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Bank of England

Prudential Regulation Authority

Annex II Output floor disclosure instructions

Template UKB CMS1 – Comparison of modelled and standardised RWA at risk level

1. The purpose of this template is to compare full standardised risk-weighted assets (RWA) against modelled RWA that firms have supervisory approval to use in accordance with the finalised Basel III framework. The disclosure also provides the full standardised RWA amount to which the output floor in the Basel framework is applied.
2. Accompanying narrative: Firms are expected to explain the main drivers of difference (eg asset class or sub-asset class of a particular risk category, key assumptions underlying parameter estimations, national implementation differences) between the internally modelled RWA disclosed that are used to calculate their capital ratios and RWA disclosed under the full standardised approach that would be used should the firms not be allowed to use internal models. Explanation should be specific and, where appropriate, may be supplemented with quantitative information. In particular, if the RWA for securitisation exposures in the banking book are a main driver of the difference, firms are expected to explain the extent to which they are using each of the three potential approaches (SEC-ERBA, SEC-SA and 1,250% risk weight) for calculating SA RWA for securitisation exposures.

Row Number	Explanations
0010	When calculating the degree of credit risk mitigation, firms must use the simple approach or the comprehensive approach with standard supervisory haircuts. This also includes failed trades and non-delivery-versus-payment transactions as set out in Annex 3 of the Basel II framework (June 2006).The prohibition on the use of the IRB approach for equity exposures will be subject to a five-year linear phase-in arrangement from the date of implementation of the finalised Basel III framework. During the phase-in period, the risk weight for equity exposures used to calculate the RWA reported in column (a) will be the greater of: (i) the risk weight as calculated under the IRB approach, and (ii) the risk weight set for the linear phase-in arrangement under the standardised approach for credit risk. **Cell 0010/a:** For exposures where the RWA is not computed based on the standardised approach described above (ie subject to the credit risk IRB approaches (Foundation Internal Ratings-Based (F-IRB), Advanced Internal Ratings-Based (A-IRB) and supervisory slotting approaches of the credit risk framework). The row excludes all positions subject to the securitisation regulatory framework, including securitisation exposures in the banking book (which are reported in row 0040) and capital requirements relating to a counterparty credit risk charge, which are reported in row 0020. **Cell 0010/b**: RWA which result from applying the above-described standardised approach.

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	Cell 0010/c: The sum of cells 0010/a and 0010/b. **Cell 0010/d):** RWA as would result from applying the above-described standardised approach to all exposures giving rise to the RWA reported in cell 0010/c.
0020	To calculate the exposure for derivatives, firms must use the standardised approach for measuring counterparty credit risk (SA-CCR). The exposure amounts must then be multiplied by the relevant borrower risk weight using the standardised approach for credit risk to calculate RWA under the standardised approach for credit risk. **Cell 0020/a**: For exposures where the RWA is not computed based on the standardised approach described above. **Cell 0020/b**: RWA which result from applying the above-described standardised approach. **Cell 0020/c**: The sum of cells 0020/a and 0020/b. **Cell 0020/d**: RWA as would result from applying the above-described standardised approach to all exposures giving rise to the RWA reported in cell 0020/c.
0030	The standardised approach for CVA (SA-CVA), the basic approach (BA-CVA) or 100% of a firm's counterparty credit risk capital requirements (depending on which approach the firm uses for CVA risk). **Total actual RWA (cell 0030/c) and RWA calculated using full standardised approach (cell 0030/d)**: RWA according to the standardised approach described above.
0040	The external ratings-based approach (SEC-ERBA), the standardised approach (SEC-SA) or a risk weight of 1,250%, is used. **Cell 0040/a**: For exposures where the RWA is computed based on the SEC-IRBA or SEC-IAA. **Cell 0040/b**: RWA which result from applying the above-described standardised approach. **Cell 0040/c**: The sum of cells 0040/a and 0040/b. **Cell 0040/d**: RWA as would result from applying the above-described standardised approach to all exposures giving rise to the RWA reported in cell 0040/c.
0050	The standardised approach for market risk. The SEC-ERBA, SEC-SA or a risk weight of 1,250% must also be used when determining the default risk charge component for securitisations held in the trading book. **Cell 0050/a**: For exposures where the RWA is not computed based on the standardised approach described above. **Cell 0050/b**: RWA which result from applying the above-described standardised approach. **Cell 0050/c**: The sum of cells 0050/a and 0050/b.

