Questionnaire on the Assessment of the Equivalence with European regulatory and supervisory framework

Guidance to respondents

Background

The Capital Requirements Regulation (CRR, Regulation (EU) No 575/2013) foresees that under well-defined conditions, certain categories of exposures to entities located in third countries (countries outside the European Union (EU)), including central governments, can benefit from the same, more favorable treatment applied to EU Countries exposures in terms of capital requirements. Such a preferential treatment is only available where the European Commission adopts an Implementing Decision determining that a third country’s prudential supervisory and regulatory requirements are at least equivalent to those applied in the EU.

In the context of this process, the European Banking Authority (EBA) assists the European Commission in carrying out its mandate to regularly review the equivalence of third countries.

The aim of the equivalence assessment process is to assess whether third countries and territories apply regulatory and supervisory arrangements that are equivalent to the EU regulatory and supervisory framework applied in the relevant areas. Such a framework was introduced in 2013, when the EU adopted a legislative package to strengthen the regulation of the banking sector with the aim of creating a sounder and safer financial system. The building blocks are given by the CRR and the Capital Requirements Directive (CRD):

- The CRR contains the detailed prudential requirements for credit institutions and investment firms in terms of capital requirements, risk definition and measurement for credit, market and operational risk, liquidity and leverage;
- The CRD deals with the procedures and processes from the supervisory side to ensure effective monitoring of risk governance and practices and envisages specific requirements on corporate governance arrangements and rules aimed at increasing the effectiveness of risk oversight.

Ultimately, for those third countries which are recognised as equivalent, EU banks can apply preferential risk weights to relevant exposures to entities located in those countries.
Questionnaire

1. The purpose of this questionnaire is to facilitate collection of data and guide the assessment of the other jurisdictions’ equivalence with the EU prudential supervision and regulatory requirements specified in the CRR and the CRD. The questions included in the questionnaire are divided into thematic sections presented within two separate parts: “Part I - Prudential supervision” and “Part II - Prudential regulatory requirements”. The questions are accompanied with legislative references to the appropriate CRD/CRR provisions, and in most cases, also with a brief explanation of the EU rules in a specific area. This explanation is added to the questionnaire in order to guide the interpretation of the CRR/CRD. It should be noted, however, that the brief explanations do not contain assessment criteria, and jurisdictions are not assessed against the explanations, examples and definitions that they contain.

2. The assessment should be mostly qualitative and outcome-based, and thus it should consider the major features of the relevant supervisory and regulatory framework. Along these lines, the equivalence of the third country’s regulatory and supervisory framework implies sharing the same objectives as the Union’s framework (i.e. ensuring appropriate regulation and supervision, and ultimately financial stability).

3. Since the assessment is aimed at evaluating national regulations, the addressed national supervisory authority should communicate with other relevant authorities within its jurisdiction and if necessary involve them in the evaluation, in order to achieve a consistent review of the national regulatory framework.

4. Domestic regulations are assessed for their compliance with the EU requirements according to the materiality of any deviations from the EU framework.

5. All sections of the questionnaire should be completed in English. References to domestic regulations and specific regulatory texts that implement the requirements equivalent to the EU provisions should be as detailed as possible and links or copies of such legal or regulatory texts should be provided (preferably in English). Additional sheets and associated documents can be appended to the questionnaire to help provide further explanation and background information to the assessment team.

6. The questionnaire is aimed at assessing equivalence with respect to the provisions of the Capital Requirements Regulations (CRR) and the Capital Requirements Directive (CRD). Besides the relevant articles of the CRR or CRD which are stated in the questionnaire for ease of reference (and since the CRR/CRD are de facto the implementation of the Basel III framework in the EU that incorporate previous Basel II provisions) we would like to provide you with Annex II which also quotes for the majority of legal references the corresponding paragraph of the relevant Basel II and/or Basel III framework. However, it must be clear that the EBA’s mandate by the European Commission is to assess equivalence only against the EU CRR and CRD.
Definitions for the Questionnaire

For a proper interpretation and understanding of the CRR/CRD provisions, while answering all questions included in the questionnaire, it is always necessary to refer to definitions of specific terms used in these legal acts (especially to the definitions provided in Article 4 of the CRR and Article 3 of the CRD). Nevertheless, with the aim of facilitating the process of answering the questions, the key terms which are most frequently used within the questionnaire are defined below (in a simplified way):

- “credit institution” means an undertaking the business of which is to take deposits or other repayable funds from the public and grant credits for its own account;
- “investment firm” means a legal person whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis;
- “institution” means a credit institution or investment firm;
- “Member State” means a country that belongs to the European Union;
- “competent authority” means a public authority or body officially recognised by national law, which is empowered by national law to supervise institutions as part of the supervisory system in operation in the Member State concerned;
- “prudential regulation” mean a set of rules concerning: (i) access to the activity of credit institutions and investment firms (i.e. conditions for their authorisation); (ii) supervisory powers and tools for the prudential supervision of institutions by competent authorities; (iii) the prudential supervision of institutions by competent authorities; (iv) publication requirements for competent authorities in the field of prudential regulation and supervision of institutions; (v) requirements imposed on institutions, which cover: (a) own funds requirements relating to entirely quantifiable, uniform and standardised elements of credit risk, market risk, operational risk and settlement risk; (b) liquidity requirements relating to entirely quantifiable, uniform and standardised elements of liquidity risk; (c) requirements limiting large exposures; (d) reporting requirements related to own funds requirements and to leverage; (e) public disclosure requirements.

List of documents relevant to the assessment


Disclaimer

The publication of the questionnaire allows third countries to prepare themselves for the assessment of its jurisdiction’s equivalence with the EU prudential supervision and regulatory requirements specified in CRR and CRD. The questionnaire covers all areas relevant for the assessment. Nevertheless changes to the questionnaire might occur in the future. The basis for the actual assessment will only be the version which is send to the selected country at the point in time when the country is included in a formal assessment.
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<td>Supervisory authority</td>
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**Part I – Prudential Supervision**

### 1) General questions

#### GENERAL PRINCIPLE

Since credit institutions and investment firms are a key element for the efficient functioning of the economy, the EU requires that such institutions must comply on an on-going basis with specific prudential requirements regarding (among others) own funds (capital), liquidity and leverage as well as on internal governance arrangements. The EU institutions’ compliance with those rules and regulations is verified by competent authorities.

#### 1.1

Please explain which authorities are responsible in your jurisdiction for prudential regulation and supervision and briefly describe their respective responsibilities.

#### 1.2

Please explain which types of institutions are subject to prudential regulation in your jurisdiction.

#### 1.3

The CRD and the CRR set out prudential requirements applicable for:

- **Credit institutions**: undertakings of which the business is to take deposits or other repayable funds from the public and grant credits for their own account, and
- **Investment firms**: legal persons whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis.

*In line with the terminology adopted in the CRD/CRR, within the questionnaire, the word “institutions” is meant to include credit institutions and investment firms.*

#### 1.4

Are the laws and regulations supplemented by additional guidance, for example, interpretative notes issued by the relevant supervisor(s)? What is the legal status of the additional supervisory guidance and the consequences of institutions not meeting the guidance?

#### 1.5

Are the laws, regulations and the additional guidance available in English? If yes, please provide a link or send relevant documents in pdf format.
### 1.6

Please describe the main features of your country’s financial sector and its prudential, supervision systems (e.g. size, number and type of institutions under prudential supervision). Please provide details concerning their main activities – and whether they are integrated in international groups or if they are domestic or are of relevance to foreign investors in the banking system.

**Brief Explanation**

Please attach relevant documents supporting this description (e.g. public reports from your supervisory authority, from international organisations such as the International Monetary Fund (IMF) or the World Bank); these can be documents in your native language, but preferably in English.

### 1.7

Has the Basel III International Regulatory Framework for Banks and associated supplementary standards (for example, the Basel Committee on Banking Supervision (BCBS) Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools) for financial institutions been implemented in your country? If not, is there a defined timeframe for its implementation?

### 1.8

In case the Basel III framework has not been implemented, has your jurisdiction adopted the Basel II regulatory framework?

### 1.9

If applicable, please describe all “phase-in” provisions, divided by matters, applicable in your jurisdiction with regard to the implementation of Basel III.

**Brief Explanation**

The implementation of some CRR/CRD rules is progressive, i.e. it follows a transition period or “phasing-in” before the full application of the new requirements. For instance, a number of deductions from own funds within the CRR are introduced progressively, while Article 160 of the CRD includes “phase-in” rules with regard to the amount of the capital conservation buffer.

### 1.10

If applicable, please describe all “phasing-out” or grandfathering provisions, divided by matters, applicable in your jurisdiction with regard to the implementation of Basel III.

**Brief Explanation**

There are also grandfathering provisions that apply to certain matters (for example, to capital instruments issued before the CRD/CRR/Basel III) that were present before the implementation of the new requirements and do not meet the new regulatory exigencies, thus ensuring a smooth “phase-out”.

### 2) Competencies of supervisory authorities

**GENERAL PRINCIPLE**

The EU framework applicable to institutions requires Member States to designate supervisory authorities in order to carry out all supervisory functions provided for in EU law. In order to effectively fulfil their duties, these ‘competent authorities’ shall be equipped with a range of powers.

#### 2.1

Which rights and powers do supervisory authorities within your jurisdiction have?

**Brief Explanation**

One of the key features of the CRD is the empowerment of competent authorities with specific tasks and duties, which they can exercise with legal force. In particular, Member States must guarantee that competent authorities have the expertise, the resources, the operational capacity and the powers and independence to carry out their duties relating to prudential supervision and have also adequate power to carry out investigation and raise appropriate penalties. If
| **2.2** | **What are the requirements in place within your jurisdiction:**  
- for the granting of authorisation for credit institutions to run their activities?  
- for the withdrawal of an authorisation that was granted to a credit institution? |
| --- | --- |

**Legislative reference**

Powers of competent authorities and coordination with other Member States are defined in Article 4-5 of the CRD.

