Unofficial translation of the
Swiss Federal Banking Commission's
„Rundschreiben der Eidg. Bankenkommission:
Offenlegungspflichten im Zusammenhang mit der Eigenmittelunterlegung
(EM-Offenlegung)"

Swiss Federal Banking Commission Circular:
Disclosure requirements in respect of capital adequacy
(CA Disclosure)
Dated 29 September 2006

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I. Object

Rz

The present Circular defines in concrete detail Art. 35 of the Capital Adequacy Ordinance (CAO) and sets out the nature and extent of the disclosure requirements to which banks and securities firms (hereinafter referred to as banks) are subject. This Circular also takes account of information already published by banks in their annual and semi-annual reports. 1

II. Scope

This Circular applies to all banks which are incorporated in Switzerland with the exception of private bankers who do not publicly solicit customer deposits (Art. 6 para. 6 Banking Act and Art. 35 CAO). 2

When calculating capital adequacy requirements on the level of a finance group or conglomerate, the disclosure obligations are only to be applied on a consolidated basis (consolidation rebate). The consolidation rebate applies both to the parent company and to its subsidiaries. 3

The disclosure obligations do not apply to the individual members of a central organization which, under the terms of Art. 9 para. 1 CAO, the supervisory authority has exempted from meeting capital adequacy requirements on an individual basis. The disclosure obligations are to be met by the central organization at consolidated level. 4

Foreign-controlled banks are exempt from disclosure if comparable information is published abroad at Group level. 5

The scope of consolidation corresponds to that applied in the consolidated calculation of required and eligible capital resources (Art. 6 CAO). 6

III. Exemptions from the disclosure obligations

Banks which meet all the following conditions are only required to publish the amount of eligible capital (Rz 38) and the amount of required capital (Rz 39), broken down in terms of requirements for credit risk, non-counterparty-related risks, market risk and operational risk (partial disclosure): 7

- Capital adequacy requirements for credit risk of less than CHF 200 million (calculated according to Rz 13) 8
- Application of the Swiss standardized approach to calculating capital adequacy requirements for credit risks (in accordance with Art. 38 (1) (a) CAO) 9
- Application of the basic indicator approach or the standardized approach to calculating capital adequacy requirements for operational risks (according to Arts. 80 and 81 CAO) 10
- No application of securitization transactions within the meaning of EBK-RS 06/1 "Credit risks". 11

The chosen approach to calculating capital adequacy requirements for market risks is not the determining factor. 12

The threshold value of CHF 200 million relates to individual institutions if publication is on an individual basis or to group level if publication is on a consolidated basis. The capital adequacy requirements for credit risk are calculated as the average of the corresponding data given in the capital adequacy statements for the last four half-year periods preceding the balance sheet date. In the event of changes in individual statements (takeovers or spin-offs) or as a result of changes in the scope of consolidation (purchases or disposals), the corresponding figures for the four previous half-year periods 13 are to be adjusted accordingly when calculating the average value.

Other banks which do not meet the conditions of Rz 8-11 for partial disclosure are subject to the full disclosure requirement (full disclosure), taking account of the activities they engage in and their material relevance. **14**

IV. Approval

The governing body for overall direction, supervision and control approves the disclosure within the meaning of this Circular. **15**

V. Disclosure of qualitative information

Qualitative information must be prepared or adjusted taking account of the activities performed and the material relevance at the time of the annual accounts in accordance with margin numbers 17-36. **16**

A. Equity holdings and scope of consolidation

The following must be described:

- The scope of consolidation relevant to the capital adequacy calculation, specifying the key differences compared with the scope of consolidation according to financial reporting; **17**
- Material group companies which are fully or quota consolidated; **18**
- Material equity holdings which are neither fully nor quota consolidated, specifying their treatment for capital adequacy purposes (deduction or weighting); **19**
- Material changes in the scope of consolidation compared with the previous year; **20**
- Any restrictions preventing the transfer of funds or capital within the group. **21**

B. Eligible and required capital

The following must be described:

- Where relevant, consideration given to group companies in the insurance sector (excluding information on what are referred to as "captives", see Art. 11 CAO); **22**
- Material "innovative", "hybrid" and subordinate ranking instruments. **23**

C. Credit risk

The following must be described:

- The strategy, processes and organization employed for managing credit risks and counterparty risks and the reporting system in place; **24**
- Risk practice and practice in relation to collateral (where material: including the main types of credit derivatives and guarantees used as collateral). **25**

