Basel Committee
on Banking Supervision

Frequently asked questions on Basel III monitoring

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Table of Contents

Frequently asked questions on Basel III monitoring

1. Introduction

This document provides answers to technical and interpretive questions raised by supervisors and banks during the Committee's Basel III monitoring. **The document intends to facilitate the completion of the monitoring questionnaire and is not to be construed as an official interpretation of other documents published by the Committee.**

Paragraph numbers given in the remainder of this document usually refer to *Basel III: A global regulatory framework for more resilient banks and banking systems* ("the Basel III rules text") and *Basel III: International framework for liquidity risk measurement, standards and monitoring* ("the Basel III liquidity rules text").[1] Cell references refer to version 2.4 of the reporting template.

In addition to the guidance for completing the monitoring template contained in this document, the Committee has published a first set of frequently asked questions as its official response to questions of interpretation relating to certain aspects of the Basel III rules text and the Basel III liquidity rules text. **Therefore, banks should also take into account the frequently asked questions on capital and liquidity published by the Committee in July.**[2]

Questions which have been added since the previous version of the FAQs are shaded yellow; questions which have been revised (other than updated cell references) are shaded red.

2. General

1. In columns F and G of panel D1a of the "General Info" worksheet, should the RWA amounts be the incremental effect of Basel 2.5 and Basel III compared to the current framework?

   Answer: No. Banks should report the **total** RWA amount under Basel 2.5 and Basel III.

2. How should the capital charges for exposures to CCPs reported in rows 105 and 115 of the "General Info" worksheet?

   Answer: Both the green cells (D105, E105 and C115) and the yellow cells (F105, G105 and F105) should reflect the rules at the reporting date, which will typically

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[1] Basel Committee on Banking Supervision, *Basel III: A global regulatory framework for more resilient banks and banking systems (revised June 2011)*, June 2011; Basel Committee on Banking Supervision, *Basel III: International framework for liquidity risk measurement, standards and monitoring*, December 2010.

[2] Basel Committee on Banking Supervision, *Basel III definition of capital – Frequently asked questions*, July 2011, and Basel Committee on Banking Supervision, *Basel III framework for liquidity – Frequently asked questions*, July 2011.

result in zero RWA. The Committee's interim rules for the capitalisation of bank exposures to CCPs[3] should **not** yet be reflected in the yellow cells; they will only be captured starting with the December 2012 reporting date.

3. Definition of capital

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4. Leverage ratio

1. Can the Committee confirm that the approach to securitisation exposures will be to include those recognised as on balance sheet under the accounting framework, and not all securitisations that have been originated?

   Answer: Banks should apply the accounting measure of exposure for securitisations, ie including the retained positions (on- and off-balance sheet) for securitisations meeting the accounting criteria for derecognition and the underlying assets for the other securitisations.

2. Items deducted from the capital measure that must symmetrically be deducted from the exposure measure are only those that are on the asset side of the balance sheet. There should not be any liability item deducted from the exposure measure.

   Answer: Yes.

3. How should the total exposure be measured? Shall the accounting treatment be used?

   Answer: The exposure measure for the leverage ratio should generally follow the accounting measure of exposure, coupled with the following adjustments: (i) net of specific provisions and valuation adjustments; (ii) do not reduce on-balance sheet exposure for physical or financial collateral, guarantees or credit risk mitigation purchased; and (iii) no netting of loans and deposits. Moreover, for derivatives and securities financing transactions the effect of netting according to the Basel II framework should be considered. Please also refer to the Basel III rules text for more details on how to calculate the exposure measure.

4. It is not obvious whether the proposals on liquidity measures and leverage ratio will be affected by insurance activities.

   Answer: In general, insurance subsidiaries that are not part of the regulatory consolidation would not be included in the leverage ratio (ie the investment is deducted from capital and the exposures should not contribute to the total exposure measure).

[3] Basel Committee on Banking Supervision, *Capital requirements for bank exposures to central counterparties*, July 2012.

Notwithstanding, as set out in paragraph 156 of the Basel III rules text, where a financial entity is included in the accounting consolidation but not in the regulatory consolidation, the assets of such an entity included in the accounting consolidation should be excluded from the exposure measure in proportion to the capital that is excluded under paragraphs 84 to 89 (which outlined the treatment for deducting the investments in the capital of these entities to the extent that they exceed certain thresholds).

