FINANCIAL INTELLIGENCE AUTHORITY

Regulation No. 1

Prudential Supervision of the Entities Carrying out Financial Activities on a Professional Basis

Implementing Title III of the Law Introducing Norms on Transparency, Supervision and Financial Intelligence, No. xviii of 8 October 2013

Vatican City State
PART I

GENERAL PROVISIONS AND DEFINITIONS

Article 1. Scope of application.
Article 2. Criteria of application.
Article 3. Definitions.

PART II

AUTHORIZATION TO CARRY OUT
FINANCIAL ACTIVITIES ON A PROFESSIONAL BASIS

CHAPTER 1

FINANCIAL ACTIVITIES CARRIED OUT
ON A PROFESSIONAL BASIS IN THE STATE

Article 4. Authorization to carry out financial activities on a professional basis in the State.
Article 5. Criteria.
Article 6. Procedure.
Article 7. Expiry, suspension and revocation of the authorization.

CHAPTER 2

FINANCIAL ACTIVITIES CARRIED OUT
ON A PROFESSIONAL BASIS IN A FOREIGN STATE

Article 8. Authorization to carry out financial activities on a professional basis in a foreign State.
Article 9. Criteria.
Article 11. Expiry, suspension and revocation of the authorization.
CHAPTER 3
ACQUISITION OF PARTICIPATION OR EQUITY HOLDINGS
IN ENTITIES CARRYING OUT FINANCIAL ACTIVITIES ON A PROFESSIONAL BASIS
OR IN NON-FINANCIAL ENTITIES

Article 12. Authorization for the acquisition of participations or equity holdings in entities carrying out financial activities on a professional basis or non-financial entities.
Article 13. Limits.
Article 15. Procedure.
Article 16. Expiry, suspension and revocation of the authorization.
Article 17. Notification in case of disposal or termination.

CHAPTER 4
COMPETENCE AND HONORABILITY REQUIREMENTS

Article 18. Competence requirements.
Article 19. Honorability requirements.
Article 20. Verification of the possession of competence and honorability requirements.

PART III
STRUCTURE AND MANAGEMENT
OF THE RISKS OF SUPERVISED ENTITIES

CHAPTER 1
PRINCIPLES OF GOOD GOVERNANCE, INTERNAL CONTROLS,
AND ORGANIZATION OF THE SUPERVISED ENTITIES

Article 21. Organizational structure.
Article 22. Internal controls.
Article 23. Organizational principles.

CHAPTER 2
ROLES AND RESPONSIBILITIES
OF THE SUPERVISED ENTITY’S BODIES

Article 24. Management.
Article 25. Senior management.
Article 26. Supervisory body.
CHAPTER 3

REQUIREMENTS, ROLES AND RESPONSIBILITIES
OF THE CONTROL FUNCTIONS OF ENTITIES CARRYING OUT
FINANCIAL ACTIVITIES ON A PROFESSIONAL BASIS

Article 27. Control functions.
Article 28. Planning and reporting of the control activities.
Article 29. Compliance function.
Article 30. Risk management.
Article 31. Internal audit.
Article 32. Relations between the control functions.
Article 33. Outsourcing.

CHAPTER 4

COMPLAINTS MANAGEMENT

Article 34. Complaints management.

CHAPTER 5

REMUERNERATION AND INCENTIVE POLICIES

Article 35. Remuneration policies and role of the supervisory body.
Article 36. Role of the senior management.
Article 37. Role of the control functions.
Article 38. Remuneration of members of the management, the senior management and the control functions.
Article 39. Retirement and employment severance policy.
Article 40. Exceptions.

CHAPTER 6

EXTERNAL AUDITORS

Article 41. External auditors.
Article 42. Revocation of the mandate.
Article 43. Communications to the supervisory Authority.
CHAPTER 7
RISK MANAGEMENT

Article 44. Credit and counterparty risk.
Article 45. Risks arising from the use of credit risk mitigation techniques.
Article 46. Risk concentration.
Article 47. Market risk, intermediation risk, and payment risk.
Article 48. Interest rate risk and currency exchange risk.
Article 49. Operational risks.
Article 50. Risks that are difficult to quantify.

CHAPTER 8
ADDITIONAL ORGANIZATIONAL PROVISIONS
TO PROMOTE HIGH MORAL AND PROFESSIONAL STANDARDS
AND TO PREVENT ABUSE IN THE FINANCIAL SECTOR

Article 51. Specific transactions and confidential information.
Article 52. Conflicts of interest.
Article 53. Registration and record keeping.
Article 54. Safeguarding clients’ securities.
Article 55. Use of clients’ financial instruments.

PART IV
PRUDENTIAL REQUIREMENTS

CHAPTER 1
REGULATORY CAPITAL

Article 56. Regulatory capital.
Article 57. Proportionality of the regulatory capital.
Article 58. Prudential filters associated with the application of international accounting standards for the preparation of the balance sheet.
Article 59. Other negative components.
Article 60. Net gains or losses on equities.
Article 61. Deductions.
Article 62. Frequency of reporting and method of calculation of regulatory capital.
CHAPTER 2

CREDIT RISK

Article 63. Calculation of the capital requirement for credit risk.
Article 64. General criteria for the use of external ratings.
Article 65. Exposures to public Authorities, including foreign public Authorities and central banks.
Article 66. Exposures to entities carrying out financial activities on a professional basis.
Article 67. Exposures to non-profit organizations and public sector entities.
Article 68. Exposures to public territorial entities.
Article 69. Exposures to international and regional organizations.
Article 70. Exposures to multilateral development banks.
Article 71. Exposures to companies and other entities.
Article 72. Retail exposures.
Article 73. Exposures to companies with an assessment of short-term creditworthiness.
Article 74. Exposures to collective investment undertakings.
Article 75. Exposures secured by real estate.
Article 76. Exposures in the form of covered bonds.
Article 77. Past due exposures.
Article 78. High risk exposures.
Article 79. Other exposures.
Article 80. Guarantees, commitments, derivative contracts and long settlement transactions.

CHAPTER 3

CREDIT RISK MITIGATION TECHNIQUES

Article 81. General requirements.
Article 82. Financial collateral.
Article 83. On-balance sheet netting.
Article 84. Cash deposits at third party entities.
Article 85. Financial instruments issued by third parties.
Article 86. Guarantees.
Article 87. Credit derivatives.
Article 88. Counter-guarantees or indirect guarantees.
Article 89. Maturity mismatches.

CHAPTER 4

COUNTERPARTY RISK

Article 90. Capital requirement against counterparty risk.
Article 91. Mark-to-market method.
CHAPTER 5

MARKET RISK

Article 92. Capital requirement against market risk.
Article 94. Capital requirement against settlement risk.
Article 95. Capital requirement against concentration risk on the trading book.
Article 96. Capital requirement against foreign exchange risk.
Article 97. Capital requirement against market risk tied to options.

CHAPTER 6

OPERATIONAL RISK

Article 98. Capital requirement against operational risk.

CHAPTER 7

MINIMUM AND TOTAL CAPITAL REQUIREMENTS

Article 99. Minimum and total capital requirements.

CHAPTER 8

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

Article 100. General provisions.
Article 101. ICAAP stages.
Article 102. Identification of the risks to be assessed.
Article 103. Measurement of the individual risks and determination of the internal capital related to each risk.
Article 104. Stress testing.
Article 105. Determination of total internal capital.
Article 106. Total capital and its reconciliation with regulatory capital.
Article 107. ICAAP internal governance.

CHAPTER 9

CONCENTRATION RISK

Article 108. Prudential limits.
CHAPTER 10

LIQUIDITY RISK MANAGEMENT

Article 109. Role of the senior management.
Article 110. Role of the management.
Article 111. Role of the supervisory body.
Article 112. Liquidity risk management process.
Article 113. Identifying and measuring risk.
Article 114. Liquidity risk mitigation instruments.
Article 115. Liquidity Coverage Ratio
Article 116. Emergency plans.
Article 117. Internal controls system.

PART V

DISCLOSURE TO THE SUPERVISORY AUTHORITY AND PUBLICATION

Article 118. Disclosure to the supervisory Authority.
Article 119. Publication.
Article 120. Organization and controls.

PART VI

FINAL AND TRANSITIONAL PROVISIONS

Article 121. Transitional period.
Article 122. Administrative sanctions and remedy.
Article 123. Compliance to the internal legislation and to the international and regional standards.
Article 124. Final provisions.
Article 125. Entry into force.

ANNEXES

Annex I  Annex XI
Annex II  Annex XII
Annex III  Annex XIII
Annex IV  Annex XIV
Annex V  Annex XV
Annex VI  Annex XVI
Annex VII  Annex XVII
Annex VIII
Annex IX
Annex X
Having seen

– the Apostolic Letter in the form of Motu Proprio of Pope Francis “For the countering of money laundering, the financing of terrorism and the proliferation of weapons of mass destruction” of 8 August 2013, in particular Article 2;

– the Apostolic Letter in form of Motu Proprio of Pope Francis “Approving the new Statute of the Financial Intelligence Authority” of 15 November 2013, in particular Article 4 (2) (d);

– the “Fundamental Law of the Vatican City State” of 26 November 2000, and, in particular, Article 4 (3);

– the Law “On the Economic, Commercial and Professional Sectors”, No. v of 7 June 1929;

– the Law “On the Sources of Law”, No. LXXI of 1 October 2008;


– the Law “Introducing Norms Concerning Transparency, Supervision and Financial Intelligence”, No. xviii of 8 October 2013, in particular Title III, Articles:

54 (2), pursuant to which the Financial Intelligence Authority shall set, by means of a regulation, the criteria and procedures for granting the authorization to carry out financial activities on a professional basis, including the suspension and withdrawal thereof;

55 (2), pursuant to which the Financial Intelligence Authority shall set, by means of a regulation, the criteria and procedures for granting the authorization to carry out activities of a financial nature abroad;

56 (2), pursuant to which the Financial Intelligence Authority shall set, by means of a regulation, the criteria and procedures for granting the authorization to participate in entities professionally carrying out financial activities;

57, pursuant to which the Financial Intelligence Authority shall set, by means of a regulation, the limits and rules on the shareholdings that may be held by entities subject to the law, as well as the criteria and procedure to enter and participate in groups that professionally carry out financial activities;
58 (1), pursuant to which the Financial Intelligence Authority shall set, by means of a regulation, the criteria for organizing and managing entities professionally carrying out financial activities;

59, pursuant to which the Financial Intelligence Authority shall set, by means of a regulation, capital adequacy and liquidity requirements, consistently with the risks assumed and presented by the entities professionally carrying out financial activities, within the economic and financial framework and the macro-economic conditions in which they operate;

60 (1), pursuant to which the Financial Intelligence Authority shall set, by means of a regulation, the criteria that entities professionally carrying out financial activities and the group to which they belong shall follow to manage risks;

61 (1), pursuant to which the Financial Intelligence Authority shall set, by means of a regulation, the experience and honorability requirements for members of the direction, control bodies, and senior management, or those who have or shall have analogous roles within the supervised entity that professionally carries out an activity of a financial nature;

62 (1) (3), pursuant to which the Financial Intelligence Authority shall set, by means of a regulation, the procedures that entities professionally carrying out financial activities shall follow to send documents, data or information requested for purposes of prudential supervision, as well as the information and reporting requirements applicable to entities professionally carrying out financial activities vis-à-vis counterparties and the public at large;

Following and giving execution

to the Resolution adopted by the Board of directors of the Financial Intelligence Authority on 25 September 2014;

PROMULGATES

the following Regulation
PART I

GENERAL PROVISIONS AND DEFINITIONS

Article 1. *Scope of application.*

This Regulation is applicable to all entities carrying out financial activities on a professional basis, without prejudice to Article 52 (2) of the Law No. XVIII of 8 October 2013.

Article 2. *Criteria of application.*

1. This Regulation shall be applied consistently with the criteria of application established by article 53 of the Law No. XVIII of 8 October 2013.

2. In particular, all provisions shall be applied consistently:

   a) with the institutional, legal, economic, commercial and professional framework of the State;

   b) with the principle of proportionality, by taking into account operational size and complexity, the nature of the financial activity carried out, the type of services provided, as well as the economic and financial setting and macroeconomic conditions under which a supervised entity carries out its activity.

Article 3. *Definitions.*

To the ends of this Regulation, the following terms shall be defined as following.

1) “*Acquisition*”: acquisition, directly or indirectly, including participation, or contractual arrangements, or agreements by multiple persons or entities under the common control or acting in a concentrated manner, even when the agreements are made after the relevant acquisition; or through intermediary persons or entities:

   a) of a qualifying holding in the entity;

   b) of ownership, control or significant influence rights with respect one or more branches of activity of the entity; and

   c) of the right to administer and manage a material portion of the supervised entity’s and/or its clients’ assets.

2) “*Activity carried out on a professional basis*”: an organized economic activity carried out habitually for the purpose of the production or exchange of goods or services for and on behalf of, including in favor of, third parties.
3) “Advising with respect to financial activities”: advising with respect of the financial activities indicated by paragraph 8, including providing investment advice, or personalized recommendations to a client, at its request or the service provider’s initiative, concerning one or more transactions regarding a specific financial instrument.

The recommendation is personalized when it is presented as adapted to the client, or it is based on a consideration of the client’s category and characteristics, and concerns a transaction belonging to one of the following categories:

a) buying, selling, subscribing, exchanging, redeeming, or holding a certain financial instrument, or accepting guarantees from the counterparty regarding this instrument;

b) exercising or not exercising any right granted by a certain financial security to buy, sell, subscribe, exchange, or redeem a financial instrument.

4) “Authorization”: an act formally issued by the supervisory Authority by which the right to carry out the relevant activities is granted;

5) “Auxiliary entity”: an entity other than an entity carrying out financial activities on a professional basis, which exclusively or predominantly conducts an activity that is auxiliary to that of entities that conduct financial activities on a professional basis;

6) “Available margin for investments in equity holdings”: the difference between 100% of the regulatory capital and the sum of equities acquired;

7) “Brokerage of any typology of financial instrument”: the following services, when they relate to financial instruments:

a) trading on one’s own behalf;

b) executing orders on behalf of clients;

c) underwriting and/or placing with an underwriting commitment or the acceptance of a guarantee towards the issuer;

d) placement without an underwriting commitment or the acceptance of a guarantee towards the issuer;

e) receipt and transmission of orders;

8) “Capital”: funding capital initially provided or subsequently integrated by the Holy See or the State, and that meet the following requisites:

a) it is paid in pursuant to the legislation of the Holy See and the State;

b) it is clearly and distinctly identified in the financial statements;
c) it cannot be reduced or distributed, except that in case of cessation or liquidation of the supervised entity, ensuring that:

i) it is distributed with proportionality to the legitimate creditors, according to the legislation of the Holy See and the State.

ii) it is acquired by the Apostolic See.

For regulatory purpose, the term “capital” shall be considered as equivalent to “core capital”.

9) “Central banks”: central banks of third countries.

10) “Client”: the party vis-à-vis whom the supervised entity offers its services and takes risks according to its statutes, incorporation and/or by-laws.

11) “Collective portfolio management”: the management of independent capital collected through one or more issuances of shares from multiple investors to be invested according to a predetermined investment policy; subdivided into shares of ownership among a plurality of participants; managed from above in the interest of the participants and independently of them.

12) “Common equity”: the sum of:

a) the sum of the following positive components:

i) the capital;

ii) the supplemental capital;

b) deducting the following components (if negative):

i) goodwill;

ii) intangible assets;

iii) adjustments to the value of receivables;

iv) losses recognized in previous financial periods and in the current period;

v) adjustments to the regulatory value of assets valued at their “fair value.”

For regulatory purposes, “common equity” shall be considered as equivalent to “common equity tier 1”.

13) “Confidential information”: information subject to a legal, statutory or contractual obligation of confidentiality with respect to the supervised entity’s internal affairs or its relations with its clients or other counterparties.
14) “Control”: effective control, either directly or indirectly, of the supervised entity, its asset, policies, strategies or operational activity.

Control is considered to exist in the form of dominant influence, unless proven otherwise, when one of the following situations occurs:

a) the existence of a subject that has the right to appoint or revoke the members of the management, or the senior management, or the supervisory body, or the control functions;

b) the existence of relations, of a financial or organizational nature that can produce one of the following effects:

i) the transmission of profits or losses;

ii) the coordination of the supervised entity’s management or senior management with that of other entities in order to achieve a common objective;

iii) the attribution to persons, other than those lawfully entitled of powers in selecting members of the management or senior management;

iv) being subject to common management or senior management on the basis of the composition of the management or of the senior management, or through other relevant elements.

15) “Control functions or significant activities”: functions and activities of a strategic or significant relevance for the organizational structure and internal control of the supervised entity and its compliance with the statute, incorporation and/or the by-laws, and the legislation of the Holy See and the State.

Control functions are, inter alia, the functions of complying with the legislation of the Holy See and the State (“compliance”), managing risks (“risk management function”), and internal auditing (“internal audit”).

Significant activities are, inter alia, activities for which at least one of the following conditions occurs:

a) an irregularity in its execution or the failure to execute it may seriously compromise:

i) the financial results, solidity, or continuity of the supervised entity’s activities; or

ii) the supervised entity’s ability to comply with its statutes, the conditions and obligations deriving from its authorization or with the obligations prescribed by legislation of the Holy See and the State;

b) it concerns financial activities indicated by paragraph 23; or

c) it concerns operational processes in the control function, or has a significant impact on the management of the supervised entity’s risks.
16) “Currency assets and liabilities”: all assets and liabilities (on-balance sheet and “off-balance sheet”) for each currency, excluding Euro but including transactions in Euros indexed to foreign currency rate fluctuations. Transactions in gold are assimilated to currency transactions.

17) “Delivery versus payment” (DVP): the principle regulating transactions in which counterparties perform their obligations simultaneously (delivery of cash against financial activities or vice-versa).

18) “Deteriorated exposures”: non-performing exposures, impaired exposures, restructured exposures, and past-due or defaulted exposures.

19) “Equity holding”: a holding of stock or shares (or instruments convertible in stock or shares) in another supervised entity that creates a durable link to this supervised entity with a view to developing the supervised entity’s activity. The possession of a fraction of the capital of another entity is presumed to be an equity holding when it exceeds (or would after conversion exceed) 10% of its capital.

20) “Exposure”: the sum of any on-balance and off-balance sheet exposure to a client, as defined by the provisions on credit and counterparty risks, without applying the relevant risk weights. Assets wholly deducted from regulatory capital as well as trading book exposures are excluded. The exposure is determined on the basis of the balance sheet value.

21) “Exposures”: on-balance and off-balance sheet assets (such as warranties issued). Assets deducted from the regulatory capital and those that form the trading portfolio for regulatory purposes that are subject to capital requirements regarding market risks are excluded from these exposures.

22) “External audit firm”: a company authorized to conduct an independent review and audit of financial statements in the State, or in a State considered as equivalent, including the Member States of the European Union (EU) or the Organization for Economic Co-operation and Development (OECD).

23) “External auditor”: a natural person authorized to exercise an independent review and audit of financial statements in the State, or in a State considered as equivalent, including the Member States of the European Union (EU) or the Organization for Economic Cooperation and Development (OECD).

24) “Financial activities”: one or more of the following activities:

a) acceptance of deposits and other repayable funds from the public;

b) lending;

c) financial leasing;

d) transfer of funds;
e) issuing and managing of means of payment;

f) issuing financial guarantees and commitments;

g) brokerage of any typology of financial instrument;

h) participation in securities issues and the provision of related financial services;

i) individual or collective portfolio management;

j) safekeeping and administration of cash or liquid securities;

k) otherwise investing, administering or managing of funds or other assets;

l) underwriting and placement of life insurances and other connected investments;

m) money or currency changing;

n) advising relating to the activities listed in the previous subparagraphs.

25) “Foreign public Authority”: organ or body of a foreign State.

26) “Foreign State considered as equivalent to the State”: foreign State whose supervisory and regulatory regime is considered as equivalent to that of the Vatican City State.

27) “General gross position on equities”: the sum as an absolute value of the net long and short positions relative to equity securities in the portfolio.

28) “General net position on equities”: the difference as an absolute value between the net long and short positions, calculated separately for each country in which equities are traded on a regulated market (or, in the absence of trading on a regulated market, in the country where the issuer resides).

29) “Gross long (or credit) position”: securities in a portfolio, securities receivable for transactions to be settled (spot or forward) and other “off-balance sheet” transactions that entail an obligation or right to acquire certain securities, currency, indices, interest rates, or exchange rates.

30) “Gross long (or credit) position in currency”: currency assets, currency receivable for transactions to be settled (spot or forward) and other “off-balance sheet” transactions that entail an obligation or right to acquire currency assets.

31) “Gross short (or debit) position”: technical overdrafts, securities handed over for transactions to be settled (spot or forward) and other “off-balance sheet” transactions that entail an obligation or right to sell certain securities, indices, or interest rates.
32) “*Gross short (or debit) position in currency*”: currency liabilities, currency to be handed over for transactions to be settled (spot or forward) and other “off-balance sheet” transactions that entail an obligation or right to sell currency assets.

33) “*Group of connected clients*”: two or more natural or juridical persons:

a) who, unless otherwise indicated, constitute a single supervised entity in terms of risk, because one of them directly or indirectly controls the other(s);

b) among whom there are no control relationships as described in letter a), but which must be considered as a single supervised entity in terms of risk as they are interconnected such that, if one of them were to encounter particular difficulties with financing or repaying debts, the other or others would most likely experience difficulties with financing or repaying debts.

Without prejudice to paragraphs a) and b), if a public Authority has control over more than one supervised entity, or has a direct link to more than one supervised entity, the combination of the public Authority and all the entities that it directly or indirectly controls in accordance with letter a) or that are linked to it in accordance with paragraph b) is not considered as a group of connected clients.

34) “*Impaired exposures*”: on-balance and off-balance sheet exposures to counterparties in a temporary situation of objective difficulty that can predictably be remedied within a reasonable amount of time, notwithstanding the existence of any possible guarantees (personal or collateral) established to safeguard against the exposures. Impaired items include, unless the conditions for their qualification as non-performing are present, exposures to counterparties who have not punctually honored their payment commitments (in terms of principal or interest) on listed debt securities. To this end, the “grace period” is acknowledged as prescribed by the contract or in the absence thereof, as recognized by the market on which the security is listed.

35) “*Individual portfolio management*”: the management on a discretionnal, customized basis of investment portfolios as part of a mandate granted by clients.

36) “*Internal capital*”: the capital needed in relation to a specified risk that the supervised entity shall deem necessary to cover losses exceeding a given expected level (such definition presumes that the expected loss shall be addressed by net value adjustments of equivalent amount; where the loss should be greater than the net value adjustment, the internal capital must also address this difference);

37) “*Issuing and managing means of payment*”: the following activities:

a) services to deposit cash in a payment account as well as all transactions required to manage a payment account;

b) services to withdraw cash from a payment account as well as all transactions required to manage a payment account;
c) the execution of payment orders, including the transfer of funds to a payment account care of the user’s payment service provider or another payment services provider:

i) the execution of direct debits, including one-time direct debits,

ii) the execution of payment services through payment cards or similar mechanisms,

iii) the execution of transfers, including permanent orders;

d) the execution of payment transactions when the funds are part of a credit line granted to a payment services user:

i) the execution of direct debits, including one-time direct debits,

ii) the execution of payment services through payment cards or similar mechanisms,

iii) the execution of transfers, including permanent orders;

iv) the issuance and/or acquisition of payment instruments;

e) cash remittances;

f) the execution of payment transactions when the payer’s consent to the payment transaction’s undertaking is provided by a telecommunications, digital, or IT device, and the payment is made to the system operator or the telecommunications, digital, or IT network, which acts exclusively as an intermediary between the payment services user and the provider of the services or goods.

The following do not constitute issuing or managing of means of payment:

a) payment transactions made exclusively in cash directly from the payer to the beneficiary without any intermediation;

b) the professional physical transport of banknotes and coins, including their collection, processing, and delivery;

c) currency exchange transactions between one currency in cash and another where the funds are not held in a payment account;

d) services provided by technical service providers that support the provision of payment services without ever possessing the funds to be transferred, including the processing and registration of data, the fiduciary services and the protection of personal information, the authentication of the data and the amounts, the provision of IT and communication networks, and the provision and maintenance of terminals and devices used for payment services;

e) cash withdrawal services provided by service providers through automatic teller machines on behalf of one or more card issuers who are not part of the framework agreement with the client withdrawing money from a payment account, on the condition that these service providers do not manage other payment services.
38) “Key personnel”:
   a) management;
   b) senior management;
   c) supervisory body;
   d) persons in charge of the control functions;
   e) persons in charge of the supervised entity’s main activity’s lines and operational functions.

39) “Large risks”: exposures to a client or group of connected clients as defined in Chapter 9 of Part IV of this Regulation of an amount equal to or greater than 10% of the regulatory capital.

40) “Liquidity risk tolerance threshold”: the maximum risk exposure deemed sustainable in the context of the “normal course of activity” (“going concern”) plus a “stress scenario.” Entities define this threshold by taking into account the existing prudential rules, strategic lines, activity model, operational complexity, and the capacity to collect funding. The liquidity risk tolerance threshold must be consistent with the measures taken for determining the liquidity risk for both the short term, usually defined as up to 1 year, as well as for longer maturities. The liquidity risk tolerance threshold is made known to the operational functions.

41) “Management”: the body or members thereof who are responsible for, or in charge of, the management and operational activity, including the choice of means to implement the policies and strategies adopted by the senior management.

42) “Net currency position”: the difference between the gross long position and the gross short position for each currency.

43) “Net long or short position” on a financial instrument:
   a) for debt securities: the position resulting from the difference between the gross credit positions and gross debit positions on balance sheet and off-balance sheet for the same issuance;
   b) for equity instruments: set-off is made by referring to the same type (for example, ordinary shares or savings shares) of equity securities issued by the same issuer;
   c) for certificates of participation in collective investment undertakings: set-off is allowed between the long and short positions referring to the same collective investment undertaking;
   d) for other financial instruments, set-off is only allowed in the presence of identical instruments in the opposite direction.

44) “Net position”: the lesser of two amounts relative to a gross debt or gross credit position.
45) “Non-financial entity”: a entity other than: a) an entity carrying out financial activities on a professional basis; or b) an auxiliary entity;

46) “Non-performing exposures”: on-balance and off-balance sheet exposures to subjects in a state of insolvency (even if not judicially determined) or in substantially comparable situations, independently of any possible loss forecasts formulated by the supervised entity. This exists aside from the existence of any possible guarantees (collateral or personal) established to safeguard against the exposures. They also include receivables acquired from third parties whose main debtors are non-performing, independently of the accounting allocation portfolio.

47) “Otherwise investing, administering, or managing of funds or other assets”: any form of management or administration of money or financial instruments belonging to third parties.

48) “Outsourcing”: use of a third-party service provider (either natural or juridical person) to perform functions and activities on a continuing basis that would normally be undertaken by the supervised entity.