**Brief Explanation**

The CRD provides requirements for the access to the activity of credit institutions and investment firms (including the provisions on the initial required capital, programme of operations and structural organisation, suitability of shareholders, and other conditions for granting and withdrawing the authorization by the competent authorities and disclosure of such decisions). Please note that institutions cannot accept deposits before the authorization has been granted.

**Legislative reference**

Provisions about the requirements for the access to the activity of institutions are laid down in Article 8-21 of the CRD.
| Brief Explanation | **The EU framework envisages specific rules about the acquisition of “qualifying holding” in a credit institution (i.e. acquiring participations in the credit institution as a result of which the percentage of voting rights or capital held in this institution would exceed any of the thresholds defined in the CRD (e.g. 20%, 30%, 50%). Specific criteria are also set out in order to properly assess the suitability of the proposed acquirer and the financial soundness of the proposed acquisition. Furthermore, specific information and disclosure requirements are envisaged in the CRD.** |
| Legislative reference | Provisions of notification and assessment of a proposed acquisition, as well as the concept of qualifying holding are laid down in Article 22-27 of the CRD. Cooperation between competent authorities is specified in Article 24 of the CRD. |
| SELF ASSESSMENT | **Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD). Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.** |

### 3) Prudential Supervision

| GENERAL PRINCIPLE | The EU rules require auditors and accountants of institutions to inform the competent authority in case of breaches of law within their area of expertise. Moreover, according to the CRD, the competent authority has the right to impose administrative penalties, and/or supervisory measures, on institutions which do not comply with requirements applicable to them. |
| 3.1 | **What is the level of prudential supervision performed in your jurisdiction (e.g. on an individual institution level or a consolidated level or a combination of both)?** Where the supervision is performed on a consolidated basis, please explain the rules applicable for the determination of the scope / perimeter of regulatory consolidation. |
| Brief Explanation | **This section aims at understanding which types of institutions fall under the scope of prudential supervision in your jurisdiction and whether prudential supervision is performed on an individual institution level or a consolidated level or a combination of both. With regard to the level of consolidation, note that within the CRR both levels are supervised (i.e. individual and consolidated); supervision at only one level should be carefully explained.** |
| Legislative reference | Please refer to Article 1 of the CRR for the scope of the regulation and to Article 6-9 of the CRR and Article 11-19 of the CRR for the level of supervision on a consolidated basis. |
| 3.2 | **Is there a legal obligation in your jurisdiction for persons responsible for legal control of annual and consolidated accounts to inform the supervisory authorities about their findings related to any material breaches of law or regulation?** |
**Brief Explanation**

In the EU framework external auditors (and similar functions) are obliged to inform supervisors about identified material breaches of the law, regulation or administrative provisions specifying conditions for authorisation or carrying out activities of institutions.

**Legislative reference**

Article 63 of the CRD (control of consolidated accounts).

### 3.3

Are the supervisory authorities in your jurisdiction legally in a position to impose administrative penalties or other administrative measures on institutions? If so, under which conditions?

**Brief Explanation**

Member States must set out rules on administrative penalties and other administrative measures following breaches of provisions of both the CRD and CRR.

**Legislative reference**

See Articles 64-65 of the CRD (supervisory powers).

### 3.4

Are supervisory authorities in your jurisdiction empowered to impose an equivalent set of administrative powers and other administrative measures towards institutions as the ones specified in the CRD?

**Brief Explanation**

In EU legislation, supervisors are allowed to impose administrative penalties and other administrative measures in various circumstances ranging from reporting of incomplete or inaccurate information to breach of limits. Moreover, supervisors are required to have in place appropriate mechanisms to encourage reporting of potential or actual breaches of law and institutions are required to have in place appropriate procedures for their employees to report breaches internally.

**Legislative reference**

Article 66 and 67 of the CRD specify the administrative penalties and other administrative measures, and the circumstances where such administrative penalties or other administrative measures can be imposed. The need for establishing an appropriate system of reporting breaches is set out in Article 71 of the CRD.

### SELF ASSESSMENT

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD).

Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

### 4) Supervisory Review Process

**GENERAL PRINCIPLE**

The European supervisors are required to perform an independent evaluation of the institutions’ risk situation, since the supervisor might evaluate the risks of the institution differently than the institution itself. Following such independent evaluation of risks, the competent authority is empowered to impose additional capital or other requirements in order to cover any potential additional risk not covered by the institution following its internal evaluation of risks.

### 4.1

Does your legislation include the need for institutions to carry out their own Internal Capital Adequacy Assessment Process (ICAAP)?

**Brief Explanation**

The ICAAP is at the core of the “Pillar II” approach, and requires that institutions undertake a regular assessment of the amounts, types and distribution of capital.
that they consider adequate to cover the risks to which they are exposed. Such an assessment should cover the major sources of risks to the institutions’ ability to meet their liabilities as they fall due, as well as incorporate stress testing and scenario analysis. The ICAAP, and the corresponding internal processes, should be proportionate to the nature, scale and complexity of the institution.

The ICAAP complements the CRR capital requirements for the institutions in terms of risk management and risk measurement:

**Management** – Development of sound risk management processes, including measurement approaches, enhancing the link between an institution’s risk profile, its risk management systems, and its capital.

**Measurement** - At transaction level institutions rely on Pillar I estimates if based on the standard approach, or on managerial estimates if the advanced approach is used. For the portfolio view, bank must develop internal credit portfolio models (CPM) that fully capture all the sources of credit risk, including concentration effects.

<table>
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<tr>
<th>Legislative reference</th>
<th>The provisions on ICAAP are set out in Article 73 of the CRD.</th>
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### 4.2

**Brief Explanation**

Are the provisions for the governance arrangements, including clear organisational structure, consistent lines of responsibility, effective processes to identify, manage, monitor and report risks, adequate internal control mechanisms and sound remuneration policies (also including a potential bonus cap) and practices within credit institutions implemented in an equivalent way in your jurisdiction? Specifically, are the requirements for the governance arrangements and for the existence of an independent risk management function equivalent?

In order to assess the internal approach to governance and risk measurement chosen by the institution, the review process performed by competent authorities should be a thorough and pervasive procedure. It should cover many areas of the institution, including governance arrangements such as remuneration policies, capital and liquidity adequacy and the treatment of different risks (internal approaches to calculate own funds, credit and counterparty risk, concentration risk, securitisation risk, liquidity risk, market risk and operational risk). Such a process is necessary for all institutions, regardless of their size or their systemic importance.

The EU rules also establish that the institutions shall set up an appropriate independent risk management function with dedicated committee to monitor and address the risk strategy and the risk appetite of the institution.

| Legislative reference | Governance arrangements and remuneration policies are covered in Articles 74, 75, 92, 94 and 95 of the CRD and in Articles 88, 91 and 96 of the CRD, while the treatment of risks is laid down in Articles 77-87 of the CRD. Particular attention should be paid to Article 76 of the CRD, where it is stated that Member states should ensure that the management body of institutions devote sufficient time to the consideration of risk issues and should be actively involved in the management of all material risks. In addition, this article requires institutions to have an independent risk management function with sufficient authority, statute, resources and access to the management body. |
### 4.3 Are the requirements for the Supervisory Review and Evaluation Process (SREP) implemented in an equivalent way within your jurisdiction?

**Brief Explanation**
Competent authorities shall review arrangements and processes implemented by the institutions and evaluate the risks to which such institutions are exposed, together with the risks posed to the financial system and its stability. Following such assessment, the competent authorities are authorised to undertake supervisory measures and use their supervisory powers to minimise or reduce identified risks.

**Legislative reference**
The SREP provisions are defined in Article 97-107 and 110 of the CRD.

### 4.4 Is an ongoing review of internal approaches equivalently established?

**Brief Explanation**
While internal models should provide a better and more accurate assessment of the risks of institutions, they can give rise to concerns regarding their use for regulatory capital purposes and in the consistency of Risk Weighted Assets (RWAs) calculations. These concerns are stemming from the large variety in RWA results for similar portfolios and reservations about certain risk models’ ability to capture tail risks. As a result, regulators and supervisors have questioned the reliability of capital adequacy measures based on the internal models based framework, as well as the potential creation of level-playing field issues. This is why the EU framework envisages a continuous monitoring and review of the internal models.

**Legislative reference**
Ongoing review of internal models is defined by Article 101 of the CRD.

### 4.5 Is your supervisory authority empowered to levy higher capital and/or liquidity requirements for risks not covered or for capital/liquidity not being adequate with respect to risks faced?

**Brief Explanation**
Like elsewhere in the EU legislation, empowerment and enforceability are the cornerstone of the supervision: indeed, only if the supervisor has tools to require adequate capital levels and other requirements, the SREP process can be successful.