5. Can the Committee confirm that cross-product netting is not permitted under the leverage ratio exposure measure, and that the 40/60 rule embodied within paragraph 96 (iv) of Annex 4 of the Basel II framework applies to the allowable netting of the CEM add-on?

Answer: Yes.

6. Given that the restriction on counterparty credit risk due to hedging of financial institution investments has been removed in the definition of capital, does this also apply in the context of the leverage ratio even though in general it does not recognise credit risk mitigation?

Answer: In the context of the leverage ratio, the capital measure follows the criteria laid down in the Basel III rules text for the definition of capital. This applies also to the hedging of investments in the capital of banking, financial and insurance entities.

In order to ensure that the capital and exposure measures are measured consistently, investments in the capital of banking, financial and insurance entities are excluded from the exposure measure for the same amount deducted from capital.

In any case, it must be noted that physical or financial collateral, guarantees or credit risk mitigation purchased are not allowed to reduce the on-balance sheet exposures. This implies that no effects other than those described above should occur from the hedging of exposures that are included in the leverage ratio.

7. What is meant by credit risk mitigation? Any collateral pledged to us should be available, however, any hedges with counterparty risk will be hard to identify.

Answer: This requirement asks for delivery of gross positions for on-balance sheet exposures, ie guarantees, financial collateral or other risk mitigants are not allowed to reduce the on-balance sheet exposures. For SFT and derivatives, the regulatory netting rules based on the Basel II framework are allowed.

8. Why does the amount in this row 95 require a subtraction of “the share of the investment that has not been deducted” (Section 5.7 of the instructions)? In other words, shouldn’t the amount only include “the total assets of the entity multiplied by the percentage of the entity’s capital that has not been deducted under paragraphs 84 to 89 of the Basel III rules text”?

Answer: The share of the investment that has not been deducted is already included in the total exposures in row 94. Hence, it is subtracted so as to avoid double counting.

9. Should “Off-balance sheet exposures: notional x regulatory CCF” area in the panel C of the “Leverage Ratio” worksheet include the EAD amount resulting from the derivative transactions?

   Answer: No, derivative transactions should only be included in columns D and H of panel C.

10. In the cell D67 of the “Leverage Ratio” worksheet, should we provide only the amount resulting from the netting agreements or should we also include cash collaterals?

    Answer: Cell D67 should include only the amount resulting from the netting, with the effects of collateral to be included in cell D69.

11. We are unable to “consider the CPSS/IOSCO standards for risk management of a CCP and the CCP’s observance of these standards as assessed by the relevant national authorities” when reporting panel E.

    Answer: In case of doubt, banks should discuss with their supervisor on whether a clearing house qualifies as a CCP for the purpose of completing panel E. Supervisors should refer to, as a common benchmark, the CPSS/IOSCO standards, which is consistent with the proposals currently under review by the Basel Committee on the capitalisation of bank exposures to a central counterparty (CCP), including the definition of a CCP (www.bis.org/publ/bcbs190.htm).

12. We assume row 12 also includes all other derivatives (ie all except credit derivatives). Is this correct?

    Answer: Yes.

13. We seek confirmation that the rules do not allow the netting of loans and deposits?

    Answer: This is correct.

14. Can banks subject to a national GAAP exclude fiduciary assets from the total exposures measure of the leverage ratio under any circumstance, and if so under what circumstances?

    Answer: Yes. Where a national GAAP recognises on-balance sheet fiduciary assets, these assets can be excluded from the leverage ratio total exposures measure provided the assets meet the criteria in IAS 39 for de-recognition and, where applicable, IFRS 10 for de-consolidation. When disclosing the leverage ratio, banks should additionally disclose the extent of such de-recognised fiduciary items.

    An example is the accounting for promotional programs for housing modernisation and energy conservation under German GAAP, where a state-owned bank provides loans via the bank in question acting as fiduciary (where the funding is completely provided by the state-owned bank, the administered funds cause neither credit risk nor liquidity risk for the bank in question, and the liability of the bank in question is limited to duly performing its obligations as a provider of funds management services). These loans are recognised on the balance sheet under German GAAP whereas they are not under IFRS.

5. Liquidity

5.1 General

1. It is cumbersome and time consuming to obtain data for rows 81 to 85 and 98 to 102 of the "LCR" worksheet ("additional deposit categories with higher run-off rates as specified by supervisor"). Since the weight is set to 0%, what is the significance of collecting these data? How should these amounts be reported on the "NSFR" worksheet?