The following must be specified:

- The ratings and export insurance agencies consulted, along with reasons for changes **26**

- Types of positions for which the ratings of ratings and export insurance agencies are consulted 27
- The general approach and subsidiary approaches used for calculating capital adequacy requirements. 28

D. Market risk

The following must be described:

- The strategy, processes and organization employed for managing risks in the trading book; 29
- The strategy, processes and organization employed for managing risks in the banking book; 30
- The general measurement and reporting processes. 31
- The most important assumptions used to determine interest rate risk (clearly showing the treatment of sight and callable deposits). 32
- Practice applied to hedging or reducing risks related to changes in interest rates. 33

The approach used for calculating capital adequacy requirements should be specified. 34

E. Operational risks

The strategy, processes and organization employed for managing operational risks should be described. 35

The approach used for calculating capital adequacy requirements should be specified. 36

VI. Disclosure of quantitative information

In terms of content, quantitative information should be disclosed in accordance with Rz 38-45, taking into account the nature and material relevance of the bank's business activities. The tables can be used as examples in terms of layout and design. Banks may choose other forms of presentation, e.g. by adding or adjusting the tables in the annual financial statements. 37

A. Eligible and required capital

The bank provides information on

- eligible capital pursuant to Table 1 (Annex 2); 38
- required capital pursuant to Table 2 (Annex 2); 39

B. Credit risk

The bank provides information on

- credit risk / breakdown by counterparty or sector pursuant to Table 3 (Annex 2); 40
- credit risks and credit risk mitigation pursuant to Table 4 (Annex 2); 41
- segmentation of credit risks pursuant to Table 5 (Annex 2); 42
- geographical credit risk pursuant to Table 6 (Annex 2) if client loans abroad (based on the principle of domicile) account for more than 15% of all client loans; 43

- client impaired loans broken down by geographical areas in accordance with Table 7 (Annex 2) if client impaired loans abroad (based on the principle of domicile) account for more than 15% of all client impaired loans; 44

- the credit derivatives transactions in the banking book pursuant to Table 8 (Annex 2); 45

C. Interest risk in the banking book

The bank must provide figures on the asset or income effect of a shock resulting from change in interest rates. 46

VII. Use of bank-specific calculation approaches

Banks which use bank-specific calculation approaches, i.e. the internal ratings-based approach to calculating capital adequacy requirements for credit risks (IRB; Art. 65 CAO), the model-based approach to calculating capital adequacy requirements for market risks (Art. 76 CAO), the bank-specific approach to calculating capital adequacy requirements for operational risks (AMA; Art. 82 CAO), or securitization transactions within the meaning of EBK-RS 06/1 "Credit risks", must fully comply with the additional disclosure obligations required by the Basel minimum standards[1] as applicable to the approaches used. Annex 1 contains the corresponding requirements. 47

VIII. Form of disclosure

The information to be published pursuant to this Circular must be readily accessible. The banks may in particular avail themselves of the following possibilities: 48

- Publication in the Internet;
- Publication in interim and annual reports.

On request, the information to be disclosed must also be provided in printed form. 49

If the information to be published is available from a different, and likewise publicly available, source, reference may be made to that source provided that it is readily accessible. 50

If the bank does not publish the information relating to capital adequacy requirements in its annual report, it must specify in this report where such information is available. 51

Banks which benefit from the consolidation rebate pursuant to Rz 3 and 5 must specify in a general note in their annual reports where the consolidated publication can be obtained. 52

IX. Timing and deadlines for disclosure

The qualitative and quantitative information must be disclosed at least after each year-end financial statement. 53

In addition, banks with average capital adequacy requirements for credit risk of more than CHF 1 billion (calculated according to Rz 13 after taking account of the multipliers for banks which do not use the Swiss standardized approach) must also disclose the quantitative information after each semi-annual interim statement. 54

The data updated after each annual statement must be published within four months of the closing of the 55

[1] "International Convergence of Capital Measurement and Capital Standards – A Revised Framework / Comprehensive Version" Basel Committee on Banking Supervision, June 2006.

annual accounts. The data updated after each interim statement must be published within two months of the closing of the interim accounts.

The time when the published information was produced or adjusted must be clearly specified.