49) “Past-due and/or defaulted exposures”: on-balance and “off-balance sheet” assets other than those classified as non-performing, impaired, or restructured, which are past-due or in default for more than 90 days.

50) “Personal transaction”: a transaction on a financial instrument undertaken by, or on behalf of, a relevant person, whenever at least one of the following conditions is met:

a) the relevant person acts outside the scope of activities that it undertakes as a relevant person;

b) the transaction is undertaken on behalf of any of the following persons:

i) the relevant person;

ii) a person to whom the relevant person is personally related within the fourth degree of kinship;

iii) a person who has relations with the relevant person such that the relevant person has a significant interest, direct or indirect, in the result of a transaction other than the payment of fees or commissions for carrying out the transaction.

51) “Public Authority”: organ or body of the Holy See or the State.

52) “Public sector entity”: public entity set up under public law by a State or one of its Authorities, excluding entities that produce goods and services for sale or trade, even if under legal obligation or at non-remunerating conditions.

53) “Public territorial entity”: entity belonging to the territorial organization of a State, like the regions, provinces, municipalities.
54) “Regulatory capital”: is the common equity.

55) “Relevant person”: an individual belonging to one of the following categories:

a) member of the management, senior management, supervisory body and the control functions;

b) employees of the supervised entity;

c) within the limits established by article 41, any other individual who provide services to, and under the responsibility and control of, the supervised entity.

56) “Residual position”: the residual amount after set-off, which is the difference between a long and a short position.

57) “Restructured exposures”: on-balance and “off-balance sheet” exposures for which an supervised entity, due to the deterioration of the counterparty’s economic and financial condition, agrees to the amendment of the original contractual conditions (for example, the setting of new deadlines, reduction of the debt and/or interest), which gives rise to a loss. The requirements for the “deterioration of the counterparty’s economic and financial condition” and the presence of a “loss” are presumed to have been met whenever the restructuring concerns exposures that have already been classified as impaired, past-due and/or defaulted exposures. Any restructurings of credit exposures classified as non-performing are presumed to be undertaken with a liquidating intent, and therefore, they do not fall under the category of restructured exposures, rather of non-performing ones.

58) “Risk appetite framework (RAF)”: the reference framework defining (consistently with the maximum acceptable risk, the activity model, and the strategic plan) the risk propensity, tolerance thresholds, risk limits, risk governance policies, and reference processes necessary for defining and enacting them (Annex II). Below are the definitions of the relevant concepts for RAF purposes:

a) risk capacity (maximum acceptable risk): the maximum risk level that an supervised entity is technically able to accept without violating the regulatory requirements or other binding obligations imposed by its own internal regulations;

b) risk appetite (risk target or risk propensity): the risk level (total and by type) that the supervised entity intends to accept to pursue its strategic objectives;

c) risk tolerance (tolerance threshold): the maximum allowed risk appetite deviation; the tolerance threshold is set to ensure sufficient margins to the supervised entity under any circumstances so that it operates, even under stress conditions, within the maximum acceptable risk. In case a risk acceptance beyond the set risk target is allowed, without prejudice to the respect of the tolerance threshold, the necessary management actions are identified to bring the risk accepted within the preset target;

d) risk profile (effective risk): the risk effectively accepted, measured over a certain timeframe;
e) **risk limits**: the specification of the operational risk limits defined, in line with the principle of proportionality, by type of risk, unit or line, product line, and client type.

59) **“Risk management process”**: all the rules, procedures, resources (human, technology, and organizational), and control activities that serve to identify, measure, evaluate, monitor, prevent, attenuate, and communicate all the risks taken or to be taken in the various internal units to the appropriate hierarchical levels, using an integrated process to take into account reciprocal interconnections and the evolution of the macro-economic context;

60) **“Risk position”**: the exposure is weighted according to the rules provided in this Regulation and Annex xv on the basis of the nature of the counterparty and taking into account any risk mitigation techniques.

61) **“Senior management”**: the body competent to define policies and strategies.

62) **“Significant influence”**: the power to participate in, or influence, the determination of the policies, strategies and activities of a supervised entity without having control over it.

To this end, it is considered, as an indicator of significant influence, the circumstance that, *inter alia*, a person or supervised entity:

a) may be represented or influence, directly or indirectly, the management, the senior management or the supervisory body;

b) has determinant voting rights or influence, directly or indirectly, in decisions of a strategic nature within the senior management or supervisory body.

63) **“State”**: Vatican City State.

64) **“Stress tests”**: quantitative and qualitative techniques through which entities assess their own vulnerability to exceptional but plausible events; they result in assessing the effects of specific events on the supervised entity’s risks (sensitivity analysis) or joint movements of a set of economic-financial variables in adverse scenarios assumptions (scenario analysis).

65) **“Supervised entity”**: entity carrying out a financial activity on a professional basis.

66) **“Supervisory Authority”**: the Financial Intelligence Authority.

67) **“Supervisory body”**: the body supervising the soundness of the policies, strategies and activities, and their consistency to the Statute and legislation of the Holy See and State.

68) **“Supplemental capital”**: The sum of retained earnings, accumulated other comprehensive income and other reserves;

69) **“Total internal capital”**: the internal capital referenced to all significant risks assumed by the supervised entity, including any internal capital needed to address considerations of a strategic nature;
70) “Trading book”: positions held for the purpose of trading are those that are intentionally designated for a subsequent sale in the short term and/or have been acquired for the purpose of benefiting in the short term from the differences in purchase and sale prices, or of other price and interest rate variations that respect the requirements set forth in Annex 1. Positions mean positions held for own account and positions deriving from services provided to clients or positions held in order to hedge positions held with trading intent.

**PART II**

**AUTHORIZATION TO CARRY OUT**

**FINANCIAL ACTIVITIES ON A PROFESSIONAL BASIS**

**CHAPTER 1**

**FINANCIAL ACTIVITIES CARRIED OUT ON A PROFESSIONAL BASIS IN THE STATE**

Article 4.  *Authorization to carry out financial activities on a professional basis in the State.*

The conduct of one or more financial activities on a professional basis is subject to the prior authorization by the supervisory Authority.

Article 5.  *Criteria.*

1. The supervisory Authority may issue the authorization after having verified:

a) the mandate given to the entity, established in the statute, incorporation or by-laws, to carry out financial activities on a professional basis;

b) the organizational structure and internal controls of the entity, and its sound and prudent management;

c) the compliance, *inter alia*, to all the following prerequisites:

i) the consistency of the request to the statute, incorporation and/or by-laws;

ii) the presence of the registered office within the State;

iii) the existence of a capital of no less than Euros 1.000.000, and in any case proportionate to the activities carried out and connected risks;

iv) the possession by members of the management and senior management, of the requirements prescribed in Part II, Chapter 4;
v) the absence of impediments to the effective exercise of supervision and regulation.

2. To the ends of paragraph 1, the supervisory Authority verifies, *inter alia*:

a) the consistency of the information provided and the reliability of the forecasts made;

b) the plan’s ability to ensure an adequate state of capital, income, and financial balance, as well as the respect of the prudential provisions for the entire timeframe of reference;

c) the adequacy of the organizational structure and internal controls;

d) the supervised entity’s nature and mission, taking into account the clients’ interest.

2. The authorization shall not be granted in case of a suspicion or reasonable reasons to suspect that the proposed acquisition is connected to money laundering or the financing of terrorism.

3. The authorization may be suspended or revoked if the prerequisites and conditions for its issuance disappear or change.


1. Entities registered in the State shall submit a request to the supervisory Authority specifying the type of activity for which authorization is requested and providing the following documents, data and information:

a) the articles of the statutes, incorporation and/or the by-laws;

b) the activity plan drafted on the basis of Annex III;

c) the list of persons or entities that have the control of the entity;

d) a copy of the minutes of the meeting in which the supervisory body verified possession of the necessary fit and proper requirements by the members of the senior management, as prescribed in Part II, Chapter 4;

e) a copy of the minutes of the meeting in which the senior management verified possession of the necessary fit and proper requirements by the members of the management and the control bodies, as prescribed in Part II, Chapter 4;

f) the proposed external auditors or external audit firm and a copy of their terms of engagement.

The documentation indicated in letters a) to f) must not bear a date more than 6 months prior to the date of presenting the request for authorization.
The supervisory Authority may, at its own discretion, request additional documents, data and information.

2. Paragraph 1 shall apply also in the case of changes in the statutes, incorporation and/or the by-laws relating to the nature and mission, organizational structure and internal controls of the entity, as well as any change in the activities carried out.

3. The supervisory Authority may issue or deny the authorization within 90 days from the receiving of the request accompanied by the requested documents, data and information.

If the supervisory Authority requires additional documents, data and information, the authorization may be issued or denied within 90 days from the receiving of such additional documents, data and information.

The issue of the authorization or its refusal is communicated to the requesting entity within 90 days from the receiving of such additional documents, data and information.

4. Without prejudice to paragraphs 1, 2 and 3, the supervisory Authority may issue the authorization subject to the satisfaction of conditions established by the supervisory Authority on a case-by-case basis.

5. In the case of changes to the documents, data and information provided to the supervisory Authority, the supervised entity shall communicate such changes to the supervisory Authority at least 30 days before they become executive.

The supervisory Authority communicate within 30 days from the receiving of the documents, data and information, the result of its assessments and verifications.

6. The supervisory Authority may apply administrative sanctions according to the Article 66 of the Law No. xviii of 8 October 2013, in the case the supervised entity does not communicate, on a timely basis, the requested documents, data and information and their relevant changes.

Article 7.  Expiry, suspension and revocation of the authorization.

1. If the supervised entity has not begun to carry out the authorized activities within one year from the authorization or if it expressly renounce to the authorization within the same deadline, the supervisory Authority declares the expiry of the authorization.

2. In case of justifiable reasons, through a request by the supervised entity filed at least 60 days before the expiration of the deadline, a limited extension period may be granted, normally for not more than 180 days.

3. In the most serious cases, or if the authorization was obtained through the submission of false or gravely inexact documents, data and information, the authorization is suspended or revoked according to Article 66 (3) of the Law No. xviii of 8 October 2013.
CHAPTER 2

FINANCIAL ACTIVITIES CARRIED OUT
ON A PROFESSIONAL BASIS IN A FOREIGN STATE

Article 8. Authorization to carry out financial activities on a professional basis in a foreign State.

The conduct of one or more financial activities on a professional basis abroad through the establishment of a branch office by supervised entities with a registered office within the State, is subject to the prior authorization by the supervisory Authority, without prejudice to compliance with the laws and regulations of the host foreign State.

Article 9. Criteria.

1. The supervisory Authority may issue the authorization after having verified:

a) the mandate given to the supervised entity, established by the statutes, incorporation or by-laws, to carry out financial activities on a professional basis in a foreign State, including the possibility to open branch offices in a foreign State;

b) the organizational structure and internal controls of the entity, and its sound and prudent management;

c) the compliance, inter alia, to all the following prerequisites:

i) the adequacy of the organizational structure and internal controls of the supervised entity intending to carry out one or more financial activities on a professional basis in a foreign State, taking into special account the greater difficulties that the supervised entity may have in guaranteeing the effectiveness of internal controls in a branch office in a foreign State;

ii) the adequacy of the financial, economic and equity situation of the supervised entity intending to carry out one or more financial activities on a professional basis abroad;

iii) the ability of the supervised entity to comply to the provisions regulating its activity following the establishment of a branch office in a foreign State;

iv) the existence in the host foreign State of an adequate legislation and supervisory and regulatory system;

v) the ability to readily access information by, either the supervised entity, or the supervisory Authority, and in the latter case, also through the exchange of information with the relevant supervisory authorities of the host foreign State or by carrying out off-site and on-site inspection to the branch office in the foreign State.
2. The authorization shall not be granted in case of a suspicion or reasonable reasons to suspect that the proposed acquisition is connected to money laundering or the financing of terrorism.

3. The authorization shall not be granted in case the establishment of a branch office in a foreign State may hinder the supervision by the supervisory Authority.

4. The authorization may be suspended or revoked if the prerequisites and conditions for its issuance disappear or change.


1. The supervised entity that intends to open a branch office abroad shall present a request for authorization to the supervisory Authority for each branch office, providing, inter alia, the following documents, data and information:

a) the foreign State in whose territory the supervised entity intends to establish a branch office;

b) the address of the branch office in the foreign State;

c) the financial activities that the supervised entity intends to carry out on a professional basis in the foreign State;

d) the organizational structure and internal controls to be adopted by the branch office;

e) a copy of the minutes of the meeting in which the senior management verified possession of the necessary competence and honorability requirements by the members of the management and the control bodies responsible for the branch office, as prescribed in Part II, Chapter 4;

f) the amount of the branch office’s endowment fund, if required.

The documentation indicated in letters a) to f) must not bear a date more than 6 months prior to the date of submitting the request for authorization.

The supervisory Authority may request, at its own discretion, additional documents, data and information.

2. The supervisory Authority may issue or deny the authorization within 90 days from the receiving of the request accompanied by the requested documents, data and information.

If the supervisory Authority requires additional documents, data and information, the authorization may be issued or denied within 90 days from the receiving of such additional documents, data and information.
The issue of the authorization or its refusal is communicated to the requesting entity within 90 days from the receiving of such additional documents, data and information.

3. Without prejudice to paragraphs 1 and 2, the supervisory Authority may issue the authorization subject to the satisfaction of conditions established by the supervisory Authority on a case-by-case basis.

4. In the case of changes to the documents, data and information provided to the supervisory Authority, the supervised entity shall communicate such changes to the supervisory Authority at least 30 days before they become executive.

The supervisory Authority communicate within 30 days from the receiving of the documents, data and information, the result of its assessments and verifications.

5. The supervisory Authority may apply administrative sanctions according to the Article 66 of the Law No. XVIII of 8 October 2013, in the case the supervised entity does not communicate, on a timely basis, the requested documents, data and information and their relevant changes.

Article 11. *Expiry, suspension and revocation of the authorization.*

1. If the supervised entity has not opened the authorized branch offices within one year from the authorization, or if it expressly renounces to the authorization within the same deadline, the supervisory Authority declares the expiry of the authorization.

2. In case of justifiable reasons, through a request by the supervised entity filed at least 60 days before the expiration of the deadline, a limited extension period may be granted, normally for not more than 180 days.

3. In the most serious cases, or if the authorization was obtained through the submission of false of gravely inexact information or document, the authorization is suspended or revoked according Article 66 (3) of the Law No. XVIII of 8 October 2013.
CHAPTER 3

ACQUISITION OF PARTICIPATIONS OR EQUITY HOLDINGS IN ENTITIES CARRYING OUT FINANCIAL ACTIVITIES ON A PROFESSIONAL BASIS OR IN NON-FINANCIAL ENTITIES

Article 12. Authorization for the acquisition of participations or equity holdings in entities carrying out financial activities on a professional basis or in non-financial entities.

The acquisition, by supervised entities, of participations or equity holdings in entities carrying out financial activities on a professional basis, or in non financial entities, domiciled or registered in the State or in a foreign State, is subject to the prior authorization by the supervisory Authority, when:

a) the participations or equity holdings exceed 5% of the supervised entity’s regulatory capital, also considering the equity holdings already held; or

b) it entails control or a significant influence over the entity object of the proposed acquisition of participations or equity holdings.

Article 13. Limits.

1. Supervised entities cannot acquire participations or equity holdings in entities carrying out financial activities on a professional basis for an amount that exceeds 10% of its regulatory capital, and in any case, the available margin for investments in equity holdings.

The sum of participations and equity holdings acquired by supervised entities in entities carrying out financial activities on a professional basis cannot exceed, also taking into account the participations and equity holdings already held, 50% of its regulatory capital.

The provision shall apply also in case of auxiliary entities.

2. Supervised entities cannot acquire participations or equity holdings in a non-financial entity for an amount that exceeds, 15% of its own regulatory capital.

The sum of participations and equity holdings acquired by supervised entities in non-financial entities cannot exceed, also taking into account the participations and equity holdings already held, 60% of its regulatory capital.

3. If under extraordinary circumstances the participations and equity holdings acquired exceed the limits established by paragraphs 1 and 2, under the monitoring of the supervisory Authority, they shall be realigned, unless the supervisory Authority decides otherwise on a case-by-case basis.
4. If under extraordinary circumstances there is a reduction in the regulatory capital entailing the exceeding of the limit described in paragraph 1 and 2, under the monitoring of the supervised Authority, the participations and equity holdings shall be realigned, unless the supervisory Authority decides otherwise on a case-by-case basis.


1. The supervisory Authority may issue the authorization after having verified:

a) the mandate given to the supervised entity, established by the statutes, incorporation or by-laws, to acquire entities carrying out financial activities on a professional basis and non-financial activities, domiciled or registered in the State or in a foreign State;

b) the organizational structure and internal controls of the entity, and its sound and prudent management;

c) the compliance, inter alia, to all the following prerequisites:

i) the adequacy of the organizational structure and internal controls of the supervised entity intending to acquire participations or equity holdings, taking into special account the greater difficulties that the supervised entity may have in guaranteeing the effectiveness of internal controls after the acquisition, in particular if the entity it is domiciled or registered in a foreign State;

ii) the adequacy of the financial, economic and equity situation of the supervised entity intending to acquire participations or equity holdings;

iii) the ability of the supervised entity to comply to the provisions regulating its activity following the acquisition of participations or equity holdings, in particular if it is domiciled or registered in a foreign State;

iv) the financial, economic and equity situation, and the reputation of the entity object of the proposed acquisition of participations or equity holdings;

v) if the entity object of the proposed acquisition of participations or equity holdings is domiciled or registered in a foreign State:

- the existence in the host foreign State of an adequate legislation and supervisory and regulatory system;

- the ability to readily access information by, either the supervised entity, or the supervisory Authority, and in the latter case, also through the exchange of information with the relevant supervisory authorities of the host foreign state.

2. The authorization shall not be granted in case of a suspicion or reasonable reasons to suspect that the proposed acquisition is connected to money laundering or the financing of terrorism.
3. The authorization shall not be granted in case the proposed acquisition in a foreign State may hinder the supervision by the supervisory Authority.

3. The authorization may be suspended or revoked if the prerequisites and conditions for its issuance disappear or change.

Article 15. Procedure.

1. The supervised entity intending to acquire participations or equity holdings in entities carrying out financial activities on a professional basis, or in non financial entities, domiciled or registered in the State or in a foreign State, shall submit a request for authorization to the supervisory Authority, providing, inter alia, the following documents, data and information:

a) the statutes, incorporation and/or by-laws of the entity;

b) the last two annual approved and audited financial statements of the entity;

c) copy of the authorization received by the entity in order to carry out financial activities on a professional basis, or its non-financial activities, if required;

d) list of the activities carried out by that the entity;

e) the organizational structure and internal controls of the entity;

f) copy of the minutes of the meeting in which the senior management approved the acquisition of participations or equity holdings in the entity;

g) copy of the minutes of the meeting in which the senior management of the supervised entity verified possession of the necessary competence and honorability requirements by the members of the management, senior management and the control bodies of the entity, as prescribed in Part II, Chapter 4;

h) report issued by the responsible offices of the supervised entity, explaining the economic background and context of the proposed acquisition of participations or equity holdings and its functionality to the strategic plan of the supervised entity;

i) report issued by the responsible offices of the supervised entity, explaining the impact of the proposed acquisition of participations or equity holdings on its capital and projected capital adequacy, as well as its margin for investments in participations and equity holdings;

j) report issued by the responsible offices of the supervised entity, explaining the impact of the proposed acquisition of participation or equity holdings on the organizational structure and internal controls;
k) the potential relations (particularly any contractual arrangements and on-balance and off-balance liabilities) and the other connections, that the supervised entity, as well as members of the management, or the senior management, or the supervisory body, have with the entity;

l) the manner in which the acquisition of the participation or equity holdings will be conducted, including the legal and financial structure of the operation and the funding sources that the subject intends to use to undertake the acquisition;

m) if the entity is domiciled or registered abroad:

i) foreign State in whose territory the entity is domiciled or registered;

ii) foreign State (or States) in whose territory (or territories) the entity has its branch offices;

The documentation indicated in letters a) to i) must not bear a date more than 6 months prior to the date of submitting the request for authorization.

The supervisory Authority may request, at its own discretion, additional documents, data and information.

2. The supervisory Authority may issue or deny the authorization within 90 days from the receiving of the request accompanied by the requested documents, data and information.

If the supervisory Authority requires additional documents, data and information, the authorization may be issued or denied within 90 days from the receiving of such additional documents, data and information.

The issue of the authorization or its refusal is communicated to the requesting entity within 90 days from the receiving of such additional documents, data and information.

3. Without prejudice to paragraphs 1 and 2, the supervisory Authority may issue the authorization subject to the satisfaction of conditions established by the supervisory Authority on a case-by-case basis.

4. In the case of changes to the documents, data and information provided to the supervisory Authority, the supervised entity shall communicate such changes to the supervisory Authority at least 30 days before they become executive.

The supervisory Authority communicate within 30 days from the receiving of the documents, data and information, the result of its assessments and verifications.

5. The supervisory Authority may apply administrative sanctions according to the Article 66 of the Law No. XVIII of 8 October 2013, in the case the supervised entity does not communicate, on a timely basis, the requested documents, data and information and their relevant changes.
Article 16. *Expiry, suspension and revocation of the authorization.*

1. If the acquirer has not carried out the acquisition within one year from the authorization or if it expressly renounce to the authorization within the same deadline, the supervisory Authority declares the expiry of the authorization.

2. In case of justifiable reasons, through a request by the supervised entity filed at least 60 days before the expiration of the deadline, a limited extension period may be granted, normally for not more than 180 days.

3. In the most serious cases, or if the authorization was obtained through the submission of false of gravely inexact documents, data and information, the authorization is suspended or revoked according to Article 66 (3) of the Law No. xviii of 8 October 2013.

Article 17. *Notification in case of disposal.*

1. The supervised entity intending to dispose or terminate the acquisition shall notify the supervisory Authority thereof in writing at least 30 days prior to the relevant disposal or termination, together with the rationale and structure of the proposed disposal or termination.

2. The supervisory Authority may object within one 30 days of receiving the notification if it believes that, as a result of the proposed disposal or termination, the supervised entity’s safe and sound management is not guaranteed.

**CHAPTER 4**

**COMPETENCE AND HONORABILITY REQUIREMENTS**

Article 18. *Competence requirements.*

1. Members of the management shall be chosen on the basis of criteria of competence from among those persons who have garnered, within the State or in a foreign State considered as equivalent to the State, at least three years’ experience in the exercise of:

a) the administration, supervision or management of financial institutions;

b) professional activities in matters pertaining to the financial or investment sectors or involving the key functions of supervised entity;

c) the administration, supervision or management of entities, bodies, or public entities pertaining to the financial or investment sectors, or at entities, bodies, or public entities not involved in these sectors, but where the functions exercised involved the management of economic and financial resources.
2. Members of the senior management shall be chosen on the basis of criteria of competence from among those persons who have garnered, within the State or in a foreign State, considered as equivalent to the State, a specific competence in financial and investment matters, through, inter alia, membership in senior managements or equivalent position, or position of adequate responsibility for a period of not less than five years in entities active in the financial or investment sectors.

Article 19. Honorability requirements.

1. The following persons may not be members of management and the senior management, and if appointed, they must be dismissed pursuant to the current regulations in effect in the State:

a) persons who are legally incapacitated, bankrupt, or have been convicted of a punishment entailing the prohibition, even temporary, from holding public offices or the inability to hold executive positions whether in the State or in a foreign State;

b) persons who have been convicted whether in the State or in a foreign State:

i) for crimes in the financial, investment, or insurance sectors, including corporate, bankruptcy, and tax crimes;

ii) for a crime against a government or public administration, against the public trust, against social welfare, against public order, or against the public economy;

iii) for any crime for which the legislation of the State prescribes the punishment of not less than one year of imprisonment.

c) persons who have been subject to administrative sanctions applied by the relevant authorities of the Holy See or the State, including the administrative sanctions established by Articles 47 (3), and 66 (3), of Law No. XVIII of 8 October 2013;

d) persons who have been subject to administrative sanctions for breach of the laws and regulations governing in the financial or investment sectors in a foreign State;

e) persons who have pleaded guilty to a crime set forth in paragraph 1, letter b) pursuant to the current regulations in effect in the State or a foreign state.

2. The senior management shall hold an emergency meeting to evaluate the circumstances of the case and to adopt the most appropriate measures, including the suspension of the functions or dismissal, if a member of the management or the senior management:

a) becomes convicted of, or subject to criminal sanctions with respect to, any of the crimes, administrative sanctions or other situations referred to in paragraph 1; or
b) becomes the subject of administrative sanctions applied by the relevant authorities of the Holy See or the State, including the administrative sanctions established by Articles 47 (2), and 66 (2), of Law No. XVIII of 8 October 2013.

Article 20. **Verification of the possession of competence and honorability requirements.**

1. The supervisory body verifies the existence of the competence and honorability requirements for new members of the senior management, including the absence of potential conflict of interest.

To this end, the interested parties must present the documentation proving the possession of the competence and honorability requirements and disclose any situation that could constitute a conflict of interest.

2. The senior management verifies the existence of the competence and honorability requirements for new members of the management, including the absence of any conflict of interest.

To this end, the interested parties must present the documentation proving the possession of the competence and honorability requirements and disclose any situation that could constitute a conflict of interest.

3. The supervisory body and the senior management, in the cases provided, respectively, by paragraphs 1 and 2, shall sent the name(s) of the candidate(s) to the supervisory Authority at least 45 days before the potential appointment, for the verification of their eligibility. The supervisory Authority may ask further information and documents.

4. The supervisory body shall evaluate at least once a year whether the members of the management and the senior management continue to meet competence and honorability requirements on an ongoing basis.

To this end, members of the management and the senior management must annually certify that they continue to meet the requirements prescribed by Articles 18 and 19, provide all the relative support documentation also upon request.

In addition, such members, are required to disclose spontaneously and promptly any circumstance that may be relevant to assess compliance with such requirements.

If any members find themselves in one of the situations indicated in Article 19, paragraph 1, they shall immediately communicate the same to the senior management, presenting their resignation to the competent bodies. The senior management shall inform the supervisory Authority.

5. A copy of the minutes of any meeting during which the existence of the requirements is verified, together with supporting documentation, is sent within 30 days of the relevant meeting to the supervisory Authority.
The supervisory Authority has the power, where it considers it appropriate, to ask the supervised entity to provide documentation proving that members of the management and the senior management, meet the above-mentioned requirements, to conduct independent verifications and to ask for additional information about the relevant member, including from the relevant authorities in the State and foreign states, notably to evaluate the existence of possible conflicts of interest.

When it determines that the above-mentioned requirements are not met, the supervisory Authority may (and, in the cases mentioned in Article 19, paragraph 1, shall) refuse the appointment of the new member, or request the existing member’s dismissal.