   Answer: The parameters (ie the run-off rates applied for the purpose of calculating the LCR) for additional retail and small business deposit categories with higher run-off rates are specified by national supervisors, who are required to provide the specifications for these items. If a national supervisor has not yet decided what parameters to apply to these deposit categories, a 0% factor is automatically used for the calculation of the LCR.

   Amounts reported in lines 81 to 85 and 98 to 102 of the "LCR" worksheet should be reflected in the amount reported in cell C10 on the "NSFR" worksheet.

2. Section 2.2 of the instructions states: "Where information is not available, the corresponding cell should be left empty. No text such as "na" should be entered in these cells. However, leaving a cell empty could trigger exclusion from some or all of the analyses if the respective item is required."

   We would like to know which information is considered absolutely necessary to be reported so as not to be excluded from the most relevant analysis. At the moment, and given the short time to fill in the templates, we find it difficult to provide some of the breakdowns (eg operational deposits, distinction between non-transactional accounts with and without established relations and credit lines/ liquidity lines).

   Answer: All relevant breakdowns on the templates should be filled in on a "best-efforts" basis. Leaving a relevant row blank may distort the end result and may trigger exclusion from the analyses. Furthermore the LCR calculation may not produce a result in cell H298 (the LCR percentage) if any required cells are left blank. If cells are not applicable, then they are known to be zero and thus a zero value should be entered in such cells.

5.2 LCR

3. What is meant by "if the collateral received is re-used and tied up for 30 days or longer to cover short positions" in the treatment of reverse repos maturing within 30 days?

   Answer: The LCR framework assumes that a reverse repo can only roll off if the collateral received on the reverse repo is available or will become available within 30 days to be returned to the counterparty on the reverse repo.

   The bank may choose from the following options concerning the collateral received on reverse repos maturing within 30 days:

   (a) The bank could retain the collateral which would thereby be available for return when the reverse repo matures. In this case, the collateral may be included in the stock of high-quality liquid assets (if it satisfies the qualifying criteria) and repo transactions may roll-off in which case an inflow may be taken into account. The reverse repos should then be reported in lines 206 to 212.

(b) The bank could sell the collateral to another party, in which case the bank would take a short position (it has sold assets it does not own outright). The collateral then cannot be included in the stock of high-quality liquid assets.

– If the short positions can be closed out within 30 days, the outflow must be reported in line 194 (see treatment of short positions above). In that case, the collateral would return within 30 days and the reverse repo could unroll, resulting in an inflow (unless the collateral consists of Level 1 assets, in which case the reverse transaction is assumed to roll-over in full). The reverse repos should then be reported in lines 206 to 212.

– If the short position cannot be closed out within 30 days, there is no need to report an outflow, but the reverse repo cannot roll-off either, so there will not be an inflow of the cash extended in the reverse repo. The reverse repos should then be reported in lines 214 to 216.

(c) The bank could rehypothecate the collateral in a repo transaction. The collateral cannot then be included in the stock of high-quality liquid assets.

– If the repo transaction matures within 30 days, resulting in an outflow, the collateral may return within 30 days and the reverse repo could unroll resulting in an inflow (unless the collateral consists of Level 1 assets, in which case the reverse repo is assumed to roll-over in full). The reverse repos should then be reported in lines 206 to 212.

– If the repo transaction matures beyond the 30-day horizon, the collateral will not return within 30 days and the reverse repo is assumed to continue to roll-over in full and not generate any inflows. The reverse repos should then be reported in lines 214 to 216.

5.2.1 Stock of highly liquid assets

4. Section 6.1.1 of the instructions states "All assets ... should be under the control of the specific function or functions charged with managing the liquidity risk ... and should be managed with the clear and sole intent for use as a source of contingent funds". Can unencumbered high-quality trading assets qualify for the stock of liquid assets if internal procedures exist such that these trading assets would be put under the control of the liquidity risk management function in times of stress?

Answer: Assets qualifying for the stock of liquid assets should meet all of the following operational requirements at all times (not just in times of stress):

(a) It is expected that the stock of liquid assets should not be co-mingled with trading positions (paragraph 28 of the Basel III liquidity rules text);

(b) The stock of liquid assets should be managed with the clear and sole intent for use as a source of contingent funds (paragraph 28 of the Basel III liquidity rules text);

(c) The stock of liquid assets should at all times be under the control of the specific function(s) charged with managing the liquidity risk of the bank (paragraph 29 of the Basel III liquidity rules text).