X. Additional requirements for large banks

In addition, banks with average capital adequacy requirements for credit risk of more than CHF 4 billion (calculated according to Rz 13 after taking account of the multipliers for banks which do not use the Swiss standardized approach) and significant international activities must also publish the following information on a quarterly basis. **56**

- core capital and total capital ratios (BIS ratios) of the group and its significant domestic and foreign banking subsidiaries. In the case of foreign group companies, figures calculated according to local rules may be used and **57**

- associated basic information, i.e. the eligible core capital, the eligible total capital and the sum of the capital adequacy requirements. **58**

The information must be updated and published within two months. **59**

XI. Auditing

The auditors will annually verify compliance with disclosure obligations pursuant to EBK-RS 05/1 "Auditing" and will provide their opinion on the supervisory audit in the audit report. **60**

Disclosure in the interim and/or annual reports does not come under the audit prescribed by the Swiss Code of Obligations. However, if certain components of the information required by this Circular are published in the annual financial statements, these will come under the audit prescribed by the Swiss Code of Obligations. **61**

XII. Entry into force

This Circular enters into force on January 1, 2007. **62**

XIII. Transitional provisions

This Circular is to be applied from the time of the changeover to the new capital adequacy requirements. **63**

In the case of first-time disclosure in accordance with this Circular, the previous year's figures do not need to be provided. **64**

Until such time as four capital adequacy statements pursuant to Art. 13 CAO are available, the average capital requirements pursuant to Rz 13 may be calculated using capital adequacy statements prepared according to the rules of the Banking Ordinance in the version of March 24, 2004. **65**

Annexes:

Annex 1
Annex 2

Legal bases:

- Federal Law on Banks and Savings Banks ("Banking Act"): Art. 4 para. 2
- CAO (Capital Adequacy Ordinance): Art. 35

Annex 1

Information to be disclosed	Partial disclosure	Full disclosure	Special points for banks that use one or more bank-specific calculation approaches
Qualitative information:			
Equity holdings and scope of consolidation			
Eligible and required capital			
Credit risks			a) Banks which use the IRB must describe the nature and extent of the relevant risk exposure for each approach. Planned changes between the standardized approach, the Foundation Internal Ratings-Based Approach (F-IRB) or the Advanced Internal Ratings-Based Approach (IRB) must be disclosed, specifying dates. b) Additional qualitative requirements relating to credit risk: See "Table 6: Credit risk: disclosures for portfolios subject to IRB approaches".
Market risks			Additional qualitative information: See Table 11 "Market risk: disclosures for banks using the internal models approach (IMA) for trading portfolios".
Operating risks			Additional qualitative information: See Table 12 "Operational risk".
Quantitative information:[1]			
Eligible capital and reserves	[2]		
Required equity	[3]		Additional information to be published by banks using the IRB approach: See paragraph 822, Table 3 "Capital adequacy".
Breakdown by counterparty or sector			
Credit risk mitigation			Model table 4 is not to be used by banks that apply the A-IRB approach.

[1] Banks with capital adequacy requirements for credit risk of more than CHF 1 billion (see Rz 54) must update the quantitative information after each six-month period.
[2] Indication of total amount only.
[3] Indication of total amounts for credit risk, non-counterparty risks, market risk and operational risk only.

Segmentation of credit risks			a) Banks applying the IRB approach must disclose the information in accordance with paragraph 826, Table 6 "Credit risk: disclosures for portfolios subject to IRB approaches", not in accordance with Model table 5. b) Banks adopting the IRB approach and applying supervisory risk weightings for "Specialized Lending", HVCRE or equity-type instruments in the banking book, must **in addition** complete Model table 5. This must, however, be adjusted to the requirements of paragraph 825, Table 5 "Credit risk: disclosures for portfolios subject to the standardized approach and supervisory risk weights in the IRB approaches".
Geographical credit risk		[4]	
Client impaired loans by countries		[5]	
Credit derivatives in the banking book			
Interest risk in the banking book			
Market risks		[6]	Publication of quantitative information: see Table 11 "Market risk: disclosures for banks using the internal models approach (IMA) for trading portfolios".
			Special points for banks which use securitization transactions
Qualitative and quantitative information on securitization transactions			See Table 9 "Securitization: disclosure for standardized and IRB approaches". In addition, the relevant capital adequacy requirements must be disclosed under Model table 3.

The gray-shaded fields indicate the areas on which banks with partial or full disclosure are required to publish information.