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	Cell 0050/d): RWA as would result from applying the above-described standardised approach to all exposures giving rise to the RWA reported in cell 0050/c.
0060	**Total actual RWA (cell 0060/c) and RWA calculated using full standardised approach (cell 0060/d)**: RWA according to the revised standardised approach for operational risk.
0070	**Cell 0070/c and cell 0070/d**: RWA not captured within rows 0010 to 0060 (ie the RWA arising from equity investments in funds (rows 12 to 14 in Template OV1), settlement risk (row 15 in Template OV1), capital charge for switch between trading book and banking book (row 23 in Template OV1) and amounts below the thresholds for deduction (row 25 in Template OV1)).
0080	**Cell 0080/a**: The sum of cells 0010/a, 0020/a, 0040/a and 0050/a. RWA for portfolios where standardised approaches are used (cell 0080/b): The total sum of cells 0010/b, 0020/b, 0030/b, 0040/b, 0050/b, 0060/b and 0070/b. **Cell 0080/c**: The bank's total RWA before the output floor adjustment. The total sum of cells 0010/c, 0020/c, 0030/c, 0040/c, 0050/c, 0060/c and 0070/c. **Cell 0080/d)**: The total sum of cells 0010/d, 0020/d, 0030/d, 0040/d, 0050/d, 0060/d and 0070/d. Disclosed numbers are calculated purely for comparison purposes and do not represent requirements under the Basel regulatory framework.

Template UKB CMS2 – Comparison of modelled and standardised RWA for credit risk at asset class level

1. As in row 1 of Template CMS1, it excludes counterparty credit risk, credit valuation adjustments and securitisation exposures in the banking book.
2. The purpose of this template is to compare risk-weighted assets (RWA) calculated according to the standardised approach (SA) for credit risk at the asset class level against the corresponding RWA figure calculated using the approaches (including both the standardised and IRB approach for credit risk and the supervisory slotting approach) that firms have supervisory approval to use in accordance with the Basel regulatory framework for credit risk
3. The format is fixed. However, while the columns are fixed, but the portfolio breakdowns in the rows will be set at jurisdiction level to reflect the exposure classes required under national implementation of IRB and SA. Firms are encouraged to add rows to show where significant differences occur.
4. Accompanying narrative: Firms are expected to explain the main drivers of differences between the internally modelled amounts disclosed that are used to calculate their capital ratios and amounts disclosed should the firms apply the standardised approach. Where differences are attributable to mapping between IRB and SA, firms are encouraged to provide explanation and estimated materiality.

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Column letter	Explanation
a	Represents the portion of RWA according to the IRB approach for credit risk in accordance with PRA requirements for risk-based capital requirements and the supervisory slotting approach.
b	RWA equivalent as derived under the standardised approach.
c	Represents the sum of the RWA for modelled approaches that firms have supervisory approval to use and the RWA under standardised approaches.
d	Total RWA assuming the full standardised approach applied at asset class level. Disclosed numbers for each asset class are calculated purely for comparison purposes and do not represent requirements under the PRA regulatory framework.

Row number	Explanation
(0010-0090)	Asset classes that are considered for RWA credit risk

The prohibition on the use of the IRB approach for equity exposures would be subject to a five-year linear phase-in arrangement from the date of implementation of the revised Basel III framework. During the phase-in period, the risk weight for equity exposures (to be reported in column (a)) will be the greater of: (i) the risk weight as calculated under the IRB approach, and (ii) the risk weight set for the linear phase-in arrangement under the standardised approach for credit risk. Column (b) should reflect the corresponding RWA for these exposures based on the phased-in standardised approach. After the phase-in period, columns (a) and (b) for equity exposures should both be empty.

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