5. Regarding Section 6.1.1 of the instructions, does "with the clear and sole intent for use as a source of contingent funds" include assets that the bank holds for multiple purposes (eg liquidity and trading)?

Answer: Please refer to paragraph 28 of the Basel III liquidity rules text. The classification of the accounting treatment of the stock of liquid assets is at the discretion of the bank and its national regulators. The stock of liquid assets should not be co-mingled with or used as hedges on trading positions, be designated as collateral or be designated as credit enhancements in structured transaction or be designated to cover operation costs. An asset cannot be included in the stock while it is pledged (explicitly or implicitly) to secure, collateralise or credit-enhance any transaction other than as detailed in paragraph 27 of the Basel III liquidity rules text.

6. Can assets that otherwise qualify for the stock of high-quality liquid assets but that are used to hedge structural interest rate risk be included as eligible high-quality liquid assets in the buffer?

Answer: Yes, so long as the assets meet the other operational requirements (eg within the control of the treasury function, etc).

7. Can rated loans be included in the stock of liquid assets?

Answer: No, only securities can be included.

8. How should assets be distinguished among lines 47 and 50?

Answer: First report any assets qualifying for line 47 in that line. Then, report any assets not yet reported in line 47 that qualify for line 50. The important consideration for this section is that assets should not be double-counted.

9. How should unencumbered assets that are held in a pool at a major electronic collateral management system be treated?

Answer: Assets available to fund gaps betweens inflows and outflow from day 1 and that meet all the other criteria are eligible for the stock of high-quality liquid assets. To decide which assets in the pool should be considered encumbered and unencumbered, please refer to the "definition of unencumbered" provided in section 6.1.1 of the instructions.

10. Do assets pledged with the central bank (eg for RTGS purposes) qualify as high-quality liquid assets (row 50)?

Answer: The unused portion of the collateral pledged at central banks can be counted as part of the stock of liquid assets in accordance with paragraph 27 of the Basel III liquidity rules text.

11. Assume a bank uses the GC pooling market as offered by Eurex in Germany and receives collateral consisting of a basket of fixed income securities where, for example, roughly 40% of these securities are highly rated government securities that would, on their own, qualify for the stock of liquid assets. The remaining part (60%) consists of securities (mainly covered bonds) issued by financials. The bank will receive this collateral as "full transfer of title" so these securities will initially be part of their liquid asset pool. How should this be treated in the LCR buffer?

Answer: If the highly rated government securities can not separately be sold or used in a repo transaction, the weight that should be applied in the LCR should correspond to the asset that receives the lowest weight within the framework. For example, if the basket of securities includes only government securities that would be Level 1 eligible and covered bonds that would be Level 2 eligible, the entire basket of securities would be considered as Level 2 assets. If any part of the basket of securities relates to assets that are ineligible for the stock of high-quality liquid assets, the entire basket should receive a 0% weight and thus be excluded from the stock.

12. Where the cap on Level 2 assets is binding for a bank (meaning that certain otherwise eligible assets are excluded from the stock of high-quality liquid assets), can the inflows on these excluded assets count in the denominator of the LCR as inflows (falling within the next 30 calendar days)?

Answer: No, Level 2 securities that are excluded from the stock of high-quality liquid assets because of the cap should remain reported in panel Ab and not be reported as inflows. However, securities that are excluded from the stock of high-quality liquid assets because they do not meet the operational requirements and are not reported in panel Ab can be included as inflows.

5.2.2 Cash outflows

13. Do "transactional accounts" in row 76 include "current accounts" from retail customers?

Answer: Yes, if the retail customers use these current accounts for regular transactions and they have, for instance, their salaries automatically deposited to these accounts.

14. Regarding a relationship account "where the customer has another relationship with the bank", does this include a situation where the customer has more than one product apart from a "non-transactional account" (eg more than just one savings account)?

Answer: Yes, the term "relationship" in this context refers to the customer having other products (ie loans, other deposit accounts) that makes it less likely that the customer will withdraw the deposits were the LCR stress scenario to unfold.

