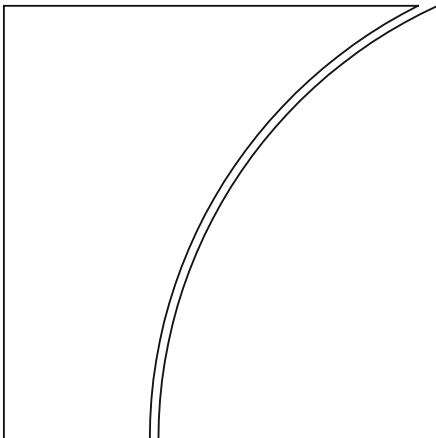


Basel Committee on Banking Supervision



Frequently asked questions on Basel III monitoring

2 April 2015



BANK FOR INTERNATIONAL SETTLEMENTS

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ISSN 92-9131-872-8 (print)

ISSN 92-9197-872-8 (online)

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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 standards"), the *Basel III leverage ratio framework and disclosure requirements* ("the Basel III leverage ratio framework"), *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* ("the Basel III LCR standards") and *Basel III: The Net Stable Funding Ratio* ("the Basel III NSFR standards").¹

In addition to the guidance for completing the monitoring template contained in this document, the Committee has published frequently asked questions as its official response to questions of interpretation relating to certain aspects of the Basel III standards. **Therefore, banks should also take into account the frequently asked questions on capital, counterparty credit risk and the leverage ratio published by the Committee.**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. Cell F21 in the "Requirements" worksheet asks for the amount of sovereign exposures in the trading book. Should this be the gross, long-only, or net market value positions?

Answer: Banks should report the gross positions to sovereign exposures in the trading book. For example, a bank with a \$100 long position for sovereign A and a \$20 short position for sovereign B should report \$120 as its sovereign exposures.

(added on 17 February 2015)

2. Banks should report securitisation RWA under the revised hierarchy of approaches in rows 16 to 19 of the "Floors" worksheet. Should the changes from the proposed *Revisions to the standardised approach for credit risk* be reflected in the RWA figures when calculating the revised approaches for securitisations, as set out in the December 2014 *Revisions to the*

¹ Basel Committee on Banking Supervision, *Basel III: A global regulatory framework for more resilient banks and banking systems (revised June 2011)*, June 2011, www.bis.org/publ/bcbs189.htm; Basel Committee on Banking Supervision, *Basel III leverage ratio framework and disclosure requirements*, January 2014, www.bis.org/publ/bcbs270.htm; Basel Committee on Banking Supervision, *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*, January 2013, www.bis.org/publ/bcbs238.htm; Basel Committee on Banking Supervision, *Basel III: The Net Stable Funding Ratio*, October 2014, www.bis.org/bcbs/publ/d295.htm.

² Basel Committee on Banking Supervision, *Basel III definition of capital – Frequently asked questions*, December 2011, www.bis.org/publ/bcbs211.htm; Basel Committee on Banking Supervision, *Basel III counterparty credit risk – Frequently asked questions*, December 2012, www.bis.org/publ/bcbs237.htm; Basel Committee on Banking Supervision, *Frequently asked questions on the Basel III leverage ratio framework*, www.bis.org/publ/bcbs293.htm.

securitisation framework (eg the SEC-SA)? This is also relevant for row 17 when applying caps for securitisation positions.

Answer: In principle, it would have been desirable to use the proposed revised standardised approach for credit risk when calculating the SEC-SA in the revised securitisation framework. However, given the likely data limitations at this stage, banks should apply the existing standardised approach for credit risk when calculating the capital charge under the SEC-SA of the revised securitisation framework.

(added on 5 March 2015)

3. Row 9 in the "Requirements" worksheet asks for information about banks' domestic sovereign exposures. If a banking group has subsidiaries in foreign countries which hold sovereign exposures of those countries, how should such exposures be treated when reporting on a consolidated basis?

Answer: Banks should classify sovereign exposures as "domestic" based on their country of incorporation at the consolidated level. All other sovereign exposures should be included as part of the total sovereign exposures in row 8.

(added on 31 March 2015)

3. Definition of capital

1. Please clarify what data should be populated in panel E) Memo item: Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation and below the threshold for deduction (D103:109, E103:109) in the "DefCap" worksheet. The same FAQ is relevant to the "General Info for MPE" worksheet.