**Legislative reference**
CRD Article 104 (supervisory powers and own funds) and Article 105 (liquidity).

### SELF ASSESSMENT
Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD).
Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

### 5) Professional secrecy and international cooperation

**GENERAL PRINCIPLE**
In the EU, all persons working for or who have worked for competent authorities and auditors or persons acting on behalf of competent authorities are subject to professional secrecy requirements. Competent authorities in the EU may conclude cooperation agreements with non-EU supervisory authorities, providing for information sharing, where the information disclosed is subject to a guarantee that professional secrecy requirements are at least equivalent to the EU rules.
<table>
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<tr>
<th>5.1</th>
<th><strong>Are all persons working for or who have worked for the supervisory authorities in your jurisdiction and auditors or experts acting on behalf of these authorities subject to professional secrecy requirements? If so, please provide a brief description of the professional secrecy regime.</strong></th>
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<tbody>
<tr>
<td><strong>Brief Explanation</strong></td>
<td>According to the EU rules, the professional secrecy obligation applies to confidential information received in the course of the work for, or on behalf of the competent authority. Such confidential information should only be used in the course of the supervisory duties. Strict conditions are imposed on the exchange of confidential information between authorities.</td>
</tr>
<tr>
<td><strong>Legislative reference</strong></td>
<td>Relevant provisions with regards to professional secrecy are laid down in Article 53 (professional secrecy obligation), and 54, 56, 57, 58, 59, 60, and 61 (use of confidential information) of the CRD.</td>
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<th>5.2</th>
<th><strong>Which kind of options and obligations does your supervisory authority have in the area of international cooperation?</strong></th>
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<tr>
<td><strong>Brief Explanation</strong></td>
<td>For European supervisors, cooperation with the EU, as well as with third countries is an important aspect of their work. European supervisors have different tools for cooperation. They are commonly involved in international supervisory colleges; and they have agreements of information sharing and cooperation (Memoranda of Understanding). Depending on the style and level of cooperation it is important to assess the level of equivalence first, for example in the area of “Professional Secrecy and Confidentiality” or more general in “Regulation and Supervision”.</td>
</tr>
<tr>
<td><strong>Legislative reference</strong></td>
<td>See Article 55, 125, and 116 (6) of the CRD.</td>
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| SELF ASSESSMENT | Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD). Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction. |
**Part II - Prudential regulatory requirements**

### 6) Own Funds

**GENERAL PRINCIPLE**

The EU regulation intends to cover different risks faced by institutions with their own funds, encompassing capital instruments which can be classified according to their loss absorption capacity as: Common Equity Tier 1 (CET1 – the highest quality capital), Additional Tier 1 capital instruments (AT1) and Tier 2 capital instruments.

Total amount of own funds qualifying to cover the different risks is calculated as Total Capital = CET1+AT1+Tier 2.

The CRR also establishes a predefined minimum amount and composition in terms of quality of the own funds, whereas lower quality requirements can be fulfilled with higher quality capital (the Tier 1 requirement can be met with CET1 fully or with CET1 and up to 1.5% AT1; and the Total own funds requirement can be met with Tier 1 fully or with Tier 1 and up to 2.0% Tier 2).

The overall principles on classification of own funds items into CET1, AT1 or Tier 2 are the loss absorbency and the availability of capital in cases of severe distress. For example, only capital instruments that are permanently available for absorbing losses of the institution would qualify as the CET1 – the highest quality capital.

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#### 6.1 What are the minimum requirements with regards to regulatory capital ratios (corresponding to CET1, Tier 1, Total Capital) applicable in your jurisdiction? Does your legislation envisage other measures than capital requirements to ensure sufficient coverage of all risks at all time?

**Brief Explanation**

The own funds requirements are presented below (as a percentage of the total risk exposure amount, composed of RWAs and the exposure measures for market risk, operational risk and other relevant risks under the CRR):

- CET 1 capital ratio of 4.5%;
- Tier 1 capital ratio of 6%, (composed of CET1 and AT1);
- Total Capital ratio of 8%, (composed of CET1, AT1 and Tier 2).

Tier 1 capital allows financial institutions to continue their activities (going-concern) and help prevent insolvency. However, Tier 2 capital instruments aim at ensuring that depositors and senior creditors can be repaid in case the institution fails (gone-concern).

**Legislative reference**

The general provisions in terms of eligible capital are defined in Article 25, 71 and 72 of the CRR, while quantitative requirements are defined in Article 92 of the CRR.

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#### 6.2 What are the requirements and eligibility conditions for CET1 items applicable in your jurisdiction?

**Brief Explanation**

CET1 items should consist only of CET1 instruments, share premium accounts related to those instruments, retained earnings, Accumulated Other Comprehensive Income (AOCI), and other reserves and funds for general banking risk.

The eligibility conditions to qualify as CET1 capital are the key features that ensure the highest quality type of capital. Some of the most important provisions are that, in order to qualify as CET1, capital instruments must be issued directly...
by the institution; they must be perpetual (i.e. have no maturity date); they must not bear any obligation for the institutions to make distributions to their owners; and must not be reduced or repaid, except in well-defined cases. The CET1 instruments rank below all other claims in the event of insolvency or liquidation of the institution (i.e. they are junior to all other claims).

### Legislative reference

Article 26 of the CRR defines the items that can be computed in CET1, while Article 28 of the CRR defines the respective qualifying conditions. The respective provisions for mutual and cooperative societies are laid down in Article 27 and 29 of the CRR. Instruments subscribed by public authorities in emergency situations that may qualify as CET1 are defined in Article 31 of the CRR.

6.3

If accounting is based on IFRS (or another accounting system that is influenced by Fair Value measurement) in your jurisdiction, please specify whether prudential filters on securitized assets, cash flow hedge and additional value adjustment are applied to CET1 capital.

### Brief Explanation

Prudential filters refer to a number of items which under the IFRS may be classified as Equity (for accounting purposes), however cannot be recognised in the prudential own funds at regulatory level due to the uncertainty of their realisation. The prudential filters aim to exclude from CET1 any change in equity stemming from the following items:

- securitised assets
- cash flow hedges and changes in the value of own liabilities that result from changes in the credit standing of the institution
- unrealised gains and losses measured at fair value

Furthermore, the CRR prescribes additional value adjustments which may lead to a downward adjustment of accounting values for prudential purposes.

### Legislative reference

Provisions for prudential filters are in Article 32-35 of the CRR

6.4

What are the principles applicable to deductions from CET1 capital in your jurisdiction? What are the categories of items that are deducted from CET1 capital?

Please describe any differences to the categories of items referred to under the CRR. If you have identified such differences, please provide information regarding the rationale for the treatment chosen in your jurisdiction.

### Brief Explanation

With regard to deductions from CET1 capital, both the CRR and the Basel III framework establish as a guiding principle those items which realisation has not yet occurred or might occur only in the future (with a certain degree of uncertainty) cannot be considered fully loss absorbent and thus must be removed from the highest quality capital. Amongst others, the following main elements are deducted from CET1:

- **Goodwill and intangible assets**
- **Deferred Tax Assets (DTA)**
  - tax losses carried forward will be deducted from CET1
  - DTA depending on future profitability: deduction for the portion > 10% CET1
  - DTA not depending on future profitability, i.e. DTA that can be translated into tax claims in case the bank incurs a loss, will be risk-weighted at 100%
- **Defined benefit pension fund assets**: the revised IAS 19 implies that actuarial gains/losses will be accounted in other comprehensive income (OCI), hence impacting CET1. Additionally, the amount of the defined pension fund assets shall be deducted from CET1.

- **Shortfall**: 100% of the shortfall of the stock of Loan Loss Provision with respect to Expected Losses under the IRB approach will be deducted from CET1.

- **Securitisations**: the 100% of exposures towards securitisations not rated or rated below a BB-rating (or equivalent) should be deducted from CET1.

In addition, the CRR and the Basel III framework prevent double gearing of Own Funds and therefore deduct both significant and non-significant investments in financial institutions:

- **Significant (i.e. share >10%) investments in non-consolidated financial institutions** (including insurance companies) will be deducted for the portion exceeding 10% of CET1

- **15% threshold for non-deduction**: If the sum of DTA depending on future profitability and significant investments in financial institutions exceeds the 15% of CET1 capital, the excess will be deducted from CET1. The amount not deducted from CET1 (i.e. the portion below 15%) will be risk-weighted at 250%.

### Legislative reference
Provisions for deductions from CET1 Capital can be found in Article 36-47 of the CRR.

### 6.5
**What are the eligibility criteria and deductions for AT1 capital instruments applicable in your jurisdiction?**

**Brief Explanation**
AT1 items consist of AT1 capital instruments (whose eligibility criteria are defined in Article 52) and premium accounts related to those instruments.

AT1 instruments are perpetual and the provisions governing them do not include any incentive to redeem them; they rank below Tier 2 instruments in the event of liquidation or insolvency; they may be called, redeemed or repurchased only after meeting the conditions laid down in Article 52 of the CRR. Moreover, upon occurrence of a trigger event, the principal amount shall be written down on a permanent or temporary basis or the instruments converted to CET1 instruments.

The institution has full discretion to cancel the distributions for an unlimited period and on a non-cumulative basis; and this cancellation of distributions does not constitute an event of default.

Among deductions, the most important are the ones related to holdings of AT1 instruments issued by other entities in which the institutions itself has a share. Like provisions for CET1, such deductions from AT1 aim at preventing excessive “double-gearing”, i.e. an artificial inflation of capital via reciprocal investments.

### Legislative reference
Provisions for AT1 capital are stated in Article 51-55 and 61 of the CRR, while deductions are detailed in Article 56-60 of the CRR. Please note that AT1 instrument usually cannot be called or redeemed before 5 years; however, Article 77-78 of the CRR details when supervisory permission may allow an instruction to call or redeem such instruments before that term.

### 6.6
**What are the eligibility criteria and deductions for Tier 2 capital instruments applicable in your jurisdiction?**

**Brief Explanation**
Tier 2 items consist of Tier 2 and subordinated loans (whose eligibility criteria are defined in Article 63 of the CRR) and share premium accounts related to those...
The CRR also introduced harmonized eligibility criteria. The most important ones are the following:

- a) the claim on the principal amount of the instruments is wholly subordinated to claims of all non-subordinated creditors;
- b) The instruments are not secured and are not subject to any arrangement that otherwise enhances the seniority of the claims;
- c) they have an original maturity of at least five years;
- d) their provisions do not include any incentive for them to be redeemed by the institution itself.