**PART III**

**STRUCTURE AND MANAGEMENT OF THE RISKS OF SUPERVISED ENTITIES**

**CHAPTER 1**

**PRINCIPLES OF GOOD GOVERNANCE, INTERNAL CONTROLS, AND ORGANIZATION OF THE SUPERVISED ENTITIES**

Article 21. *Organizational structure.*

1. The number of members of the supervised entity’s bodies must be adequate considering the size and complexity of the supervised entity’s organizational framework and aim to adequately safeguard the supervised entity’s efficiency in terms of management and control.

2. Without prejudice to the possession of the requirements established in Part II, Chapter 4, members of the management, the senior management must ensure a level of professionalism adequate considering the supervised entity’s size and complexity.

In particular, the management and the senior management must include persons who, *inter alia*:

a) are fully aware of the institutional, legal, economic, commercial and professional framework of the State;

b) are fully aware of the powers and responsibilities inherent to the functions they must perform;

c) possess an adequate degree of professionalism for the position they hold;
d) have broad and appropriately diversified competences, in order to effectively contribute to the activities and risk management in all the supervised entity’s operating areas;

e) devote an amount of time commensurate to the nature and complexity of their duties.

Article 22. Internal controls.

1. The internal control system ensures that the supervised entity’s activities are in line with its strategy and internal policies, ensuring that the activities comply with the rules of safe and sound prudent management.

2. The internal control system must, as a general matter:

a) ensures the completeness, adequacy, functionality (in terms of efficiency and effectiveness), and reliability of the risk management process, and its consistency with the RAF;

b) provides for widespread controls at every operating and hierarchical level;

c) guarantees that it will promptly inform the appropriate operational levels of any noticed irregularity and that it will also inform the supervised entity’s bodies, if the irregularities are significant, in order to promptly undertake the appropriate corrective actions;

d) incorporates specific procedures for dealing with the possible violations of operating limits.

Article 23. Organizational principles.

1. The decision-making processes and the entrusting of functions to personnel must be formalized. In particular, they must allow the unequivocal identification of roles, powers and responsibilities, and enable the prevention of conflicts of interest. In this context, the necessary separation between operating and control functions must be ensured.

2. The policies and procedures for the managing of human resources must ensure that personnel has the necessary degree of competence and professionalism, so that it can fulfill its responsibilities.

3. The risk management process must be integrated and systematic. The criteria for integration include the diffusion of a common language for the risk management at all the supervised entity’s levels, the adoption of consistent evaluation and risk identification methods and tools (for example, a sole taxonomy of processes and a sole map of risks), the definition of risk assessment and reporting models (in order to favor their comprehension and proper evaluation), the identification of formalized coordination points in order to plan the respective activities, the provision of information flows on a continuous basis between the various functions concerning the results of the control activities for which each function is responsible, an agreement between such functions on proposed remedying actions and an adequate registration and record keeping.
4. The evaluation processes and methods of the supervised entity’s activities that are subject to supervision must be reliable, including for accounting purposes, and they must be integrated within the risk management process.

5. The operating and control procedures must minimize the risks linked to fraud or misconduct on the part of employees; prevent and manage potential conflicts of interest; avoid any involvement, even unwitting, in money laundering, or financing of terrorism, fraud or misappropriation of funds or assets.

6. The supervised entities verify regularly, and at least once a year, the degree of compliance with the requirements of the internal control system and the organization, and they take the appropriate measures to remedy any potential gaps.

CHAPTER 2
ROLES AND RESPONSIBILITIES OF THE SUPERVISED ENTITY’S BODIES

Article 24. Management.

1. The management, with adequate operational independence and autonomy, is responsible, inter alia, to:

a) define and oversee the implementation of the risk management process, establishing the responsibilities of the structures and functions involved therein, so that their respective roles are clearly assigned, potential conflicts of interest are prevented, and significant activities are carried out by qualified personnel;

b) examine the most significant transactions subject to a negative or reserved opinion from the risk management or compliance functions, informing, when necessary, the senior management;

c) define and oversee the implementation of the process for approving investments in new products or activities, including persons in charge, procedures, and conditions;

d) define and oversee the correct implementation of the internal policy on outsourcing, within the limits established by Article 33;

e) define and oversee the implementation of processes and methods for evaluating the supervised entity activities, specifically investments in financial products, ensuring that they are regularly updated;

f) define adequate information flows within the supervised entity;
g) define adequate work flows within the supervised entity;

h) ensure the implementation of the initiatives and potential corrective actions necessary to
guarantee the continuous completeness, adequacy, functionality, and reliability of the internal
control system, and informs the senior management about the results of the verifications.

Article 25. Senior management.

1. The senior management is responsible for the definition and approval of:

   a) policies and strategies;

   b) the supervised entity’s activity model, taking into account the risks to which the supervised
      entity is exposed and the procedure for monitoring and evaluating such risks;

   c) the strategic directives and their periodic review, taking into account changes in the
      supervised entity’s activities and in the external context in order to ensure their adequacy over
      time;

   d) the RAF, including risk targets, and the risk management policies;

   e) the general orientation of the internal control system, verifying that it is consistent with the
      established strategic directives and risk propensity, and that it is able to take into account the
      development of significant risks and their interaction amongst each other;

   f) the criteria for identifying the most significant transactions, which must be submitted to the
      risk control function’s prior review;

2. The senior management approves, in particular:

   a) the establishment of the control functions, their relative roles and responsibilities, as well
      as the procedures for their coordination and collaboration;

   b) the risk management process and its compatibility with the strategic directives and risk
      management policies;

   c) the policies and processes for evaluating the supervised entity’s activities, and in particular,
      the investments in financial instruments, by verifying their appropriateness over time; it also
      establishes the supervised entity’s exposure limits to financial instruments or products of
      uncertain or difficult evaluation;

   d) the process for approving new products and services, the launching of new activities, and
      the entry into new markets;

   e) internal policies on the outsourcing of the supervised entity’s functions;
f) an ethics code with which members of the supervised entity’s bodies and all employees must comply, in order to attenuate the operating and reputational risks and promote the development of strong compliance and risk management culture.

3. The senior management ensures, moreover, that:

a) the supervised entity’s structure is consistent with the undertaken activity and with the activity model adopted, thereby avoiding the creation of complex structures not consistent with the operational goals;

b) the supervised entity’s internal control system and organization constantly comply with the principles indicated in this Regulation.

c) the enactment of the RAF is consistent with the risk targets; it periodically evaluates the RAF adequacy and effectiveness, and the compatibility between the effective risk assumed and the risk targets.

d) the strategy, the RAF, the ICAAP, the budgets, and the internal control systems are consistent, including in light of any changes in internal and external conditions under which the supervised entity operates;

e) the amount and allocation of capital and liquidity are consistent with the risk targets, the RAF, and the risk management policies;

f) there is sufficient coordination between the supervised entity’s operational functions and control functions.

4. At least once a year, it approves the activity plan of the control functions, including the audit plan prepared by the internal audit office, and it examines the annual reports prepared by the control functions.

Article 26. **Supervisory body.**

1. The supervisory body is responsible for, *inter alia*:

a) supervising the completeness, adequacy, functionality, and reliability of the internal control system and the RAF.

b) monitoring the compliance with legislation of the Holy see and State, including the provision of this Regulation, approving any remedial action plans proposed by the control functions.

3. In order to fulfill the tasks attributed to it, the supervisory body receives adequate and timely information from the management and the senior management.
4. The supervisory body forward to the senior management, of all relevant information it may access while exercising its role, in particular indicating any effective or potential violation of the legislation of the Holy See and State, as well as of the statute, incorporation of by-laws.

The supervisory body may notify the supervisory Authority, if the management and the senior management do not take action to remedy irregularities or violations that are significant or repeated, or if it is considered functional to its activity.

**CHAPTER 3**

**REQUIREMENTS, ROLES AND RESPONSIBILITIES OF THE CONTROL FUNCTIONS**

Article 27. *Control functions.*

1. Without prejudice to the responsibility to establish the internal control framework consistently with their statute, incorporation and/or by laws, supervised entities shall establish the following permanent and independent control functions:

a) compliance;

b) risk management; and

c) internal audit.

The first two functions involve second level controls, while internal audit concerns third level controls.

2. The control functions shall have the authority, resources, and competences necessary to fulfill their roles. The functions shall have access to the internal and external data necessary for the proper performance of their duties. Their personnel shall be adequate in terms of number, technical and professional competences, also through the setting-up of ongoing training programs.

3. The persons in charge of the control functions shall:

a) possess adequate professionalism requirements;

b) hold an adequate hierarchical and functional position. In particular:

i) the persons in charge of the risk management and compliance functions report to the management and to the senior management;

ii) the persons in charge of the internal audit function report only to the senior management;

c) be appointed, assessed and revoked by the senior management;
4. The personnel working in the control functions is not involved in the activities subject to such control.

The personnel charged with duties concerning compliance or risk management, where not performing these duties, may be inserted into various operational areas; in such cases, this personnel reports directly to the persons in charge of the control functions for matters regarding such functions.

5. From an organizational standpoint, the control functions are separate from one another. The respective roles, powers and responsibilities are formalized in written.

6. The remuneration criteria for personnel working in control functions shall not compromise their objectivity.

7. Supervised entities may, provided that the controls of the various risk types continue to be effective, entrust to a single structure of the compliance and risk management functions.

Article 28. **Planning and reporting of the control activities.**

1. The compliance and risk management functions, each of them in accordance with their powers and responsibilities, annually present an activity’s plan to the supervised entity’s bodies. The activity’s plan identifies and evaluates the main risks to which the supervised entity is exposed, and it provides for the required management interventions in relation thereto.

2. The internal audit function annually presents to the supervised entity’s bodies an audit plan indicating the planned control activities.

3. Each year, the control function presents a report to the supervised entity’s bodies on the work performed, including identification of required actions and progress of remedial plans.

4. The control functions promptly inform the supervised entity’s relevant bodies of every violation or significant gap encountered.

Article 29. **Compliance function.**

1. Without prejudice to the fact that the entire personnel of the supervised entity must be aware of and minimize the risk of non-compliance (i.e., the risk of incurring judicial or administrative penalties, significant financial losses, or damage to the supervised entity’s reputation as a result of breaches of mandatory rules or internal policies), the compliance function uses a risk-based approach in order to manage non-compliance risk with reference to all the supervised entity’s activities subject to supervision, and it verifies that the internal procedures allow the supervised entity to manage and prevent this risk. For this purpose, it is necessary that the compliance function has access to all the supervised entity’s significant activities and to any information relevant for this purpose, also through direct interactions with personnel.
2. The main tasks that the compliance function must fulfill are:

a) supporting the supervised entity’s structures in defining methods for evaluating the risk of non-compliance;

b) identifying suitable procedures to prevent the identified risks and the possibility to request their adoption, as well as the verifying their adequacy and correct application;

c) continuously identifying the mandatory rules applicable to the supervised entity and the assessment and measurement of their impact on internal processes and procedures;

d) proposing organizational and procedural modifications aimed at ensuring adequate controls over identified non-compliance risk;

e) preparing direct information flows to the supervised entity’s bodies and relevant functions (for example, risk management and internal audit);

f) verifying the effectiveness of suggested organizational, operational and if necessary strategic adjustments to prevent the risk of non-compliance.

3. The main areas of intervention of the compliance function concern:

a) the involvement in the *ex ante* compliance evaluation with reference to applicable regulations for all innovative projects (including operations involving new products and services) that the supervised entity wishes to undertake;

b) the prevention and management of conflicts of interest;

c) advice and assistance to the supervised entity’s bodies for all matters in which the non-compliance risk is relevant, as well as participation in training personnel with respect to provisions that apply to activities subject to supervision, in order to help promote a culture based on the principles of honesty, prudence, and compliance with the spirit and content of the law.

4. From an organizational standpoint, the various components of the compliance function may be entrusted to resources belonging to other organizational structures (such as the legal, organization, and risk management functions), provided that the non-compliance risk management process and the function’s operations continue to be connected through the appointment of a person responsible for the coordination and control of these components.
Article 30. Risk management.

1. The purpose of the risk management function is to participate in defining and implementing the RAF and the related risk governance policies through an adequate risk management process.

2. The risk management function:

   a) is involved in defining the RAF and the risk governance policies;
   
   b) verifies the adequacy of the RAF, of the risk management process, and of the operating limits;
   
   c) is responsible for developing, validating, and maintaining the system for measuring and controlling risks;
   
   d) defines the procedures for evaluating and controlling reputational risks, through a coordination with the compliance function and the more exposed functions;
   
   e) assists the supervised entity’s bodies in evaluating the strategic risk by monitoring the significant variables;
   
   f) ensures the consistency of the system for measuring and controlling risks with the processes and methods for evaluating the supervised entity’s activities, through a coordination with the relevant structures;
   
   g) develops and applies indicators able to highlight irregularities and inefficiencies in the risk measurement and control systems;
   
   h) analyzes risks related to new products and services and risks deriving from entry into new operating segments and new markets;
   
   i) provides preliminary opinions on the consistency with the RAF of significant transactions, and it may seek – depending on the nature of the transaction – the opinion of other functions involved in the risk management process;
   
   j) constantly monitors the effective risk assumed by the supervised entity, its consistency with the risk targets and the respect of the operating limits assigned in relation to the acceptance of the different risk types;
   
   k) verifies the proper performance of the process for continuous monitoring of exposures;
   
   l) verifies the adequacy and effectiveness of the measures adopted in order to remedy any irregularities and inefficiencies in the risk management process.
Article 31. *Internal audit.*

1. The internal audit seeks, on the one hand, to control (in terms of third-level controls) also through on-site controls, the evolution of the performance and risks of the supervised entity’s operations, and on the other hand, to evaluate the completeness, adequacy, functionality, and reliability of the organizational structure and of the other parts of the internal control system, highlighting any possible improvement to the supervised entity’s bodies.

2. The internal audit:

   a) evaluates the completeness, adequacy, functionality, and reliability of all of the other components of the internal control system, including with respect to their capacity to identify errors and irregularities;

   b) evaluates the effectiveness of the RAF’s definition process, the internal consistency of the overall framework, and the compliance of the supervised entity’s operations with the RAF;

   c) evaluates, also through internal inspections, the compliance of all the supervised entity’s activities and units (including the risk management and compliance functions) with the supervised entity’s internal policies and procedures;

   d) performs periodic tests on the functioning of operating and internal control procedures;

   e) verifies and investigates possible irregularities.

2. With specific reference to the risk management process, the internal audit also evaluates:

   a) the organization, powers, and responsibilities of the risk management and compliance functions, including with respect to the quality and adequacy of staffing and resources;

   b) the appropriateness of the hypotheses used in sensitivity and scenarios analyses, and in stress tests;

   c) the alignment with the sector’s best practices.

3. The internal audit communicates the results of its findings and its evaluations directly to the relevant supervised entity’s bodies.

4. In order to properly perform its duties, the internal audit has access to all the activities carried out by the supervised entity.

Article 32. *Relations between the control functions.*

1. Without prejudice to their independence and separate roles, the control functions cooperate with each other and with the other functions (for example, the legal, organization, and security functions) in order to develop their own control methods consistently with the supervised entity’s strategy and operations.
2. Entities pay particular attention to the articulation of information flows among control functions. In particular, the persons in charge of the risk control functions and of the compliance function inform the person in charge of the internal audit of the critical issues noted while performing their control activities, in case such issues are of interest for audit activities. The person in charge of the internal audit informs the persons in charge of the other control functions of any possible inefficiency, weak point, or irregularity emerged during its verification activities, when they relate to specific areas or issues for which the compliance function and risk management are responsible.

Article 33. **Outsourcing**.

1. Supervised entities shall not outsource control functions or significant activities.

2. The supervised entity shall have in place a comprehensive policy to guide the assessment of whether and how functions and activities can be appropriately outsourced.

3. Sub-outsourcing is forbidden.

4. The supervised entity shall notify the supervisory Authority 30 days prior to entering into a outsourcing arrangement.

5. The senior management retains responsibility for the outsourcing policy and related overall responsibility for functions and activities undertaken under that policy.

6. When outsourcing executive activities, supervised entities shall not:
   a) delegate their own responsibility, nor that of the management, the senior management or the control functions. In accordance with this principle, as an example, the outsourcing of activities under the specific responsibility of such bodies is not permitted;
   b) modify or in any way affect their relationship with, and obligations towards their own customers;
   c) jeopardize their own capacity to comply with the obligations prescribed by the legislation of the Holy See and the State;
   d) compromise the quality of the internal control system;
   e) hinder supervision.

7. The supervised entity shall establish a comprehensive outsourcing risk management program to address the outsourced functions and activities and the relationship with the third-party service provider.
8. The supervised entity shall ensure that outsourcing arrangements neither diminish its ability to fulfill its obligations to supervised Authority and customers, nor impede effective supervision.

9. The supervised entity shall conduct appropriate due diligence in selecting third-party service providers.

10. Outsourcing relationships shall be governed by written contracts that clearly describe all executive aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of all parties, including, *inter alia*:

a) the respective rights and obligations;

b) the expected levels of service expressed in objective and measurable terms, as well as the information necessary for the verification of compliance therewith;

c) potential conflicts of interest and the appropriate precautions for preventing them;

d) the conditions under which the agreement may be amended;

e) the duration of the agreement and the procedures for its renewal, as well as the reciprocal commitments connected to agreement’s interruption;

f) the service levels ensured in emergency situations and the supervised entity’s activity continuity solutions compatible with the supervised entity’s needs and consistent with the Authority’s determinations;

g) express termination clauses that allow the supervised entity to end the outsourcing agreement in case of events that may compromise the service provider’s capacity to perform the service, or when the agreed level of services is not complied with.

11. Written contracts indicated under paragraph 6 shall include, *inter alia*, the following elements:

a) The supervised entity shall:

i) maintain the competence required to effectively control the outsourced functions and activities and to manage the risks associated with outsourcing, including those arising from potential conflicts of interest of the service provider; in this context, it identifies within its own organization a person in charge of controlling the outsourced functions and activities who shall have the necessary professional requirements;

ii) have access to the third-party service provider’s continuity plans and adequate information in order to evaluate the quality of the continuity measures.

iii) have effective access to information on the outsourced functions and activities and to the premises where the third-party service provider operates, without additional charges upon the supervised entity.
b) the third-party service provider shall be required to:

i) have the competence, capacity, and authorizations required in order to exercise the outsourced functions in a professional and reliable manner;

ii) comply with the legislation of the Holy See and the State;

iii) comply in particular with the requirements established in the fields of prevention and countering of money laundering and financing of terrorism, and prudential supervision, by the legislation of the Holy See and the State;

iv) inform the supervised entity of any event that could affect its ability to effectively conduct the outsourced functions and activities, in accordance with the legislation of the Holy See and the State legislation and in particular, promptly communicate the occurrence of security incidents, in order to guarantee the prompt activation of the required procedures;

v) guarantee the security of the information regarding the supervised entity’s activities in terms of availability and integrity of such information, and protection of all confidential information.

12. The supervised entity and its third-party service providers shall establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.

13. The supervised entity shall take appropriate steps to prevent potential conflict of interest, require that service providers protect confidential information of both the supervised entity and its customers from intentional or inadvertent disclosure to unauthorized persons.

14. The supervisory Authority shall have effective access to information on the outsourced functions and activities, including documents and reports, as well as access to the premises of the supervised entity where the service provider operates.

15. The supervisory authority takes into account outsourcing functions and activities as an integral part of their ongoing assessment of the supervised entity.

16. The supervisory Authority adopts the appropriate measure to ensure that any outsourcing arrangements do not hamper the ability of the supervised entity to fulfill its duties and responsibilities established by the legislation of the Holy See and the State, and its obligations to the supervisory Authority, the clients, nor impede effective supervision.

17. The supervisory Authority raises the awareness of the potential risks posed by outsourcing, including where outsourced activities of multiple supervised entities are concentrated within a limited number of service providers.
CHAPTER 4

COMPLAINTS MANAGEMENT

Article 34. Complaints management.

1. Supervised entities adopt procedures to handle complaints and requests for indemnities that guarantee prompt and exhaustive responses to the clients.

2. The procedures provide for:

a) the identification of a person in charge and/or of a unit that is independent from the supervised entity’s functions involved in the provision of services;

b) the ways in which customer complaints and the supervised entity’s responses are communicated;

c) free-of-charge interaction between client and the personnel in charge of managing customer complaints, except for those expenses normally associated with the method of communication used;

d) training of the personnel in charge of managing complaints that is adequate for such duties;

e) the procedures for handling complaints;

f) the maximum response times after receiving of the complaint;

3. The responses contain, at least:

a) the initiatives that the supervised entity will adopt and the timeframes in which they shall be implemented, if the complaint is considered valid;

b) if the complaint is considered unfounded, a clear, exhaustive explanation of the reason for rejection.

4. The compliance function or the internal audit function reports to the supervised entity’s competent bodies, at least once a year, on the overall situation of the complaints received and the adequacy of the procedures and organizational solutions adopted.

5. The supervised entities communicate the contact information of the unit responsible for complaints management to the supervisory Authority.
CHAPTER 5

RENUMERATION AND INCENTIVE POLICIES

Article 35. Remuneration policies and role of the supervisory body.

1. Without prejudice to the applicable legislation of the Holy See and the State, supervised entities may adopt specific remuneration policies.

2. The supervisory body as well as the supervisory Authority must receive clear and complete information on an annual basis, on the remuneration and incentive policies that the supervised entity intends to adopt and the decision-making process adopted in order to define the compensation policies as well as on the compliance of the supervised entity with such policies and any significant change thereof or exception thereto.

3. Supervised entities disclose aggregate information on the remuneration paid to their personnel, including aggregate information on the remuneration paid to key personnel, as part of the information disclosed to the supervisory Authority as set forth in Part V of this Regulation.

4. The supervisory Authority shall ensure that, when establishing and applying the total remuneration policies, inclusive of salaries and discretionary pension benefits, for categories of staff including senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on their risk profile, entities comply with the following principles in a manner and to the extent that is appropriate to their size, internal organization and the nature, scope and complexity of their activities.

5. The remuneration policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the supervised entity.

6. The remuneration policy is in line with the activity strategy, objectives, values and long-term interests of the supervised entity, and incorporates measures to avoid conflicts of interest.

7. The supervised entity's management body in its supervisory function adopts and periodically reviews the general principles of the remuneration policy and is responsible for overseeing its implementation.

8. The implementation of the remuneration policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the management body in its supervisory function.
9. Staff engaged in control functions are independent from the units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the areas they control.

10. The remuneration of the senior officers in the risk management and compliance functions is directly overseen by the remuneration committee or, if such a committee has not been established, by the senior management.

Article 36. Role of the senior management.

1. The senior management adopts and reexamines the remuneration policy at least once a year, and it is responsible for its proper implementation. It also ensures that the remuneration policy is adequately documented and accessible within the supervised entity’s structure.

2. The relevant functions (in particular, the risk management, compliance, and human resources functions) must be adequately involved in the process of defining the remuneration policies.

3. The senior management defines the remuneration and incentive systems, and it must ensure that these systems are consistent with the supervised entity’s overall choices in terms of risk acceptance, strategy, long-term goals, governance framework, and internal controls.

Article 37. Role of the control functions.

1. The supervised entity’s control functions, each in accordance with its responsibilities, cooperate in ensuring the adequacy and compliance of the remuneration policies with this Regulation.

2. The compliance function verifies that the supervised entity’s incentive system (if any) is consistent with the goals of complying with the regulations, the statutory norms, and any ethic code or other standards of conduct applicable to the supervised entity.

Article 38. Remuneration of members of the management, the senior management and the control functions.

1. Supervised entities shall adopt internal policies, procedures and regulations relating to the remuneration of members of the management and control functions. The fixed remuneration provided for members of the management and the control functions can be adapted to their specific responsibilities and activity.
2. Special benefits to the members of the management and the control functions can be granted, in case of exceptional events and/or occurrences, as defined in the supervised entity’s internal procedures and regulations, without prejudice to the applicable legislation of the Holy See and the State. Such benefits shall be granted with transparency and objectivity, and they shall be reasonable, not excessive and appropriate considering the responsibilities taken and the activity performed.

3. Members of the senior management cannot receive any form of variable remuneration.


1. The retirement and employment severance policy must be in line with the supervised entity’s strategy, goals, values, and long-term interests. Any remuneration provided for early conclusion of the employment relationship must be related to the activity’s results and to the risks assumed, and must be reasonable, not excessive and appropriate considering their duties. The policies also identify limits to this remuneration, also in terms of the number of years of fixed remuneration.

2. Incentives to resignation are permitted, including in connection with extraordinary transactions or restructuring processes, provided that they do not produce *ex ante* distortive effects on employees’ conduct and that they contemplate claw-back clauses covering at least fraudulent conduct cases.

Article 40. *Exceptions.*

Exceptions to the provisions of this Chapter are only admissible under exceptional circumstances, and must be approved by the senior management, and, where it concerns the remuneration of members of the senior management, by the supervisory body.

**CHAPTER 6**

**EXTERNAL AUDITORS**

Article 41. *External auditors.*

1. The senior management appoints the external auditors and determines their remuneration, or the external audit firm’s remuneration, for the entire duration of the engagement.

2. External auditors or external audit firm cannot be appointed by more than one supervised entity, or in the case they have performed significant financial or operational activities for the supervised entity or they have been involved in the evaluation or assessment of its activities during the previous 5 years.
3. The engagement lasts for 3 financial years and expires on the date of approval of the financial statements relative to the third year of the engagement.

4. The supervised entity shall take appropriate steps to prevent potential conflict of interest of the external auditors, and to require that external auditors protect confidential information of both the supervised entity and its customers from intentional or inadvertent disclosure to unauthorized persons.

5. The supervisory Authority adopts the appropriate measure to ensure that any external audit arrangements do not hamper the ability of the supervised entity to fulfill its duties and responsibilities established by the legislation of the Holy See and the State, and its obligations to the supervisory Authority, the clients, nor impede effective supervision.

Article 42. Revocation of the mandate.

1. The senior management revokes the engagement when there is just cause, and it simultaneously appoints another external auditor or external audit firm.

2. The external auditor or external audit firm may resign from the engagement, without prejudice to any compensation of damage, in case of:

   a) non-payment of the remuneration or non-application of the remuneration’s adjustment provided by the audit agreement;

   b) serious and repeated obstacles to the external auditors’ activities;

   c) situations which may compromise the independence of the external auditor or external audit firm;

   d) emergence of the inability to carry out the engagement due to insufficient means and resources;

   e) the external auditor’s retirement;

   f) circumstances, which must be adequately motivated, that are so significant that it becomes impossible to continue the audit agreement, also in light of the purposes of the external audit activities.

3. In any case, resignations must be made according to timeframes and procedures enabling the supervised entity subject to external audit to make other arrangements, except in case of serious, proven hindrance of the auditor or audit firm.

4. Just cause for revoking the engagement exists in cases of:

   a) inability of the external auditor or external audit firm to carry out the engagement because of insufficient means or resources;
b) serious non-fulfillment of obligations by the external auditor or external audit firm that impact on the proper performance of the relationship;

c) situation that compromises the independence of the external auditor or external audit firm;

d) circumstances, which must be adequately motivated, that are so significant that it becomes impossible to continue the auditing agreement, also in light of the purposes of the external audit activities.

