



EBA Guidelines in accordance with Articles 432 and 433 of Regulation (EU) 575 / 2013

Guidelines on Materiality, Proprietary nature, Confidentiality and Frequency of disclosures in Part Eight of Regulation (EU) 575/2013

Mandate, scope and format (1)

- Institutions shall disclose information laid down in Part Eight CRR (Article 431)
- The CRR provides for some exceptions, “disclosure waivers” (Article 432):
 - Information may be omitted if it is not regarded as material
 - ▶ There should be no omission for materiality reason regarding information on the use of internal models (IRB Approach for credit risk, Advanced Measurement Approaches for operational risk, internal market risk models), the use of credit risk mitigation techniques, own funds, remuneration, and the diversity policy for the selection of Board members
 - Disclosure requirements contain items of information regarded as proprietary and confidential
 - ▶ There should be no omission for confidentiality or proprietary reason for information on own funds and remuneration
- Disclosures should be published at least on an annual basis, and institutions should assess the need to publish some or all disclosures more frequently than annually (Article 433)
 - Special attention to the need to disclose more frequently information on own funds, capital requirements, risk exposures and other items prone to rapid change

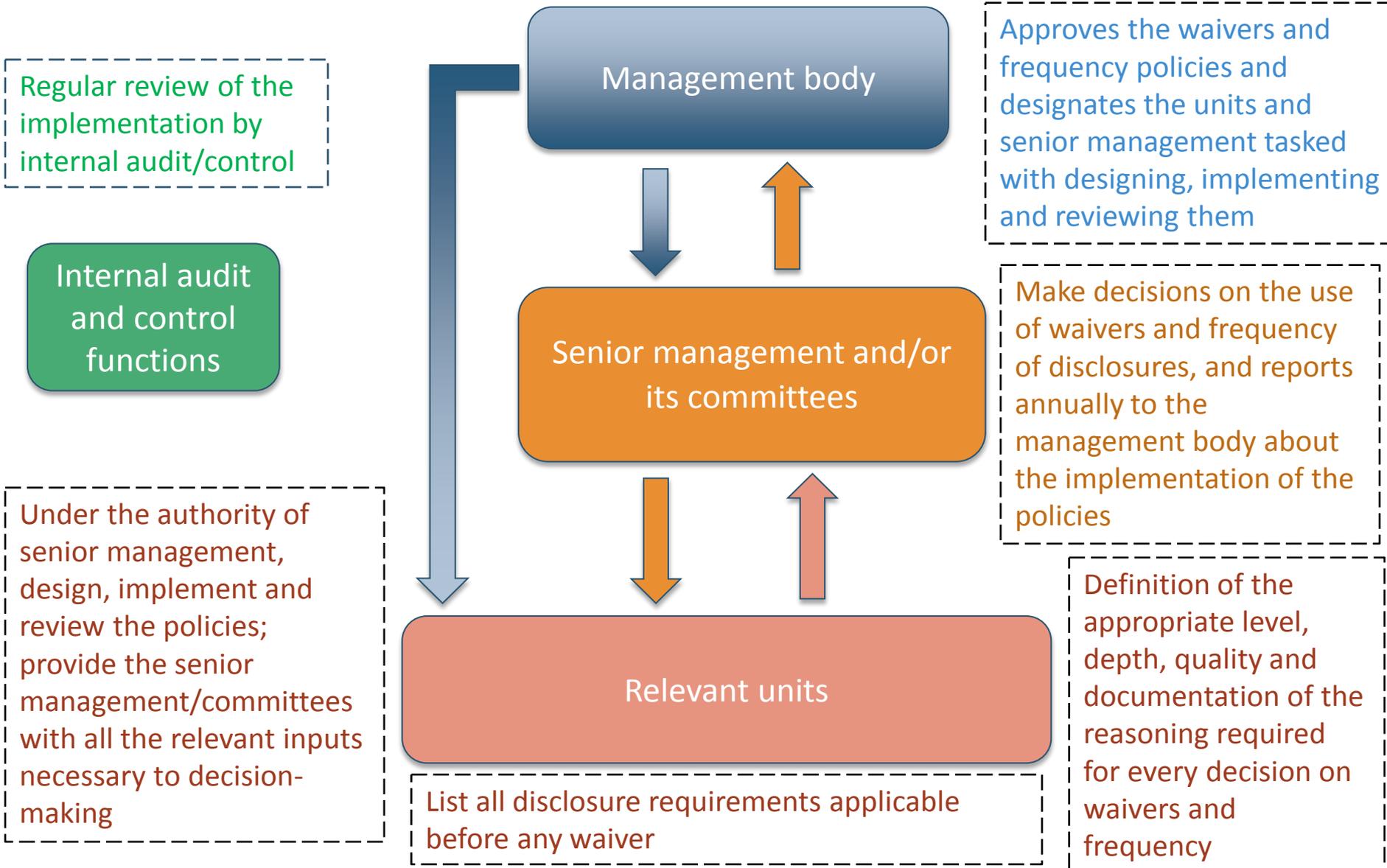
Mandate, scope and format (2)