15. Row 50: The stock of high-quality liquid assets should not be designated to cover operational costs (such as rents and salaries): Does this effectively mean that 30-day expected operational costs are treated as an outflow?

Answer: No, the expected operational expenses are not included in outflows and the means held to pay them are not reflected in the stock of high-quality liquid assets.

16. Regarding **"**notes, bonds and other debt securities issued by the bank are included in this category regardless of the holder, unless the bond is sold exclusively in the retail market and held in retail accounts":

(a) Are retail accounts in this context limited to those held by individuals (or natural persons), or more broadly to those held by small business customers as well as individuals?

(b) Can such bonds be treated as retail or small business customer deposits if they have been sold to a primary bank and from the primary bank sold to retail customers or small business customers?

Answer (a): Since deposits placed by individuals and small business customers are treated consistently, debt instruments held in accounts limited to individuals and small business customers may both be excluded from this line and included in the retail and small business customers deposits (lines 76 to 86 and 93 to 103).

Answer (**b):** No, if such bonds are sold to a primary bank, they cannot exclusively be sold to retail and small business customers and would therefore not qualify for treatment as retail or small business customer deposits.

17. Given the short time frame provided to fill in the templates, the basic difficulty will be combining different databases (eg commercial and financial information) to determine the portion of the deposits that qualify for operational purposes.

Answer: Banks are requested to distinguish between operational and other deposits on a best-efforts basis.

18. In row 139, are the counterparties BIS, IMF, EC or MDBs treated the same as domestic sovereigns, central banks or 20% risk-weighted PSEs, or do they fall into the category "other counterparties"?

Answer: Only transactions with specific domestic counterparties should be included in line 139. The institutions listed in the question are not domestic but international counterparties.

19. Regarding Section 6.1.2 of the instructions on unsecured wholesale funding run-off, does "where the market expects certain liabilities to be redeemed before their legal final maturity date" mean that where the counterpart expects a liability to be redeemed with applying established methods of financial mathematics, then this liability should be modelled with early termination in the LCR?

Answer: Yes, banks and supervisors should assume such behaviour for the purpose of the LCR and include these liabilities as outflows. Also, for funding with options exercisable at the bank's discretion, supervisors should take into account reputational factors that may limit a bank's ability to not exercise the option. This could reflect a case where a bank may imply that it is under liquidity stress if it did not exercise an option on its own funding.

20. Regarding section 6.1.2 of the instructions on credit and liquidity lines: the definition of “general working capital facilities” suggests that facilities without an explicit function that can be used for various products (money market for short-term business, loans for longer-time business) should be defined as credit facilities. Is that correct?

Answer: Yes, general working capital facilities for corporate entities (eg revolving credit facilities in place for general corporate and/or working capital purposes) will not be classified as liquidity facilities but as credit facilities.

21. Suppose a transactional retail deposit holds €90k. €40k is fully covered by an effective deposit insurance scheme, €20k is partly covered (eg for 95%) and €30k is not covered. Which amount may be treated as stable?

Answer: Only the amount that is fully covered can be treated as stable. So in the example, €40k may be treated as stable deposits. The other €50k are only partly covered or not covered and should therefore be reported as less stable.

22. How should balances in savings accounts which can be withdrawn at any time be treated? Should we assume such accounts mature within 30 days?

Answer: These should be treated similarly to demand deposits if the bank allows depositors to withdraw such balances without applying a penalty that is significantly greater than the loss of interest.

23. In paragraph 86 of the Basel III liquidity rules text, it is assumed for secured funding transactions that involve Level 1 assets that no reduction in funding availability against these assets is assumed to occur due to their high-quality nature. For Level 2 assets, a 15% reduction in funding availability will be assigned to maturing secured funding transactions backed by these assets. Under this assumption, if a bank engaged in a $100 repo transaction backed by a Level 2 asset, only $85 would be assumed to roll over. Is the $15 that is assumed not to roll over eligible for the stock of high-quality liquid assets, subject to the appropriate haircut?

Answer: No. The $15 represents a loss of funding and is taken into account as a cash outflow (the denominator of the ratio) as a result of the 15% weighting in line 135, rather than be incorporated in the stock of liquid assets.

5.2.3 Cash inflows

24. Regarding contractual cash inflows (row 239): while equities do not qualify as liquid assets, can consideration be given to recognising contractual cash inflows arising from the maturity of an equity TRS or an equity TRS with a contractually cancellable date (option of early redemption) that may fall within the 30-day window? Should such instances be reported as other contractual cash inflows in row 239?