5. In the cases described in paragraphs 2 and 4 above, the supervised entity subject to external audit shall promptly appoint a new external auditor.

6. In case of resignation or consensual termination of the agreement, the external auditor or external audit firm:

   a) will continue to exercise their audit functions until the new appointment becomes effective, and, in any case, for not more than six months after the resignation or termination of the agreement.

   b) shall transfer to the supervised entity all the documents, data and information acquired, and the analysis performed.

Article 43. *Communications to the supervisory Authority.*

1. The proposed appointment of a new external auditor shall be notified to the supervisory Authority, which shall render its decision within 30 days of the notification of the supervised entity proposed new external auditor, together with the proposed contract as well as the relevant documents, data and information.

2. In rendering its decision, the supervisory Authority shall verify the absence of any situation that may compromise the external auditor’s independence.

3. Supervised entities shall communicate to the supervisory Authority, within 30 days of occurrence:

   a) the appointment of a new external auditor;

   b) the resignation of the external auditor;

   c) the consensual termination of the mandate;

   d) the revocation of the external auditor, with adequate explanations.
CHAPTER 7

RISK MANAGEMENT

Article 44. Credit and counterparty risk.

1. The credit risk control unit shall be independent from the personnel and management functions responsible for originating or renewing exposures and report directly to senior management. The unit shall be responsible for the design or selection, implementation, oversight and performance of the rating systems. It shall regularly produce and analyze reports on the output of the rating systems.

2. The areas of responsibility for the credit risk control unit or units shall include:

a) testing and monitoring grades and pools;

b) production and analysis of summary reports from the supervised entity's rating systems;

c) implementing procedures to verify that grade and pool definitions are consistently applied across departments and geographic areas;

d) reviewing and documenting any changes to the rating process, including the reasons for the changes;

e) reviewing the rating criteria to evaluate if they remain predictive of risk. Changes to the rating process, criteria or individual rating parameters shall be documented and retained;

f) active participation in the design or selection, implementation and validation of models used in the rating process;

g) oversight and supervision of models used in the rating process;

h) ongoing review and alterations to models used in the rating process.

3. Supervised entities shall adopt an internal regulation, approved by the senior management, which is periodically subject to review, containing the credit risk and counterparty risk management process (measurement of the risk, application, disbursement, progressive verification and monitoring of exposures, review of credit lines, classification of the risk positions, interventions in case of irregularities, classification criteria, valuation and management of deteriorated exposures).

4. In defining the criteria for granting credit, the internal regulation ensures that the diversification of the various portfolios exposed to the credit risk is consistent with the supervised entity’s overall strategy.
5. In the application phase, the entities collect all the necessary documentation to make an adequate evaluation of the borrower’s creditworthiness in terms of assets and income and of the proper compensation for the risk accepted.

6. The delegations concerning the granting of the credit must be set forth in a specific resolution by the senior management.

7. The continuous monitoring of every exposure must be made systematically, using effective procedures, which are able to promptly detect irregularities and to ensure the adequacy of the value adjustments and the write-off positions.

8. The verification of the proper and continuous monitoring of every exposure, especially of the deteriorated exposures, and the evaluation of the appropriate classification for each exposure, the suitability of the provisions, and the adequacy of the recovery procedure is conducted by the risk management function.

9. The entities shall not enter into agreements involving the issuance of guarantees (including secured guarantees) unless every material term of the relation is defined (especially: the indication of the beneficiary, the compensation due from the guaranteed supervised entity, the amount and duration of the guarantee, and the procedure for releasing the guarantee or renewing it).

10. The internal regulation described in this Article may establish specific procedures and rules concerning donations and zero-interest loans.

Article 45. *Risks arising from the use of credit risk mitigation techniques.*

1. An supervised entity buying credit risk protection:

   a) preventively ensures that the protection grants a full, freely and legally exercisable right to enforce the protection;

   b) ensures that criteria regarding the validity, effectiveness, binding nature, and enforceability of the protection are fulfilled according to applicable laws;

   c) verifies that, according to applicable laws, the protection provider cannot raise objections potentially compromising the validity, effectiveness, binding nature, and enforceability of the protection.

2. Entities prepare policies and procedures with respect to types of instruments eligible as credit risk protection for prudential purposes, and to their interaction with the management of the supervised entity’s overall risk profile.
3. Entities adopt adequate operating techniques and procedures in order to ensure continued compliance with the requirements for recognizing risk mitigation techniques for prudential purposes. In particular, they must verify the continued enforceability of the legal documentation, the impact of possible changes in the regulatory framework, and possible corrective actions to be taken.

Article 46. Risk concentration.

1. Entities willing to accept large risks comply with rules of conduct that guarantee the ability to evaluate their quality and to monitor their performance over time.

2. The provision of financial support to groups including corporate structures that lack a clear economic function (for example, in the case of companies located in tax or regulatory havens) is prohibited.

3. Entities notify the acceptance of large risks to the supervisory Authority.

Article 47. Market risk, intermediation risk, and payment risk.

1. The internal control system, in particular, ensures the enactment of policies and procedures to identify, measure, and manage all sources and effects deriving from the exposure to market risks.

2. In cases where a short position has a closer maturity than the relative long position, the supervised entity adopts adequate safeguards against the liquidity risk.

3. In any case, entities that are unable to properly measure and manage the risks associated with financial instruments, which are sensitive to several risk factors, must not trade in such securities.

4. Entities adopt adequate internal procedures to identify, measure, monitor, and manage their exposure to intermediation risk and payment risk.

Article 48. Interest rate risk and currency exchange risk.

Entities prepare adequate systems to identify, valuate, and manage the risks deriving from potential variations in interest rate or currency exchange rate levels concerning assets that do not belong to the trading book.

Article 49. Operational risks.

1. The internal control system must ensure the identification, evaluation, and management of operational risks, including those arising from events characterized by a low frequency and particular seriousness.
2. In accordance with the principle of proportionality and in relation to their operations, supervised entities evaluate whether or not to adopt a continuity plan that ensures their own capacity to operate continuously and limits the operating losses in case of serious interruptions to their operations.

3. For the purposes of paragraphs 1 and 2, supervised entities shall introduce an adequate risk management plan.

Article 50. **Risks that are difficult to quantify.**

In relation to risks that are difficult to quantify, such as reputational risk, legal risk (including litigation and enforcement risk), and the risk of non-compliance with the law, regulations, and internal procedures, entities do not determine capital absorption; instead they identify adequate internal control and mitigation systems in accordance with this Regulation.

**CHAPTER 8**

**ADDITIONAL ORGANIZATIONAL PROVISIONS TO PROMOTE HIGH MORAL AND PROFESSIONAL STANDARDS AND TO PREVENT ABUSE IN THE FINANCIAL SECTOR**

Article 51. **Specific transactions and confidential information.**

1. Supervised entities adopt adequate procedures to prevent relevant persons involved in activities that may cause conflicts of interest or who have access to confidential information from:

   a) disclosing to any third party confidential information on the supervised entity, its clients or their transactions, except if required by applicable law;

   b) undertaking activities that:

      i) fall under the scope of articles 299 bis and ter of the penal code;

      ii) entail the abuse or improper disclosure of confidential information on the supervised entity, its clients or their transactions;

      iii) entail the pursuit of a personal interest or the provision of advantages to family members, business associates or other personal connections or related entities, to the detriment of the supervised entity or its clients;

      iv) otherwise conflict or are likely to conflict with the interest of the supervised entity or of one or more customers;
c) advising or asking any other person to undertake transactions that, if undertaken personally by the relevant person, would fall within the scope of letter a) of this paragraph;

d) communicating to others, outside the normal scope of their own professional activity, any information or opinions, knowing or presumably knowing that, through this communication, the subject receiving it will undertake or will likely undertake a transaction that, if undertaken personally by the relevant person, would fall within the scope of letter a) of this paragraph, or advising or requesting others to undertake these transactions.

2. The procedures set forth in paragraph 1 ensure, among other things, that all the relevant persons described in paragraph 1 are aware of the restrictions on personal transactions and of the measures taken by entities in this regard.

Article 52. Conflicts of interest.

1. General principles governing conflicts of interest.

a) Supervised entities shall adopt all reasonable measures to identify conflicts of interest that could arise between the relevant persons and the supervised entity, between the supervised entity and clients, and between clients, when carrying out financial activities.

b) Entities shall manage conflicts of interest also by adopting suitable organizational measures and by ensuring that relevant persons are not involved in several activities, and, if and when relevant persons are involved in several activities, which may entail potential conflicts of interest, they may still act independently so as to avoid a negative impact on the supervised entity and the clients interests.

c) When the measures adopted pursuant to letter a) and b) above do not sufficiently ensure, with reasonable certainty, that the risk of harming clients’ interests has been avoided, the entities clearly inform their clients before acting on their behalf of the nature and/or sources of the conflicts so that they can make an informed decision on the services provided, taking into account the context in which these conflict situations appear.

2. Significant conflicts of interest.

a) In order to identify the conflicts of interest, supervised entities shall consider, as minimum criterion, whether, as a result of the provision of a service or the conduct of a financial activity for or on behalf of a client, the entities, persons directing their activities, or relevant persons:

i) may earn a financial profit or avoid a financial loss to the client’s detriment;

ii) hold an interest in the results of the service provided to the client, which differs from the client’s interest;

iii) have an incentive to privilege the interests of clients other than the ones to whom the service is being provided;
iv) conduct the same activity as the client;

v) receive or are able to receive an incentive from a person other than the client, with reference to service’s provision to the client, in the form of cash, goods, or services other than the fees or commissions normally earned for such a service.

3. Conflicts of interest policy.

a) Supervised entities formulate, apply, and maintain an effective policy to manage conflicts of interest, in line with the proportionality principle.

b) The policy to manage conflicts of interest set forth in paragraph 1 must:

i) allow the identification, with reference to the financial activities conducted, of the circumstances that generate or could generate a conflict of interest capable of seriously harming the interests of the supervised entity or of one or more of the supervised entity’s clients;

ii) define the procedures to follow and the measures to adopt in order to manage these conflicts.

c) The procedures set forth in paragraph 3, letter b) guarantee that the relevant persons involved in various activities entailing a relevant conflict of interest conduct these activities with an appropriate degree of independence, taking into account the supervised entity’s size and activities.

Article 53. *Registration and record keeping.*

1. Supervised entities register and keep adequate records for ten years of the activities conducted, in order to allow the supervisory Authority to verify compliance with applicable regulations.

2. Entities immediately record the following information for any order received from a client and for any transaction made in connection with a portfolio management service rendered to a client, to the extent they are applicable to the relevant order or transaction:

a) the client’s name or other identification feature;

b) the name or other identification feature of any relevant person acting on the client’s behalf;

c) detailed information on the type of transaction performed (purchase or sale) and the relevant financial instrument, as well as the unitary price, currency, and amount purchased or sold;

d) the nature of the order or transaction if other than a sale or purchase;
e) the type of order or transaction;

f) all other detailed information, particular conditions and instructions given by the client specifying how the order should be fulfilled;

g) the exact date and time of receipt of the order or the date and time of the transaction.

3. Immediately after executing a client’s order or, in case of an supervised entity appointing another person for its execution, immediately after receiving confirmation of the order’s execution, entities shall record the following information regarding the transaction:

a) the client’s name or other identification feature;

b) detailed information on the date, time, and type of order and the relevant financial instrument, as well as on the unitary price, currency, amount purchased or sold, the counterparty, and the venue where the transaction was executed;

c) the total price of the transaction resulting from the product of the unitary price and the amount;

d) the nature of the transaction if it is different from a sale or purchase transaction;

e) the relevant person who carried out the transaction or is responsible for its execution.

4. If an supervised entity sends an order to another person in order for it to be executed, it immediately records the following information after sending it:

a) the name or other identification feature of the client whose order was sent;

b) the name or other identification feature of the person or supervised entity to whom the order was sent;

c) the terms of the order sent;

d) the exact date and time when the order was sent.

5. Entities hold the records made pursuant to paragraphs 1, 2, 3, and 4 for a period of at least ten years, including if they cease to conduct financial activities.

6. Entities hold the contractual documentation regarding every relation with a client and counterparty entities for the duration of the relation and for ten years after termination.

7. The records mentioned in the previous paragraphs are held on supports storing the information in a manner that enables the supervisory Authority to readily recover such records and to reconstruct any possible modifications, without any risk of manipulation or alteration of the records in any way.
Article 54. Safeguarding clients’ securities.

1. Securities belonging to clients and held by supervised entities are segregated from the assets of the supervised entity and those of other clients. Actions to recover such assets by or in the interest of creditors of the supervised entity, third party depositories or sub-depositories or other clients, or in their interest, are not allowed. Actions by creditors of the relevant client are allowed within the limits of the assets belonging to such client.

2. Legal and judicial set-off rights do not apply with respect to accounts holding clients’ securities and sums of money deposited with third parties, nor can a contractual set-off be provided, in case of a receivable of the depositor or sub-depositor towards the supervised entity or depositor.

3. Supervised entities must:
   a) preserve records and maintain accounts in order to always be able to distinguish the assets held on a client’s behalf from those held on behalf of other clients and from the assets belonging to the supervised entity itself;
   b) preserve records and maintain accounts using procedures guaranteeing their accuracy and, specifically, their correspondence with the financial instruments and funds held on clients’ behalf;
   c) make regular reconciliations of the records and internal accounts with the records and accounts that may be held by third parties holding the assets;
   d) adopt the necessary measures to guarantee that any assets belonging to clients and deposited with third parties are identified as separate from the financial instruments belonging to the supervised entity and the financial instruments belonging to such third parties, using accounts with different names in the third party’s records or similar measures that ensure the same level of protection.

4. Entities may deposit financial instruments they hold on their clients’ behalf into one or more accounts opened with a third party as long as they exercise all the competence, care, and diligence necessary for the choice, designation, and periodically reexamination of these third party depositories.

5. Without prejudice to paragraph 4 above, the supervised entity is required to deposit assets with entities that are regulated and subject to supervision in their home state. The supervised entity may deposit their clients’ securities with subjects residing in countries whose legal systems do not prescribe regulation and forms of oversight for subjects conducting depository and administrative services for financial instruments only in cases where the nature of the securities or the activities connected to them requires them to be deposited with a certain subject.
Article 55. Use of clients’ financial instruments.

1. Supervised entities may not use financial instruments belonging to clients in their own interest or in the interest of third parties without the client’s written consent. The financial instruments belonging to such a client can only be used under the specified conditions to which the client has consented.

2. Furthermore, if the client’s securities are deposited in omnibus accounts with third parties, the use of the securities in the supervised entity’s own interest or in the interest of third parties (for example, in transactions not covered by the relative funds) is subject (in addition to the provisions in paragraph 1) to at least one of the following conditions:

   a) the prior written consent from all the clients whose securities are deposited in the omnibus account;

   b) the supervised entity’s adoption of measures that ensure that securities deposited in omnibus accounts are used according to the procedures prescribed in the agreement made with the client that has provided its consent.

3. The supervised entity maintains records with respect to the client that has given instructions on the use of securities and on the number of securities used belonging to clients who have provided their consent, in order to allow a proper distribution of any potential losses.

PART IV

PRUDENTIAL REQUIREMENTS

CHAPTER 1

REGULATORY CAPITAL

Article 56. Regulatory capital.

1. The regulatory capital consists of the common equity as defined under article 3 (12).

2. The minimum regulatory capital shall exceed 8% of the supervised entity’s risk weighted assets.

3. Supervised entities shall calculate and report their capital requirements for credit risk, counterparty risk, market risks and operational risk and prove that its regulatory capital is above the combined minimum requirements for all these risks.
Article 57. *Proportionality of the regulatory capital.*

1. The regulatory capital shall be proportionate to the activity and the risks incurred by the supervised entity.

2. The supervisory Authority has the power to request reports on the proportionality of the regulatory capital and capital to the activity and connected risks.

Article 58. *Prudential filters associated with the application of international accounting standards for the preparation of the balance sheet.*

1. With respect to the reevaluation reserves relating to debt and equity securities (including collective investment undertaking units) held in the portfolio “Available for Sale”, the following shall apply:

   a) any positive balances between the positive and negative reserves are computed for an amount equal to 50% in supplemental capital;

   b) any negative balances between positive and negative reserves are deducted entirely from core capital.

2. With respect to real estate:

   a) valuation gains of the revalued value of real estate held for supervised entity’s activity use (recorded directly in a separate equity reserve) are computed for an amount equal to 50% in supplemental capital;

   b) the balance between the gains and losses accumulated on real estate held for investment and accumulated capital losses arising from the valuation of the revalued value for real estate held for the supervised entity’s activity use, if positive, shall be fully deducted from core capital and is computed for an amount equal to 50% in supplemental capital;

   c) any write-downs for impairment shall not be computed in the balance.

3. Equity subject to a forward purchase commitment that requires the supervised entity to immediately assume the related activity risk are deducted from capital, regardless of the settlement arrangements (on a net or gross basis) and the manner in which they are recorded in the balance sheet.

4. Equity subject to a forward purchase commitment that do not require the supervised entity to immediately assume the related activity’s risk, as this risk is borne by the counterparty for the duration of the transaction, shall be computed in the regulatory capital depending on the type of underlying instrument and the contractual term of the transaction.
In particular, if the commitment regards the equity of the supervised entity:

a) if the contractual term of the commitment is equal to or greater than 10 years and the settlement of the transaction is subject to the prior authorization of the supervisory Authority, the items are computed in core capital;

b) if the contractual term of the commitment is equal to or greater than 10 years but the settlement of the transaction is not subject to the prior authorization of the supervisory Authority, or is under 5 years, the items are deducted from core capital;

c) if the contractual term of the commitment is equal to or greater than 10 years, but the settlement of the transaction is not subject to the prior authorization of the supervisory authority or is between 5 and 10 years, the items are computed in supplemental capital.

If the commitment is “on demand”, the forward commitment must be deducted: from core capital, in case of equity of the supervised entity; by supplemental capital.

5. Profits arising from the sale en bloc of real estate that are predominantly for the supervised entity’s activity use, within which the selling supervised entity rents back the property sold, are computed in regulatory capital if they are stable and within the full availability of the selling supervised entity, taking into account the entire transaction. The transaction is subject to the following provisions:

a) profits arising from the transaction are computed within the limits of the amount funded, directly or indirectly, by parties other than the selling supervised entity. This amount is determined as the ratio between: a) the amount of equity and debt of the buyer held by parties other than the selling supervised entity; b) the total of the equity and debt of the buyer;

b) the amount of profit, so calculated:

i) is computable in core capital if there are no call options, rights of first refusal or similar clauses that allow the selling supervised entity to repurchase (fully or partially) the properties sold, or, they are not exercisable before 10 years from the starting date of the lease agreement with the transferee;

ii) is computable in supplemental capital if any call options, rights of first refusal or other similar clauses that allow the selling supervised entity to repurchase (fully or partially) the properties sold are exercised after five years from the beginning of the lease;

iii) is subject to a “total prudential filter” and, therefore, is not computable in the regulatory capital when the contract of sale of the asset is accompanied by call options, rights of first refusal or similar clauses exercisable in the first 5 years from the starting date of the lease with the transferee.

6. The decision to sell a significant portion of the real estate held for the supervised entity activity’s use with subsequent return in the availability of the selling supervised entity must be carefully evaluated by the relevant bodies of the supervised entity and brought to the attention of the supervisory Authority in advance.
For this purpose, the supervised entities shall provide the supervisory Authority with a report drafted by the management and approved by the senior management, after having consulting and adequately informed the supervisory body, in which is provided:

a) a description of the transaction and its purpose;

b) an evaluation of the consistency of the transaction to the prudential requirements;

c) an evaluation of the economic, financial and capital impacts of the transaction, and on the related prudential requirements;

d) an evaluation of other operational risks with an indication of how they will be handled.

Article 59. Other negative components.

Among the negative components of supplemental capital are:

a) the “exchange differences” listed in the balance sheet under “revaluation reserves,” when they are negative as well as adjustments related to non-existent assets, shortages, thefts, etc., not yet charged to the income statement;

b) any write-downs of loans, securities and other exposures required solely for supervisory purposes.

Article 60. Net gains or losses on equities.

1. Latent gains and losses on equities in entities other than entities carrying out financial activities on a professional basis, listed on a regulated market and not computed at fair value in the financial statements are offset.

2. If the set-off results in a net gain, it shall be computed in common equity capital.

3. If the set-off results in a net loss, 50% thereof shall be deducted from supplemental capital.

Article 61. Deductions.

1. The following items are deducted from common equity:

a) interests in entities carrying out financial activities on a professional basis greater than 10% of the capital of the relevant entities and subordinated liabilities issued by such entities irrespective of their portfolio allocation;

b) interests in insurance companies, as well as equity instruments issued by the same companies, if computed by the issuer for capital purposes;
c) nominative shares of variable capital investment companies (SICAV) if greater than 10% of 
the SICAV’s capital represented by nominative shares;

d) equity instruments in entities carrying out financial activities on a professional basis equal 
to or less than 10% of the capital of the relevant entities and the subordinated liabilities 
contracted by these entities (including those in which the supervised entity holds no equity), 
irrespective of their portfolio allocation. These items are deducted for the fraction of their 
total amount exceeding 10% of the value of the core capital and supplemental capital gross of 
deductions referred to in this Article;

e) exposures related to settlement risk on non-DVP transactions.

2. The equities and subordinated liabilities shall be deducted on the basis of their balance 
sheet value. However, with respect to items activities referred to in letters a), b), c) and d) 
classified in the “Available for Sale” portfolio, the amount to be deducted is gross (net) of the 
negative reserve (positive reserve) listed in the balance sheet with respect to the same items.

3. The subordinated liabilities referred to in letters a), b) and d) are deducted if computed as 
regulatory capital of the issuers.

4. The following will not be deducted from regulatory capital:

a) equities in entities carrying out financial activities on a professional basis that, due to their 
economic nature, are treated as loans or investments in non-equity instruments. This right is 
granted, provided that, on the basis of statutory or contractual clauses, it is established with 
certainty that the issuer of such instruments may not incur liabilities, or such instruments are 
not computed in the equity of the issuer;

b) the investments in equities of entities carrying out financial activities on a professional 
basis established in foreign States considered as equivalent to the State, including the Member 
States of the European Union (EU), for which the supervisory authorities have explicitly 
allowed that option.

Article 62. Frequency of reporting and method of calculation of regulatory capital.

1. Regulatory capital is to be calculated quarterly.

2. Regulatory capital for the month of December of each year is calculated according to the 
items of the financial statements, even if they have not yet been approved. Any changes that 
may subsequently be made at the time of the approval of the financial statements and the 
distribution of earnings shall be promptly notified to the supervisory Authority. This 
paragraph also applies to entities whose financial year ends on a date other than December 31.

3. The provisions of paragraph 2 will also apply to the calculation of regulatory capital for the 
month of June.
4. The amount of the annual and half-yearly earnings that, in the manner provided for in this Chapter, contributes to the calculation of regulatory capital for the months of December and June is subject to verification by the supervised body.

5. The amount of the earnings referred to in paragraph 4 shall be determined by excluding the share of earnings potentially allocable to dividends, to charity, or however not included in regulatory capital.

**CHAPTER 2**

**CREDIT RISK**

**Article 63. Calculation of the capital requirement for credit risk.**

1. Supervised entities constantly maintain an amount of regulatory capital equal to at least 8% of the risk-weighted exposures, as minimum capital requirement in relation to the risks of loss due to default, including the risk of loss arising from equity investments that are not included in the trading book (credit risk).

2. The value of the risk-weighted exposures will be determined according to the rules defined in the following articles. The exposure value is determined based on the balance sheet value of each risk asset, calculated by taking into account the prudential filters and the existence of funded and unfunded credit protection.

3. Without prejudice to the fact that the exposures included in the portfolio “past due exposures” are always included in this portfolio, in the event that an exposure may be included in several portfolios, the following rules of allocation shall apply:

   a) exposures to individuals and small and mid-sized companies are classified in the portfolio “exposures to businesses and other entities” if they do not fulfill the conditions to allocate them to the portfolio “retail”;

   b) exposures related to the portfolio “exposures secured by mortgages on real estate” as well as to another portfolio identified on the base on the nature of the debtor are added to the portfolio involving the application of the lower risk weight.

**Article 64. General criteria for the use of external ratings.**

1. For the determination of weighting, supervised entities use credit ratings issued by credit rating agencies that are recognized for these purposes by the competent authorities of the State, or a foreign State considered as equivalent, including the Member States of the European Union (EU).
2. Entities that use ratings of credit rating agencies, will notify to the supervisory Authority the list of agencies they intend to use. The entities cannot rely on the rating issued by rating agencies to which they are linked by way of control or connection.

3. Assessments are used continuously over time and in a non-selective manner: an supervised entity which decides to use the credit ratings of a credit rating agency for a certain class of exposures should use them for all exposures belonging to that class.

4. The supervised entity may only use the ratings of credit rating agencies that take into account all amounts both in principal and in interest owed to it.

5. Simply belonging to a group is not sufficient to assimilate a entity’s overall risk profile to that of any other entity belonging to the same group. The ratings attributed to entities belonging to a group cannot be automatically assigned to other entities belonging to the same group.

6. Where only one credit rating is available from a credit rating agency among those chosen for an exposure, that credit rating shall be used to determine the risk weight for that exposure. If two credit ratings are available and the two correspond to different risk weights for an exposure, the higher risk weight shall be used. If more than two credit ratings are available for an exposure, the two ratings generating the two lowest risk weights shall be used. If the two lowest risk weights are different, the higher risk weight shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned.

7. If the recognition of a credit rating agency is revoked, the entities that have notified their use of the relevant rating agency will adjust the weighting of exposures within 30 days.

8. Where a credit rating exists for a specific issuing program or facility to which the exposure belongs, this credit rating shall be used to determine the risk weight to be assigned to that exposure. Where no directly applicable credit rating exists for a certain exposure, but a credit rating exists for a specific issuing program or facility to which the exposure does not belong or a general credit rating exists for the issuer, then one of the following credit ratings shall be used:

   a) when the exposure ranks pari passu or has priority over the issuance program/line of credit or it is a senior unsecured exposure of the debtor, if it entails a risk-weight lower than 100%;

   b) in any case, if one of them involves a risk-weight equal to or greater than 100%.

9. Short-term credit ratings are used for the weighting of short-term exposures to companies. Any short-term credit rating shall only apply to the exposure the short-term credit rating refers to, and it shall not be used to derive risk-weights for any other exposure.