- The EBA shall by 31 December 2014 issue Guidelines
 - on how institutions apply materiality for disclosures required in Part Eight CRR Title II
 - on how institutions have to apply proprietary and confidentiality for disclosures required in Part Eight CRR Title II and III
 - on institutions assessing more frequent disclosures of information required in Part Eight CRR Title II and III
- Single document part of the overall EBA efforts to enhance the quality, comparability and consistency of disclosures
- Common and flexible framework to achieve more consistency in practices regarding the use of the disclosure waivers and in the more frequent disclosure of information
 - **The process that institutions should follow** in their assessments of the use of any disclosure waiver and of their more frequent disclosure of information
 - **The criteria that institutions should consider** in the assessments of the use of any disclosure waiver and of their more frequent disclosure of information
 - **The information that institutions should provide** when using the disclosure waivers or choosing to disclose information more frequently – minimum set of disclosures
- Apply to institutions already subject to CRR disclosure requirements

Processes and internal policies (1)

- The Guidelines set out features of internal policies to be implemented for the use of disclosure waivers and the decision on frequency of disclosures
 - Article 431: “Institutions shall [...] have policies for assessing the appropriateness of their disclosures, including their verification and frequency.”
- Purpose: ensuring consistency in processes and appropriate level of consideration by institutions regarding the use of disclosure waivers and frequency of disclosures
- These policies shall be approved by the management body and implemented by senior management, its committees and relevant units within the institution
- The policies shall in addition have a transparency dimension
 - Internal transparency: documentation and internal evidence about the implementation of the policies (for instance pieces of evidence showing the potential impact of the disclosures of information considered as proprietary)
 - External transparency: a summary description of the policies should be provided in the document in which disclosures required by Part Eight CRR are included

Processes and internal policies (2)



Process and internal policies - Questions

Q1) Do you agree that the use of the disclosure waivers and the assessment of the need for more frequent disclosures should be framed – for the purpose of Article 431 CRR - within a dedicated process? If not, please state why

Q2) Do you agree with the features of this process? If not, which ones would you exclude/include?

Materiality (1)

- Criteria to be considered in the assessment of the materiality as per the CRR of a piece of information
 - Regular assessment (at least once a year) at the level of each individual qualitative and quantitative disclosure requirement ; where relevant, assessment on an aggregate basis
 - Assessment to take into consideration
 - ▶ The circumstances and the broader context at the time of disclosure
 - ▶ The needs of users (user-centric assessment)
 - ▶ The nature of the disclosure requirement (different assessment for qualitative and quantitative disclosures)
 - Materiality is an institution-specific concept: depends on the risk profile of an institution (no automatic link between the size of an institution and the materiality of a piece of information)
 - A piece of information can be material by size or nature: assessment of materiality using only materiality threshold is not appropriate
 - Materiality is a dynamic concept: re-assessment of materiality may result in variety in the types and extent of disclosures over time
- Immateriality may lead to the non-disclosure of information but materiality of a piece of information may lead to more disclosure than required by the CRR