Tier 2 capital ensures loss absorption in liquidation (gone-concern).

Deductions are particularly relevant in terms of cross-holdings, as well as significant and non-significant investment in financial institutions.

<table>
<thead>
<tr>
<th>Legislative reference</th>
<th>Provisions for Tier 2 capital are stated in Article 62-65 and 71 of the CRR, while deductions are detailed in Article 66-70 of the CRR.</th>
</tr>
</thead>
</table>

### 6.7 What are the rules that discipline any potential reduction of own funds applicable in your jurisdiction?

**Brief Explanation**

To reduce capital instruments (call, repurchase, and redemption), institutions must ask for permission to the competent authority, respect the timing for reductions of own funds, and ensure an adequate level of capital after the reduction (which implies the replacement of the instrument by another one of equal or higher quality where necessary, or the demonstration that the institution still meets the quantitative requirement for own funds).

Additionally, the sustainability of any replacement should be considered in terms of income capacity of the institution.

<table>
<thead>
<tr>
<th>Legislative reference</th>
<th>See Article 77-78 CRR on the permission to reduce own funds.</th>
</tr>
</thead>
</table>

### 6.8 Are requirements concerning minority interest and holdings outside the financial sector equivalently implemented?

**Brief Explanation**

Under the CRR, 'minority interest' means the amount of CET1 capital of a subsidiary of an institution that is attributable to natural or legal persons other than those included in the prudential scope of consolidation of the institution.

Minority interests in excess of minimum capital requirements, including national systemic buffers, of each subsidiary cannot be counted within the group capital, according to the so-called “corresponding approach” (i.e. excess CET1 cannot be counted in CET1 capital, excess AT1 cannot be counted in AT1 and excess Tier 2 cannot be counted in Tier 2).

The prudential rationale behind this requirement is that while minority interest supports the risks taken by the subsidiary, it is not necessarily available to back the risks taken by the group. Therefore, excess capital above the minimum requirement of the subsidiary can be included in the group capital only in proportion to the minority share.

Please note that the relevant level of CET1 capital to be employed to calculate minority interests also includes the new capital conservation buffer, countercyclical buffer and any systemic risk buffer that might be imposed by the competent authority.
### Legislative reference

“Minority interest” is defined in Article 4 (120) of the CRR and the relative provisions are laid down in Article 81-84 of CRR.

### SELF ASSESSMENT

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD).

Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

### 7) Capital Requirements - General Requirements, Valuation and Reporting

#### GENERAL PRINCIPLE

The EU capital requirements regulation sets the minimum capital requirement as a ratio of RWAs. The total risk exposure amount, composed of RWA (credit risk), and the exposure measures for Market Risk, Operational Risk and other relevant risks ratio need to be fulfilled with high quality loss absorbing capital. The capital requirement should ensure either the going-concern (i.e. business as usual and recovery phase) of the institution or allow an organized winding down, if necessary (“gone concern”). The total risk exposure amount is defined as the sum of the different risk categories; for each risk category, institutions can choose within the limitations established by the CRR an approach to calculate the risks.

#### 7.1

How do you determine the current risk an institution has to bear? For which kind of risk categories do you require the institutions to hold capital?

#### Legislative reference

The types of risk covered by the EU framework are specified in Article 92(3) of the CRR.

#### 7.2

Are supervised institutions subject to prudential reporting requirements? What is the content of the prudential reporting? What is the reporting frequency? Is there a common reporting format and obligation?

#### Brief Explanation

A clear and transparent reporting is a prerequisite for allowing efficient and consistent supervision activity. While it should be expected that reporting obligations are not completely aligned (especially in terms of frequency), the overall objective should be comparable.

#### Legislative reference

The provisions concerning the calculation and reporting requirements are laid down in Article 99-101 of the CRR.

### SELF ASSESSMENT

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD).

Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

### 8) Capital Requirements for Credit Risk
Credit risk can be defined as the potential that an institution’s borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The credit risk typically resides in assets in institutions’ banking book (loans and debt instruments held to maturity) but it can also arise in the trading book as a counterparty credit risk.

The EU regulation requires institutions to classify all exposures to their obligors into exposure classes and differentiate them on the basis of the obligor’s ability to meet its obligations. The risk-weighted exposure amounts are based on the exposure value and risk weights (assigned on the basis of exposures’ classification and their credit quality). Depending on the sophistication of the approach applied the risk weight can be assigned following the standardised CRR rules (Standardised Approach) or it can be determined by the institution on the basis of statistical methods (Internal Ratings-Based Approach – IRB Approach) used to estimate the Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and calculate Maturity of exposure [M].

### General Principle

<table>
<thead>
<tr>
<th>8.1</th>
<th>Please specify which approaches for measuring credit risk for the purpose of calculating Pillar 1 capital requirements are applied in your jurisdiction?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brief Explanation</strong></td>
<td>The CRR sets out detailed requirements for two alternative approaches to measure institutions’ exposure to credit risk: the Standardised Approach and the Internal Ratings-Based Approach (the IRB Approach). For each of these approaches, the CRR also specifies detailed requirements and sets out conditions for using credit risk mitigation techniques, and provides rules for treatment of securitised exposures and applying conversion factor/percentage for off-balance sheet exposures.</td>
</tr>
<tr>
<td><strong>Legislative reference</strong></td>
<td>For general principles for credit risk refer to Article 107-110 of the CRR.</td>
</tr>
</tbody>
</table>

### 8.2

| Please describe the rules implementing the Standardised Approach for calculating capital requirements for credit risk in your jurisdiction. |
| **Brief Explanation** | The CRR sets out detailed rules for the Standardised Approach for calculating capital requirements for credit risk by specifying inter alia: |
| a. Exposure classes (the CRR specifies seventeen exposure classes including exposures to central governments or central banks; exposures to public sector entities, exposures to corporations; retail exposures, items representing securitisation positions, exposures secured by mortgages on immovable property etc.) |
| b. Risk weights applicable for each exposure class (which may depend in particular on external ratings assigned by a recognised external credit assessment institutions(ECAIs)) |
| c. Rules for establishing exposure value (in particular taking into account net exposure after specific credit risk adjustments and using percentages for off-balance sheet exposures); |
| d. Rules for using external ratings assigned by ECAIs (recognition of ECAIs, mapping of ECAIs’ credit assessment into credit quality steps and use of ECAIs’ credit assessment for the determination of risk weights); |
### Legislative reference

<table>
<thead>
<tr>
<th></th>
<th>The provisions for the Standardized Approach for credit risk are laid down in Art. 111-141 CRR. References to specific areas are as follows:</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>Exposure classes: Article 112 of the CRR;</td>
</tr>
<tr>
<td>-</td>
<td>Risk weights: Article 113-134 of the CRR;</td>
</tr>
<tr>
<td>-</td>
<td>Exposure value: Article 111 of the CRR;</td>
</tr>
<tr>
<td>-</td>
<td>External ratings (ECAIs): Article 135-138 of the CRR;</td>
</tr>
<tr>
<td>-</td>
<td>Definition of default: Article 127 and 178 of the CRR.</td>
</tr>
</tbody>
</table>

### 8.3

**Please describe the rules implementing the IRB Approach for calculating capital requirements for credit risk in your jurisdiction.**

**Brief Explanation**

The CRR sets out detailed rules for using the IRB Approach for calculating capital requirements for credit risk. Based on the complexity, the CRR distinguishes between: (i) the Foundation IRB (F-IRB) Approach under which institutions estimate only PD and use supervisory estimates for the remaining risk components; and (ii) the Advanced IRB (A-IRB) Approach under which the institutions estimate all risk components (i.e. PD, LGD, EAD and M).

The key requirements for the IRB Approach specified in the CRR are as follows:

- **Exposure classes** (seven risk classes including: exposures to central governments and central banks; exposures to on institutions; exposures to corporates; retail exposures; equity exposures; items representing securitisation positions; other non-credit obligation assets)
- **Calculation of risk weighted exposure amounts**
- **Expected loss amounts (EL = PD × LGD × EAD)**
- **Rules for use of risk components:**
  1. Probability of Default [PD]
  2. Loss Given Default [LGD]
  3. Exposure at Default [EAD]
  4. Maturity of exposure [M]
- **Requirements for the IRB models:**
  1. Structure of rating systems, rating assignment process, data maintenance and documentation
  2. Estimation of risk parameters (including rules on models’ development, risk quantification, validation)
  3. Requirements for internal governance (including the role of credit risk control unit and internal audit)
  4. Conditions for supervisory permission for the IRB models (including use test, permanent partial use, roll out plans)
- **Definition of default**

Please ensure that your description covers all items mentioned above.

### Legislative reference

<table>
<thead>
<tr>
<th></th>
<th>The provisions for the IRB Approach for credit risk are laid down in Article 142-191 of the CRR. More detailed references are as follows:</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>Exposure classes: Article147 of the CRR</td>
</tr>
<tr>
<td>-</td>
<td>Calculation of risk weighted exposure amounts: Article 151-157 of the CRR, Expected loss amounts: Article 158-159 of the CRR</td>
</tr>
<tr>
<td>-</td>
<td>Risk components [PD, LGD, EAD, M]: Article 160-168 of the CRR</td>
</tr>
</tbody>
</table>
### 9) Credit Risk Mitigation

#### General Principle

Credit risk mitigation (CRM) techniques allow institutions to reduce credit risk originating from exposures they hold. The CRR distinguishes two types of the CRM techniques: (i) ‘funded credit protection’ where the reduction of the credit risk on the exposure derives from the rights that institution has towards the asset provided as collateral, in the event of default of the counterparty or on the occurrence of other specified credit events relating to the counterparty; and (ii) ‘unfunded credit protection’ where the reduction of the credit risk on the exposure derives from the obligation of a third party to pay an amount in the event of the default of the borrower or the occurrence of other specified credit events. According to the CRR, upon meeting specific requirements for the CRM, institutions are allowed to recognise the effects of the CRM in the calculation of the minimum capital requirements for credit risk.