10. The conversion of the rating issued by credit rating agencies in credit classes relevant to this Chapter is carried out in accordance with Annex IV.
Article 65. *Exposures to public Authorities, including foreign public Authorities and central banks.*

1. Exposures to foreign public Authorities and central banks, are assigned the following weightings, differentiated on the basis of the rating assigned by credit rating agencies:

<table>
<thead>
<tr>
<th>Credit rating class</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0%</td>
</tr>
<tr>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>3</td>
<td>50%</td>
</tr>
<tr>
<td>4 and 5</td>
<td>100%</td>
</tr>
<tr>
<td>6</td>
<td>150%</td>
</tr>
</tbody>
</table>

2. If the supervised entity does not make use of credit ratings issued by credit rating agencies or no credit rating has been assigned, a weighting of 100% will apply to exposures to foreign public Authorities and central banks.

3. A 0% weighting will apply to exposures to public Authorities, or foreign public Authorities and central banks of a State considered as equivalent to the State, including the Member States of the European Union (EU) and the European Central Bank (ECB).

Article 66. *Exposures to entities carrying out financial activities on a professional basis.*

1. Exposures to entities carrying out financial activities on a professional basis are assigned the following risk weighting factors corresponding to the credit rating classification of the supervised entity:

<table>
<thead>
<tr>
<th>Credit rating class</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>50%</td>
</tr>
<tr>
<td>3</td>
<td>100%</td>
</tr>
<tr>
<td>4 and 5</td>
<td>100%</td>
</tr>
<tr>
<td>6</td>
<td>150%</td>
</tr>
</tbody>
</table>

2. If the supervised entity does not make use of credit ratings issued by credit rating agencies or the of the State where such supervised entity is established has not been assigned any rating, a weighting of 100% applies to exposures to entities carrying out financial activities on a professional basis.

3. A weighting of 100% applies to equity interests and subordinated instruments issued by entities carrying out financial activities on a professional basis, that are not deducted from regulatory capital.

4. A weighting of 20% applies to short-term exposures to entities carrying out financial activities on a professional basis if:

a) they have an original maturity of three months or less;
b) they have a residual maturity of three months or less, the supervised entity is established in a foreign State considered as equivalent to the State, including the Member States of the European Union (EU) and the exposure is denominated and funded in the currency of the debtor country.

Article 67. *Exposures to non-profit organizations and public sector entities.*

1. A weighting factor of 100% applies to exposures to non-profit organizations.

2. Exposures to public sector entities are assigned the same weightings as those assigned to exposures to entities carrying out financial activities on a professional basis established in the same State, referred to in Article 66, except for the preferential risk weights for exposures with a residual maturity of less than three months.

3. For public sector entities the supervisory Authority may determine the application of the same weighting as the one assigned to the central administration of the State where they are established if there exists an appropriate guarantee by the central administration.

Article 68. *Exposures to foreign public territorial entities.*

1. Exposures to foreign territorial entities are assigned the same weightings as those assigned to public sector entities of the State where they are established.

2. The supervisory Authority may determine for public territorial entities the application of a the same weightings as those assigned to the central administration where they are established if those entities have revenue-raising powers such that there is no significant difference in risk.

3. A weighting of 20% applies to exposures to public territorial entities of foreign States considered as equivalent to the State, including the Member States of the European Union (EU), denominated and funded in the national currency.

Article 69. *Exposures to international and regional organizations.*

A 0% weighting shall apply to exposures to international and regional organizations, including, *inter alia*, the European Union (EU), as well as the European Financial Stability Fund (EFSF) and the European Stability Mechanism (ESM), the Bank for International Settlements (BIS) and the International Monetary Fund (IMF).
Article 70. **Exposures to multilateral development banks.**

1. The following weightings shall apply to exposures to multilateral development banks, differentiated on the basis of the rating assigned by credit rating agencies:

<table>
<thead>
<tr>
<th>Credit rating class</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>50%</td>
</tr>
<tr>
<td>3</td>
<td>50%</td>
</tr>
<tr>
<td>4 and 5</td>
<td>100%</td>
</tr>
<tr>
<td>6</td>
<td>150%</td>
</tr>
</tbody>
</table>

2. If the supervised entity does not make use of credit ratings issued by credit rating agencies or no credit rating has been assigned, a weighting of 50% applies to exposures to multilateral development banks.

3. A weighting of 0% applies to exposures to the following multilateral development banks:

   a) International Bank for Reconstruction and Development (IBRD);

   b) International Finance Corporation (IFC);

   c) Inter-American Development Bank (IADB);

   d) The Asian Development Bank (ADB);

   e) The African Development Bank (ADB);

   f) Development Bank of the Council of Europe (DBCE);

   g) The Nordic Investment Bank (NIB);

   h) The Caribbean Development Bank (CDB);

   i) The European Bank for Reconstruction and Development (EBRD);

   j) The European Investment Bank (EIB);

   k) The European Investment Fund (EIF);

   l) The Multilateral Investment Guarantee Agency (MIGA);

   m) Islamic Development Bank (IDB);

   n) International Finance Facility for Immunization (IFFI).
Article 71. Exposures to companies and other entities.

1. The following weightings apply to exposures to businesses and other entities, differentiated on the basis of the rating assigned by credit rating agencies:

<table>
<thead>
<tr>
<th>Credit rating class</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>50%</td>
</tr>
<tr>
<td>3 and 4</td>
<td>100%</td>
</tr>
<tr>
<td>5 and 6</td>
<td>150%</td>
</tr>
</tbody>
</table>

2. If the supervised entity does not make use of credit ratings issued by credit rating agencies or no credit rating has been assigned, a risk weight of 100% shall apply to exposures to companies and other entities. In any case, the weighting of these exposures may not be more favorable than the one assigned to the central administration of the State where they are established.

3. Exposures to entities other than those referred to in Articles 65 to 70, as well as exposures to individuals or small and mid-size businesses that cannot be classified in the “retail” portfolio within the meaning of Article 72 and shall be included in this category of exposures.

4. Equity and subordinated instruments issued by entities other than entities carrying out financial activities on a professional basis referred to in Article 78 are excluded from this category of exposures.

Article 72. Retail exposures.

1. A risk weight of 75% shall apply to exposures within the “retail” portfolio.

2. Retail exposures that comply with the following criteria are included in the “retail” portfolio:

   a) exposures to individuals or small and mid-sized companies;

   b) exposures to a single client that do not exceed 1% of the total portfolio; for purposes of compliance with this requirement neither the credit conversion factors of “off-balance sheet” assets nor the effects of the funded and unfunded credit protection instruments that may support “off-balance sheet” activities are taken into account;

   c) the total of on-balance sheet exposures by the supervised entity toward an individual client, with the exception of exposures secured by residential property, does not exceed Euros 1,000,000; for purposes of compliance with this criterion the effects of any funded and unfunded credit protection that may support on-balance sheet assets are not taken into account but past due on-balance sheet exposures are taken into account.
Article 73. *Exposures to companies with an assessment of short-term creditworthiness.*

Notwithstanding Article 71, the following weightings apply to exposures to companies for which a specific “short-term” assessment by a credit rating agency exists:

<table>
<thead>
<tr>
<th>Credit rating class</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>50%</td>
</tr>
<tr>
<td>3</td>
<td>100%</td>
</tr>
<tr>
<td>from 4 to 6</td>
<td>150%</td>
</tr>
</tbody>
</table>

Article 74. *Exposures to collective investment undertakings.*

1. The following weightings are applied to exposures to collective investment undertakings, differentiated on the basis of the rating assigned by credit rating agencies:

<table>
<thead>
<tr>
<th>Credit rating class</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>50%</td>
</tr>
<tr>
<td>3 and 4</td>
<td>100%</td>
</tr>
<tr>
<td>5 and 6</td>
<td>150%</td>
</tr>
</tbody>
</table>

2. If the supervised entity does not make use of credit ratings issued by credit rating agencies or no credit rating has been assigned, a risk weight of 100% applies to exposures to collective investment undertakings.

3. The supervisory Authority may establish a weighting of 150% for exposures to individual collective investment undertakings associated with particularly high risks.

Article 75. *Exposures secured by real estate.*

1. Exposures secured by a mortgage on real estate shall be included in the portfolio “exposures secured by real estate” as specified in this Chapter, provided that the following conditions are complied with:

a) the value of the property does not materially depend upon the credit quality of the borrower;

b) the property is valued by an independent expert at a value not greater than market value;

c) the collateral is enforceable in all relevant jurisdictions and may be enforced within a reasonable timeframe;
d) there is adequate monitoring of the real estate. For this purpose: i) entities monitor the value of the property on a frequent basis and at a minimum once every year for commercial real estate and once every three years for residential real estate. Entities carry out more frequent monitoring where the market is subject to significant changes in conditions. Entities may also use statistical methods to monitor the value of the real estate and to identify real estate that needs reevaluation; ii) when information available to entities as a result of the verification under i) indicates that the value of the real estate may have declined materially, a valuation shall be made by an independent expert, and the resulting value shall not be higher than the market value. For loans exceeding Euros 3 million or 5 % of the regulatory capital of an supervised entity, the valuation of the real estate shall be reviewed by an independent expert at least every three years;

e) the types of residential and commercial real estate accepted as collateral and lending policies in this regard shall clearly be documented;

f) the asset covered by the guarantee shall be adequately insured against the risk of damage.

The portion of an exposure secured by mortgage on residential property that exceeds the loan-to-value limits provided for in this article will be classified in another portfolio in accordance with the criteria set out in this Chapter.

2. A weighting of 35% shall apply to exposures secured by mortgages on residential property provided that:

a) it is residential property used, intended for use, leased or intended to be let by the owner;

b) the repayment capacity of the borrower does not depend significantly on the cash flow generated by the real estate that serves as collateral, but on the borrower’s ability to repay the debt from other sources;

c) the exposure amount does not exceed 80% of the real estate value; this limit may be increased up to 100% in the presence of supplementary guarantees, offered by the debtor or by an individual, to the extent that the ratio between the amount of the loan and the sum of the value of the mortgaged real estate and of the same guarantees does not exceed the limit of 80% (loan-to-value condition).

3. Exposures secured by mortgages on non-residential property (buildings for office use, trade or other productive activities) shall be assigned a weighting of 50% provided that the repayment ability of the borrower does not depend significantly on the cash flows generated from the real estate that serves as collateral, but on the borrower’s ability to repay the debt from other sources. A weighting of 50% applies to the portion of the loan not exceeding 50% of the market value of the real estate; a weighting factor of 100% shall be applied to the remaining portion of the loan.
Article 76. *Exposures in the form of covered bonds.*

Exposures in the form of bank covered bonds shall have a risk weight lower than that accorded to ordinary exposures of the issuer, as provided in the following table:

<table>
<thead>
<tr>
<th>Weighting of exposures to the issuer</th>
<th>Weighting of exposures in covered bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>50%</td>
<td>20%</td>
</tr>
<tr>
<td>100%</td>
<td>50%</td>
</tr>
<tr>
<td>150%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Article 77. *Past due exposures.*

1. A weighting of 150% shall apply to non-performing, impaired, restructured and past due/defaulted exposures.

2. Past-due exposures secured by mortgages on residential real estate shall be assigned a weighting of 100% or, if the value adjustments are equal to or greater than 20% of the gross exposure, of 50%.

3. Past-due exposures secured by mortgages on commercial real estate shall have a weighting factor of 100%.

Article 78. *High risk exposures.*

1. A weighting of 100% shall apply to exposures arising from investments in venture capital and private equity, as well as shares and subordinated instruments issued by entities other than entities carrying out financial activities on a professional basis.

2. Exposures to collective investment undertakings not subject to limitations on the use of leverage (hedge funds) are weighted by a factor of 150%.

3. Equity investments in non-financial firms with negative financial results over the past two years are weighted by a factor of 200%.

4. The supervisory Authority has the right to apply a higher weighting to the exposures specified in paragraphs 1 and 2 in case of unfavorable market conditions.

Article 79. *Other exposures.*

1. Cash and cash equivalents shall be assigned a 0% weighting.

2. Gold bullion held in own vaults or deposited on a named-basis, to the extent it is balanced by liabilities of the same nature, shall be assigned a 0% weighting.
3. Supervised entities shall assign a weighting of 100% to:

a) tangible assets;

b) accruals not allocated to any other specific portfolio;

c) any other exposure that does not fall within those specified above.

Article 80. *Guarantees, commitments, derivative contracts and long settlement transactions.*

1. To calculate the credit risk associated with guarantees and commitments, first, the “credit equivalent” of the exposure shall be calculated; subsequently, the capital requirement shall be calculated by multiplying the “credit equivalent” by the specific weighting of the counterparty.

2. The “credit equivalent” is calculated by applying credit conversion factors differentiated in order to take into account the greater or lesser probability that the guarantees issued or commitment granted shall become an on-balance sheet exposure. In particular, one of the following credit conversion factors should be applied to the exposure, as provided in Annex V: (i) low risk, 0%; (ii) medium-low risk, 20%; (iii) medium risk, 50%; (iv) full-risk, 100%.

3. The exposure value of derivative contracts and long term transactions must be calculated as provided in Chapter 4 on counterparty risk.

**CHAPTER 3**

**CREDIT RISK MITIGATION TECHNIQUES**

Article 81. *General requirements.*

1. In addition to the further requirements specifically provided for in Articles 82 to 88 with respect to different types of transactions, the recognition of the effects arising from the use of credit risk mitigation techniques for the purposes of calculating the capital requirement for credit risk is subject to the following requirements:

   a) the credit protection bought by the supervised entity should be legally valid, effective and binding for the protection provider and opposable *vis-à-vis* third parties in any relevant jurisdiction, also in case of insolvency or opening of a bankruptcy proceedings of the principal debtor and/or the protection provider. In particular, the supervised entity that buys credit protection:
i) ensures in advance that the instrument used confers a fully and freely actionable right for the activation of the protection;

ii) fulfills all requirements necessary for the validity, effectiveness, enforceability and binding nature of the credit protection, under the law applicable from time to time;

iii) verifies that the protection provider cannot oppose, in accordance with the applicable rules, exceptions that may affect the validity, effectiveness, enforceability and binding nature of the protection.

The existence of claw-back rights does not affect the fulfillment of the requirements referred to in this paragraph. Therefore, the relevant effects for prudential purposes can be recognized as from the establishment of the credit protection, without having to wait for the expiration of the claw-back period;

b) protection from credit risk should be achievable in a timely manner. To this end, entities adopt techniques and procedures that allow for quick activation of the credit protection assets through their liquidation and the acquisition of the proceeds or through direct acquisition of the underlying collateral (for example, assignment of property);

c) under the provisions in Part III, Chapter 7, entities must have in place a management process with respect to credit risk mitigation techniques that oversees the entire process of acquisition, evaluation, control and implementation of credit risk mitigation tools;

d) entities shall comply with the eligibility disclosure requirements set forth in Part V.

2. The general and specific requirements must be fulfilled at the time of the establishment of the credit protection and continue for its entire duration.

Article 82. Financial collateral.

1. The granting of collateral and other similar security rights with respect to assets characterized by an adequate degree of liquidity and a market value sufficiently stable over time, such as gold, cash deposits or other instruments of a financial nature specifically indicated in Annex VI, are eligible as a credit risk mitigation technique if:

a) there is no significant positive correlation between the value of the financial collateral and the creditworthiness of the borrower. In any case, the securities issued by the counterparty or other related supervised entity of the group to which it belongs are not allowed as financial collateral;

b) the supervised entity is able to calculate the fair value of the collateral and undertake periodic revaluations at least every half-year or whenever it considers that there has been a significant decrease in the fair value of the asset;
c) if the activity covered by the financial collateral is held at third parties, the pledged asset is segregated from the assets of the depositary and from assets belonging to third parties deposited with the same depository.

2. For the purposes of calculating the capital requirement relating to the exposure secured by eligible financial collateral, the supervised entity shall apply to the secured portion of the exposure the relevant weighting given to the instrument used as credit protection, in accordance with Annex VII.

3. The residual maturity of the credit protection cannot be less than that of the protected exposure (maturity mismatch).

Article 83. On-balance sheet netting.

1. Netting agreements of balance sheet assets and liabilities towards the same counterparty may be used as a credit risk mitigation technique, with respect to reciprocal cash balances related to loans and deposits of the supervised entity if:

a) the netting agreement results from a written document (even when conditions for legal set-off are met) and loans and deposits subject to netting are clearly identified;

b) the supervised entity is able at all times to identify the assets and liabilities with the same counterparty covered by the netting agreement;

c) the supervised entity monitors and controls the risks associated with the termination of the credit protection;

d) the supervised entity monitors and controls the relevant exposures on a net basis.

2. Liabilities to the supervised entity are treated as cash collateral, in accordance with Article 82.

Article 84. Cash deposits at third party entities.

1. Cash deposits at entities carrying out financial activities on a professional basis provided as collateral in favor of the supervised entity that calculates the capital requirement may be considered as a guarantee issued by the depository supervised entity, provided that:

a) the debtor’s claim against the depository supervised entity is explicitly tied to the supervised entity that calculates the requirement and this constraint is legally effective and enforceable in all relevant jurisdictions;

b) the depository supervised entity is made aware of the creation of the security interest;
c) following notification to the depository supervised entity, payments can be made solely to the supervised entity that calculates the capital requirement, or other parties, but in the latter case with the consent of the supervised entity that calculates the requirement;

d) the creation of the security interest is unconditional and irrevocable.

2. Articles 86 and 89 shall apply in regard to the method of calculation of the credit risk mitigation instrument provided by this article.

Article 85. *Financial instruments issued by third parties.*

Financial instruments issued by entities carrying out financial activities on a professional basis that the issuer has agreed to repurchase at the request of the holder are treated as a guarantee of the issuer. The credit protection value is the following:

a) where the instrument is repurchased at its face value, the value of the protection will be that amount;

b) where the instrument is repurchased at market price, the value of the protection corresponds to the value of the instrument calculated according to the rules applicable to unrated debt securities.

Article 86. *Guarantees.*

1. Guarantees (understood as a legal commitment explicitly assumed by a third party to fulfill an obligation to the supervised entity in the event of non-payment by the principal debtor) are recognized for the purposes of calculating the capital requirement for credit risk if:

a) the credit protection is direct;

b) the scope and extent of the credit protection are clearly defined and incontrovertible;

c) the credit protection contract does not contain any clause that would allow the protection provider to unilaterally cancel the same. If the contract confers the right of withdrawal to the protection provider, the agreements between the parties must maintain the protection relating to the obligations which arose prior to the termination;

d) the credit protection contract does not contain any clause, the fulfillment of which is outside the direct control of the supervised entity that calculates the requirement and may result in one of the following effects:

i) increases the effective cost of the protection as a result of a deterioration in the credit quality of the protected exposure;

ii) exempts the protection provider from the obligation to make timely payments in the event that the principal debtor fails to make any payments due;
iii) allows the protection provider to reduce the duration of the credit protection;

e) in the event of default by the counterparty, the supervised entity has the right to recover in a timely manner from the guarantor the amounts covered by the guarantee. In particular, the payment cannot be subject to the condition that the creditor supervised entity must first pursue payment via the debtor;

f) the guarantee covers all types of payments the principal obligor is expected to make in respect of the credit. When certain types of payments are excluded from the guarantee, the recognized value of the guarantee will be adjusted to take into account the limited coverage;

g) the guarantee is an explicit and documented obligation assumed by the guarantor;

h) the guarantee is provided by any of the following entities:

i) public Authorities, including foreign public Authorities and central banks, or international and regional organizations to which a weighting of 0% applies pursuant to Chapter 2;

ii) public sector entities or public territorial entities;

iii) multilateral development banks;

iv) entities carrying out financial activities on a professional basis;

v) companies that have a credit rating from a credit rating agency associated with a credit rating classification of not less than 2.

2. For the purposes of calculating the capital requirement, entities may replace the weighting of the debtor by that of the guarantor (the so-called substitution principle). The value of the credit protection provided by a personal guarantee is the amount that the protection provider has undertaken to pay in the event of default by the debtor.

3. In the case of maturity mismatches, the provision of Article 89 shall also apply.

4. Where the protected amount is less than the exposure value and non-guaranteed portion is ranks equally with the portion guaranteed (i.e., the supervised entity and the protection provider share losses pro rata), capital requirements are reduced proportionally.

Article 87. Credit derivatives.

1. For the purposes of this Chapter, the following types of credit derivatives and instruments composed of such derivatives or equivalent to them economically, will be recognized, provided that such protection is provided by a protection provider belonging to the categories referred to in Article 86, paragraph 1, letter h:

a) credit default swaps;
b) total return swaps;

c) credit linked notes.

2. Without prejudice to compliance with the general requirements of Article 81, the recognition of credit derivatives is subject to compliance with the specific requirements for guarantees set out in Article 86, paragraph 1, letters a), b), c) and d), as well as the conditions below:

a) except as provided under letter b), the credit events specified under the credit derivative must include all the cases listed below, under the terms specified therein:

i) the non-payment of amounts due under the terms of the underlying obligation at the time of non-payment (with a grace period that is closely in line with that of the underlying obligation or shorter);

ii) the bankruptcy, insolvency or inability of the debtor to pay its debts, or its failure to pay its debts as they come due, or admission in writing of its inability in general to pay the same, and similar events;

iii) the restructuring of the underlying obligation involving write-off or rescheduling of principal, interest or fees, where they are a credit loss event (i.e., value adjustment or other similar costs to be registered in the income statement);

b) where the credit events specified under the credit derivative do not include restructuring of the underlying obligation referred to in letter a) point iii), the credit protection may nonetheless be permitted subject to a reduction in the recognized value as specified in the following paragraph 4;

c) in the case of credit derivatives that provide for cash settlement, there must be a solid valuation process to estimate the losses in a reliable manner. The period for which it is possible to obtain valuations of the underlying obligation must be clearly specified;

d) if the settlement requires the right and the ability of the protection buyer to transfer to the protection provider the underlying obligation, the terms of this obligation must provide that any required consent to such transfer may not be unreasonably withheld;

e) the parties responsible for ascertaining whether a credit event is determined must be clearly identified. This determination will not be the sole responsibility of the protection provider. The protection buyer must have the right or ability to inform the protection provider of the occurrence of a credit event.

3. Without prejudice to the provisions of the following paragraph, the treatment for prudential purposes of credit default swaps and total return swaps are similar to those of guarantees pursuant to Article 86.
4. In the case of credit derivatives which do not include as a credit event restructuring of the underlying obligation involving write-off or rescheduling of principal, interest or fees where they are a credit loss event (e.g. the registration of a value adjustment or other similar amounts to the income statement), the value of the credit protection:

a) is reduced by 40% where the amount that the protection provider has undertaken to pay is not higher than the exposure value;

b) must not exceed 60% of the exposure value where the amount that the protection provider has undertaken to pay is higher than the value of the same exposure.

5. The credit linked notes issued by the supervised entity granting the loan receives, within the limits of the sums collected, the prudential treatment applied to cash collateral.

Article 88. Counter-guarantees or indirect guarantees.

In the event that an exposure is covered by a guarantee which is in turn covered by a counter-guarantee of one of the subjects included in the categories in Article 86, paragraph 1, letter h), points i) to iii), the exposure can be considered covered by a guarantee by the counter-guarantor, provided that:

a) the counter-guarantee covers all credit risk elements of the covered exposure;

b) both the guarantee and the counter-guarantee meet all the requirements of Article 86, paragraph 1, letters b) to g);

c) the supervised entity is able to demonstrate that the coverage is solid and that nothing in the historical evidence suggests that the coverage of the counter-guarantee is less than effectively equivalent to that of a direct guarantee by the counter-guarantor.

Article 89. Maturity mismatches.

1. The effective maturity of the covered exposure is calculated as the longest possible remaining time before the obligor is scheduled to fulfill its obligation.

2. Except as provided in the following paragraph, the duration of the credit protection is the period of time remaining until the first date on which it is possible that the protection may terminate or be terminated. When the option to terminate the protection is at the discretion of the protection provider, the protection period is the period of time remaining until the earliest date at which that option may be exercised.

3. Protection with a residual maturity of less than three months and that expires before the underlying exposure cannot be recognized. In case of a maturity mismatch, the credit protection will not be recognized where the original maturity is less than 1 year.
4. In case of a maturity mismatch, the unfunded credit protection shall be recognized with a value corrected in accordance with Annex VIII.

CHAPTER 4

COUNTERPARTY RISK

Article 90. Capital requirement against counterparty risk.

1. Supervised entities shall continuously maintain an amount of regulatory capital equaling at least 8% of risk weighted assets as their capital requirement against the risk that the counterparty in a transaction involving certain financial instruments default prior to settlement of such transaction.

2. This Chapter shall apply to the following transaction categories:

a) financial and credit derivatives not negotiated on an exchange (over-the-counter or OTC);

b) long-term settlement transactions, that is, forward transactions in which a counterparty is obliged to deliver (receive) a security, a commodity or a foreign currency against the receipt (delivery) of cash, other financial instruments or commodities, with settlement at a date specified by contract that is later than the market standard for this particular type of transaction or five business days after the date on which the supervised entity enters into the transaction.

Article 91. Mark-to-market method.

1. The value of risk weighted assets shall be determined by using the counterparty risk weights provided for under the preceding Chapter 2. In any case, a weighting of 0% shall apply to exposures relating to:

a) transactions mentioned in the previous Article entered into with a central counterparty, if the exposures that this counterparty shall have vis-à-vis its own contractual counterparties are fully secured by collateral on a daily basis;

b) credit derivatives not allocated in the trading book, with respect to which the supervised entity assumes the role of protection provider, insofar as they are subject to the credit risk capital requirement for their entire notional value and are treated as guarantees issued in accordance with Chapter 2.

2. The value of the exposures shall be determined by using the mark-to-market method (which approximates the cost that the supervised entity would have to sustain in order to find another supervised entity willing to take on the contractual obligations of the original counterparty, if the latter were insolvent), described in Annex 1.
CHAPTER 5
MARKET RISK

Article 92. Capital requirement against market risk.

The total capital requirement that supervised entities shall continuously maintain against risks generated by operating on securities and currencies markets shall be given by the sum of capital requirements against the following specific risks:

a) position risk on the trading book, that is, risk deriving from variation of securities’ price due to factors pertaining to market performance (generic risk) and the situation of the issuer (specific risk);

b) settlement risk, that is, risk deriving from the non-settlement of a transaction in debt securities, equity securities, derivatives or currencies, regardless of the allocation portfolio;

c) concentration risk on the trading book;

d) foreign exchange risk, that is, the risk of suffering losses as a result of adverse fluctuations in the exchange rates of foreign currencies on all positions held by the supervised entity, regardless of the allocation portfolio;

e) market risk relating to options.


1. The capital requirement for generic risk on debt securities shall be determined on the basis of an interest-rate risk measuring system providing for the calculation of the net position relating to each issuance and its subsequent allocation (separately for each currency) in residual maturity time bands, in accordance with Annex X. The capital requirement equals the sum of the values of the residual positions and net positions, the latter weighted according to the method indicated in Annex X.

2. The capital requirement for specific risk on debt securities shall be calculated by dividing the net positions in each security within the trading book in the following four general categories, depending on the type of issuer or obligor, of the existence of credit risk mitigation tools, and of residual maturity:

a) “positions relating to zero-weighted issuers” (risk weight 0%)

b) “positions related to qualified issuers” (risk weight no greater than 20%);

c) “positions related to non-qualified issuers” (risk weight no greater than 100%);

d) “positions related to high-risk issuers” (risk weight greater than 100%);
A capital requirement shall be attributed to each of these categories, as indicated in Annex XI. The capital requirement related to the specific risk shall be applied to the sum (in absolute value) of the long and short net weighted positions.

