

above on a pool basis (that is, the same as for non-retail portfolios), or (b) analysis of exposures on a pool basis against a sufficient number of EL grades to allow for a meaningful differentiation of credit risk.

Quantitative disclosures pertaining to historical results would include actual losses (for example, charge-offs and specific provisions) in the preceding period for each portfolio and how this differs from past experience and a discussion of the factors that affected the loss experience in the preceding period. In addition, disclosures would include banking organizations' estimates against actual outcomes over a longer period.<sup>55</sup> At a minimum, this would include information on estimates of losses against actual losses in each portfolio over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes. Banking organizations would further be expected to decompose this to provide analysis of PD, LGD and EAD estimates against estimates provided in the quantitative risk assessment disclosures above.<sup>56</sup>

Disclosures for banking book equity positions would include both balance sheet and fair values, and the types and nature of investments. The total cumulative realized gains or losses arising from sales and liquidations would be disclosed, together with total unrealized gains/losses and any amounts included in Tier 1 and/or Tier 2 capital. Details on the equity capital requirements would also be disclosed.

Disclosures relating to credit risk mitigation would include a description of the policies and processes for netting and collateral valuation and management, and the types of collateral accepted by the bank. Banking organizations would also be expected to

include information about the main types of guarantor or credit derivative counterparties, and any risk concentrations arising from the use of a mitigation technique.

Securitization disclosures would summarize a banking organization's accounting policies for securitization activities and the current year's securitization activity. Further, banking organizations would be expected to disclose the names of the external credit rating providers used for securitizations. They would also provide details of the outstanding exposures securitized by the banking organization and subject to the securitization framework, including impairments and losses, exposures retained or purchased broken down into risk weight bands, and aggregate outstanding amounts of securitized revolving exposures.

Disclosures for market risk would include a description of the models, stress testing, and backtesting used in assessing market risk, as well as information on the scope of supervisory acceptance. Quantitative disclosures would include the aggregate VaR, the high, mean, and low VaR values over the reporting period, and a comparison of VaR estimates with actual outcomes.

A key disclosure under the operational risk framework would be a description of the AMA the banking organization uses, including a discussion of relevant internal and external factors considered in the banking organization's measurement approach. In addition, the banking organization would disclose the operational risk charge before and after any reduction in capital resulting from the use of insurance or other potential risk mitigants.

Finally, disclosures relating to interest rate risk in the banking book would include the nature of that risk, key assumptions made, and the frequency of risk measurement. They would also include the increase or decline in earnings or economic value for upward and downward rate shocks according to management's method for measuring interest rate risk in the banking book.

The Agencies seek comment on the feasibility of such an approach to the disclosure of pertinent information and also whether commenters have any other suggestions regarding how best to present the required disclosures.

Comments are requested on whether the Agencies' description of the required formal disclosure policy is adequate, or whether additional guidance would be useful.

Comments are requested regarding whether any of the information sought by the Agencies to be disclosed raises any particular concerns regarding the disclosure of proprietary or confidential information. If a

commenter believes certain of the required information would be proprietary or confidential, the Agencies seek comment on why that is so and alternatives that would meet the objectives of the required disclosure.

The Agencies also seek comment regarding the most efficient means for institutions to meet the disclosure requirements. Specifically, the Agencies are interested in comments about the feasibility of requiring institutions to provide all requested information in one location and also whether commenters have other suggestions on how to ensure that the requested information is readily available to market participants.

## VII. Regulatory Analysis

Federal agencies are required to consider the costs, benefits, or other effects of their regulations for various purposes described by statute or executive order. In particular, an executive order and several statutes may require the preparation of detailed analyses of the costs, benefits, or other effects of rules, depending on threshold determinations as to whether the rulemaking in question triggers the substantive requirements of the applicable statute or executive order.

For the reasons described above, the proposed and final rules that the Agencies may issue to implement the New Accord would represent a significant change to their current approach to the measurement of regulatory capital ratios, and the supervision of institutions' internal risk management processes with respect to capital allocations. First, in this ANPR, core and opt-in banks would rely on their own analyses to derive some of the principal inputs that would determine their regulatory capital requirements. Core and opt-in banks would incur new costs to create and refine their internal systems and to attract and train the staff expertise necessary to develop, oversee, manage and test those systems. Second, the measured regulatory capital ratios (although not the minimums) would likely change, perhaps substantially for core and opt-in banks. Third, the Agencies' approach to supervising capital adequacy would become bifurcated; that is, general banks would continue to use the general risk-based capital rules, either in their current form or as modified. As a result, there may be significant differences in the regulatory capital assigned to a particular type of asset depending on whether the bank is a core, opt-in, or general bank. To the extent that an institution's product mix would be directly affected by a change in the landscape of regulatory capital requirements, this might also affect the customers of those institutions due to

aggregating internal grades (either PD/LGD or EL) for the purposes of disclosure, this should be a representative breakdown of the distribution of those grades used in the IRB approach.

<sup>55</sup> For banking organizations implementing the A-IRB and AMA in 2007, the disclosures would be required from year-end-2008; in the meantime, early adoption would be encouraged. The phased implementation is to allow banking organizations sufficient time to build up a longer run of data that will make these disclosures meaningful. For banking organizations that may adopt the advanced approaches at a later date, they would also be subject to a one-year phase in period after which the disclosures would be required.

<sup>56</sup> Banking organizations would have to provide this further decomposition where it would allow users greater insight into the reliability of the estimates provided in the quantitative disclosures: risk assessment. In particular, banking organizations should provide this information where there are material differences between the PD, LGD or EAD estimates given by banking organizations compared in actual outcomes over the long run. Banking organizations should also provide explanations for such differences.