Answer: These cells refer to "Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital (excluding amounts held for underwriting purposes only if held for 5 working days or less)" and "below the threshold for deduction". Significant investments in those should be excluded from these cells.

(added on 24 March 2015)

4. Leverage ratio

1. Items deducted from the capital measure that must symmetrically be deducted from the Basel III leverage ratio 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 Basel III leverage ratio exposure measure.

Answer: Yes.

2. How should the Basel III leverage ratio exposure be measured? Shall the accounting treatment be used?

Answer: The Basel III leverage ratio exposure measure for the leverage ratio should generally follow the accounting value, coupled with the following adjustments for non-derivative exposures and non-securities financing transactions (non-SFTs): (i) net of specific provisions and valuation adjustments; (ii) do not reduce on-balance sheet exposures for physical or financial collateral, guarantees or credit risk mitigation purchased; and (iii) no netting of loans and

deposits. Moreover, for derivative exposures the effect of netting according to the Basel II framework should be considered, while for SFTs netting of cash receivables with cash payables may only be recognised subject to the strict criteria set out in paragraph 33(i) of the Basel III leverage ratio framework. Please also refer to the Basel III leverage ratio framework for more details on how to calculate the exposure measure.

3. It is not obvious whether the Basel III leverage ratio will be affected by insurance activities.

Answer: See paragraphs 8, 9 and 16 of the Basel III leverage ratio framework.

4. Can the Committee confirm that cross-product netting is not permitted under the Basel III 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.

5. 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 Basel III leverage ratio even though in general it does not recognise credit risk mitigation?

Answer: In the context of the Basel III leverage ratio, the capital measure follows the criteria laid down in the Basel III standards 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 Basel III leverage ratio 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 Basel III leverage ratio.

6. 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. However, cash variation margin *received* associated with derivative transactions and fulfilling the criteria in paragraph 25 of the Basel III leverage ratio framework may be viewed as a form of pre-settlement and hence not considered as a credit risk mitigant for the purpose of the Basel III leverage ratio.

7. Should the "Off-balance sheet exposures: notional x regulatory CCF" area in 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 J.

8. In cell D77 of the "Leverage Ratio" worksheet, should we only provide the amount resulting from the netting agreements or should we also include cash collaterals?

Answer: Cell D77 should only include (i) the amount resulting from the netting, with the effects of collateral to be included in cell D79; and (ii) the gross value of derivatives that are treated off-balance sheet and therefore included in column E (and K) of panel A where applicable; following the relevant accounting frameworks.

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

Answer: Yes.

10. We seek confirmation that the standards do not allow the netting of loans and deposits?

Answer: This is correct.

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

Answer: Yes. According to paragraph 15 and footnote 4 of the Basel III leverage ratio framework, where a national GAAP recognises on-balance sheet fiduciary assets, these assets can be excluded from the Basel III 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 Basel III 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.

12. Should the shortfall of the stock of provisions to expected losses (note paragraph 73 of Basel III) be deducted from the exposure measure of the Basel III leverage ratio?

Answer: See paragraph 16 of the Basel III leverage ratio framework.

13. A bank is applying national GAAP for their financial reporting, where certain derivative instruments are not recognised on the balance sheet. How should these derivatives be treated when calculating the exposure measure for the Basel III leverage ratio?

Answer: See paragraph 19 and footnote 6 of the Basel III leverage ratio framework.

14. Panel H: Regarding the alternative currency criteria for eligible cash variation margin in derivative transactions we are unable to make out the difference between the two sets of criteria based on the instructions provided. Could the Committee provide more clarity on the distinction between criterion 1 and criterion 2?

Answer: Criterion 2 is stricter as it requires that all derivatives in the netting set need to be settled in a single currency. Only cash variation margin in that single currency per netting set is eligible under criterion 2. In contrast, criterion 1 allows cash variation margin in situations, where the netting set contains replacement values in different currencies (the relevant currency being the one in which the associated cash flows will be settled).

For example, a netting set may contain a positive replacement value of 100 units to be settled in USD and a negative replacement value of -80 units to be settled in EUR. The net replacement value is 20 units in USD. Under criterion 1, 20 units of cash variation margin in USD would be eligible to reduce the net replacement value to zero. Under criterion 2, no cash variation margin would be eligible in this example (as it contains more than one currency for the settlement of the derivatives in the netting set).