3. The capital requirement for position risk on equity securities equals the sum of:

a) for generic risk: 8% of the net general position;

b) for specific risk: 8% of the gross general position.

4. With respect to units in collective investment undertakings, supervised entities shall apply a capital requirement of 32% of the market value of such shares against position risk (whether generic or specific).

Article 94. Capital requirement against settlement risk.

1. To address settlement risk pertaining to DVP transactions, supervised entities shall apply a capital requirement calculated by applying the following risk weights, divided into time bands, to the difference between the forward contractual price and the market value of the securities and the currencies to be received (delivered) when such difference, being positive, leads to a loss for the supervised entity:

a) from the 5th to the 15th working day after settlement date: 8%;

b) from the 16th to the 30th working day after settlement date: 50%;

c) from the 31st to the 45th working day after settlement date: 75%;

d) from the 46th working day after settlement date: 100%.

2. In the case of non-DVP transactions (that is, for which cash may be paid before receiving the underlying asset, or the underlying asset is sold before receiving the cash) the supervised entity that effected the payment in cash or the delivery of the securities or currencies and has not received the amount due by the end of the same day, or, in the case of cross-border transactions, by the end of the next working day, shall treat the transferred value as an exposure vis-à-vis the counterparty and, regardless of the allocation portfolio, shall apply the capital requirement calculation method used for exposures not included in the trading book.

3. In the case of non-DVP transactions, the supervised entity that made the payment or the delivery and did not receive the underlying asset or the amount due by the fourth working day after the date on which the counterparty had to perform its obligation must deduct the amount transferred from the regulatory capital, increased by any positive difference in its own favor between the market value of the underlying asset to be received and the cash transferred or between the cash amount to be received and the market value of the underlying asset sold.
Article 95. *Capital requirement against concentration risk on the trading book.*

1. Supervised entities may exceed the limit on individual large exposures established in Article 108, if:

a) exposures other than those included in the trading book to clients or group of connected clients shall not exceed the limits established in Article 108, so that exceeding the limit originates entirely from the trading book;

b) entities shall meet an additional capital requirement on the amount exceeding the limit on large exposures;

c) if no more than 10 days have elapsed since when the excess occurred, the exposure to the client resulting from the trading book shall not exceed five times the supervised entity’s regulatory capital;

d) if more than 10 days have elapsed, the total of the aforesaid excesses shall not exceed six times the supervised entity’s regulatory capital.

2. With reference to the trading book, the exposure to a single client equals the sum of the net long position calculated for each security issued by the client itself plus the exposure to settlement and counterparty risk to the same client, as determined according to the provisions contained in the present Part IV.

3. The risk position associated with the trading book shall be determined by weighting the exposure on the basis of what is stated in Chapter 9.

4. The capital requirement that entities must meet against concentration risk shall be determined in accordance with Annex XII.

Article 96. *Capital requirement against foreign exchange risk.*

1. To address foreign exchange risk, supervised entities shall comply with a capital requirement of 8% of the net open position in currencies.

2. The “net open position in currencies” shall be determined by:

a) calculating the net position in each currency and in gold;

b) converting the net positions into euro on the basis of the exchange rate or the price of gold;

c) separately adding up all the net long positions and all the net short positions.

Whichever is greater between the total of the net long positions and the total of the net short positions shall constitute the “net open position in currencies”.
Article 97. *Capital requirement against market risk tied to options.*

The capital requirement against options positions shall be:

a) for long positions on the underlying asset (spot and forward) associated with purchases of put options or for short positions on the underlying asset (spot and forward) associated with purchases of call options, the capital requirement shall be equal to the market value of the underlying instrument multiplied by the sum of the specific risk and generic risk coefficients for said instrument, less the option’s intrinsic positive value, if any;

b) for purchases of call options or for purchases of put options, the capital requirement shall be equivalent to the lesser of the following amounts:

i) market value of the underlying instrument, multiplied by the sum of the specific risk and generic risk coefficients for said instrument;

ii) market value of the option.

**CHAPTER 6**

**OPERATIONAL RISK**

Article 98. *Capital requirement against operational risk.*

1. As their capital requirement with respect to operational risk, supervised entities shall continuously maintain an amount of regulatory capital equal to 15% of the average of the supervised entity’s annual operational result over the preceding three years.

2. If no data on the relevant indicator for some observations of the three-year reference period exist, the calculation of the capital requirement shall be determined on the basis of the average of the individual observation periods available.

**CHAPTER 7**

**MINIMUM AND TOTAL CAPITAL REQUIREMENT**

Article 99. *Minimum and total capital requirement.*

1. Supervised entities shall continuously hold a regulatory capital amount of no less than the total capital requirement, equal to the sum of the capital requirements prescribed against credit, counterparty, market and operational risks.
2. Supervised entities shall continuously maintain a total capital coefficient (i.e., the ratio between the regulatory capital and the total capital requirement as set forth in the preceding paragraph multiplied by 12.5) of no less than 8% and a core capital coefficient (i.e. the ratio between the core capital and the total capital requirement as set forth in the preceding paragraph multiplied by 12.5) of no less than 6%.

CHAPTER 8

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

Article 100. General provisions.

1. Supervised entities shall define in a fully autonomous manner a process to determine the amount of total capital adequate to address all significant current and future risks. The process must be formalized, documented, subject to internal audit, and approved by the supervised entity’s bodies. It shall be proportional to the characteristics, size and complexity of the activities conducted.

2. For the purpose of calculating total capital, entities shall evaluate in their entirety all the risks to which they are or could be exposed, including those considered for purposes of the calculation of the total capital requirement as well as those not contemplated therein.

3. Entities shall define for which of the other types of risks (aside from credit, counterparty, market and operational risks) it would be appropriate to adopt quantitative methodologies to produce the internal capital determination, and for which risks control or mitigation measures (in combination or alone) would be deemed most appropriate.

4. Upon request, entities shall explain to the supervisory Authority the definitions adopted, the methodologies utilized, and the manner in which all significant risks are taken into account.

5. Entities shall make consistent choices between the methodologies adopted for measuring risk and those adopted for determining the total internal capital.

Article 101. ICAAP stages.

The ICAAP process can be broken down into the following stages:

a) identification of the risks to be assessed;

b) measurement/assessment of the individual risks and of the related internal capital;

c) measurement of the total internal capital;
d) determination of the total capital and reconciliation with the regulatory capital.

Article 102.  Identification of the risks to be assessed.

1. Supervised entities shall autonomously carry out an accurate identification of the risks to which they are exposed, in consideration of their own activities and relevant markets.

2. For purposes of identifying significant risks the analysis must consider, at minimum, the risks listed in Annex XIII. Said list is not exhaustive: it is left to the prudent assessment of each supervised entity to identify any additional risk factors arising in connection with their own specific activities.

Article 103.  Measurement of the individual risks and determination of the internal capital related to each risk.

1. For purposes of determining the internal capital, entities shall measure, or (in the case of risks that are difficult to quantify) shall assess all significant risks to which they are exposed, utilizing the methodologies they shall deem most appropriate, in relation to their own operational and organizational characteristics.

2. For credit, counterparty, market, and operational risks (known as First Pillar risks) a first methodological reference exists in the form of the relevant regulatory rules for the calculation of the capital requirements.

3. In order to determine the exposure and any internal capital related to interest-rate risk on non-trading book assets, entities shall use as their reference the methodology illustrated in Annex XIV.

4. With regard to liquidity risk, entities shall refer to the provisions of Chapter 10.

5. For any other risks entities shall make arrangements for adequate control and mitigation systems.

Article 104.  Stress testing.

1. Supervised entities shall perform stress tests to better evaluate their exposure to risks, the related mitigation and control systems and, where it shall be deemed necessary, the adequacy of internal capital.

2. Conducting stress tests shall permit entities to:

   a) use “what if” scenarios to evaluate the exposure to risk in adverse circumstances and the internal capital necessary to cover such risk or other actions to be taken in order to reduce or mitigate it;
b) verify the result and accuracy of the risk assessment models (in particular, in order to identify non-linearity effects in the aggregation of risks).

3. In principle, entities should perform stress tests adequate in relation to the nature of each of the risk factors relevant for their own activities; in defining the stress tests it should be necessary to compare costs versus benefits in the construction of particularly articulated and complex scenarios, in which correlation effects among risk factors are numerous.

4. At minimum, entities shall perform sensitivity analyses with regard to the primary risks assumed, among which at least credit risk, concentration risk on non-trading book assets and interest-rate risk on such assets.

Article 105. Determination of total internal capital.

Entities shall determine total internal capital according to a simplified “building block” approach that shall consist of the sum of the regulatory requirements against the First Pillar risks plus any internal capital related to other significant risks.

Article 106. Total capital and its reconciliation with regulatory capital.

Upon request, entities must explain to the supervisory Authority how their total capital reconciles with the definition of the regulatory capital; specifically, explanation must be provided for the use of capital instruments for total internal capital coverage purposes, which cannot be computed in the regulatory capital.

Article 107. ICAAP internal governance.

1. The supervised entity’s bodies shall be responsible for the ICAAP process, in accordance with the provisions of Part III.

2. The determination of total internal capital and total capital is the result of a complex organizational process, which constitutes an integral part of internal management and contributes to determining the strategies and current operations of entities. This process shall require the involvement of several organizational units and professional competencies (in areas such as planning, risk management, internal auditing and accounting).

3. It is up to the entities, taking into consideration their own organizational characteristics, to identify the internal functions and organizational units that are competent for elaborating and arranging for the various elements or stages of the ICAAP process.
CHAPTER 9

CONCENTRATION RISK

Article 108. Prudential limits.

1. Supervised entities shall limit each risk position to a maximum of 25% of the regulatory capital.

2. In the case of exposure *vis-à-vis* another entity carrying out financial activities on a professional basis or a group to which the supervised entity carrying out financial activities on a professional basis belongs, the risk position can exceed 25% of the regulatory capital provided that:

   a) the amount of the risk position shall be no greater than Euros 150 million;

   b) the sum of the risk positions regarding any client connected with the supervised entity carrying out financial activities on a professional basis, which is not itself an entity carrying out financial activities on a professional basis, shall be no greater than 25% of the regulatory capital;

   c) the supervised entity shall determine, in accordance with prudent criteria, that the assumption of the risk position is in line with its capital level and, in any case, does not exceed 100% of the regulatory capital.

3. Supervised entities shall comply with the limits set forth in this article on a continuous basis.

If, due to causes outside of their control (for example, a reduction of the regulatory capital), such limits are exceeded, supervised entities shall, in the shortest possible time, reduce their risk positions within the prescribed limits. For this purpose, entities shall notify the supervisory Authority of the actions they intend to undertake.

CHAPTER 10

LIQUIDITY RISK MANAGEMENT

Article 109. Role of the senior management.

1. The senior management shall be responsible for:

   a) maintaining a level of liquidity that is consistent with the tolerance threshold of exposure to this risk;
b) defining policies and processes pertaining to the specific risk profile.

2. To such end, the senior management shall:

a) define the liquidity risk tolerance threshold for liquidity risk, i.e. the maximum exposure to risk deemed acceptable;

b) approve:

i) the methods used by the supervised entity to determine the exposure to liquidity risk;

ii) the primary assumptions underlying the stress scenarios;

iii) the red flags used for activating emergency plans;

iv) the emergency plan to be activated in case of market crises or supervised entity-specific situations (Contingency Funding Plan or CFP).

3. The senior management shall provide on a timely basis the relevant information relating to the liquidity situation to the supervisory body.

Article 110.  Role of the management.

In implementing the strategic directions and policies approved by the senior management, the management body shall:

a) establish the guidelines of the liquidity risk management process, in accordance with the risk tolerance threshold approved by the senior management;

b) allocate functions related to the management of liquidity risk within the organizational structure, taking into account the principle of proportionality and the exposure of the supervised entity to such risk;

c) define the internal information flows intended to ensure that the supervised entity’s bodies and control functions have full knowledge and governance of the factors that impact liquidity risk;

d) receive periodic reporting originating from operational units, informing the senior management on at least a quarterly basis;

e) provide on a timely basis information to the senior management.
Article 111. Role of the supervisory body.

As part of the general activity aimed at verifying the supervised entity’s risks management process, the supervisory body shall oversee the adequacy of the liquidity risk management process and its compliance with the regulatory requirements.

Article 112. Liquidity risk management process.

1. The liquidity risk management process shall include: procedures for identifying risk factors, measurement of risk exposure, implementation of stress tests, identification of appropriate initiatives to mitigate risk, organization of emergency plans, control by means of verification of compliance with limits, and reporting to the supervised entity’s bodies.

2. The process shall be subject to periodic audit for the purpose of assuring its effectiveness over time.

Article 113. Identifying and measuring risk.

1. Entities shall identify and measure liquidity risk for both current and future exposures, taking into account the expected financial flows connected with the activities subject to supervision.

2. Entities shall identify expected cash inflows and outflows in the various residual maturity bands. With reference to short-term liquidity, the supervised entity shall adopt all measures enabling it to assess liquidity needs for a minimum reference horizon of one month. For longer-term maturities, the supervised entity shall identify and measure risk with reference to a number of maturities at least equal to those used to measure interest-rate risk, in accordance with Annex XIV.

3. Entities shall utilize indicators that can reveal in a timely manner the onset of vulnerabilities in their liquidity position.

Article 114. Liquidity risk mitigation instruments.

1. Entities shall continuously hold an amount of liquidity reserves adequate to the risk tolerance threshold for the selected risk. For this purpose, liquidity reserves may include:

   a) cash;

   b) assets that can be quickly liquidated to address stress situations under the short-term time horizon (generally, up to seven days);

   c) other financial assets characterized by high liquidity in stress situations for the time horizon of up to one month, without incurring significant losses (as compared with the book value).
2. The following assets shall be excluded from liquidity reserves:

a) collective investment scheme units;

b) shareholdings;

c) financial assets whose price and liquidity are related to the performance of financial sector securities in stress situations.

3. Entities shall frequently verify the adequacy of assets that can be readily liquidated, especially when significant changes occur in market conditions, and make provision for adequate procedures to manage the same.

4. For purposes of liquidity risk mitigation, entities shall adopt strategies, policies and procedures so as to limit excessive concentration of funding sources and channels (other than retail sources), and of the counterparties with which they work, and ensure adequate diversification for residual maturity of liabilities.

5. In assessing the level of concentration of funding sources and channels, at minimum, entities shall consider the following elements:

a) degree of dependency on a single market or on an overly restricted number of markets/counterparties;

b) concentration on specific technical formats;

c) significance of the performance in currencies other than the euro;

d) amount of liabilities maturing in the month compared to total existing liabilities.

6. Procedures for managing the concentration risk shall be documented and periodically revised in order to ensure consistency with the supervised entity’s evolving activities.

Article 115. **Liquidity Coverage Ratio**

The supervised entity should prove at all times that it owns a stock of high quality liquid assets (cash, high quality sovereign bonds, other highly rated instruments) to withstand 30 days of outflows under stressed conditions.

The outflows can be netted with inflows occurring during the same period.

The rates of inflows and outflows should be those prescribed by international or regional agreements for each type of asset or liabilities.

The supervised entity should report its liquidity coverage ratio to the competent supervisor on a monthly basis.
Article 116.  

Emergency plans.

1. Entities shall prepare an emergency plan (Contingency Funding Plan or CFP) to cope with adverse situations in raising funds.

2. The CFP shall define the strategic actions to be undertaken should liquidity tension occur, providing for the raising of funding in case of emergency. Specifically, the plan shall contain the following information, at minimum:

a) cataloging of the various types of liquidity tension in order to identify their nature (systemic or idiosyncratic);

b) identification of the respective duties and responsibility of bodies and functions of the supervised entity in emergency situations;

c) “back-up liquidity” assessments that (in case of adverse scenarios) shall be capable of determining with sufficient reliability the maximum amount that can be tapped from the various funding sources.

3. The CFP shall contemplate procedures that (when stress tests indicate an exposure to liquidity risk close to or greater than the risk tolerance threshold) impose immediate referral to the bodies tasked with determining and/or undertaking the consequent corrective action.

4. Entities shall ensure that the procedures indicated in the CFP are regularly verified and updated on the basis of stress test results.

Article 117.  

Internal controls system.

1. In accordance with the general principles on organization and internal controls, entities shall follow the guidelines provided below with specific reference to liquidity risk.

2. For purposes of risk management in the short-term time horizon (usually less than one year) it shall be necessary to collect information on the trends of financial flows originating from all internal units, their performance, and composition of assets usable to meet funding requirements.

3. For purposes of managing structural liquidity (usually greater than one year), it shall be necessary to take into account medium/long term financing and collection operations and to periodically monitor balance sheet values within the context of the supervised entity’s Asset & Liability Management (ALM).

4. Entities shall implement formal procedures to collect and process data, providing sufficient data collection frequency, and ensuring the production of reliable and timely information.
5. Entities shall implement sufficiently formalized processes to permit verification, on a monthly basis, of the degree of liquidity and realizable value of liquidity reserve assets, as well as the adequacy of the haircut on allocable assets.

6. The risk management control function shall support the definition of liquidity risk management policies and processes, verify compliance with imposed limits to the various functions and propose initiatives for risk mitigation to the management and the senior management.

7. The risk management function shall ensure that the stress tests are complete, and accordingly shall verify that the tests:

a) extend to the individual liquidity procurement and utilization centers;

b) be performed with adequate frequency (at least quarterly);

c) be plausible, so as to take into account the structure of the supervised entity’s cash flows and the related sources of risk.

8. The liquidity risk monitoring (which shall be based on evaluation indicators and on compliance with operational limits) shall provide for a constant dialogue between the risk management and the treasury functions.

9. The risk management function shall verify on a daily basis compliance with limits and shall initiate escalation procedures to the competent bodies of the supervised entity if limits are exceeded.

10. The internal audit function shall:

a) perform periodic verifications on:

i) the adequacy of the data collection system as well as verifying the information;

ii) the liquidity risk measurement system and the associated internal assessment process, as well as the related stress test process;

iii) the CFP review and update process;

b) assess the functionality and reliability of the overall control system presiding over liquidity risk management;

c) verify that the supervised entity’s bodies and functions fully use the available information. The internal audit function submits the results of the controls performed to the supervised entity’s bodies on an annual basis.
PART V

DISCLOSURE TO THE SUPERVISORY AUTHORITY AND PUBLICATION

Article 118. Disclosure to the supervisory Authority.

1. Entities that carry out financial activities on a professional basis shall disclose to the supervisory Authority, no later than June 30 of each year, an ICAAP report containing the information listed in Annex XVI as well as the qualitative and quantitative regulatory data listed in Annex XVII.

2. The supervisory Authority shall verify the existence of organizational safeguards appropriate to ensuring the reliability of the processes of production, processing and disclosure of the information.

3. Paragraphs 1 and 2 are without prejudice of the supervised entities duty to disclose and report the supervisory Authority established by the Law No. XVIII of 8 October 2013.

Article 119. Publication.

1. Supervised entities shall publish, no later than 6 months from the end of the preceding year, an annual report comprising audited financial statements as well as a description of activities and a summary of the information mentioned in Article 118, paragraph 1, with respect to the preceding year, and without prejudice of any provision protecting confidentiality.

2. In preparing the annual report, entities shall take into consideration their own organizational complexity and the type of activities carried out in order to determine the level of detail of the information published.

3. Supervised entities shall publish their annual report on their website and have printed copies available at their registered office.

Article 120. Organization and controls.

1. Supervised entities shall ensure the accuracy and consistency of the information disclosed and published.

2. To this end, supervised entities shall formalize in their internal control system the procedures intended to ensure compliance with disclosure and publication requirements.

In this context, supervised entities shall implement specific and appropriate verification procedures of the information to be disclosed or published, in particular with respect to information that is not subject to specific controls by external auditors.
The senior management shall be responsible for verifying the adequacy of such procedures, informing on a timely basis the supervisory body.

3. Documents disclosed to the supervisory Authority or published in accordance with this Part shall be prepared by the management, reviewed by senior management, and submitted to the approval of the supervisory body.

**PART VI**

**FINAL AND TRANSITIONAL PROVISIONS**

Article 121. *Transitional period.*

1. Entities domiciled or registered in the State, which, as of the date on which this Regulation enters into force, carry out financial activities on a professional basis, in accordance with what is already permitted by the statutes, incorporation and/or by-laws, within 30 days from the entry into force of this Regulation, shall communicate in written to the supervisory Authority all financial activities carried out on a professional basis, the potential branch offices and the potential participations and equity holdings, including the relevant documents, data and documents requested by Part II, Chapters 1, 2 and 3.

2. Paragraph 1 shall be without prejudice to the provisions on prudential supervision set forth in this Regulation.

3. Entities domiciled or registered in the State, which, as of the date on which this Regulation enters into force, carry out financial activities on a professional basis, in accordance with what is already permitted by the statutes, incorporation and/or by-laws, fall under the scope of application of this Regulation, and shall comply with its provisions within 365 days from the date on which it enter into force, and in particular, the provisions established by Part III and IV.

Article 122. *Administrative sanctions and remedy.*

1. Without prejudice to specific provisions of this regulation, and when otherwise disposed, in case of violation or non compliance to the provisions established by this Regulation, the supervisory Authority may apply the administrative sanctions established 66 (2) (3) of the Law No. XVIII of 8 October 2013.

2. Supervised entities can oppose the decisions made by the supervisory Authority, including the administrative sanctions, suspension or revocation of the authorization, following the provisions established by the Law No. X of 11 July 2013.
Article 123. *Compliance to the internal legislation and the international and regional standards.*

The supervisory Authority updates this Regulation consistently with the development of the institutional, legal, economic, commercial and professional framework of the State, as well as taking into account the development of the relevant and applicable international and regional standards, including the European standards.

Article 124. *Final provisions.*

This Regulation shall be interpreted and applied without prejudice to any applicable provision established by the legislation of the Holy See and the State, including the legislation relating to the creation and the end of activity of bodies and entities.

Article 125. *Entry into force.*

The provisions established by this Regulation, including the Annexes, will enter immediately into force the same date of their publication.

*The text of this Regulation, including the Annexes, have been submitted to the consideration of the Supreme Pontiff on 18 December 2014, according to Article 64 of the Law No. xviii of 8 October 2013.*

Vatican City State, 23 December 2014

René Brülhart  
*President*

Visto

Tommaso Di Ruzza  
*Vice Direttore*
A Trading intent

Trading intent requires that, consistent with the supervised entity’s activities and in compliance with the principle of proportionality, the following requirements be met:

a) the trading strategy must be clearly documented by position/instrument or portfolio, approved by the management body, and include the expected time horizon of the holding;

b) policies and procedures for active management of the positions must be clearly defined, duly taking into account the following aspects, if significant for the supervised entity’s activities:

i) positions shall be assumed by an appropriate trading unit ("trading desk");

ii) position limits shall be set, the adequacy of which shall be subject to verifications over time;

iii) trading staff may open/manage a position within preset limits and in compliance with established strategies;

iv) positions shall be reported to the management body as an integral part of the internal risk management process;

v) positions shall be actively monitored on the basis of market information and an assessment shall be conducted with regard to their negotiability or the possibility to implement coverage actions, of the positions themselves or of risks they entail, specifically verifying the quality and availability of the market data used in the assessment process, the market trading level, and the size of the positions traded on the market;

c) policies and procedures must be clearly defined in order to monitor positions in light of the supervised entity’s trading strategies, including the monitoring of stale positions in the supervised entity’s trading book.

At minimum, such policies and procedures must establish:

i) the assets that the supervised entity shall include in the trading book for purposes of determining capital requirements;

ii) the market assessment methods (mark-to-market) on a daily basis with reference to an active and liquid market for both buying and selling;

iii) for exposures assessed through an appropriate model (mark-to-model), the methods by which the supervised entity shall be able to:
- identify all of the risks related to the exposure;
- cover all the risks related to the exposure with instruments for which a market exists that is active and liquid, and in both directions;
- extrapolate reliable estimates for the main assumptions and parameters used in the model;
- produce assessments of the positions that can be validated by an outside party according to sound criteria;
- actively manage the risk of a position in the context of its trading activities;
- transfer the risk or positions between the financial book and the trading book.

Compliance with said policies and procedures shall be fully documented and subject to periodic verifications by internal audit.

**B Systems and controls for prudent valuation of positions in the trading book**

Entities shall implement and maintain valuation systems and control procedures appropriate to ensure that their own estimates are prudent and reliable.

**B.1 Systems and controls**

At minimum, these systems and controls must provide for the following:

a) clearly-defined responsibilities of the various areas involved in the determination of the valuation, sources of market information and verification of their reliability, frequency of independent valuations, time for determining closing prices, procedures for correcting valuations, procedures for month-end and *ad hoc* verification;

b) guidelines for the use of non-observable data that can ensure consistency in the supervised entity’s assumptions with market practices for the determination of the prices of the instruments in question or similar instruments;

c) clear and independent reporting (independent from the front office) to the unit responsible for the valuation process.

Reports on the foregoing must be submitted to the management body.
B.2 Prudent valuation methods

Entities shall evaluate their own positions, including for purposes of calculating capital requirements, on the basis of market values, whenever possible. The market price-based valuation shall entail an at least daily assessment of the positions on the basis of closing prices that are readily available and originate from independent sources. Examples of these are stock market listings, screen prices, or those provided by several different highly-reputable independent brokers.

When marking to market, the more prudent side of bid/offer must be used unless the supervised entity is a significant market maker in the particular type of financial instrument or commodity in question and it can close out at mid-market.

Where marking to market is not possible, entities must mark to model their positions/portfolios before applying trading book capital treatment. Marking to model is defined as any valuation which is based on: (i) benchmarks; (ii) extrapolation from market data; (iii) other market inputs.

The following requirements must be complied with when marking to model:

a) the management body must be aware of the instruments of the trading book, or other fair value positions, which are subject on the basis of a model and be aware of the uncertainty that this would create as to risk and the economic performance of the supervised entity’s activities;

b) market data are sourced from an information source that is representative of market prices, to the extent possible; the accuracy of the market data for the specific position and the parameters of the model shall be verified frequently;

c) if available, for certain securities or commodities, currently accepted market valuation methodologies shall be employed;

d) if the model is internally processed within the supervised entity, it must be based on appropriate assumptions, evaluated and verified by persons qualified on the subject who have not participated in the processing of the model itself. Specifically, the model must be developed or approved independently from the front office. It must be tested by independent persons in order to confirm the validity of the mathematical structure, the assumptions, and the software application;

e) formal control procedures must be provided for on any changes made and a protected copy of the model kept on file, which must be used for periodic verifications of the assessments made;

f) the head of the risk management function must be aware of any shortcomings in the model used and of the most adequate manner to track assessment results;
g) the model must be re-assessed periodically to determine the accuracy of its results (for example, through an assessment of the validity of the underlying assumptions, the analysis of profits and losses with respect to risk factors, the comparison of actual closing values with model results).