Materiality (2)

- Materiality of a piece of information should be assessed using judgement informed by relevant criteria and indicators
 - Context elements:
 - ▶ Institution's business model and long-term strategy
 - ▶ Economic and political environment
 - ▶ Developments in risks, disclosure needs and disclosure practices
 - Size of the information or element to which the information is related
 - Influence of the element on the development of risks, exposures and RWA
 - Relevance of the item of information to understand the current risks and solvency of the entity and their trend (omission should not mask a trend in the evolution of risks from previous period)
 - Amplitude of change of the element to which an item of information is related compared to previous year
- Transparency
 - Statement of the item of information not disclosed for materiality reasons and give the reasoning
 - Provision of more general or aggregate qualitative or quantitative information

Materiality - Questions

Q3) Should the guidelines be developed more on what is expected from institutions when an item of information is assessed as material?

Q4) Do you agree with the principles and indicators to be considered in the assessment of materiality? Which additional principles or indicators, if any, would you like to see considered?

Q7) Do you agree that transparency should be provided on the implementation of the process and on the use of the waivers when this use leads to the non-disclosure of information required by Regulation (EU) 575/2013? If not, why?

Q8) Do you agree that information listed in paragraph 19 should be provided in case disclosures are omitted due to immateriality reasons? If not, why? Do you agree that the provision of this information allows for an optimal degree of transparency regarding the use of the materiality waiver? If not, what additional information should be provided?

Confidentiality and proprietary nature (1)

- Criteria to be considered in the assessment of the confidential or proprietary nature of a piece of information
- Use of the proprietary or confidentiality waivers should be exceptional
 - **Proprietary nature:** information of such an importance that their disclosure might drastically impact the institution forthcoming results or fundamentally negatively affect the institution competitive position (products, systems, competitively significant operational conditions or business circumstances)
 - ▶ Undermining of competitive position: size, extent of business and area of activity
 - ▶ General reference to possible weakening of competitiveness due to disclosure not sufficient, alone, to avoid disclosures: specific identification of the effect of disclosures on competitiveness
 - ▶ Information that disadvantages institution due to its unfavourable risk profile is not proprietary
 - **Confidentiality:** information covered by legally established confidentiality regime, or names of counterparties (in particular when they are concentrated among a low number of market players)
 - ▶ General reference to confidentiality is not a sufficient reason for avoiding disclosure: legal analysis of the incidence of disclosure on the rights of their customers or counterparties or respect of legally established confidentiality obligations.

Confidentiality and proprietary nature (2)

- Transparency
 - Statement of the type of information or the disclosure requirement that is considered as proprietary or confidential and what justifies the information being classified as proprietary or confidential
 - More general information about the subject matter of the disclosure requirement, being meaningful while respecting confidentiality or proprietary concerns (non-disclosure of the name of individual clients, appropriate level of aggregation)
- Information disclosed **after** the use of the proprietary and confidentiality waivers should remain sufficient to convey the comprehensive risk profile of an institution to users

Confidentiality and proprietary nature- Questions

Q5) Do you agree with the elements to be considered in the assessment of confidentiality or proprietary? Which additional element, if any, would you like to see considered?

Q9) What other techniques, if any, would you use to allow for the disclosure of meaningful information despite concerns about confidentiality or proprietary?

Frequency of disclosures (1)

- **The Guidelines neither extend the scope of the disclosure requirements in the CRR nor set additional disclosure requirements**
 - Only apply to institutions that are **already** subject to disclosure requirements in the CRR
 - The decision to provide – or not – more frequent disclosures has to be made **by institutions**
- Every institution should assess its need to disclose information more frequently in the light of the relevant characteristics of their business
 - Scale of operations, range of activities, presence in different countries, involvement in different financial sectors, and participation in international financial markets and payment, settlement and clearing systems.
- Taking these characteristics into account, some institutions should especially conduct the assessment:
 - The institution is one of the three largest institutions in its home Member State;
 - The institution's consolidated assets are in excess of €30 billion;
 - The institution's 4 year average of total assets is in excess of 20% of the 4 year average of its home Member State's GDP;
 - The institution has consolidated exposures following leverage ratio rules exceeding €200 billion or the equivalent in foreign currency using ECB exchange rate.