15. Panel G: The instructions on columns E and K of row 115 of the "Leverage Ratio" worksheet provide contradictory information: Whereas the main text requests banks to apply the maturity factors for *unmargined* transactions, the description of the relevant row in the table in Subsection 5.8.3 states that *formulas for margined transactions may be applied to derivative transactions as appropriate*. What is correct?

Answer: In columns E and K of row 115 of the "Leverage Ratio" worksheet banks are requested to report the PFE for all *margin*ed transactions according to the SA-CCR, but with the exception of using (i) the maturity factors for *unmargin*ed transactions according to paragraph 164; and (ii) a PFE multiplier of one (paragraph 149).

(added on 2 April 2015)

16. The instructions on row 116 of the "Leverage Ratio" worksheet for the PFE of all *unmargin*ed netting sets require to *calculate the PFE of all their derivative transactions, including those for which variation margin is exchanged*. Is it correct to include transactions for which variation margin is exchanged in this row?

Answer: No, this is indeed a typo, and the reference to *including those for which variation margin is exchanged* should be deleted. Row 116 requests banks to report the PFE for all *unmargin*ed transactions.

(added on 2 April 2015)

17. Panel I: What is the definition of *segregated assets*?

Answer: As set out in Subsection 5.10 of the Instructions, an asset (eg cash initial margin) is considered *segregated* if it is segregated from the *clearing member's* other assets, ie if it may not be *used, pledged or re-hypothecated* by the clearing member for its own business purposes. However, such segregated margin may be used in accordance with the applicable customer protection rules, subject to the prior agreement with the clearing client.

(added on 2 April 2015)

18. Panel I: The heading of row 146 of the "Leverage Ratio" worksheet refers to *cash* initial margin, whereas the Instructions refer to initial margin in *general*. What is correct?

Answer: In line with the wording in the heading, row 146 only refers to segregated *cash* initial margin.

(added on 2 April 2015)

5. Liquidity

5.1 General

1. It is cumbersome and time consuming to obtain data for rows 103 to 107 and 132 to 136 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 103 to 107 and 132 to 136 of the "LCR" worksheet should be reflected in the amount reported in cell C11 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 H443 (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 276 to 289.
- (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. In this case, per paragraph 147 of the Basel III LCR standards, there is no need to report an outflow for the bank’s short position, but the reverse repo cannot roll-off either, so there will not be an inflow of the cash extended in the reverse repo (ie it is assumed that the reverse repo will be rolled over to cover the bank’s short position). The reverse repos should then be reported in lines 291 to 296.
- (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 276 to 289.
 - 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 291 to 296.

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 function charged with managing the liquidity of the bank". 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 operational requirements noted in paragraphs 31 to 40 of the Basel III LCR standards at all times (not just in times of stress) including:

- (a) The stock should be under the control of the function charged with managing the liquidity of the bank (eg the treasurer), meaning the function has the continuous authority, and legal and operational capability, to monetise any asset in the stock (paragraph 33 of the Basel III LCR standards);
 - (b) Control must be evidenced either by maintaining assets in a separate pool managed by the function with the sole intent for use as a source of contingent funds, or by demonstrating that the function can monetise the asset at any point in the 30 day stressed period and that the proceeds of doing so are available to the function throughout the 30 day stressed period without directly conflicting with a stated business or risk management strategy (paragraph 33 of the Basel III LCR standards).
5. 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).

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

Answer: No, only securities can be included.

7. How should assets be distinguished among lines 57 and 60?

Answer: First report any assets qualifying for line 57 in that line. Then, report any assets not yet reported in line 57 that qualify for line 60. The important consideration is that assets should not be double-counted in this section.

8. 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 between inflows and outflow from day 1 and that meet all the other operational requirements 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.

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

Answer: The unused portion of the collateral that has been pre-positioned or deposited with, or pledged to, a central bank or a public sector entity (PSE) but that has not been used to generate liquidity can be counted as part of the stock of liquid assets in accordance with paragraph 31 of the Basel III LCR standards.

10. 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 stock of high-quality liquid assets?

Answer: If the highly rated government securities cannot 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 2A eligible, the entire basket of securities would be considered as Level 2A 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.

11. Where the cap on Level 2 assets or the cap on Level 2B 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 2A or Level 2B assets that are excluded from the stock of high-quality liquid assets because of the caps should remain reported in panel Ab (if Level 2A) or panel Ac (if Level 2B) and not be reported as inflows. However, assets 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 (if Level 2A) or panel Ac (if Level 2B) can be included as inflows.