Answer: No, contingent inflows are excluded from the LCR framework. Consideration should not be given to recognising cash inflows for maturing equity TRS transactions or equity TRS transactions with a contractually cancellable date that could fall within the 30 day LCR window.

25. According to the instructions to rows 222 to 225, interest payments should be reported as part of contractual inflows. However, interest payments are an element that is currently not observed in this kind of reporting, and retrieving data on this will be challenging given the timeframe and current IT set-up.

Answer: We recognise that there are many complications facing institutions in this early monitoring stage, particularly related to IT changes to collect and populate the Basel III monitoring template. For purposes of the exercise, institutions are requested to provide data on a best-efforts basis.

26. What is the purpose for row 245 regarding the cap on cash inflows compared to cash outflows?

Answer: Row 245 calculates the maximum amount of cash inflows – ie 75% of cash outflows – to be taken into account in the quantification of net cash outflows, in line with paragraph 107 of the Basel III liquidity rules text. A cap on total inflows is introduced to prevent banks from relying solely on anticipated inflows to meet their outflows and also to ensure that a minimum amount of liquid assets is held by the bank (ie a minimum of 25% of cash outflows). Row 244 of the template includes the amount of cash inflows before application of the cap, whereas row 246 of the template includes the amount of cash inflows after application of the cap. In cases where the cap on inflows is binding, row 246 will be less than row 244 (and will equal row 245), whereas in cases where the cap on inflows is not binding, row 246 will be equal to row 244.

27. Regarding line 238 “contractual inflows from securities maturing ≤ 30 days, not included anywhere above”: what is the rationale in the instructions for excluding inflows from securities held for trading purposes when no such exclusion is mentioned in the Basel III liquidity rules text? Does this mean that any inflow from maturing securities held in the trading book would need to be excluded?

Answer: The rationale for including these additional aspects in the instructions is to be consitent with the definition of the stock of high-quality liquid assets. Paragraph 28 of the Basel III liquidity rules text forbids assets being used to hedge a bank’s traded position or co-mingled with trading inventory from being included in the stock of high-quality liquid assets. This is because, in practice, such assets might not be “available for the bank to convert into cash at any time” as they are needed to hedge other exposures or maintain the institution’s trading franchise. However, this should not be read as excluding from the stock of liquid assets which are in the trading book for accounting purposes. Inflow from maturing securities held in the trading book can therefore be included.

28. The Basel III monitoring instructions state that “The amount of a facility that is to be captured as a liquidity line is limited to the amount of short-term debt (or proportionate share, if a syndicated facility) issued by the customer that matures within 30 days and excludes the portion of the liquidity line that is backing short-term debt that does not mature within the 30-day window, and the available, unused capacity (ie the remaining balance) of any commitment would be treated as a credit facility.” Please clarify how the supporting lines are included in the LCR calculation.

Answer: When short-term debt, such as commercial paper, has a liquidity line as support, only the portions of the line that are supporting issued and outstanding commercial paper that matures within 30 days and that which, in addition, could be used within the 30-day timeframe (ie the available, unused capacity) are to be included in the LCR calculation. For example, assume an outstanding commercial paper balance of $75 with $50 due within 30 days and the remaining $25 balance due beyond 30 days. This paper is backed by a $120 liquidity facility. The amount of the facility to be included in the LCR calculation as a liquidity facility is $50, while the $45 in available, unused capacity (calculated as the total line of $120 less the $75 in outstanding paper) would be prescribed the credit facility draw rate associated with the counterparty type to which the liquidity facility is provided. The $25 of commercial paper due outside the 30-day window would not be included in the LCR calculation (since that $25 is funded by debt that could not come due within the 30 days hence no resulting bank outflow could occur).

29. According to paragraphs 193 and 194 of the Basel III liquidity rules text, when consolidating the LCR, the excess of buffer on an entity can be counted on consolidated LCR only when assets are transferable. Does the liquidity transfer depend on the type of asset (cash, sovereign bonds, corporate bonds, …) or does it depend only on characteristics related to the reporting entities (incorporation country, …) and in that case the whole excess is treated in the same way (and no different restrictions are applied according to the product type)?