In addition to daily valuations that shall be based on market prices and on a valuation model, an independent verification of prices shall also be carried out. The term “independent verification of prices” means a structured procedure for verification of the accuracy and independence of market prices and data used in the models. While the daily valuation based on market prices may be performed by trading staff, the verification of market prices and model data shall be conducted by a unit that is independent of the trading room on at least a monthly basis (or more frequently, depending upon the nature of the market or the trading activity carried out).

If independent sources are unavailable to verify the prices or if the sources of the prices is of an overly subjective nature, it may be appropriate to adopt prudent actions, for example through the appropriate value adjustments.

B.3 Regulatory value adjustments

Entities shall establish and maintain procedures for considering regulatory value adjustments.

B.3.1. General rules

Entities shall evaluate the appropriateness of making regulatory value adjustments on the basis of the following factors: unearned credit spreads, close-out costs, early terminations on positions, investing and funding costs, future administrative costs and, where relevant, “model risk.”

B.3.2. Rules for less liquid positions

Less liquid positions may be determined subsequent to either market events or supervised entity-specific situations; examples of this are concentrated and/or stale positions.

Entities shall implement and maintain procedures for the calculation of value adjustments with regard to less liquid positions. These adjustments shall reflect the lack of liquidity of the position and shall be implemented, if necessary, even in addition to any accounting adjustments. Entities shall continuously verify the adequacy of such adjustments.
Entities shall consider various factors within the context of these procedures in order to decide whether or not regulatory value adjustments are necessary for less liquid positions. These can include the time necessary to cover the position or its risks, the bid/offer average spread and its volatility, the availability of market listings, the average of deals handled and their volatility (also under adverse market conditions), the level of market concentration, the aging of risk positions, the possibility that the valuation may be performed on the basis of an internal model and the impact of other “model risks.”

If the supervised entity utilizes valuations based on a valuation model or, in case of assessment of collective investment undertakings, valuations prepared by third parties are used, entities shall consider whether or not it should be appropriate to apply regulatory value adjustments.
ANNEX II

Risk appetite framework

Supervised entities shall construct a framework of reference for the determination of the propensity to risk (Risk Appetite Framework – RAF) that shall set ex ante the risk/yield objectives that they intend to meet and the resulting operational limits, in a manner consistent with the supervised entity’s activities and in accordance with the principle of proportionality.

In addition, entities shall coordinate the RAF with the ICAAP process, where applicable, and shall ensure correct implementation through an organizational structure and a system of adequate controls.

After taking into account the significant risks for the supervised entity and defining the greatest assumable risk, the RAF shall indicate the types of risk that the supervised entity intends to assume; for each risk type, the RAF shall set risk objectives, risk tolerance and operational limits under both normal and stress operational conditions. In addition, the circumstances (including the outcomes of stress scenarios) upon occurrence of which the assumption of specified risk categories shall be avoided or limited in light of the objectives and limits set shall be indicated.

Generally, the risk objectives, risk tolerance, and risk limits shall be stated in terms of:

a) measures expressing the capital at risk or economic capital;

b) capital adequacy;

c) liquidity.

With reference to quantifiable risks, the declination of RAF’s elements shall occur through the use of appropriate quantitative and qualitative parameters, calibrated in accordance with the principle of proportionality. To this end, supervised entities may refer to the risk measurement methodologies used for purposes of assessing capital adequacy (ICAAP).

With reference to risks that are difficult to quantify (for example, reputational or compliance risk), the RAF shall provide specific indicators of a qualitative nature that may provide an orientation for defining and updating the internal controls system’s processes and protections.

The RAF shall describe the procedures and management actions to be activated in case it is necessary to bring the risk level back within the objective or limits previously set, and in particular, the management actions to be implemented in case the risk tolerance threshold is reached (where defined). The RAF shall also state the time frames and methods to be followed for updates to the RAF, as well as specify the functions and bodies involved in the process.
ANNEX III

Activity plan

The activity plan shall contain the following information:

1. development objectives, planned actions and functional strategies for their realization. In particular, it describes:

a) the development aims and objectives of the initiative;

b) the tolerated risk level;

c) the characteristics of activities to be started;

2. analysis of expected costs and revenues; analysis of the capital sustainability of the activity plan for the first three-year period;

3. description of the organizational structure and internal controls, as well as the risk management process for risks that are relevant for the financial activities for which the supervised entity is requesting the authorization.
ANNEX IV

Mapping of the ratings

Mapping of Ratings Issued by Standard & Poor’s Rating Services

Long-term ratings for exposures to: foreign public Authorities and central banks; entities carrying out financial activities on a professional basis; public sector entities; public territorial entities; multilateral development banks; companies and other organizations:

<table>
<thead>
<tr>
<th>Credit rating classification</th>
<th>Foreign public Authorities and central banks</th>
<th>Entities carrying out financial activities on a professional basis; public sector entities; public territorial entities*</th>
<th>Multilateral development banks</th>
<th>Companies and other organizations</th>
<th>ECAI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>from AAA to AA- from A+ to A-</td>
</tr>
<tr>
<td>2</td>
<td>20%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>from BBB+ to BBB- from BB+ to BB-</td>
</tr>
<tr>
<td>3</td>
<td>50%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>from B+ to B-</td>
</tr>
<tr>
<td>4</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>150%</td>
<td>CCC+ and lower</td>
</tr>
<tr>
<td>5</td>
<td>100%</td>
<td>150%</td>
<td>150%</td>
<td>150%</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>150%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* On the basis of Part IV, Chapter 2 for these categories reference must be made to the creditworthiness class in which the exposures *vis-à-vis* the national central administration of the country in which such entities have their primary registered office are classified. Short-term ratings for exposures *vis-à-vis* entities carrying out financial activities on a professional basis and companies:

<table>
<thead>
<tr>
<th>Credit rating classification</th>
<th>Risk weights</th>
<th>ECAI Standard &amp; Poor’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20%</td>
<td>A-1+, A-1</td>
</tr>
<tr>
<td>2</td>
<td>50%</td>
<td>A-2</td>
</tr>
<tr>
<td>3</td>
<td>100%</td>
<td>A-3</td>
</tr>
<tr>
<td>from 4 to 6</td>
<td>150%</td>
<td>Less than A-3</td>
</tr>
</tbody>
</table>
Mapping of Ratings issued by Fitch Ratings

Long-term ratings for exposures to: foreign public Authorities and central banks; entities carrying out financial activities on a professional basis; public sector entities; public territorial entities; multilateral development banks; companies and other organizations:

<table>
<thead>
<tr>
<th>Credit rating classification</th>
<th>Foreign public Authorities and central banks</th>
<th>Entities carrying out financial activities on a professional basis; public sector entities; public territorial entities*</th>
<th>Multilateral development banks</th>
<th>Companies and other organizations</th>
<th>ECAI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>from AAA to AA-</td>
</tr>
<tr>
<td>2</td>
<td>20%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>from A+ to A-</td>
</tr>
<tr>
<td>3</td>
<td>50%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>from BBB+ to BBB-</td>
</tr>
<tr>
<td>4</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>from BB+ to BB-</td>
</tr>
<tr>
<td>5</td>
<td>100%</td>
<td>150%</td>
<td>150%</td>
<td>150%</td>
<td>from B+ to B-</td>
</tr>
<tr>
<td>6</td>
<td>150%</td>
<td>150%</td>
<td>150%</td>
<td>150%</td>
<td>CCC+ and lower</td>
</tr>
</tbody>
</table>

* On the basis of Part IV, Chapter 2, for these categories reference must be made to the creditworthiness class in which the exposures vis-à-vis the national central administration of the country in which such entities have their primary registered office are classified.

Short-term ratings for exposures vis-à-vis entities carrying out financial activities on a professional basis and companies:

<table>
<thead>
<tr>
<th>Credit rating classification</th>
<th>Risk weights</th>
<th>ECAI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20%</td>
<td>F1+, F1</td>
</tr>
<tr>
<td>2</td>
<td>50%</td>
<td>F2</td>
</tr>
<tr>
<td>3</td>
<td>100%</td>
<td>F3</td>
</tr>
<tr>
<td>from 4 to 6</td>
<td>150%</td>
<td>Less than F3</td>
</tr>
</tbody>
</table>
Mapping of Ratings issued by Moody’s

Long-term ratings for exposures to: foreign public Authorities and central banks; entities carrying out financial activities on a professional basis; public sector entities; public territorial entities; multilateral development banks; companies and other organizations:

<table>
<thead>
<tr>
<th>Credit rating classification</th>
<th>Foreign public Authorities and central banks</th>
<th>Risk weights</th>
<th>Companies and other organizations</th>
<th>ECAI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>20%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>3</td>
<td>50%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>4</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>5</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>150%</td>
</tr>
<tr>
<td>6</td>
<td>150%</td>
<td>150%</td>
<td>150%</td>
<td>150%</td>
</tr>
</tbody>
</table>

* On the basis of Part IV, Section 2, for these categories reference must be made to the creditworthiness class in which the exposures vis-à-vis the national central administration of the country in which such entities have their primary registered office are classified.

Short-term ratings for exposures vis-à-vis entities carrying out financial activities on a professional basis and companies:

<table>
<thead>
<tr>
<th>Credit rating classification</th>
<th>Risk weights</th>
<th>ECAI</th>
<th>Moody’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20%</td>
<td>P-1</td>
<td>from Aaa to Aa3</td>
</tr>
<tr>
<td>2</td>
<td>50%</td>
<td>P-2</td>
<td>from A1 to A3</td>
</tr>
<tr>
<td>3</td>
<td>100%</td>
<td>P-3</td>
<td>from Baa1 to Baa3</td>
</tr>
<tr>
<td>from 4 to 6</td>
<td>150%</td>
<td>NP</td>
<td>from B1 to B3</td>
</tr>
</tbody>
</table>

Caa1 and lower
ANNEX V

Classification of Guarantees and Commitments

a) Full risk

i) Guarantees having the character of credit substitutes.

ii) Acceptances.

iii) Endorsements on bills not bearing the name of another supervised entity.

iv) Irrevocable standby letters of credit having the character of credit substitutes.

v) Spot and forward purchase commitments for securities and other financial instruments other than currencies, with the exception of those belonging to the trading book and subject to the capital requirements for market risk, as well as those which have their own equity as underlying asset.

vi) Spot and forward deposits and loans to be carried out.

vii) Unpaid portion of partly-paid shares and securities subscribed, excluding those belonging to the trading book and subject to market risks.

viii) Assets sold with repurchase obligation at the request of the transferee.

ix) Put options issued on securities and other financial instruments other than currencies, with the exception of put options issued belonging to the trading book and subject to the capital requirements for market risk, as well as those which have their own equity as underlying asset.

x) Other funding commitments whose use is certain.

b) Medium risk

i) Confirmed or irrevocable letter of credit facilities, excluding those in which the confirmed shipment of goods acts as collateral, and other self-liquidating transactions.

ii) Provision of guarantees that do not take the form of credit substitutes.

iii) Guarantees in the form of tender and performance bonds, customs and tax bonds and other collateral.

iv) Irrevocable standby letters of credit that do not assume the character of credit substitutes.

v) Undrawn credit facilities (financing commitments of uncertain use, commitments to provide guarantees or acceptance facilities) with an original term of more than one year.
c) *Medium/low risk*

i) Confirmed or irrevocable letter of credit facilities in which the confirmed shipment of goods acts as collateral, and other self-liquidating transactions.

ii) Undrawn credit facilities (financing commitments of uncertain use, commitments to provide guarantees or acceptance facilities) with original maturity up to one year, not unconditionally recoverable at any time and without notice or that do not effectively provide for automatic revocation as a result of the deterioration in the credit quality of the borrower.

iii) Other activities with medium/low risk.

d) *Low risk*

i) Undrawn credit facilities (commitments to lend, purchase securities, provide guarantees or acceptance facilities) that are unconditionally revocable at any time without prior notice or that allow for automatic revocation due to the deterioration in the credit quality of the borrower.

ii) Other low risk credit facilities.
Eligible financial collateral (funded credit protection) includes the following instruments:

a) gold;

b) cash deposits and similar instruments (such as certificates of deposit, bonds and other unsubordinated instruments providing the obligation of repayment at par value, issued by the supervised entity purchasing the protection) held by the supervised entity that purchases the protection;

c) debt securities issued by:

i) public Authorities, including foreign Authorities and their central banks, for which a rating is available, which has been assigned by a credit rating supervised entity, falling into classes 1 to 4 on the credit quality assessment scale;

ii) international organizations and multilateral development banks to which a weighting equal to 0% is assigned;

iii) public sector entities and public territorial entities whose exposures receive the same treatment as the central administration where they are established;

iv) multilateral development banks other than those referred to in point ii), public sector entities and public territorial entities other than those referred to in point iii), for which a rating is available, which has been assigned by a credit rating supervised entity, falling into classes 1 to 3 on the credit quality assessment scale;

v) other entities, for which a rating is available, which has been assigned by a credit rating supervised entity, falling into classes 1 to 3 on the credit quality assessment scale;

d) debt securities of supervised entities, for which a rating is available, which has been assigned by credit rating entities, falling into classes 1 to 3 on the credit quality assessment scale applicable to short-term exposures;

e) debt securities issued by entities carrying out financial activities on a professional basis, provided that:

i) they are listed on a recognized exchange;

ii) they are classified as senior debt;

iii) all other issues of equal rank from the issuing supervised entity are rated with classes 1 to 3 on the credit quality assessment scale;
iv) the supervised entity is not aware of any information that may justify that the issue may have a rating, where applicable, less than that referred to in the paragraph above;

v) the supervised entity is able to demonstrate that the instrument has sufficient market liquidity;

f) equity securities and convertible bonds included in one of the major stock market indices;

g) units of collective investment undertakings, if they have a daily public price quote and the regulation requires that the assets of the undertaking be invested in instruments referred to in the above points a) to e). If the regulation of the undertaking allows investments in instruments other than those referred to in the above points a) to e), the value of the units recognized for the mitigation of credit risk is reduced by an amount equal to the maximum percentage of investment in instruments other than those referred to in points a) to e) allowed by the regulation.
**ANNEX VII**

**Financial collateral. Methods of calculation**

With respect to exposures backed in whole or in part by financial guarantees, the weighting factor provided for the instrument provided as a guarantee shall apply, respectively, in full or *pro-rata*. To the non-guaranteed part of the exposure the weighting of the counterparty (debtor) shall apply.

The weighting factor assigned to the guaranteed part of the exposure cannot be less than 20%, except for cases where the exposure and the collateral are denominated in the same currency and the guarantee is alternatively represented by:

a) a cash deposit or similar instrument;

b) debt securities issued by one of the parties listed in Annex VI, point c), excluding public sector entities, if such securities receive a 0% weighting for the purposes of calculating the capital requirements and a discount of 20% is applied to their fair value.

In such cases, a weighting equal to 0% is applied.

The guarantee is assigned an exposure value equal to the fair value of the underlying instrument.
ANNEX VIII

Maturity mismatches. Assessment of the Credit Protection.

The duration of the credit protection and of the exposure must be reflected in the correct value of the credit protection according to the following formula:

\[ G_A = G \times \frac{(t-t^*)}{(T-t^*)} \]

where:

i) \( G \) is the amount of the protection;

ii) \( G_A \) is \( G \) adjusted for any maturity mismatches;

iii) \( t \) is equal to the number of years remaining until the maturity date of the credit protection calculated in accordance with Article 89, or is equal to the value of \( T \), whichever is less;

iv) \( T \) is equal to the number of years remaining until the maturity date of the exposure calculated in accordance with Article 89, or 5 years, whichever is greater;

v) \( t^* \) is equal to 0.25.
ANNEX IX

Mark-to-market method

The credit equivalent is calculated by adding the cost of replacement and the future credit exposure ("add-on"), according to the following formula:

Credit equivalent = (CS + add-on)

where:

i) CS is the replacement cost, to be considered net in the presence of netting agreements;

ii) “add-on” is the future credit exposure, to be replaced by the “net add-on” in the presence of netting agreements;

a) Replacement cost

The replacement cost of each contract is given by its fair value, if positive. The fair value is positive if the supervised entity is entitled to a credit position against its counterparty.

b) Future credit exposure ("add-on")

The credit exposure takes into account the probability that in the future the mark-to-market value of the contract, if positive, may increase or, if it is negative, it may become a credit position. This probability is related to the volatility of the underlying market factors, as well as the residual maturity of the contract.

The future credit exposure is determined by reference to all contracts regardless of the portfolio in which they are allocated multiplying the nominal value of each contract by the percentages given in the following Table applied based on the residual maturity of the transactions.

<table>
<thead>
<tr>
<th>Residual maturity</th>
<th>Interest-rates contracts</th>
<th>Contracts concerning foreign-exchange rates and gold</th>
<th>Contracts concerning equities</th>
<th>Contracts concerning precious metals except gold</th>
<th>Contracts concerning commodities other than precious metals</th>
</tr>
</thead>
<tbody>
<tr>
<td>One year or less</td>
<td>0 %</td>
<td>1 %</td>
<td>6 %</td>
<td>7 %</td>
<td>10 %</td>
</tr>
<tr>
<td>Over one year, not exceeding five years</td>
<td>0.5%</td>
<td>5 %</td>
<td>8 %</td>
<td>7 %</td>
<td>12 %</td>
</tr>
<tr>
<td>Over five years</td>
<td>1.5%</td>
<td>7.5%</td>
<td>10 %</td>
<td>8 %</td>
<td>15 %</td>
</tr>
</tbody>
</table>
ANNEX X

Instructions for calculating the general risk position on debt securities

The process for determining the capital requirement vis-à-vis the position risk for debt securities is made up of ten distinct phases, as indicated below.

Phase I: *Calculation of the net position for each issue*

With respect to each issue of securities, the supervised entity may have the following positions, on and off-balance sheet:

I.1 Own securities

long positions
short positions

I.2 Off-balance sheet transactions

I.2.1 Derivative contracts with underlying security:
long positions
short positions

I.2.2 Derivative contracts without underlying security:
long positions
short positions

I.2.3 Other off-balance sheet transactions:
long positions
short positions

I.3 Total trading book

long positions
short positions

For the calculation of the net position for each issue the following conventional criteria shall apply:

a) in the first place, offsetting positions belonging to the same category of operations indicated above are netted;

b) if, once the netting referred to in point a) is carried out, there are offsetting positions within the category 2) (“off-balance sheet transactions”), these should be netted by attributing the residual amount to the type that has the greater absolute value;
c) if, once the netting referred to in point b) is carried out, there are offsetting positions in the two categories 1) (“own securities”) and 2) (“off-balance sheet transactions”), they shall be netted by attributing the residual amount to the category which has the greatest absolute value.

Phase II:  Allocation of net positions for each issue in the relevant time bands and their weighting

II.1 In relation to the residual maturity each net position shall be allocated in one of the time bands indicated below.
There are thirteen bands for debt securities with a coupon equal to or greater than 3%; fifteen time bands for debt securities with a coupon of less than 3%.

II.2 Within each band, the net long and net short positions must be summed in order to obtain the long position and short position of the band.

II.3 The long and short positions of each band are individually weighted for the relative weighting factor.

<table>
<thead>
<tr>
<th>Zone</th>
<th>Maturity time bands</th>
<th>Weighting factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coupon equal to or greater than 3%</td>
<td>Coupon of less than 3%</td>
</tr>
<tr>
<td>Zone 1</td>
<td>Up to 1 month</td>
<td>Up to 1 month</td>
</tr>
<tr>
<td></td>
<td>from over 1 month up to 3 months</td>
<td>from over 1 month up to 3 months</td>
</tr>
<tr>
<td></td>
<td>from over 3 month up to 6 months</td>
<td>from over 3 month up to 6 months</td>
</tr>
<tr>
<td></td>
<td>from over 6 months up to 1 year</td>
<td>from over 6 months up to 1 year</td>
</tr>
<tr>
<td>Zone 2</td>
<td>from over 1 year up to 2 years</td>
<td>from over 1 year up to 1.9 years</td>
</tr>
<tr>
<td></td>
<td>from over 2 years up to 3 years</td>
<td>from over 1.9 years up to 2.8 years</td>
</tr>
<tr>
<td></td>
<td>from over 3 years up to 4 years</td>
<td>from over 2.8 years up to 3.6 years</td>
</tr>
<tr>
<td>Zone 3</td>
<td>from over 4 years up to 5 years</td>
<td>from over 3.6 years up to 4.3 years</td>
</tr>
<tr>
<td></td>
<td>from over 5 years up to 7 years</td>
<td>from over 4.3 years up to 5.7 years</td>
</tr>
<tr>
<td></td>
<td>from over 7 years up to 10 years</td>
<td>from over 5.7 years up to 7.3 years</td>
</tr>
<tr>
<td></td>
<td>from over 10 years up to 15 years</td>
<td>from over 7.3 years up to 9.3 years</td>
</tr>
<tr>
<td></td>
<td>from over 15 years up to 20 years</td>
<td>from over 9.3 years up to 10.6 years</td>
</tr>
<tr>
<td></td>
<td>over 20 years</td>
<td>from over 10.6 years up to 12 years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>from over 12 years up to 20 years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>over 20 years</td>
</tr>
</tbody>
</table>

Phase III: Netting within the same band

With reference to each time band, the weighted long position is offset with the weighted short position.

The weighted position, long or short, of lower amount, constitutes the “weighted net position” of the band.

On the contrary, the difference between the two positions represents the “residual weighted position (long or short)” of the band.
Phase IV: Calculation of capital requirement for the net positions within the same band

The first capital requirement is determined by applying a 10% factor to the sum of the weighted net positions of each band.

Phase V: Netting within the same zone

For each zone all the “residual weighted positions” of the bands belonging to the same zone that have the same algebraic sign are added up so as to calculate the “total weighted long position” and “total weighted short position” of each zone.

The position of the lesser amount of the two constitutes the “weighted net position” of the zone.

The difference between the two positions constitutes, in fact, the “residual weighted position (long or short)” of the zone.

Phase VI: Calculation of capital requirement for the net positions within the same zone

The second capital requirement is determined by applying the “non-offsetability factors” referred to in Table 2 of this Annex to the “weighted net positions” of each zone and then summing the 3 amounts thus obtained.

Phase VII: Netting between different zones

The netting is done between the “residual weighted positions” belonging to 3 different zones, comparing the situation of zone 1 with that of zone 2 and the corresponding result with the situation of zone 3.

In particular, in the comparison between zone 1 and zone 2, two cases may occur:

- the “residual weighted positions” of zone 1 and zone 2 are offsetting;
- the “residual weighted positions” of zone 1 and zone 2 are of the same sign.

VII.1 In the first case, the “residual weighted positions” of zone 1 and zone 2 are compensated.

The “residual weighted position” of a lesser amount represents the “weighted net position” between zone 1 and zone 2.

The difference between the two positions ("residual weighted position" of zones 1 and 2) is conventionally attributed to zone 1 or 2 which has the "residual weighted position” of greater absolute amount.
If the latter difference and the position of zone 3:

- are of the same sign, their sum constitutes the “final residual weighted position”;
- are offsetting, the lesser of these values is the “weighted net position” between zone 1 and zone 3 or “weighted net position” between zone 2 and zone 3, depending on whether the “residual weighted position” of zones 1 and 2 has been attributed to zone 1 or zone 2, respectively. The difference between the two positions represents, in fact, the “final residual weighted position”.

VII.2 In the second case, in the presence of “residual weighted positions” of zones 1 and 2 which have the same sign, we must distinguish between two further cases:

- even if the “residual weighted position” of zone 3 has the same sign, the sum of the “residual weighted positions” of the three zones is the “final residual weighted position”;
- if, however, the “residual weighted position” of zone 3 is offsetting to that of zones 1 and 2, it will first be necessary to proceed to the netting of the “residual weighted positions” of zones 2 and 3.

The residual position of a lesser amount represents the “weighted net position” between zones 2 and 3.

The difference between the two positions, called “residual weighted position” of zones 2 and 3, is conventionally attributed to the zone with the “residual weighted position” of greater absolute amount. If the latter position:

a) is attributed to zone 3 and is therefore offsetting to that of zone 1, the lowest of these values is defined as the “weighted net position” between zones 1 and 3. The difference between the two positions constitutes, in fact, the “final residual weighted position”;

b) is attributed to zone 2 and therefore has the same sign as that of zone 1, the sum of the two "residual weighted positions" represents the “final residual weighted position”.

Phase VIII: Calculation of capital requirement for the net positions between different zones

The third capital requirements is determined by applying the relevant “non-offsetability factors” indicated in Table 2 of this Annex to the “weighted net positions” between the 3 zones and then summing the 3 amounts thus obtained.

Phase IX: Calculation of capital requirement for the non-offset final positions

The fourth and final capital requirement is the complete capital requirement (100%) of the “final residual weighted position”, as determined in the manner outlined above.

Phase X: Calculation of the total capital requirement

The calculation of the total capital requirement is equal to the sum of the four requirements provided for, in the order, in the previous phases IV, VI, VIII and IX.
<table>
<thead>
<tr>
<th>Zone</th>
<th>Time band</th>
<th>Within the zone</th>
<th>Between adjacent zones</th>
<th>Between zones 1 and 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zone 1</td>
<td>from 0 to 1 month</td>
<td>40 %</td>
<td></td>
<td>150 %</td>
</tr>
<tr>
<td></td>
<td>from 1 to 3 months</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>from 3 to 6 months</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>from 6 to 12 months</td>
<td>40 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zone 2</td>
<td>from 1 to 2 years</td>
<td></td>
<td>30 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>from 2 to 3 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>from 3 to 4 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zone 3</td>
<td>from 4 to 5 years</td>
<td></td>
<td>30 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>from 5 to 7 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>from 7 to 10 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>from 10 to 15 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>from 15 to 20 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>over 20 years</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## ANNEX XI

### Capital Requirement for The Specific Risk on Debt Securities

<table>
<thead>
<tr>
<th>Categories of positions</th>
<th>Capital requirement for the specific risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Debt securities issued or guaranteed by public Authorities, including foreign public Authorities, issued by central banks of foreign States considered as equivalent to the State, including the Member State of the European Union (EU), international and regional organizations, multilateral development banks, public territorial entities of States considered as equivalent to the State, including the Member State of the European Union (EU), that are assigned a risk weighting of 0% for purposes of rules on credit risk.</td>
<td>0%</td>
</tr>
<tr>
<td>• Debt securities issued or guaranteed by foreign public Authorities, issued by central banks, international and regional organizations, multilateral development banks, public territorial entities of Member States of the European Union (EU) that are assigned a rating corresponding to credit quality classes 2 or 3 for purposes of rules on credit risk.</td>
<td>0.25% (residual maturity of less than or equal to 6 months)</td>
</tr>
<tr>
<td>• Debt securities issued or guaranteed by entities carrying out financial activities on a professional basis that are assigned a rating corresponding to credit quality class 1 or 2 for purposes of rules on credit risk.</td>
<td>1.00% (residual maturity greater than 6 months and less than or equal to 24 months)</td>
</tr>
<tr>
<td>• Debt securities issued or guaranteed by companies that are assigned a rating corresponding to credit quality classes 1, 2 or 3 for purposes of rules on credit risk.</td>
<td>1.60% (residual maturity greater than 24 months)</td>
</tr>
<tr>
<td>• Other qualified positions in accordance with the definition that follows this table. This includes debt securities issued or guaranteed by entities carrying out financial activities on a professional basis that are assigned a rating corresponding to credit quality class 3 for purposes of rules on credit risk.</td>
<td>8%</td>
</tr>
<tr>
<td>• Debt securities issued or guaranteed by public Authorities, issued by central banks, international organizations, multilateral development banks, public territorial entities of Member States of the European Union (EU) that are assigned a rating corresponding to credit quality classes 4 or 5 for purposes of rules on credit risk.</td>
<td></td>
</tr>
<tr>
<td>• Debt securities issued or guaranteed entities carrying out financial activities on a professional basis that are assigned a rating corresponding to credit quality classes 4 or 5 for purposes of rules on</td>
<td></td>
</tr>
</tbody>
</table>
credit risk.