Frequency of disclosures (2)

- Minimum list of information that institutions meeting one of the criteria of the Guidelines should especially pay attention to disclose
 - Consistency in more frequent disclosures, based on best practices users’ needs
 - Proportionality: extent of disclosures depends on the importance of institutions

Institutions with leverage ratio exposure > €200 bn

Quarterly:

Capital amounts, adjustments and ratios (Tier 1, AT1, Tier 2, Total capital) as per the Technical Standard on Own funds
 Leverage ratio (Tier 1, exposures, ratio) as per the Technical Standard on Leverage ratio
 Capital requirements and RWA (credit, market, securitisation, operational risk)
 Items prone to rapid changes

Semi-annually:

Information on risk exposures and quantitative information on IRB models by risk parameters,
 Technical Standards on Own funds and Leverage ratio

Institutions within the 3 largest in the home member state, more than €30 bn assets or with 4 year average of total assets in excess of 20% of the 4 year average of its home Member State’s GDP

Semi-annually

Capital amounts, adjustments and ratios (Tier 1, AT1, Tier 2, Total capital),
 Leverage ratio (Tier 1, exposures, ratio),
 Capital requirements and RWA (credit, market, securitisation, operational risk)
 Risk exposures, information on IRB models by risk parameters and items prone to rapid change

Frequency of disclosures (3)

- Minimum disclosures on a more frequent basis than annually (quarterly or semi-annually) by institutions meeting the criteria in the Guidelines are expected but not mandatory
 - The frequency of disclosures and the types of interim disclosures depend on the assessment performed by the institutions in compliance with the Guidelines
- An institution shall provide more interim disclosures than the minimum set of information specified in the Guidelines if its assessment indicates that these additional disclosures are necessary to convey its comprehensive risk profile
- In case an institution meeting the criteria in the Guidelines chooses not to provide one or some of the minimum disclosures listed in the Guidelines
 - Statement of this fact in the annual document containing the disclosures required by Part Eight CRR
 - Information on the reasons for the decision made not to provide more frequent disclosures

Frequency of disclosures - Questions

Q6) Do you agree with the indicators in paragraphs 18 that should lead institutions to assess their need to disclose information more frequently? If not, which alternative indicators would you suggest?

Q10) Do you agree with the list of information that institutions should assess whether to disclose them more frequently than annually? If not, what information would you include in or exclude from this list?

Q11) Do you agree with the suggested frequency of disclosure for the different institutions meeting the different indicators specified in paragraph 18? If not, which alternative frequency would you suggest?

Conclusions and next steps

- Guidelines to be issued by 31 December 2014
- Implementation as at 1 January 2015
 - Statement of compliance to be provided from 1 January 2015 in the document containing the disclosures required by Part Eight CRR
- Consultation open until **13 September 2014**
 - Comments to be sent via the EBA website
 - ▶ <http://www.eba.europa.eu/regulation-and-policy/transparency-and-pillar-3/guidelines-on-materiality-proprietary-and-confidentiality-and-on-disclosure-frequency>
- Finalisation phase of the Guidelines will take into consideration as far as possible the proposals by the Basel Committee on the Pillar 3 disclosure requirements and the outcome of the consultation thereon

Final questions

Q12) Do you agree with the proposed implementation date? If not, which alternative date would you suggest?

Q13) Do you agree with our analysis of the impact of the proposals in this Consultation Paper? If not, can you provide any evidence or data that would explain why you disagree or that might further inform our analysis of the likely impacts of the proposals?



EUROPEAN BANKING AUTHORITY

Tower 42, 25 Old Broad Street
London EC2N 1HQ

Tel: +44 2073821770

Fax: +44 207382177-1/2

E-mail: info@eba.europa.eu

<http://www.eba.europa.eu>