5.2.2 Cash outflows

12. Do “transactional accounts” in row 85 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.

13. 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.

14. Row 60: 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.

15. 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 (including small business customers treated as retail),” 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 then sold to retail customers or small business customers?

Answer: 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.

16. 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.

17. In rows 202 and 209, are the counterparties BIS, IMF, ECB and European Community treated the same as domestic sovereigns, multilateral development banks or domestic PSEs with a 20% risk-weight, or do they fall into the category "other counterparties"?

Answer: Only transactions with specific domestic counterparties should be included in lines 202 and 209. The institutions listed in the question are not domestic but international counterparties.

18. Regarding unsecured wholesale funding run-offs, does "where the market expects certain liabilities to be redeemed before their legal final maturity date" (paragraph 86 of the Basel III LCR standards) 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.

19. 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: 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.

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

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

21. Suppose a non-operational deposit provided by a non-financial corporate holds €125k. The deposit insurance scheme in the jurisdiction where the deposit is placed meets the requirements for an effective deposit insurance scheme, providing full insurance on deposit amounts up to and including €100k. How should this deposit be treated?

Answer: The non-operational deposit does not meet the eligibility requirements for the 20% run-off factor as the entire amount of the deposit (ie €125k) is not fully covered by the effective deposit insurance scheme (given the deposit insurance limit is €100k). This deposit should not be reported in line 157, rather it should be reported in line 158 (and assigned a 40% run-off factor).

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 significant penalty that is materially greater than the loss of interest.

23. In paragraph 114 of the Basel III LCR standards, 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 2A assets, for example, a 15% reduction in funding availability will be assigned to maturing secured funding transactions backed by these assets and conducted with counterparties other than the bank's domestic central bank. Under this assumption, if a bank engaged in a \$100 repo transaction backed by a Level 2A asset with a counterparty other than the bank's domestic central bank, 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 195, rather than be incorporated in the stock of liquid assets.

24. The Basel III monitoring instructions state that "the amount of a commitment to be treated as a liquidity facility is the amount of the currently outstanding debt issued by the customer (or proportionate share, if a syndicated facility) maturing within a 30 day period that is backstopped by the facility. The portion of a liquidity facility that is backing debt that does not mature within the 30-day window is excluded from the scope of the definition of a facility. Any additional capacity of the facility (ie the remaining commitment) would be treated as a committed credit facility and should be reported as such." 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 debt 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 \$75 of debt is currently outstanding, of which \$50 is due within 30 days and the remaining \$25 balance is 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. The \$45 in available, unused capacity (calculated as the total line of \$120 less the \$75 in outstanding debt) would be prescribed the credit facility draw rate associated with the counterparty type to which the facility is provided. The \$25 of debt 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 within the LCR horizon).

5.2.3 Cash inflows

25. According to the instructions to rows 302 to 305, 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 324 regarding the cap on cash inflows compared to cash outflows?

Answer: Row 324 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 144 of the Basel III LCR standards. 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 323 of the worksheet includes the amount of cash inflows before application of the cap, whereas row 325 of the worksheet includes the amount of cash inflows after application of the cap. In cases where the cap on inflows is binding, row 325 will be less than row 323 (and will equal row 324), whereas in cases where the cap on inflows is not binding, row 325 will be equal to row 323.

27. According to paragraphs 171 and 172 of the Basel III LCR standards, 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 36 to 37 and 171 to 172 of the Basel III LCR standards. 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

28. Where the template provides encumbrance terms greater than one year for assets with maturities less than one year, such as in row 150, is it simultaneously possible to have securities with maturities less than one year that are encumbered for greater 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.

29. Regarding secured borrowing in lines 43 through 47, 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".

30. 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.

31. Where should data for insurance companies, investment companies, etc be reported?

Answer: Data for these entities should be reported in rows 32 and 47 as they are funding from "other legal entities".

32. 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 6.2.2 of the instructions.

33. 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 32 of the Basel III NSFR standards (if the bank will receive cash, then the RSF of the transaction would be 0%).

Answer: Reverse repos should be reported as cash loans according to counterparty. Paragraph 32 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 2A, Level 2B, others)?

Answer: Secured loans to financial institutions where such loans are secured against Level 1 assets (and where the bank has the ability to freely rehypothecate the received collateral for the life of the loan) are reported separately from such loans secured by other collateral. See reporting instructions for additional detail.