- Debt securities issued or guaranteed by companies that are assigned a rating corresponding to credit quality class 4 for purposes of rules on credit risk.

- Debt securities issued by entities for which a credit assessment by a nominated ECAI is not available.

- Debt securities issued or guaranteed by public Authorities, issued by central banks, international organizations, multilateral development banks, public territorial entities of Member States of the European Union (EU) that are assigned a rating corresponding to credit quality class 6 for purposes of rules on credit risk.

- Debt securities issued or guaranteed by entities carrying out financial activities on a professional basis that are assigned a rating corresponding to credit quality class 6 for purposes of rules on credit risk.

- Debt securities issued or guaranteed by companies that are assigned a rating corresponding to credit quality class 5 or 6 for purposes of rules on credit risk.

For the purposes of the above table, "other qualified positions" include:

a) long and short positions in assets that meet the requirements for being assigned a high credit quality class (investment grade) under the standardized approach of rules on credit risk;

b) long and short positions in assets for which a credit assessment by a selected ECAI is not available and which meet the following conditions:

i) they are considered by the supervised entity to be sufficiently liquid;

ii) they are considered by the supervised entity to be of high credit quality (investment grade);

ii) they are traded on at least one regulated market in a foreign State considered as equivalent to the State, including the Member States of the European Union (EU), or on a stock exchange in a third country that is recognized for these purposes by the competent authorities of a foreign State considered as equivalent to the State, including the Member States of the European Union (EU);

c) long and short positions in assets issued by entities carrying out financial activities on a professional basis that are subject to capital adequacy requirements equivalent to those set out by this regulation;
i) they are considered by the supervised entity to be sufficiently liquid;

ii) they are considered by the supervised entity to be of high credit quality (investment grade);

d) long and short positions in securities issued by the entities carrying out financial activities on a professional basis that are assigned a weighting of 50% under the rules on credit risk; such intermediaries must be subject to rules on supervision and prudential requirements comparable to those provided for in this regulation.
ANNEX XII

Procedure for Calculating the Capital Requirement for Concentration risk

The capital requirement for the concentration risk that entities carrying out financial activities on a professional basis are required to comply with is determined according to the procedure indicated below:

a) the “overall risk position” is calculated by adding, for each client, the risk position relating to the trading book to all other risk positions;

b) for each client, a check is made on whether there is any "excess" over the limit on individual large exposures;

c) for clients with respect to which there is an excess, the risk positions in the trading book relating to them are ordered so as to identify the riskiest ones to which the excess corresponds;

d) the riskiest positions that are in excess of the above-mentioned limit are taken into consideration for purposes of the provisions below;

e) if the excess does not last for more than 10 days, the additional capital requirement is equal to twice the capital requirement vis-à-vis specific position risk, settlement risk and counterparty risk for the positions identified in accordance with point d);

f) if the excess lasts for more than 10 days, the additional capital requirement is determined as follows:

i) by adding the positions identified under point d) within the bands set forth in column 2 of the table below, starting from the position with the lowest requirement, up to the maximum limit of each band;

ii) by multiplying the capital requirements for the positions so classified by the corresponding coefficients indicated in column 3 of the table below;

iii) by adding the result of the product between capital requirements and their coefficients.

<table>
<thead>
<tr>
<th>Overall risk position (% of regulatory capital)</th>
<th>Excess (% of regulatory capital)</th>
<th>Coefficient (col. 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>from 25 % to 40 %</td>
<td>from 0 % to 15 %</td>
<td>200 %</td>
</tr>
<tr>
<td>from 40 % to 60 %</td>
<td>from 15 % to 35 %</td>
<td>300 %</td>
</tr>
<tr>
<td>from 60 % to 80 %</td>
<td>from 35 % to 55 %</td>
<td>400 %</td>
</tr>
<tr>
<td>from 80 % to 100 %</td>
<td>from 55 % to 75 %</td>
<td>500 %</td>
</tr>
<tr>
<td>from 100 % to 250 %</td>
<td>from 75 % to 225 %</td>
<td>600 %</td>
</tr>
<tr>
<td>over 250 %</td>
<td>over 225 %</td>
<td>900 %</td>
</tr>
</tbody>
</table>
ANNEX XIII

The Risks to be Assessed in The ICAAP

a) First Pillar Risks

i) credit risk (including counterparty risk, i.e. the risk that the counterparty to a transaction may default before the final settlement of the financial flows of a transaction);

ii) market risk;

iii) operational risk: the risk of losses resulting from inadequate or failing processes, human resources and internal systems, or from external events; this also includes the legal risk.

b) Other Risks

i) concentration risk: risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector or engaged in the same activity or belonging to the same geographical area;

ii) interest-rate risk arising from non-trading activities: risk arising from potential changes in interest rates (Annex XIV);

iii) liquidity risk: the risk of not being able to meet payment obligations due to both the inability to raise funds on the market (funding liquidity risk) and to dispose of assets (market liquidity risk);

iv) residual risk: the risk that the recognized techniques for mitigating risk used by the supervised entity are less effective than expected;

v) strategic risk: the current or prospective risk of a decline in earnings or capital arising from changes in the operating environment or erroneous internal decisions, inadequate implementation of decisions, lack of responsiveness to changes in the competitive environment;

vi) reputational risk: the current or prospective risk of a decline in earnings or capital arising from a negative perception of the supervised entity on the part of clients, counterparties, the supervised entity's equity-holders, investors or supervisory authorities.
ANNEX XIV

Interest-Rate Risk on the Portfolio

The entities shall have effective standards, processes and instruments for managing interest-rate risk arising from assets other than those allocated to the trading book. Methodological guidelines are provided for the implementation of a simplified system for measuring internal capital vis-à-vis portfolio interest-rate risk under ordinary conditions and in the event of stress.

The exposure to interest-rate risk is measured with reference to the assets and liabilities included in the portfolio.

1) Determination of “relevant currencies”

Currencies are considered “relevant currency” if their weight measured as a share of total assets or liabilities in the portfolio is greater than 5 percent. For purposes of the methodology for calculating the exposure to interest-rate risk (see the following paragraphs 2, 3 and 4) the positions denominated in “relevant currencies” are treated currency by currency, while the positions in “non-significant currencies” are aggregated.

2) Classification of assets and liabilities in time bands

Fixed rate assets and liabilities are classified into 14 time bands (see Table 1) according to their residual maturity. The floating rate assets and liabilities are included in the various time bands based on the date of reset of the interest rate.

Current account assets are classified in the “on demand” band (except for assets classified as current accounts but which are attributable to other forms of use such as advances subject to collection) while the sum of the current account liabilities and unrestricted deposits is to be allocated according to the following guidelines:

i) in the “on demand” band, conventionally, a fixed part of 25% (so-called “non-core component”);

ii) for the remaining amount (so-called “core component”) in the following eight time bands (from “up to 1 month” to “4-5 years”) in proportion to the number of months they contain (e.g., in the band “up to 1 month” 1/60 of the residual amount is inserted, in the band “6 months - 1 year”, 6/60 is inserted).

For units in collective investment undertakings the provisions for the capital requirement against market risk shall apply (Part IV, Chapter 5).
3) Weighting of the net exposures within each band

Within each band the active positions are netted with passive ones, thus obtaining a net position. The net position of each band is multiplied by the weighting factors, obtained as the product between a hypothetical change in interest rates and an approximation of the modified duration for the individual bands. For example, Table 1 shows the calculation of the weighting factors in the case of the application of the parallel scenario of +200 basis points for all maturities.

4) Sum of weighted exposures of different bands

The weighted exposures of the different bands are added together. Therefore full netting between the positive (decreases in value) and negative (increases in value) exposures in the different bands is allowed. The net weighted exposure obtained in this way approximates the change in the actual value of the entries denominated in a certain currency in the event of a hypothesized rate shock.

5) Aggregation of exposures in different currencies

The positive exposures for the individual “relevant currencies” and the aggregate of "non-relevant currencies" are added together. This way the value obtained represents the change in internal economic value (i.e., actual value of cash flows) against the hypothesized interest rate scenario.

Table 1 - Weighting factors for the parallel scenario of +200 basis points

<table>
<thead>
<tr>
<th>Time band</th>
<th>Median maturity band</th>
<th>Approximated modified duration (A)</th>
<th>Hypothesized rate shock (B)</th>
<th>Weighting factor (C)=(A)x(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spot and annulment</td>
<td>0</td>
<td>0</td>
<td>200 base points</td>
<td>0.00 %</td>
</tr>
<tr>
<td>up to 1 month</td>
<td>0.5 months</td>
<td>0.04 years</td>
<td>200 base points</td>
<td>0.08 %</td>
</tr>
<tr>
<td>from over 1 month up to 3 months</td>
<td>2 months</td>
<td>0.16 years</td>
<td>200 base points</td>
<td>0.32 %</td>
</tr>
<tr>
<td>from over 3 months up to 6 months</td>
<td>4.5 months</td>
<td>0.36 years</td>
<td>200 base points</td>
<td>0.72 %</td>
</tr>
<tr>
<td>from over 6 months up to 1 year</td>
<td>9 months</td>
<td>0.71 years</td>
<td>200 base points</td>
<td>1.43 %</td>
</tr>
<tr>
<td></td>
<td>1.5 years</td>
<td>1.38 years</td>
<td>200 base points</td>
<td>2.77 %</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-----------</td>
<td>------------</td>
<td>------------------</td>
<td>--------</td>
</tr>
<tr>
<td>from over 1 year up to 2 years</td>
<td>2.5 years</td>
<td>2.25 years</td>
<td>200 base points</td>
<td>4.49 %</td>
</tr>
<tr>
<td>from over 2 years up to 3 years</td>
<td>3.5 years</td>
<td>3.07 years</td>
<td>200 base points</td>
<td>6.14 %</td>
</tr>
<tr>
<td>from over 3 years up to 4 years</td>
<td>4.5 years</td>
<td>3.85 years</td>
<td>200 base points</td>
<td>7.71 %</td>
</tr>
<tr>
<td>from over 4 years up to 5 years</td>
<td>6 years</td>
<td>5.08 years</td>
<td>200 base points</td>
<td>10.15 %</td>
</tr>
<tr>
<td>from over 5 years up to 7 years</td>
<td>8.5 years</td>
<td>6.63 years</td>
<td>200 base points</td>
<td>13.26 %</td>
</tr>
<tr>
<td>from over 7 years up to 10 years</td>
<td>12.5 years</td>
<td>8.92 years</td>
<td>200 base points</td>
<td>17.84 %</td>
</tr>
<tr>
<td>from over 10 years up to 15 years</td>
<td>17.5 years</td>
<td>11.21 years</td>
<td>200 base points</td>
<td>22.43 %</td>
</tr>
<tr>
<td>over 20 years</td>
<td>22.5 years</td>
<td>13.01 years</td>
<td>200 base points</td>
<td>26.03 %</td>
</tr>
</tbody>
</table>
ANNEX XV

Weighting Factors: Exposure Classes for Risk Concentration

Except as stated in this Annex, the exposures are taken at 100% of their nominal value.

A. Exposures to be considered for 0% of their nominal value:

1. exposures to public Authorities, including foreign public authorities and central banks, international and regional organizations, multilateral development banks, public sector entities and public territorial entities weighted at 0% pursuant to the provisions contained in Part IV, Chapter 2, as well as those backed by personal type credit protection of the same parties;

2. exposures secured by funded credit protection by public Authorities, including foreign public Authorities and central banks, international and regional organizations, multilateral development banks, public sector entities and public territorial entities when such protection involves applying a weighting factor of 0% pursuant to the provisions contained in Part IV, Chapter 2;

3. initial margin calls, daily variation and in premium form, as well as intra-day margin calls paid to a central counterparty established in a foreign State considered as equivalent to the State, including Member States of the European Union (EU);

4. off-balance sheet exposures arising from undrawn credit facilities that are classified in the provisions on credit risk as guarantees and commitments with “low risk”, provided that the use of the relevant lines of credit does not result in exceeding the limit on individual large exposure pursuant to these provisions. This can be achieved through the inclusion of a clause in the contract under which the use of the line of credit cannot exceed the above-mentioned limit;

5. trade effects having a maturity not exceeding one year bearing the acceptance, endorsement or approval of entities carrying out financial activities on a professional basis;

6. equities and subordinated debt issued by entities carrying out financial activities on a professional basis, in case they are deducted from the regulatory capital of the supervised entity;

7. exposures to entities carrying out financial activities on a professional basis different from the elements included in the regulatory capital, having an original maturity not exceeding the following business day.
B. *Exposures to be considered at 10% of their nominal value:*

1. on-balance sheet exposures in the form of financial institution covered bonds weighted at 10% pursuant to the provisions contained in Part IV, Chapter 2.

C. *Exposures to be considered at 20% of their nominal value:*

1. exposures to public territorial entities of a foreign State considered as equivalent to the State, including the Member States of the European Union (EU) weighted at 20% pursuant to the provisions contained in Part IV, Chapter 2, as well as those backed by credit protection, funded or unfunded, of such entities;

2. on-balance sheet exposures in the form financial institution covered bonds weighted at 20% pursuant to the provisions contained in Part IV, Chapter 2.

D. *Exposures to be considered at 50% of their nominal value:*

1. off-balance sheet exposures classified in the provisions on credit risk as guarantees issued and commitments with "low-medium risk";

2. on-balance sheet exposures in the form of financial institution covered bonds weighted at 50% pursuant to the provisions contained in Part IV, Chapter 2.

E. *Exposures to be considered at 80% of their nominal value:*

3. exposures arising from mutual guarantees in the form of money market funds and funded financial collateral issued by institutes of collective guarantee of credit.

F. *Exposures secured by real estate*

The following shall be reduced by an amount not exceeding 50% of the value of the real estate set up as collateral:

1. on-balance sheet exposures represented by mortgages on residential and non-residential real estate in compliance with the provisions contained in Part IV, Chapter 2;

2. off-balance sheet exposures represented by loans entered into in irrevocable form, secured by residential and non-residential real estate in compliance with the provisions contained in Part IV, Chapter 2.

3. The provisions referred to in this paragraph F) shall apply:

i) limited to exposures that meet the conditions and requirements for classification in the portfolio “exposures secured by real estate”;
ii) provided that the value of the real estate is determined according to the procedures and conditions laid down in Part IV, Chapter 2.
ANNEX XVI

Frame of Reference for the ICAAP Report

A. Strategic guidelines and forecast horizon considered

1. strategic plan and annual budgets; frequency of revision of the strategic plan and its components; extraordinary events motivating its revision;

2. reconciliation between the time horizon of the strategic plan and the economic plan;

3. ordinary and extraordinary sources of raising capital.

B. Corporate governance, organizational structures and control systems associated with ICAAP

1. description of the process for defining and updating the ICAAP;

2. description of the ICAAP review process;

3. definition of the role and functions assigned for ICAAP purposes to the bodies of the supervised entity;

4. definition of the role and functions assigned for ICAAP purposes to the various internal functions (e.g. internal auditing, compliance, risk management; any other functions, including: client relationship units, accounting and auditing);

5. indication of the internal regulations relevant to the ICAAP process.

C. Exposure to risks, methods of measurement and aggregation, stress testing

1. a map of risks: illustration of the relative position with respect to the First Pillar risks and other risks;

2. risk mapping for the operating units of the supervised entity;

3. techniques for risk measurement, quantification of internal capital, conducting stress testing; description, for each category of risk that can be measured, of the main characteristics of the most relevant control and mitigation instruments;

4. a general description of the control systems and the mitigation of risks that are not measurable.
D. Components, estimation and allocation of internal capital

1. quantification of internal capital required against each risk and against overall risk;
2. any internal capital allocation methods (between operating units).

E. Reconciliation of internal capital, regulatory requirements and regulatory capital

1. reconciliation of total internal capital and regulatory requirements;
2. list and definition of the capital components to cover the internal capital;
3. inclusion for supervisory purposes of the components to cover the internal capital; justification of the inclusion of non-computable components;
4. estimate of the costs associated with the procurement of any additional capital resources.

F. ICAAP self-assessment

1. identification of process areas for improvement;
2. planning of interventions foreseen on the capital or organizational level.
ANNEX XVII

Regulatory Data to be disclosed to the supervisory Authority

Table 1

General Disclosure Requirement

<table>
<thead>
<tr>
<th>Qualitative disclosure</th>
<th>Description of the information</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>For each category of risk (including those considered in the tables below), entities shall publish objectives and policies for risk management focusing, in particular on:</td>
</tr>
<tr>
<td></td>
<td>a) the strategies and processes for managing those risks;</td>
</tr>
<tr>
<td></td>
<td>b) the structure and organization of the relevant risk management function;</td>
</tr>
<tr>
<td></td>
<td>c) the scope of application and characteristics of the risk measurement and reporting systems;</td>
</tr>
<tr>
<td></td>
<td>d) the policies for hedging and mitigating risk, strategies and processes for the ongoing assessment of their effectiveness.</td>
</tr>
</tbody>
</table>
Table 2
Composition of the Regulatory Capital

<table>
<thead>
<tr>
<th>Description of the information</th>
<th>Qualitative disclosure</th>
<th>Quantitative disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Overview of the main contractual characteristics of each capital element and its components.</td>
<td>(b) Amount of core capital, with breakdown of the individual positive and negative elements.</td>
</tr>
<tr>
<td>(c)</td>
<td>Amount of supplemental capital.</td>
<td></td>
</tr>
<tr>
<td>(d)</td>
<td>Other negative elements of regulatory capital.</td>
<td></td>
</tr>
<tr>
<td>(e)</td>
<td>Amount of regulatory capital.</td>
<td></td>
</tr>
<tr>
<td>Description of the information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qualitative disclosure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td>Brief description of the method adopted by the supervised entity in assessing the adequacy of its internal capital to support current and future activities.</td>
<td></td>
</tr>
<tr>
<td>Quantitative disclosure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b)</td>
<td>The capital requirement for each of the regulatory asset classes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>For retail exposures, the disclosure shall be made separately for each of the categories &quot;exposures secured by real estate&quot; and &quot;other retail exposures.&quot;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>For equities, the disclosure shall be made for:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) exposures traded on recognized markets;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b) exposures in private equity instruments within sufficiently diversified portfolios;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c) other exposures.</td>
<td></td>
</tr>
<tr>
<td>(d)</td>
<td>Capital requirement against counterparty risk.</td>
<td></td>
</tr>
<tr>
<td>(e)</td>
<td>Capital requirements against market risk separately for:</td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>---------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- the activities covered in the trading book:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>i) position risk;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ii) concentration risk;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- the entire balance sheet:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>iii) settlement risk;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>iv) foreign exchange risk.</td>
<td></td>
</tr>
<tr>
<td>(f)</td>
<td>Capital requirement against operational risks.</td>
<td></td>
</tr>
<tr>
<td>(g)</td>
<td>Total and core (core ratio) capital coefficient ratios.</td>
<td></td>
</tr>
</tbody>
</table>
Table 4
Credit Risk

<table>
<thead>
<tr>
<th>Description of the information</th>
</tr>
</thead>
</table>
| Qualitative disclosure        | (a) In addition to the general information given in Table 1, with respect to the exposure to credit risk and dilution risk, the following information:
|                               | i) the definitions of "past-due" and "deteriorated" exposures used for accounting purposes;  
|                               | ii) a description of the methods adopted for determining value adjustments. |
| Quantitative disclosure       | (b) Total and average gross credit exposure for the reporting period, divided by major type of exposure and counterparty. The amount is net of the allowed accounting nettings, but does not take into account the effects of the credit risk mitigation techniques. |
|                               | (c) Distribution by significant geographical areas of the exposures, broken down by main types of exposure and, if necessary, additional details. |
|                               | (d) Distribution by economic sector or type of counterparty of the exposures, broken down by types of exposure and, if necessary, additional details. |
|                               | (e) Distribution by residual contractual maturity of the whole portfolio, broken down by type of exposure and, if necessary, additional details. |
|                               | (f) By industry or significant type of counterparty, the amount of:
|                               | i) deteriorated and past due exposures, indicated separately;  
|                               | ii) total value adjustments; |
| (g) | By significant geographical areas, the amount of: 1) the deteriorated and past due exposures, indicated separately; 2) the value adjustments relating to each geographical area, where possible. |
| (h) | Dynamics of the total value adjustments for deteriorated exposures, separately for the specific and portfolio value adjustments. The information includes:  
  i) a description of the methods for determining the value adjustments;  
  ii) the opening balance of the total value adjustments;  
  iii) write-offs made during the period;  
  iv) value adjustments carried out during the period;  
  v) value write-backs carried out during the period;  
  vi) any other adjustments, such as exchange rate differences, business mergers, acquisitions and disposals of subsidiaries, and transfers between types of value adjustments;  
  vii) the closing balance of the total value adjustments. |
**Table 5**

**Counterparty Risk**

<table>
<thead>
<tr>
<th>Description of the information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualitative disclosure</td>
</tr>
<tr>
<td>(a) Description:</td>
</tr>
<tr>
<td>i) the methodology used to assign the operating limits defined in terms of internal capital and credit in relation to credit exposures to the counterparty;</td>
</tr>
<tr>
<td>Quantitative disclosure</td>
</tr>
<tr>
<td>(b) i) the positive gross fair value of the contracts;</td>
</tr>
<tr>
<td>ii) the reduction of the positive gross fair value due to netting;</td>
</tr>
<tr>
<td>iii) the positive fair value net of netting agreements;</td>
</tr>
<tr>
<td>iv) the collateral held;</td>
</tr>
<tr>
<td>v) the positive fair value of the derivative contracts, net of collateral arrangements;</td>
</tr>
<tr>
<td>vi) the value measures of the exposure to counterparty risk;</td>
</tr>
<tr>
<td>viii) the distribution of the positive fair value of the contracts by type of underlying asset (for example, contracts on interest rates, FX contracts, contracts on equities, credit derivatives, commodities contracts/other contracts);</td>
</tr>
<tr>
<td>ix) the notional value of credit derivatives of the portfolio and the trading book, broken down by types of products, further detailed according to the role played by the supervised entity (protection buyer or provider) within each group of products.</td>
</tr>
<tr>
<td>Qualitative disclosure</td>
</tr>
</tbody>
</table>

Table 6

Operational Risk
### Table 7

**Exposures to equities: information on the positions included in the supervised entity's portfolio**

<table>
<thead>
<tr>
<th>Qualitative disclosure</th>
<th>Description of the information</th>
</tr>
</thead>
</table>
| (a)                    | i) Differentiation of exposures according to the objectives pursued (e.g., realization of capital gains, relations with counterparties, strategic reasons);  
                          ii) a description of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation, as well as any significant changes to these practices. |

<table>
<thead>
<tr>
<th>Quantitative disclosure</th>
<th>Description of the information</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b)</td>
<td>Book value and fair value and, for listed securities, comparison with the market price where this is materially different from their fair value.</td>
</tr>
</tbody>
</table>
| (c)                    | Type, nature and amounts of the exposures, distinguishing between:  
                          i) exposures traded on the market;  
                          ii) exposures in private equity instruments held in sufficiently diversified portfolios; |
| (d)                    | Total gains and losses realized during the reporting period as a result of divestitures and liquidations. |
| (e)                    | i) Total gains/losses not realized (recorded in the balance sheet but not in the income statement);  
                          ii) amount of the gains/losses referred to above included in core capital or in the supplemental capital. |
Table 8
Interest-rate risk on the positions in the supervised entity's portfolio

<table>
<thead>
<tr>
<th>Description of the information</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Qualitative disclosure</strong></td>
</tr>
<tr>
<td>(a)</td>
</tr>
<tr>
<td>i) Nature of the interest-rate risk;</td>
</tr>
<tr>
<td>ii) the underlying assumptions used in the measurement and management of risk, particularly relating to loans with prepayment option and the dynamic of unrestricted deposits;</td>
</tr>
<tr>
<td>iii) frequency of measurement for this type of risk.</td>
</tr>
<tr>
<td><strong>Quantitative disclosure</strong></td>
</tr>
<tr>
<td>(b)</td>
</tr>
<tr>
<td>In line with the method of measuring the interest-rate risk adopted by management, the increase/decrease in earnings or economic capital (or other relevant indicators) – broken down by major currencies – in the case of an upward or downward shock in interest rates.</td>
</tr>
</tbody>
</table>
### Table 9

**Systems and practices of remuneration and incentivization**

<table>
<thead>
<tr>
<th>Qualitative disclosure</th>
<th>(a) Description of the information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information about:</td>
<td></td>
</tr>
<tr>
<td>i) the decision-making process used for determining the remuneration policies including, where appropriate, information on the composition, on any external consultants whose services the supervised entity has used, and on the role of the bodies and functions concerned;</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quantitative disclosure</th>
<th>(b) Aggregate information on remuneration, broken down by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) areas of activity;</td>
<td></td>
</tr>
<tr>
<td>ii) the various categories of &quot;key personnel&quot;, indicating the following elements:</td>
<td></td>
</tr>
<tr>
<td>- the amounts of remuneration for the year, broken down into fixed component and any incentives and the number of beneficiaries;</td>
<td></td>
</tr>
<tr>
<td>- the amounts and forms of the incentive mechanisms broken down into cash, and other types of instruments;</td>
<td></td>
</tr>
<tr>
<td>- the amounts of deferred remuneration, distinguishing between the parties that have already been granted and those have not;</td>
<td></td>
</tr>
<tr>
<td>- the amounts of deferred remuneration recognized during the year, paid and reduced through mechanisms for correcting the results;</td>
<td></td>
</tr>
<tr>
<td>- new sign-on and severance indemnity payments during the year and the number of beneficiaries;</td>
<td></td>
</tr>
<tr>
<td>- the amounts of payments for severance indemnities paid during the year, the number of beneficiaries and the highest amount paid to one single person</td>
<td></td>
</tr>
</tbody>
</table>