**9.1** What credit risk mitigation (CRM) techniques in your jurisdiction are recognised for the purpose of calculating capital requirements for credit risk? What are the general principles for eligibility of the CRM techniques for their recognition in calculating capital requirements for credit risk?

*Brief Explanation*

The CRR specifies the general principles for eligibility of CRM techniques which include inter alia the following requirements:

- **a.** Credit protection arrangements must be legally effective and enforceable in all relevant jurisdictions (these should be confirmed by legal opinions);
- **b.** Funded credit protection can be recognised if assets relied upon for protection (i) are included in the list of eligible assets (specified for this purpose in the CRR), and (ii) are sufficiently liquid, their value over time is sufficiently stable and not highly correlated with the credit quality of the obligor;
- **c.** Unfunded credit protection can be recognised where (i) it takes form of the eligible protection agreements (e.g. guarantee; credit derivatives); and (ii) the protection provider is eligible (i.e. included in the list of eligible protection providers specified in the CRR);
- **d.** Institution has adequate risk management processes to control the risks stemming from its CRM practices.

*Please ensure that your description covers all items mentioned above.*

**Legislative reference**

The general provisions for CRM are specified in Article 192 and 194 of the CRR.

**9.2** Please describe in detail the rules applicable in your jurisdiction for ‘funded credit protection’.

---

**ASSESSMENT OF THIRD COUNTRY EQUIVALENCE WITH THE CRD/CRR**

- Requirements for the IRB models: Article 142-150, 169-191 of the CRR
- Definition of default: Article 178 of the CRR

**SELF ASSESSMENT**

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and CRD). Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.
### Brief Explanation

With regard to the funded credit protection the CRR provides specific rules for:

a. Eligible forms of CRM techniques (e.g. on-balance sheet netting, master netting agreements, legal agreements empowering a lending institution to liquidate or retain an asset from which the protection derives, life insurance policies pledged);

b. Eligibility of collateral (e.g. cash, debt securities, equities and convertible bonds issued by eligible entities, physical collateral);

c. Detailed requirements for eligible forms of funded credit protection and assets eligible as collaterals.

It should be noted that the CRR provides different requirements for institutions using the Standardised Approach or the IRB Approach (i.e. there is a broader scope of the eligible collaterals under the IRB Approach). Please ensure that your description covers all items mentioned above.

### Legislative reference

Requirements for funded credit protection are specified in Article 195-200, 205-212 of the CRR

#### 9.3

Please describe the rules applicable in your jurisdiction for ‘unfunded credit protection’.

### Brief Explanation

With regard to unfunded credit protection the CRR provides specific rules for:

a. Eligible forms of CRM techniques (e.g. guarantees, counter-guarantees, credit derivatives, credit linked notes);

b. Eligibility of protection providers;

c. Eligible types of credit derivatives;

d. Detailed requirements for each eligible form of unfunded CRM (e.g. the credit protection must be direct, clearly defined, incontrovertible, do not include clauses outside of direct control of the lender).

The CRR defines strict rules for unfunded credit protection and recognises guarantees, credit derivatives and credit linked notes to the extent of their cash funding. On the other hand, insurance remains outside the scope of the CRM regime. Furthermore, only certain entities can provide unfunded protection, these include sovereign entities, regional governments and local authorities, public sector entities (PSEs), banks (including multilateral development banks), certain international organisations, central counterparties and investment firms, and corporations with good external ratings. In addition, it should be noted that the CRR provides different requirements for institutions using the Standardised Approach or the IRB Approach.

Please ensure that your detailed description covers all items mentioned above.

### Legislative reference

Requirements for unfunded credit protection are specified in Article 201-204 and 213-217 of the CRR

#### 9.4

Please describe the rules applicable in your jurisdiction for recognising the effects of CRM in the calculation of capital requirements for credit risk.

### Brief Explanation

Upon meeting specific requirements set out in the CRR, institutions may reflect the mitigating effects of the CRM techniques in calculating their capital requirements for credit risk by decreasing such requirements. The CRR includes different rules for recognising the CRM effects which depend on whether an institution uses:
### ASSESSMENT OF THIRD COUNTRY EQUIVALENCE WITH THE CRD/CRR

- Standardised Approach or IRB-Approach
- funded credit protection or unfunded credit protection
- within the funded credit protection: Financial Collateral Simple Method or Financial Collateral Comprehensive Method

**Please ensure that your description covers all items mentioned above.**

<table>
<thead>
<tr>
<th>Legislative reference</th>
<th>Effects of CRM on capital requirements: Article 193 and 218-241 of the CRR</th>
</tr>
</thead>
</table>

### SELF ASSESSMENT

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD). Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

### 10) Securitisation

#### GENERAL PRINCIPLE

The CRR sets out the securitisation framework which specifies *inter alia* conditions associated with off-balance sheet treatment and risk weighting of securitisation exposures. The CRR distinguishes two types of securitisation: (i) “traditional securitisation” which involves the economic transfer of the exposures being securitised by the transfer of ownership from the “originator” institution to a special purpose vehicle (SPV), and (ii) “synthetic securitisation” which occurs when the transfer of risk is achieved by the use of credit derivatives or guarantees, and the exposures being securitised remain exposures of the originator institution. Within the CRR, the “economic content” of the transaction is key when determining which securitisation framework should be applied.

#### 10.1

Please describe rules applicable in your jurisdiction for ‘traditional securitisation’ and ‘synthetic securitisation’.

**Brief Explanation**

With regard to securitisation the CRR provides specific rules for:

a. Recognition of significant risk transfer (the underlying concept in the CRR is that a risk transfer must actually occur in order for an institution to be able to apply off-balance sheet treatment of securitised assets);

b. Calculation of risk-weighted exposure amounts (separate rules exist for the Standardised Approach and IRB Approach)

### Legislative reference

Provisions for securitisation are laid down in Article 242-270 CRR

### SELF ASSESSMENT

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD). Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

### 11) Counterparty credit risk

#### GENERAL PRINCIPLE

Counterparty Credit Risk (CCR) is the credit risk arising between derivatives’ counterparties. Since the credit crisis of 2007 onwards and the failures of large institutions, CCR has been considered by most market participants to be the key...
financial risk. CCR arises on products such as over-the-counter (OTC) derivatives and securities financing transactions (e.g. repo agreements) and may refer to:

- Default - CCR or Pre-settlement Risk: the risk that the counterparty to a financial contract should default before settling the transaction and not make all the payments required by the contract itself;

While CCR contains elements of market risk and credit risk as well as other elements, its peculiarities call for a separate treatment. A major difficulty in its calculation is indeed the uncertainty of future exposure and the relative complexity of the distribution for different scenarios of market risk factors.

<table>
<thead>
<tr>
<th>11.1</th>
<th>How do you account in your jurisdiction for CCR? Could you provide us with your definition and your methodology to estimate CCR?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brief Explanation</td>
<td>The CRR strengthens the requirements for managing and adequately covering CCR. It includes an additional capital charge for losses associated with deterioration in the creditworthiness of counterparties and higher risk weights on exposures to large financial institutions. The new framework also aims at reducing intrinsic risks to financial stability through higher incentives for clearing OTC instruments through central counterparties (CCP).</td>
</tr>
</tbody>
</table>

| Legislative reference | The basic definitions for the CCR are laid down in Article 271-272 of the CRR. |

<table>
<thead>
<tr>
<th>11.2</th>
<th>The CRR allows four different methods to calculate the capital requirement for CCR. Which of these are specifically implemented in your jurisdiction?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brief Explanation</td>
<td>The methods for the calculation of CCR are a) Mark-to-Market; b) Original exposure method; c) Standardised; d) Internal Model Method (IMM).</td>
</tr>
</tbody>
</table>

| Legislative reference | The different methods are described in Article 274-285 of the CRR. |

<table>
<thead>
<tr>
<th>11.3</th>
<th>Are contractual netting agreements recognised in your jurisdiction? If so, how?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brief Explanation</td>
<td>Among the various methods of risk mitigation, contractual netting has by far the greatest impact on the structure of the derivatives market. In the EU, the International Swaps and Derivatives Association (ISDA) Master Agreement is usually the contract under which OTC derivative transactions between two counterparties take place: each time that a transaction is entered into, the terms of the Master Agreement do not need to be re-negotiated and apply automatically. The Master Agreement aims to eliminate legal uncertainties, to standardise the rules of netting between the various parties and to provide mechanisms for the mitigation of counterparty risk and specifies the general terms of the agreement.</td>
</tr>
</tbody>
</table>

| Legislative reference | Requirements for contractual netting agreements are specified in Article 295-296 of the CRR. |

<table>
<thead>
<tr>
<th>11.4</th>
<th>The main novelties of the CRR with respect to the previous framework for CCR are related to: EAD calculation; Wrong Way Risk; Central Counterparties (CCP), Asset Value Correlation (AVC). How does your jurisdiction comply with such provisions?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brief Explanation</td>
<td>• <strong>EAD Calculation</strong>: based on stressed Effective EPE (Expected Positive Exposure), which in turn should be based on model parameters calibrated over a 3-year period.</td>
</tr>
</tbody>
</table>

| Legislative reference | The main novelties of the CRR with respect to the previous framework for CCR are related to: EAD calculation; Wrong Way Risk; Central Counterparties (CCP), Asset Value Correlation (AVC). How does your jurisdiction comply with such provisions? |
**ASSESSMENT OF THIRD COUNTRY EQUIVALENCE WITH THE CRD/CRR**

- **Wrong Way Risk**: specific capital charge for “adverse correlation” between the exposure to a counterparty and its creditworthiness. This risk arises from transactions with counterparties whose credit quality is highly correlated with the exposure amount.
- **CCP**: Additional requirements for exposures to CCP.
- **AVC**: Higher risk weights in the IRB approach through an increase of the asset value correlation, to contain systemic risk.

