisation positions that are deducted from own funds or risk-weighted at 1 250 %;
 - (vi) a summary of the securitisation activity of the current period, including the amount of exposures securitised and recognised gain or loss on sale;
- (o) separately for the trading and the non-trading book, the following information:
- (i) the aggregate amount of securitisation positions retained or purchased and the associated capital requirements, broken down between securitisation and re-securitisation exposures and further broken down into a meaningful number of risk-weight or capital requirement bands, for each capital requirements approach used;
 - (ii) the aggregate amount of re-securitisation exposures retained or purchased broken down according to the exposure before and after hedging/insurance and the exposure to financial guarantors, broken down according to guarantor credit worthiness categories or guarantor name;
- (p) for the non-trading book and regarding exposures securitised by the institution, the amount of impaired/past due assets securitised and the losses recognised by the institution during the current period, both broken down by exposure type;
- (q) for the trading book, the total outstanding exposures securitised by the institution and subject to a capital requirement for market risk, broken down into traditional/synthetic and by exposure type;
- (r) where applicable, whether the institution has provided support within the terms of Article 248(1) and the impact on own funds.

Article 450

Remuneration policy

1 Institutions shall disclose at least the following information, regarding the remuneration policy and practices of the institution for those categories of staff whose professional activities have a material impact on its risk profile:

- a information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;

- b information on link between pay and performance;
- c the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;
- d the ratios between fixed and variable remuneration set in accordance with Article 94(1) (g) of Directive 2013/36/EU;
- e information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;
- f the main parameters and rationale for any variable component scheme and any other non-cash benefits;
- g aggregate quantitative information on remuneration, broken down by business area;
- h aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following:
 - (i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;
 - (ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;
 - (iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions;
 - (iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;
 - (v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments;
 - (vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person;
- i the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;
- j upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.

2 For institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information referred to in this Article shall also be made available to the public at the level of members of the management body of the institution.

Institutions shall comply with the requirements set out in this Article in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities and without prejudice to Directive 95/46/EC.

Article 451

Leverage

1 Institutions shall disclose the following information regarding their leverage ratio calculated in accordance with Article 429 and their management of the risk of excessive leverage:

- a the leverage ratio and how the institution applies Article 499(2) and (3);
- b a breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements;
- c where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11);
- d a description of the processes used to manage the risk of excessive leverage;
- e a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.

2 EBA shall develop draft implementing technical standards to determine the uniform disclosure template for the disclosure referred to in paragraph 1 and the instructions on how to use such template.

EBA shall submit those draft implementing technical standards to the Commission by 30 June 2014.

Power is conferred on the Commission to adopt the implementing technical standards referred to in the first subparagraph in accordance with Article 15 of Regulation (EU) No 1093/2010.

(1) OJ C 119, 25.4.2013, p. 1.