Appendix 1: EDTF Recommendations[9]

General recommendations

1 Present all related risk information together in any particular report. Where this is not practicable, provide an index or an aid to navigation to help users locate risk disclosures within the bank's reports.

2 Define the bank's risk terminology and risk measures and present key parameter values used.

3 Describe and discuss top and emerging risks, incorporating relevant information in the bank's external reports on a timely basis. This should include quantitative disclosures, if possible, and a discussion of any changes in those risk exposures during the reporting period.

4 Once the applicable rules are finalised, outline plans to meet each new key regulatory ratio, e.g., the net stable funding ratio, liquidity coverage ratio and leverage ratio and, once the applicable rules are in force, provide such key ratios.

Risk governance and risk management strategies/business model

5 Summarise prominently the bank's risk management organisation, processes and key functions.

6 Provide a description of the bank's risk culture, and how procedures and strategies are applied to support the culture.

7 Describe the key risks that arise from the bank's business models and activities, the bank's risk appetite in the context of its business models and how the bank manages such risks. This is to enable users to understand how business activities are reflected in the bank's risk measures and how those risk measures relate to line items in the balance sheet and income statement (Figure 1)

8 Describe the use of stress testing within the bank's risk governance and capital frameworks. Stress testing disclosures should provide a narrative overview of the bank's internal stress testing process and governance.

Capital adequacy and risk-weighted assets

9 Provide minimum Pillar 1 capital requirements, including capital surcharges for G-SIBs and the application of counter-cyclical and capital conservation buffers or the minimum internal ratio established by management.

10 Summarise information contained in the composition of capital templates adopted by the Basel Committee to provide an overview of the main components of capital, including capital instruments and regulatory adjustments. A reconciliation of the accounting balance sheet to the regulatory balance sheet should be disclosed.

[9] Report of the Enhanced Disclosure Task Force: http://www.financialstabilityboard.org/publications/r_121029.pdf
Enhanced Disclosure Task Force 2013 Progress Report: http://www.financialstabilityboard.org/2013/08/r_130821a/

11 Present a flow statement of movements since the prior reporting date in regulatory capital, including changes in common equity tier 1, tier 1 and tier 2 capital (Figure 2)

12 Qualitatively and quantitatively discuss capital planning within a more general discussion of management's strategic planning, including a description of management's view of the required or targeted level of capital and how this will be established.

13 Provide granular information to explain how risk-weighted assets (RWAs) relate to business activities and related risks.

14 Present a table showing the capital requirements for each method used for calculating RWAs for credit risk, including counterparty credit risk, for each Basel asset class as well as for major portfolios within those classes. For market risk and operational risk, present a table showing the capital requirements for each method used for calculating them. Disclosures should be accompanied by additional information about significant models used, eg. data periods, downturn parameter thresholds and methodology for calculating loss given default (LGD).

15 Tabulate credit risk in the banking book showing average probability of default (PD) and LGD as well as exposure at default (EAD), total RWAs and RWA density for Basel asset classes and major portfolios within the Basel asset classes at a suitable level of granularity based on internal ratings grades. For non-retail banking book credit portfolios, internal ratings grades and PD bands should be mapped against external credit ratings and the number of PD bands presented should match the number of notch-specific ratings used by credit rating agencies (Figure 3)

16 Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type (Figure 4)

17 Provide a narrative putting Basel Pillar 3 back-testing requirements into context, including how the bank has assessed model performance and validated its models against default and loss.

Liquidity

18 Describe how the bank manages its potential liquidity needs and provide a quantitative analysis of the components of the liquidity reserve held to meet these needs, ideally by providing averages as well as period-end balances. The description should be complemented by an explanation of possible limitations on the use of the liquidity reserve maintained in any material subsidiary or currency.