**Legislative reference**

Please refer to the following articles in the CRR:
- EAD Calculation: Article 284 of the CRR
- Wrong-way risk: Article 291 of the CRR
- CCP: Article 300-311 of the CRR
- AVC: Article 142 (1) (4) of the CRR

**SELF ASSESSMENT**

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD).

Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

**12) Own funds requirement for operational risk**

Under the CRR, “operational risk” (OpRisk) means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. OpRisk is a significant risk faced by institutions requiring coverage by own funds.

OpRisk is generally regarded as a highly volatile risk which makes it difficult to model or deliver a reliable prognosis. Nevertheless, it is generally agreed upon that OpRisk is a significant factor in the downfall of institutions. Due to the difficulty in projections, and the accepted heavy-tailedness of distribution, the capital requirement should cover accumulated annual losses that will be exceeded once within 1000 years. In the Advanced Measurement Approach (AMA) this should be achieved through individual risk calculation by the institution’s own model. In the other approaches, the calibration of the formula has to be at a comparable risk level.

With the implementation of capital requirements for OpRisk the regulator recognised that there are specific risks that are not linked to an institution’s portfolio. Therefore, the calculation of a capital requirement is more based on P&L positions as a measure for the business activity, and less on balance sheet positions (like in credit and market risk). This category covers a variety of risk types that are dealt with independently. Legal risk, IT risk, compliance risk, risks from outsourcing and model risk are all elements of OpRisk.

For the purpose of the calculation of the capital requirement business risk, strategic risk and reputation risk are not included, although for risk steering purposes they might be managed simultaneously.

In addition, sound principles of operational risk management, governance and risk management environment are expected to be in place, depending of the institutions’ nature, size and complexity.
### 12.1 How are the supervisors and institutions in your jurisdiction prepared for OpRisks and its varieties?

### 12.2 Which kind of approaches are allowed and used for measuring OpRisk within your jurisdiction (formula driven, model driven) and who decides which approach is used for an individual institution?

### 12.3 Please explain the methodology employed (quantitative approach and qualitative requirements) to measure and cover OpRisk (basic, standard, advanced).

**Brief Explanation**

The CRR foresees three different approaches:

- **Basic Indicator Approach (BIA)**, in which the own funds requirement for operational risk is equal to a percentage, on average of three years, of the Relevant Indicator (RI). “RI” is the sum of certain accounting categories from the profit and loss account.

- **Standardised Approach (TSA)**, in which the own funds requirements are also calculated as a percentage, on average of three years of the RI, but in this case, the RI is calculated separately for each line of business and a different percentage is applied for each of them. TSA also comprises a qualitative operational risk management.

- **Advanced Model Approach (AMA)**, in which the own funds requirements are calculated in accordance with internal models. AMA also comprises a qualitative operational risk management.

**12.4 If you allow model driven approaches, are there reductions of capital requirements like:**

- Expected Loss
- Risk Transfer Mechanism (including Insurances)
- Correlations

**Legislative reference**

The provisions for OpRisk are laid down in: in Article 312-324 of the CRR

### SELF ASSESSMENT

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with relevant the EU regulation (the CRR and the CRD).

Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

### 13) Own funds requirement for market risk, settlement risk and Credit Valuation Adjustment (CVA) risk

**GENERAL PRINCIPLE**

Market risk can be defined as the risk that a portfolio, of either investment or trading nature, will decrease in value due to adverse changes in prices on the financial markets. Market risk in the EU is basically calculated via “models”. While institutions might opt for a more advanced internal model, the regulatory standard formula also contains model elements. The institution should calculate the capital requirements for different classes of investment separately (interest, equity, commodities, currencies...) and add the results.

Settlement risk and CVA risks are specific variations of risk most closely...
connected to the market risk. EU regulation requires these two risk categories to be calculated separately.

**13.1**

Market risk is the risk area where adverse occurrences can be observed with the highest frequency (although the magnitude varies greatly). Thus, the formulas are more advanced and require more input from the institutions with respect to measurement of credit risk. Does your jurisdiction follow a similar approach? How do you ensure that the related areas like settlement risk and CVA risk are sufficiently covered?

*Brief Explanation*

An institution is exposed to several sources of market risk:
- Position risk (including Interest Rate risk and Equity risk)
- FX risk
- Credit Spread risk
- Default risk
- Commodity risk

Value at Risk (VaR) is the maximum possible loss a position can incur into over a certain time horizon (e.g. 1 day) with a certain probability (e.g. 99%). 99%-1day VaR is the basis of the daily monitoring of the trading/banking book portfolio.

In addition to VaR, a new set or risk measures was introduced in recent years:
- Stressed VaR (sVaR)
- Incremental Risk Charge (IRC)
- Comprehensive Risk Measure (CRM)
- Standardized Approach for Securitisations

Therefore, Capital Adequacy for market Risk can be summarised as follows:

\[
\text{MktRisk Capital} = \text{VaR} + \text{sVaR} + \text{IRC} + \text{CRM} + \text{Standardized}
\]

*Legislative reference*

Provisions for own funds requirements stemming from Market risk are laid down in Article 325-386 of the CRR.

**13.2**

Is the possibility of offsetting positions between institutions belonging to the same group, under certain conditions, for the purpose of calculating consolidated requirements, allowed in your jurisdiction?

*Brief Explanation*

Article 325 of the CRR sets out allowances for consolidated requirements. For the purpose of calculating own funds requirements for market risks and under certain conditions, a parent institution within a group may use positions in one institution to offset positions in another, thus effectively reducing own funds requirements for market risk at group level.

*Legislative reference*

See Article 325 (1) of the CRR for the overall approach to offsetting within a group and Article 325 (2-3) of the CRR for the conditions under which such offsetting is allowed.

**13.3**

Are the market risk requirements for the treatment of position risk in specific instruments generally implemented in an equivalent way in your jurisdiction?

*Brief Explanation*

The own fund requirement for position risk shall be the sum of the own funds requirement for general and specific risk of its positions in debt and equity instruments. The CRR provides details for position risk, including interest rate futures and forwards, options and warrants, swaps, interest rate derivative instruments, credit derivatives.
<table>
<thead>
<tr>
<th>Legislative reference</th>
<th>See Article 326-333 of the CRR</th>
</tr>
</thead>
</table>
| 13.4                  | Are the market risk requirements concerning specific exposures implemented in an equivalent way in your jurisdiction? Specifically, are there specific market risk provisions that can be considered equivalent with respect to:  
  - Debt positions  
  - Foreign exchange risk  
  - Equities  
  - Commodities |
| Legislative reference | Specific regulatory references can be found as follows:  
  - Debt positions: Article 334-340 of the CRR  
  - Foreign exchange risk: Article 351-354 if the CRR  
  - Equities: Article 341-344 of the CRR  
  - Commodities: Article 355-361 of the CRR |
| 13.5                  | Within calculations of own funds for market risk, does your jurisdiction allow for the use of internal models under similar conditions than in the CRR, and subject to supervisory review/approval?  
  In case you are allowed to use internal models, are the market risk requirements generally implemented in an equivalent way in your jurisdiction? |
| Legislative reference | The use of internal models can be granted to calculate general and specific risk of equity and debt instrument, as well as foreign exchange risk and commodity risk.  
  Article 362-377 of the CRR |
| 13.6                  | Does your jurisdiction envisage a specific provision for Incremental Risk Charge (IRC)? |
| Legislative reference | An institution that uses an internal model for calculating own funds’ requirements for the specific risk of traded debt instruments shall also have an internal incremental default and migration risk charge (IRC) model in place. IRC captures a broader range of risks beyond default - in particular, credit rating migration, spread widening and equity prices oscillations. The importance of this kind of risk became evident after the 2007-09 financial crisis, when a large part of losses experienced by institutions did not stem from actual defaults, but from credit migrations towards lower rating classes, widening spreads and a lack of liquidity - and as such would not have been captured by a charge focusing only on actual default.  
  See Article372-376 CRR |
| 13.7                  | Are the requirements for settlement risk and CVA risk implemented in an equivalent way in your national regulation? |
| Legislative reference | Settlement risk is the risk stemming from transactions that remain unsettled after their due delivery date, so that there might be a difference between the agreed settlement price and its current market value. If such a difference implies a loss for the institution, it must be accounted for as a capital charge.  
  CVA risk is the risk of loss caused by changes in the credit spread of a counterparty, due to changes in its credit quality. CVA aims at quantifying the risk that counterparties to derivatives transactions may be more or less creditworthy.  
  Article 378-382 of the CRR |
at any given time during the life of such a transaction. The calculation of CVA also takes into account certain risk mitigants such as netting and collateral arrangements and certain offsetting hedges. Thus, the actual risk that is taken into account is the one that remains after these other mitigants have been factored in.

<table>
<thead>
<tr>
<th>Legislative reference</th>
<th>Settlement risk is defined in Article 378-380, while CVA risk provisions are laid out in Article 381-386 of the CRR.</th>
</tr>
</thead>
</table>

In particular, are the advanced and the standardised methods for calculating the appropriate CVA figure contemplated in your regulation? If so, how?