Answer: When considering whether excess liquidity on a legal entity basis can be included in a firm's consolidated LCR, the firm should consider the provisions outlined in paragraphs 30, 193 and 194 of the Basel III liquidity rules text. In particular it should demonstrate that:

- these excess liquidity buffers are freely available in times of stress for the consolidated firm to use;
- the firm has all liquidity transfer restriction to the extent applicable, captured and accounted for in their assessment of available excess liquidity;
- the convertibility of currency, from the local jurisdiction in which the excess liquidity buffer resides, exists to meet the liquidity needs at the consolidated level and that this convertibility is available during a time of crisis;
- an asset, not in the form of cash, can be converted and transferred to the consolidated firm during a time of crisis.

5.3 NSFR

30. Regarding encumbrance greater than one year in rows 40, 49 and 67, is it simultaneously possible to have securities with maturities less than one year?

Answer: It is technically possible to encumber assets for longer than their maturity. For example, a bank may transact a one-year repo against a basket of securities and pledge a security that matures in six months. The bank would therefore be required to replace matured covered assets. The same effect could occur in securitisations of revolving assets, such as credit card receivables. If a bank does not undertake this type of activity then it has nothing to report.

31. Regarding secured borrowing in line 22, are repos, collateral lending and covered bonds included in this field?

Answer: Yes, the definition of secured borrowing is the same as that used in the LCR: it defines secured funding as "those liabilities and general obligations that are collateralised by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution".

32. Regarding Section 6.2 and in particular Section 6.2.2 of the instructions, please provide additional guidance on how we should treat encumbrances that result from reasons other than pledging or secured funding transactions (ie tied positions).

Answer: Encumbrance should be treated in the same manner regardless of the reason.

33. Should the amount captured in line 32 correspond with the cash amount populated in the stock of high-quality liquid assets in the LCR (as they appeared to correspond in the comprehensive QIS)? Also, the definition of cash in the LCR and the NSFR in the latest guidelines appears to differ slightly.

Answer: Cash in the NSFR is defined to exclude cash "held for planned use (as contingent collateral, salary payments or for other reasons)" (see Table 2 of the Basel III liquidity rules text). In the LCR, operational expenses are not included in the standard.

34. Are data for insurance companies, investment companies etc supposed to be reported in row 19?

Answer: No, they should be reported in row 18 as they are funding from "other legal entities".

35. In what row should the market value of financial instruments be reported? Are the reported figures supposed to be net figures?

Answer: Assuming that "financial instruments" means derivatives, they should be reported as outlined in Section 6.2 of the instructions.

36. Concerning reverse repos, the instructions say they should be treated as secured cash loans.

- In which line(s) should they be reported? As loans depending on the counterparty? If so, this treatment does not seem to agree with paragraph 131 of the Basel III liquidity rules text (if the bank will receive cash, then the RSF of the transaction would be 0%).

Answer: Reverse repos should be reported as cash loans. Paragraph 131 is only applicable to assets on balance sheet. Most accounting standards do not result in such assets being recorded on a bank's balance sheet.

- What distinction is made for the different underlying assets (Level 1, Level 2, others?

Answer: No distinction is made.

- What maturity should be considered for RSF, the maturity corresponding to the reverse repo or that of the underlying security?

Answer: The maturity of the reverse repo (secured loan).

- If the asset received in the reverse repo has been sold or re-hypothecated (thereby creating a short position), how should it be reported?

Answer: The loan should be reported in the applicable RSF category according to its maturity, and then it should also be reported as encumbered for the period of encumbrance in the relevant sub-lines of that category. For more information refer to Section 6.2.2 of the Basel III monitoring instructions.

37. How are assets excluded from Level 1 and Level 2 in the LCR because they are outside the control of the treasurer (line 50 of the "LCR" worksheet) treated in the NSFR?

Answer: Operational restrictions which apply to the LCR are not relevant in the NSFR.

38. The current definition of line 170 (all other assets not included in the above categories) could potentially generate misleading results. A more granular approach would be beneficial for a better understanding and a more accurate reporting of balances.

Answer: Firms can provide to their national supervisors explanatory notes detailing significant exposures in this category upon request.

39. Rows 132 to 139 refer to "residential mortgages of any maturity that would qualify for the 35% or lower risk weight under the Basel II standardised approach for credit risk". Among the "encumbered" classification, it would be useful for analysis purposes to insert a specific sub-category ("of which") with the self-securitisations.