Funding

19 Summarise encumbered and unencumbered assets in a tabular format by balance sheet categories, including collateral received that can be rehypothecated or otherwise redeployed. This is to facilitate an understanding of available and unrestricted assets to support potential funding and collateral needs (Figure 5)

20 Tabulate consolidated total assets, liabilities and off-balance sheet commitments by remaining contractual maturity at the balance sheet date. Present separately (i) senior unsecured borrowing (ii) senior secured borrowing (separately for covered bonds and repos) and (iii) subordinated borrowing. Banks should provide a narrative discussion of

management's approach to determining the behavioural characteristics of financial assets and liabilities (Figure 6)

21 Discuss the bank's funding strategy, including key sources and any funding concentrations, to enable effective insight into available funding sources, reliance on wholesale funding, any geographical or currency risks and changes in those sources over time.

Market risk

22 Provide information that facilitates users' understanding of the linkages between line items in the balance sheet and the income statement with positions included in the traded market risk disclosures (using the bank's primary risk management measures such as Value at Risk (VaR)) and non-traded market risk disclosures such as risk factor sensitivities, economic value and earnings scenarios and/or sensitivities (Figure 7)

23 Provide further qualitative and quantitative breakdowns of significant trading and nontrading market risk factors that may be relevant to the bank's portfolios beyond interest rates, foreign exchange, commodity and equity measures.

24 Provide qualitative and quantitative disclosures that describe significant market risk measurement model limitations, assumptions, validation procedures, use of proxies, changes in risk measures and models through time and descriptions of the reasons for back-testing exceptions, and how these results are used to enhance the parameters of the model.

25 Provide a description of the primary risk management techniques employed by the bank to measure and assess the risk of loss beyond reported risk measures and parameters, such as VaR, earnings or economic value scenario results, through methods such as stress tests, expected shortfall, economic capital, scenario analysis, stressed VaR or other alternative approaches. The disclosure should discuss how market liquidity horizons are considered and applied within such measures.

Credit risk

26 Provide information that facilitates users' understanding of the bank's credit risk profile, including any significant credit risk concentrations. This should include a quantitative summary of aggregate credit risk exposures that reconciles to the balance sheet, including detailed tables for both retail and corporate portfolios that segments them by relevant factors. The disclosure should also incorporate credit risk likely to arise from off-balance sheet commitments by type.

27 Describe the policies for identifying impaired or non-performing loans, including how the bank defines impaired or non-performing, restructured and returned-to-performing (cured) loans as well as explanations of loan forbearance policies.

28 Provide a reconciliation of the opening and closing balances of non-performing or impaired loans in the period and the allowance for loan losses. Disclosures should include an explanation of the effects of loan acquisitions on ratio trends, and qualitative and quantitative information about restructured loans (Figure 8)

29 Provide a quantitative and qualitative analysis of the bank's counterparty credit risk that arises from its derivatives transactions. This should quantify notional derivatives exposure,

including whether derivatives are over-the-counter (OTC) or traded on recognised exchanges. Where the derivatives are OTC, the disclosure should quantify how much is settled by central counterparties and how much is not, as well as provide a description of collateral agreements.

30 Provide qualitative information on credit risk mitigation, including collateral held for all sources of credit risk and quantitative information where meaningful. Collateral disclosures should be sufficiently detailed to allow an assessment of the quality of collateral. Disclosures should also discuss the use of mitigants to manage credit risk arising from market risk exposures (i.e. the management of the impact of market risk on derivatives counterparty risk) and single name concentrations.

Other risks

31 Describe ‘other risk’ types based on management’s classifications and discuss how each one is identified, governed, measured and managed. In addition to risks such as operational risk, reputational risk, fraud risk and legal risk, it may be relevant to include topical risks such as business continuity, regulatory compliance, technology, and outsourcing.

32 Discuss publicly known risk events related to other risks, including operational, regulatory compliance and legal risks, where material or potentially material loss events have occurred. Such disclosures should concentrate on the effect on the business, the lessons learned and the resulting changes to risk processes already implemented or in progress.