[4] Only disclosed if the risk-weighted loans to clients abroad (based on the principle of domicile according to SNB statistics) account for more than 15% of total client loans. In deviation from the apportionment principle as defined by the SNB, in the case of security-backed loans, the country of domicile can be given as that in which the place of jurisdiction of the security-backed loan agreement is located.

[5] Only disclosed if impaired loans to clients abroad (based on the principle of domicile according to SNB statistics) account for more than 15% of all client impaired loans. In deviation from the apportionment principle as defined by the SNB, in the case of security-backed loans, the country of domicile can be given as that in which the place of jurisdiction of the security-backed loan agreement is located.

[6] Only disclosed by banks using the model-based approach to calculate market risks.

Annex 2
Model Table 1: Presentation of eligible capital:

	Period under review		Previous period[1]	
Gross core capital (after taking account of bank-issued equity securities which are to be deducted)				
of which minority shareholdings				
of which "innovative" instruments				
less Regulatory deduction[2]				
less Other components to be deducted from core capital				
= Eligible core capital				
+ Supplementary capital and additional capital				
less Other deductions from supplementary capital, from additional capital and from total capital				
= Eligible capital				

[1] Year-back figures only at the end of the financial year
[2] Only relates to banks which used the IRB approach whose expected losses exceed the provisions formed

Annex 2
Model Table 2: Presentation of required capital:

	Approach used	Capital adequacy requirements [1,2,3]	
Credit risk[4]			
Of which price risk relating to equity-type securities in the banking book		of which	
Non-counterparty-related risks			
Market risk[5 6]			
■ of which on interest-rate instruments (general and specific market risk) [7]		of which	
■ of which equity-type securities[6]		of which	
■ of which on currencies and precious metals[6]		of which	
■ of which on commodities[6]		of which	
Operational risk			
Total	------------------------------------		
for SA-BIS and IRB banks: Additional Swiss capital requirements[8] for non-counterparty-related risks and credit risks (multipliers pursuant to Arts. 64 and 65 CAO).			
Total			
Ratio of eligible/required equity under Swiss law[9]			

1 Banks which have used securitization transactions must disclose the residual capital requirements separately.
2 Additional information to be published by banks using the IRB approach: See paragraph 822, Table 3, "Capital adequacy "
3 Banks which use the SA-BIS or IRB approach for credit risks may present the figures before or after use of the multipliers.
4 Incl. bonds in trading assets where the capital requirement is calculated using the de minimis method.
5 Banks using the model-based approach to calculating capital adequacy requirements for market risks generally only indicate the total amount of the relevant capital requirements. Those that do not model the specific risk enter the relevant capital requirements in the corresponding sections.
6 Excluding trading assets according to the de minimis approach.
7 The capital adequacy requirements in relation to options should be entered in the relevant categories.
8 Unless already taken into account in the previous figures. Only applies to banks that use the SA-BIS or IRB approach.
9 Must be specified by all banks.

BIS ratios[10]:	
Eligible core capital (incl. "innovative" instruments)	
Eligible capital and reserves	

[10] Mandatory for banks which use the SA-BIS or IRB approach and optional for banks using the Swiss SA. These ratios show eligible equity as a percentage of risk-weighted positions plus the required equity for market risks, operating risks and positions from unsettled transactions multiplied by 12.5 to convert to equivalent units. SA-BIS and IRB banks take account of the risk-weighted positions before multipliers.

Annex 2
Model Table 3: Credit risk / breakdown by counterparty or sector

Credit commitments (at time of statement)	....	....	....	....	....	....	Total
Balance sheet / receivables[2]:							
From clients							
Mortgage claims							
Financial assets / debt instruments							
Other assets / positive replacement values							
Total period under review							
Total previous period							
Off-balance sheet[2]							
Contingent liabilities							
Irrevocable commitments							
Liabilities for calls on shares and other equity							
Contingent credits							
Total period under review							
Total previous period							

[1] The bank may opt for breakdown by sector or counterparty and may determine the relevant classification. Classification by counterparty may take the following form for example: Central governments and central banks / other PSEs / banks and securities traders / corporates / private clients (incl. security-backed loans and mortgage claims) and retail (SMEs / others).

[2] The bank determines the presentation. It may structure positions according to balance sheet and off-balance sheet sections (corresponding to whichever recognized accounting rules are used) or according to the main internal categories of credit commitments.