**Brief Explanation**

The CRR specifies two main methods for the calculation of CVA:

a. **Advanced method** – This involves using a firm's internal models to calculate the impact of changes in counterparty credit spreads, taking into account eligible hedges. It does not consider other market factors such as interest rate or currency risk. If a credit spread is not available for a counterparty, a proxy spread should be used.

b. **Standardised method** – Should a firm not use an advanced method for the calculation of CVA risk, it should calculate it in accordance with the standardised method taking into account eligible hedges. Being less tailor made, this might turn out as a more capital-intensive option for institutions.

<table>
<thead>
<tr>
<th>Legislative reference</th>
<th>See Article 383 of CRR (Advanced method) and Article 384 of the CRR (Standardised method).</th>
</tr>
</thead>
</table>

**SELF ASSESSMENT**

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD).

Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

**14) Large exposures**

**GENERAL PRINCIPLE**

To protect institutions from significant losses caused by the sudden default of an individual counterparty, the EU regulation does not allow banks to be exposed to each of their individual counterparties beyond a certain percentage of their own funds (25% of their eligible capital). This limit ('large exposure limit' thereafter) applies to the aggregated amount of exposures that a bank has to a same counterparty or a same group of connected counterparties.

Eligible capital is defined as the sum of Tier 1 capital and Tier 2 capital within the limit of one third of the Tier 1 capital.

The large exposure limit applies to all banks on an individual basis and all banking groups on a consolidated basis.

**14.1**

What kind of a large exposure regime is applied to institutions in your national legislation? Please provide a description of your large exposure regime by specifying the following:

- Level (in percentage of the capital base) of the large exposure limit;
| Brief Explanation | The large exposure regime is laid down in Article 387-403 of the CRR and based on the Basel Committee on Banking Supervision (BCBS) guidance, Measuring and controlling large credit exposures, published in January 1991 and the Principle 19 of the Core Principles for Effective Banking Supervision, standards published by the BCBS in September 2012. More specifically:
- ‘eligible capital’ is defined in point 71 of Article 4(1) of the CRR;
- ‘group of connected counterparties’ is defined in point 39 of Article 4(1) of the CRR;
- The treatment of group of connected counterparties is specified in Article 390(5) and (7) of the CRR;
- the level and capital base of the large exposure limit are specified in Article 395 of the CRR;
- The level of application of the large exposure regime is specified in Articles 6 and 11 of the CRR. |
<table>
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</thead>
<tbody>
<tr>
<td>14.2</td>
<td>Does your national regulation require banks to report their largest exposures? If so, please provide a brief description of reporting requirements for large exposure purposes.</td>
</tr>
<tr>
<td>Brief Explanation</td>
<td>The EU large exposures regime requires institutions to report to their supervisors all their exposures to clients and group of connected clients exceeding 10% of eligible capital.</td>
</tr>
<tr>
<td>Legislative reference</td>
<td>The reporting requirements are specified in Articles 392 and 394 of the CRR</td>
</tr>
</tbody>
</table>
| 14.3 | Where your national legislation applies a large exposure limit to banks, please specify further the following:
- types of exposures exempted from such large exposure limit
- Treatment of exposures on trading book for large exposure purposes
- Use of credit risk mitigation techniques for large exposure purposes |
| Brief Explanation | In the EU, all credit risk exposures and counterparty credit risk exposures of the balance-sheet and off-balance sheet irrespective of whether these exposures are included in the banking book or the trading book or both are subject to the 25% large exposure limit except for specific exposures which are or may be exempted from the large exposure limit (e.g. exposures to sovereigns with a 0% risk weight under the Standardised Approach, exposures to central counterparties, intra-group exposures).

The 25% large exposure limit may be exceeded for the exposures on the trading book under certain conditions.

The value of exposures subject to the large exposure limit can be reduced by the amount of credit risk mitigation techniques under certain conditions. |
| Legislative reference | The calculation of the exposure value is specified in Article 390 of the CRR. The use of credit risk mitigation techniques for large exposure purposes is specified in Articles 399, |
### ASSESSMENT OF THIRD COUNTRY EQUIVALENCE WITH THE CRD/CRR

<table>
<thead>
<tr>
<th>401, 402 and 403 of the CRR. The treatment of exposures on the trading book for large exposure purposes is specified in Articles 395(5) and 397 of the CRR. The exemptions to the application of the large exposure limits according to Article 395 (1) CRR are specified in Article 400 of the CRR.</th>
</tr>
</thead>
</table>

### SELF ASSESSMENT

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD).

Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

### 15) Exposure to transferred credit risk

**GENERAL PRINCIPLE**

Transferred Credit Risk has a different nature with respect to common credit risk, so that it needs specifically designed rules, which should prevent moral hazard and misaligned incentives to allow build-up of excessive risk taking along the securitisation chain. Failure to carefully regulate this area might lead to excessive risk-taking, because the originator may have a lower interest to monitor risks adequately, while the investor might not legally have the power to take all the necessary measures of precaution. The regulation then aims at having a fair risk distribution for all involved parties.

**15.1**

Do you have specific requirements for transferred credit risk? Or if not, how do you manage the risk profile that is often different to the common credit risk?

**15.2**

How are the requirements on transferred credit risk implemented in your national regulation?

**Brief Explanation**

Today we often characterise securitisation markets prior to the 2007-09 financial crisis as marked by “misaligned incentives” or “conflicts of interest”, i.e. situations where certain participants in the securitisation chain - while pursuing their own objectives - had incentives to act against the interests of others or the broader efficient functioning of the market. These misalignments are generally thought to have contributed to the loss of investor confidence in securitisation products and might have prevented an efficient revival of the market itself.

Thus, the provisions in the CRR aim at removing such misalignments and providing an accurate pricing of credit risk, through the requirement that investor institutions assume exposure to a securitisation only if the originator, sponsor, or original lender has explicitly disclosed that it will retain a material net economic interest of no less than 5%.

**Legislative reference**

Transfer Risk provisions are laid down in Article 404-410 of the CRR.

**SELF ASSESSMENT**

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD).

Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

### 16) Liquidity
### General Principle

Liquidity risk refers to the possibility that the bank may encounter difficulties in meeting expected or unexpected cash payments or delivery obligations, thereby impairing daily operations or the financial condition of the bank. It may refer to the fact that an institution may not be able to meet efficiently any expected or unexpected cash outflows, due to the unavailability of funding sources (funding risk), or to the fact that, when liquidating a sizeable amount of assets, an institution faces a considerable (and unfavourable) price change generated by exogenous or endogenous factors.

Prior to the 2007-09 financial crisis, liquidity risk was sometimes overlooked by institutions and regulators. However, the crisis showed that more institutions could fail following a distressed liquidity situation. Therefore, the new regulatory framework requires a more prudent liquidity management. While the CRR creates a general short-term liquidity requirement and liquidity reporting obligations, the Delegated Act\(^1\) 2015/61 specifies in detail the EU Liquidity Coverage Ratio. This Delegated Act defines high quality liquid assets and the detailed outflow and inflow requirements to ensure that the liquidity position is sufficient to meet net outflows under a 30 day liquidity stress horizon.

### 16.1 Are there liquidity requirements in place? Which methods do you use to mitigate the risk of a liquidity driven financial crisis?

#### Brief Explanation

The requirement differentiates the banks’ assets according to their level of liquidity, i.e. according to the ease with which such assets can be transformed into cash at little or no loss value in stressed conditions. A bank should have a sufficient level of liquid assets to cover their stressed net outflows during the following 30 days.

### 16.2 Are the provisions for liquidity of the CRR implemented in a broadly equivalent way in your jurisdiction? Do you target liquidity risk both in the short and in the long term?

#### Brief Explanation

The CRR alludes to a liquidity coverage requirement under a 30 day stress horizon, for which it contemplates a reporting framework and a reference to a delegated regulation (Liquidity Coverage Ratio (LCR) Delegated Act) for its specification, and raises the issue of whether a stable funding requirement could be necessary in Europe by referring to potential upcoming legislative proposals if appropriate.

**LCR**

The LCR Delegated Act aims to ensure that a bank maintains an adequate level of unencumbered, High-Quality Liquid Assets (HQLA) that can be converted into cash to meet its liquidity needs for a 30 day time horizon under a significantly severe liquidity stress scenario. From 2018, such a level is required to be 100%; prior to that, a transitional period is available. High Quality Liquid Assets (HQLA) are assets that can be easily and immediately converted into cash at little or no loss of value. Liquidity needs stem from liquidity inflows and liquidity outflows, to be assessed over a 30-day period, assuming a combined idiosyncratic and market-wide stress scenario.

**Stable Funding Reporting**

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The CRR requires reporting of those specific items providing and requiring stable funding. The CRR makes a general statement related to a necessary funding position which can ensure that long term obligations are adequately met. It leaves to further considerations the possibility of an upcoming regulation of a specific stable funding requirement.

### Legislative reference

The main provisions for liquidity reporting are laid down in Article 411-428 of the CRR. A general short-term LCR requirement is established by Article 412 CRR. The detailed LCR rules are determined by the Commission Delegated Act 2015/61. The general longer term stable funding requirement is fixed by Article 413 CRR which applies from 1.1.2016. Detailed rules on a net stable funding requirement would require to be set by a Commission legislative proposal under Article 510.3 of the CRR.

### SELF ASSESSMENT

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD).

Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

### 17) Leverage

The years preceding the financial crisis were characterised by an excessive build up in institutions' exposures in relation to their own funds (leverage). During the financial crisis, losses and the shortage of funding forced institutions to reduce significantly their leverage over a short period of time. This amplified downward pressures on asset prices, causing further losses for institutions which in turn led to further declines in their own funds. The ultimate results of this negative spiral were a reduction in the availability of credit to the real economy and a deeper and longer crisis.

Risk-based own funds requirements are essential to ensure sufficient own funds to cover unexpected losses. However, the crisis has shown that those requirements alone are not sufficient to prevent institutions from taking on excessive and unsustainable leverage risk.