Answer: As this type of encumbrance is not treated differently from other types, no distinction is made in the template. Assets encumbered in self-issued or synthetic (own-name) securitisations should only be reported as encumbered if the securities have been encumbered outside of the reporting entity. For example, if the securities being held by the institution have not been pledged and are still available to raise funding, then the underlying assets can be reported as unencumbered.

40. Regarding securities with stated remaining maturities less than one year, do these include non-central bank eligible securities?

Answer: Yes, it is not a requirement that securities in row 42 be central bank eligible.

41. Concerning net derivatives payables/receivables in lines 23 and 168, is there a reporting distinction for differences in maturity?

Answer: No distinction is made for maturity.

42. Should the time buckets fit the generally binding accounting standards and include the upper bound (≤ 3 months, > 3 months and ≤ 6 months etc)?

Answer: The standard is measured at one year or greater, and the quarterly buckets were calibrated accordingly.

43. Regarding cell G8 "preferred stock not included above": the Basel III liquidity rules text states "and capital instruments in excess of Tier 2 allowable amount". Please confirm that this portion of funding is reported under line 11 "unsecured debt securities issued".

Answer: The language is not in Table 1 (and the text in paragraph 124(b)) of the Basel III liquidity rules text, but rather in Annex 2. For the purposes of the monitoring study, we have followed the language in the main body of the text, so any other instruments would be reported in line 11.

44. Cell C32: Concerning “all cash immediately available not held for planned use (as contingent collateral, salary payments, or for other reasons)”: is any “cash currently encumbered as collateral or held for planned use (as contingent collateral, salary payments, or for other reasons)” considered an “other asset” receiving a 100% RSF factor?

Answer: Cash not currently encumbered as collateral or specifically set aside to cover operational costs would be reported in the “All other assets” category.

45. What is the applicable RSF for a plain vanilla reverse repo on a Level 1 asset? Is it 100% as we have to look at the long-term claim which is on the balance sheet or 5% for the collateral held unencumbered? In the first case, is there any liquidity value considered in the NSFR for the Level 1 asset?

Answer: For the purpose of the Basel III monitoring exercise, a reverse repo of any asset for longer than one year is 100%. Therefore, no liquidity value is assigned to the borrowed asset.

46. Some mortgages and loans are only partially secured and are therefore separated into secured and unsecured portions with different risk weights under Basel II. How should these portions be treated in the NSFR template?

Answer: Only the portion of the loan with the appropriate risk weight should be reported. The separate portion at a different risk weight should be reported in the row to which it relates. For purposes of Basel III monitoring reporting, institutions can assume that the secured portion of the loan applies to the longest dated (> 1 year) part of the loan, so long as it remains encumbered for that entire period.

47. Where are “short” selling transactions (Level 1 asset) reported in the NSFR template?

Answer: If the counterparty is a financial institution, please fill in lines 63 to 67 according to the period of the reverse repo transaction (cash inflow and outflow will be offset).

48. Net known derivatives (payable or receivables) should be reported in the LCR as well as the NSFR. It is clear that any known (ie non-contingent) cash flow that will take place within 30 days on derivative positions should be included on at net basis (different lines if payable or receivable). However, should FX spot transactions (spot outright (an exchange between two currencies) and not forward contracts) be taken into account? If they should be included in “net know derivatives”, are they treated the same if they have same day settlement or if settled with two-day lag (T+2)?

Answer: Known cash flows related to FX spot transactions should be included in the net known derivatives payable/receivable lines of the LCR template, regardless of the settlement date (providing it is within the 30-day period).

49. How should the portion of amortising loans that comes due within one year be reported on the NSFR template?

Answer: Per paragraph 133 of the Basel III liquidity rules text, “for amortising loans, the portion that comes due within the one-year horizon can be treated in the ‘less than a year’ residual maturity category”. Where possible, banks should allocate the amortising portion across the four quarterly (three-month) time buckets on the NSFR worksheet.

50. Cell G169 requires that all items deducted from Tier 1 and Tier 2 capital under fully implemented Basel III rules be included. Which capital deductions should be reported in this cell?

Answer: For Basel III monitoring purposes, all regulatory adjustments that are reported on the "DefCapB3" worksheet should be included. The Committee will continue to investigate the appropriate NSFR treatment for individual regulatory adjustments as part of the observation period prior to NSFR implementation.