Annex 2
Model Table 4: Credit risk / credit risk mitigation[1]

Credit commitments/default risks (at time of statement)[2]	**Covered by recognized financial collateral**[3]	**Covered by other recognized IRB collateral**	**Covered by guarantees and credit derivatives**	**Other credit commitments**	**Total**
....					
....					
....					
....					
Derivatives					
Total period under review					
Total previous period					

[1] Model table 4 is not to be used for banks opting for the advanced IRB approach.

[2] With regard to presentation, there is a choice between a) presentation according to individual internally defined portfolios, b) presentation based on a classification by counterparty or c) presentation based on classification according to accounting practice. The bank indicates whether the credit commitments are shown according to netting based on accounting practice or according to netting based on equity. With the exception of derivatives, in the case of presentation by portfolio or counterparties, off-balance sheet credit commitments may be presented separately or together with balance sheet commitments. If integrated into the balance sheet commitments, credit equivalents must be used.
In the case of derivatives, counterparty risk must be presented separately in all cases. The bank also indicates which approach (market value approach, standardized approach, model-based approach) it has used to estimate counterparty risk. Where different methods are used, the derivative position must be broken down accordingly.

[3] Where the comprehensive approach is used, the net value of the collateral should be taken into account, i.e. after haircuts. The bank indicates the credit risk mitigation technique used.

Annex 2
Model Table 5: Segmentation of credit risks[1]

	Supervisory risk weightings										
Credit commitments[2] default risks after credit risk mitigation	**0%**	**20/25%**	**35%**	**50%**	**75%**	**100%**	**125%**	**150%**	**250%**	**Deduction**	**Total**
....											
....											
....											
Derivatives											
Total period under review											
Total previous period											

1 This table should not be prepared by banks which use the IRB approach and do not use supervisory risk weightings.

2 The bank determines the presentation subject to the following restriction: The amounts subject to a capital charge in connection with derivatives are to be presented separately. The bank may present all other credit commitments together, i.e. aggregated, or using an appropriate classification (e.g. by balance sheet sections or counterparties). The non-derivative off-balance sheet commitments (after conversion to credit equivalents) may be presented separately or together with the balance sheet commitments.

Annex 2
Model Table 6: Geographical credit risk[1]

Credit commitments	**Switzerland[2]**	**Europe**	**North America**	**South America**	**Asia**	**Others**	**TOTAL**
Balance sheet / receivables[3]:							
From banks							
From clients							
Mortgage claims							
Financial assets / debt instruments							
Other assets / positive replacement values							
Total period under review							
Total previous period							
Off-balance sheet							
Contingent liabilities							
Irrevocable commitments							
Liabilities for calls on shares and other equity							
Contingent credits							
Total period under review							
Total previous period							

1 Based on the principle of domicile according to SNB statistics. In deviation from the apportionment principle as defined by the SNB, in the case of security-backed loans, the country of domicile can be given as that in which the place of jurisdiction of the security-backed loan agreement is located. The bank indicates the chosen approach.

2 The bank determines the degree of detail in the classification by countries or geographical areas in accordance with its foreign commitments.

3 The bank determines the presentation. It may structure positions according to balance sheet and off-balance sheet sections (corresponding to whichever recognized accounting rules are used) or according to the main internal categories of credit commitments.

Annex 2
Model Table 7: Presentation of impaired loans to clients by geographical area[1]

	Impaired loans to clients[2] (gross amount)	Individual value adjustments
Switzerland[3]		
Europe		
North America		
South America		
Asia		
Others		
Total period under review		
Total previous period		

[1] Based on the principle of domicile according to SNB statistics. In deviation from the apportionment principle as defined by the SNB, in the case of security-backed loans, the country of domicile can be given as that in which the place of jurisdiction of the security-backed loan agreement is located. The bank indicates the chosen approach.

[2] Loans to clients include receivables from clients (Rz 50 RRV-SFBC – accounting guidelines) and mortgage claims (Rz 51 RRV-SFBC).

[3] The bank determines the degree of detail in the classification by countries or geographical areas in accordance with its foreign commitments.

Annex 2
Model Table 8: Presentation of the contract volume of credit derivatives in the banking book

	Protection seller	Protection purchaser
Credit default swaps		
Credit linked notes		
Total return swaps		
First-to-default swaps		
Other credit derivatives		