While specific risk modelling has the benefit of capturing more closely the risk peculiarity of each institutions (although this might pose issues in terms of comparability), certain jurisdictions have tried to limit an excessive lowering of capital requirements that could stem from certain internal models; this has been accomplished by introducing leverage reporting and/or binding minimum leverage ratios.

### 17.1 Does your jurisdiction impose a leverage ratio (LR) requirement on bank (or did you find different methods to reach the same result)?

**Brief Explanation**

Reporting is in place on the LR (and soon disclosure as well), and next to that supervisors need to look at risk of excessive leverage in a Pillar 2 context. Extensive use of aggressive risk-modelling might have contributed to allow that many institutions accumulated on- and off-balance sheet leverage to a dangerous degree in the run-up to the financial crisis. Competent authorities shall ensure that institutions have policies and processes in place for the identification, management and monitoring of the risk of excessive leverage. Indicators for the risk of excessive leverage shall include the leverage ratio and mismatches between assets and obligations.
### 17.2 Assessment of Third Country Equivalence with the CRD/CRR

**Are any leverage-related requirements, comparable to those currently specified in the CRR, implemented in your jurisdiction? Specifically, does your regulation follow a particular methodology to detect whether institutions deploy leverage to a level that might endanger the stability of the institution or the market?**

**Brief Explanation**

In general terms, the LR can be summarised as a measure of capital (capital measure) as a proportion of total adjusted assets (exposure measure). The capital measure is Tier 1 capital, while the exposure measure should generally follow the accounting measure of exposure, although on-balance sheet, non-derivative exposures are included in the Exposure Measure net of specific provisions and valuation adjustments; and netting of loans and deposits is not allowed. Also physical or financial collateral, guarantees or credit risk mitigation purchased are not allowed to reduce on-balance sheet exposures. Specific provisions are also envisaged for derivatives, repurchase agreements and securities finance (SFTs) and off-balance sheet items.

**Legislative reference**


**SELF ASSESSMENT**

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD).

Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

### 18) Capital buffers

**GENERAL PRINCIPLE**

Within the EU the authorities for the supervision of macro-economic risks or Member States might require the compliance with additional capital buffers for defined participants in defined markets. Depending on the nature of the buffer, it may not necessarily reflect a detected risk in a specific institution and may be applicable to all institutions, e.g. in a specific market or institutions above a certain size. The capital buffers in the CRD require the holding of additional capital of the highest quality (CET1) for all institutions subject to them. The buffers are usually defined as a percentage calculated on a predefined risk measure.

**18.1 Are the requirements for capital buffers implemented in an equivalent way within your jurisdiction? Specifically:**

- Does your designated and/or competent authority within your jurisdiction have the right to require capital buffers to contain financial stability risks?
- Which kind of buffers are already in place or which are considered possible?

**Brief Explanation**

While the CRR identifies minimum levels of capital ratios that an institution must maintain at all times, the CRD IV envisages the following capital buffers:

- Capital conservation buffer
- Countercyclical capital buffer
- Systemically important institution (SII) buffer (for globally and other
The purpose of the capital conservation buffer, as the name indicates, is to conserve a bank’s capital. This buffer corresponds to 2.5% of the total of the risk weighted exposure amounts of a bank that needs to be met with an additional amount of the highest quality of capital (CET1).

The countercyclical buffer (CCyB) is intended to counteract the effects of the economic cycle on bank’s lending activity. The purpose of the CCyB is to ensure institutions have a sufficient capital base, accumulated during periods of credit growth, to absorb losses in stressed periods. The CCyB is aimed at limiting procyclicality, so that a downturn in the economy would not transmit into a feedback loop into the banking system, weakening its capital base and thus the ability to sustain the economy.

Failure to meet combined buffer requirements will trigger capital conservation measures (restrictions on dividend payments, shares buybacks, payments on AT1 instruments, bonuses and payments of variable remuneration or discretionary pension benefits) and the obligation to submit a capital conservation plan within five days.

The CRD deals also with the additional requirement for Systemically Important Banks i.e. those institutions whose failure would put the financial system at risk, either at global level (G-SIIs) or at the regional/local level (O-SIIs). Such institutions, at the consolidated level, are required to maintain a buffer of CET1 capital (the SII Buffer), which is meant to compensate for the higher risk that they represent for the financial system. The size of the SII Buffer for a particular G-SII will depend on its systemic importance. In respect of O-SIIs, competent authorities may require the maintenance of a buffer of up to 2% of their RWAs on a consolidated, sub-consolidated or individual basis as applicable.

Member States may also introduce a further buffer (the Systemic Risk Buffer) for the financial sector or one or more subsets of that sector in order to prevent and mitigate long-term non-cyclical systemic or macro prudential risks with potential negative impact to the financial stability.

Legislative reference
Capital buffers are defined in Article 128-142 of the CRD.

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD).

Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

19) Macro-prudential tools

Systemic risk has the potential to impair financial stability both in individual Member States and within the wider Single Market. Thus, the CRR provides national authorities with the possibility to deal with such risks in a complete and timely manner, through a set of several prudential tools. The macro-prudential provisions make substantial progress towards this goal.
19.1 How could potential situations of systemic risk be addressed in your jurisdiction? Are there dedicated tools/instruments available for supervisors to mitigate excessive risks building up within the financial system as a whole (i.e. not related to a single institution)?

**Brief Explanation**

Apart from the capital buffers provided in the CRD and the macro-prudential use of Pillar 2, national authorities may use the “macro-prudential flexibility” rules. Under certain conditions they may apply higher requirements on capital / liquidity / large exposures / risk weights. They might ask also more stringent requirements on Public Disclosure aimed at enhancing market discipline and mitigating informational asymmetries. It has to be established that the measure is necessary, effective and proportionate, and that other specified measures cannot adequately address the systemic risk. These measures are subject to a notification and non-objection process, with the EU Council having the final decision on whether to block a measure if objections are raised.

**Legislative reference**

Provisions on macro-prudential tools are laid down in Article 458-459 of the CRR.

**SELF ASSESSMENT**

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD).

Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

**20) Transitional provisions**

**GENERAL PRINCIPLE**

The implementation of the new capital requirements imposed by the CRR is progressive: it follows a transition period before the full application of the new requirements. Additionally, there are also grandfathering provisions over 10 years that apply to outstanding capital instruments that are used to meet the criteria to qualify as regulatory capital under the pre-CRR regime, but that no longer qualify under the CRR.

**20.1** Does your regulatory framework envisage a transition period in order for the following elements:

- Unrealised gains and losses,
- Capital deductions
- Minority interest computability
- Large exposures
- Own funds requirements
- Leverage
- Basel I floor

In case the above items can be phased-in, how long will it take for the full implementation? Is the phasing-in pattern similar as far as the percentages which apply to the various items are concerned?

**Brief Explanation**

In order to avoid “cliff-effects” on own funds, the CRR includes the possibility of a smoother transition, with the elements likely to reduce the value of own funds to be introduced progressively, according to a certain transition pattern, which will lead to full implementation as of 1 January 2018.
### Legislative reference
See Article 465-473 and 492-500 of the CRR.

### 20.2
**Does your legislation include provisions for “grandfathering” of AT1 and Tier 2 instruments? In case it does, how long is the phasing-out period?**

#### Brief Explanation
*In the same vein as for the phasing-in period for the items mentioned in Question 53 above, the CRR also includes certain rules for the grandfathering of capital instruments, so that the computation within own funds of capital instruments issued before the CRR could be phased-out progressively, with the transition period ending on 31 December 2021. After that date, capital instruments that are not compliant with the CRR rules cannot count as an institution’s own funds.*

#### Legislative reference
See Article 474-491 of the CRR.

### SELF ASSESSMENT
Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD).

Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.

### 21) Disclosure by institutions

#### GENERAL PRINCIPLE
Effective public disclosure enhances market discipline and allows market participants to assess a bank’s capital adequacy and prudent liquidity management and can provide strong incentives to banks to conduct their business in a safe, sound and efficient manner. Transparency and disclosure rest at the foundation of the so called “Third Pillar” of prudential regulation as laid down in the Basel II framework and also envisaged in the CRR. Indeed, market discipline can only have a positive effect on the behaviour of market participants if sufficient and standardized (comparable) information is available. The European framework requires disclosure of comprehensive information, which should be sufficient to allow an evaluation of the funds, risk, and management without giving away professional secrets about strategy or information about counterparties.

#### 21.1
Among financial market participants, one of the most relevant source of distress stems from information asymmetries arising from opaque disclosure. Instead, market participants should have access to the same amount/quality of information when assessing of the risk taking of a counterparty. Do you regard this problem as relevant and how do you try to solve it?

#### Legislative reference
Provisions on disclosure are laid down in Article 431-455 of the CRR

#### 21.2
**How are the provisions for disclosure implemented in your jurisdiction? Specifically, does your regulation require all of the following:**

a) Qualitative disclosure of elements
b) Quantitative disclosure of own funds
c) Quantitative disclosure of capital requirements

#### Legislative reference
See Article 431-455 of the CRR

#### 21.3
**Which are the requirements for supervisory disclosure within your jurisdiction?**
**Brief Explanation**

In order to enhance transparency and market efficiency, competent authorities shall publish the text of laws regulation and administrative rules adopted in the Member States, in order to allow for a meaningful comparison of approaches adopted by each Member State in the field of prudential regulation.

**Legislative reference**

See Article 143-144 of the CRD

**SELF ASSESSMENT**

Please summarise your opinion to which level, in aggregate, the regulation defined above is equivalent with the relevant EU regulation (the CRR and the CRD).

Please comment on the main areas of difference with respect to EU regulation and provide a short summary of the rationale, together with the assessment of their materiality for the institutions in your jurisdiction.