FSA078 Pillar 2 Concentration risk minimum data requirements

All firms should complete this data item as set out in Sections 1 and 2 below as well as Section 1(6) of the statement of policy on Pillar 2.

General information

Firm should complete the following mandatory fields:

- the basis of their reporting – UK consolidated, solo consolidation, UK consolidation group or capital sub-group;
- the submission number – firms should enter '1' and increase this number by '1' in case of resubmission;
- the unique 'firm reference number' (FRN);
- the name of the firm;
- the reporting period start and end dates – these dates should coincide with the ICAAP assessment period. In particular, the reporting end date is the balance sheet end date used for purposes of the ICAAP assessment; and
- the reporting currency – firms should report in the currency of their ICAAP i.e. Pounds Sterling (GBP), US Dollars (USD), Euros (EUR), Canadian Dollars (CAD), Swiss Francs (CFH), Japanese Yen (JPY) or Swedish Krona (SEK).

Units

RWAs amounts should be reported in absolute values rounded to the nearest whole number in reporting currency.

Where values correspond to percentages, these should be entered as decimal numbers up to 2 decimal places. For example, '70.00%'.

Definitions

All definitions are in line with ITS on Supervisory Reporting, and CRD IV,[1] unless otherwise specified.

Section 1 Firm minimum data requirements

1. For the assessment of single name, sector and geographic (international) concentration risk , firms should provide:
   i) the total RWAs; and
   ii) calculate the Herfindahl-Hirschman Index (HHI) of the portfolios within scope (see Section 2) for each of the concentration risk types. RWAs should be calculated based on the approach used to calculate the credit risk Requirements, ie the standardised approach, the foundation IRB approach or the advanced IRB

[1] Capital Requirements Directive (2013/36/EU) and Capital Requirements Regulation (575/2013), collectively 'CRD IV'.

approach. For counterparty credit Risk exposures the CVA component of the capital requirements should be excluded from the RWAs estimate. For central counterparty (CCP) exposures the default fund contribution (DFC) should be included in both the EAD and RWAs estimates.

2. The HHI is calculated as:

$$HHI = \frac{\sum w(i)^2}{(\sum w(i))^2}$$

Where $w(i)$ represents:

- *single name concentration risk*: the total credit risk RWAs of a single counterparty aggregated to ultimate group parent level;
- *sector concentration risk* : the total credit risk RWAs per defined sector (see Table 1); and
- geographic (international) concentration risk: the total credit risk RWAs per defined economic region (see Table 2).

Section 2 Portfolios in scope

3. Single name concentration risk: wholesale credit (non-retail) portfolio exposures across the banking and trading book excluding intragroup exposures, securitisations and defaulted assets. The HHI should be calculated by looking at the individual exposures for the entire portfolio, not just the 20 largest exposures. Sectors and portfolios are not relevant. RWAs should be aggregated to ultimate group parent level. Investment trusts should be included as single exposure; any diversification within the trust would be reflected in a lower risk weight.

4. Sector concentration risk: wholesale credit (non-retail) portfolio exposures across banking and trading book excluding intragroup exposures, sovereigns, housing associations and defaulted assets. There is no requirement to allocate countries by sector; sovereign exposures are excluded from this calculation. Where firms have exposures to counterparties in multiple sectors, they can either report these as exposures in the primary sector or split the exposures proportionally across the sectors. RWAs should be aggregated according to the following sector breakdown:

Table 1: Sector breakdown

Agriculture, Forestry and Fishing
Construction
Finance Industry
Real Estate
Manufacturing
Mining and Quarrying
Retail/Wholesale Trade
Business Services & Other
Transport, Utility & Storage

5. Geographic (international) concentration risk: wholesale and retail credit portfolio exposures across banking and trading book excluding intragroup exposures, residential mortgages on the standardised approach and defaulted assets. RWAs should be aggregated according to the regional breakdown in Table 2, based on the country of origination of the exposure. However, a firm may report based on country of risk rather than country of origin where it judges that this better captures geographical concentration risk.

Table 2: Geographic regional breakdown

United Kingdom
North America
South American, Latin America & Caribbean
European (West) Area
Eastern Europe & Central Asia (including Russian Federation)
East Asia & Pacific
South Asia
Middle East & North Africa
Sub-Saharan Africa

Comments

Comment box is limited to 255 characters. Any additional information should be sent to the PRA via electronic means.