- 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.

34. How are assets excluded from Level 1 and Level 2 in the LCR because they do not meet the operational requirements (line 60 of the "LCR" worksheet) treated in the NSFR?

Answer: The operational requirements which apply to the LCR are not relevant in the NSFR.

35. The current definition of line 251 (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.

36. Rows 163 to 168 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.

37. Concerning derivatives liabilities/assets in lines 49 and 213, is there a reporting distinction for differences in maturity?

Answer: No distinction is made for maturity.

38. Should the time buckets fit the generally binding accounting standards and include the upper bound (≤ 6 months, > 6 months and ≤ 12 months etc)?

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

39. 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.

40. 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 ($>$ one year) part of the loan, so long as it remains encumbered for that entire period.

41. Where are “short” selling transactions reported in the NSFR template?

Answer: Where collateral borrowed through a reverse repo has been sold or rehypothecated in a repo or similar transaction in which the firm intends to repurchase the collateral, the resulting cash inflows and outflows are assumed to offset and therefore should not be reported. In such cases the initial reverse repo loan should be reported as encumbered in the applicable RSF category according to the counterparty of the initial reverse repo loan and the term of encumbrance of the initial reverse repo loan.

42. 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 a 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 known 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).

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

Answer: Per paragraph 26 of the Basel III NSFR standards, “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 maturity time buckets on the NSFR worksheet.

44. The data check located in cell F295 of panel D in the NSFR reporting template has indicated a “Fail” notice despite the fact no information has been reported in panel D. Is it okay to submit data despite this “Fail” notice?

Answer: This data check will not work correctly in all cases. It is okay to submit data when receiving a “Fail” notice for this data check, but only if your institution is not subject to reporting balances in panel D. Please refer to the reporting instructions for line 39 for more information on reporting requirements related to panel D.

(added on 24 March 2015)

45. When reporting assets posted as initial margin for derivative contracts or provided to contribute to the default fund of a CCP, should the term for which these assets are to be posted be considered when determining the appropriate line items to report balances?

Answer: All assets posted as initial margin for derivative contracts or provided to contribute to the default fund of a CCP should be reported without regard to the term they are to be posted, with the exception of balances reported in line 239. Initial margin balances reported in line 239 should be reported according to the residual maturity of associated derivative contract(s). Banks should not report assets posted as initial margin or provided as default fund contributions in their relevant asset categories as encumbered assets according to their remaining term of encumbrance. A Level 1 asset posted as initial margin for a period greater than one year, for example, should be included in balances reported in lines 232, 235 and 239 (as well as lines 237, 242 and 243, if applicable) but should not be reported in line 126. An asset posted as initial margin for a derivative contract or provided to contribute to the default fund of a CCP should continue to be reported in its relevant asset category and not with margin balances only if it is subject to a RSF factor greater than 85% when held unencumbered.

(added on 26 March 2015)

6. Trading book

6.1 General issues

1. For the purpose of the QIS, are foreign exchange (FX) and commodity risks in the banking book to be included in the market risk capital charges for the trading book?

Answer: Yes. All FX and commodity risks should be included.

(added on 17 February 2015)

2. Are all market risk hedges for counterparty credit risk, including for Credit Valuation Adjustments (CVA), excluded for the purpose of the trading book QIS?

Answer: Banks should apply the current Basel Committee standards.

(added on 5 March 2015)

3. How should the distinction between investment grade and high yield credits be made across the standardised and internal models approaches? For example, in the computation of credit spread risk for the revised standardised approach (Annex 4, page 192) and in the determination of liquidity horizons for the internal models approach (page 213), do banks have the discretion to make this distinction based on internal rating, agency rating or market implied rating (ie via credit spreads)?

Answer: For the purpose of the QIS, banks have the discretion to distinguish between investment grade and high yield credits based on internal rating, agency rating or market implied rating (ie via credit spreads).

(added on 5 March 2015)

4. The glossary in Annex 4 (page 244) makes reference to the "SMM". Is this meant to be the revised standardised approach?

Answer: Yes.

(added on 5 March 2015)

5. Does paragraph 14 (Annex 4, page 173) take priority over paragraph 22 (page 175)?

Answer: No. Paragraph 14 is not intended to take priority over paragraph 22. Paragraph 22 is a requirement, not a presumption. An exemption to this paragraph is only possible in cases where there is a specific reference in the revised standards which would allow for it.

(added on 5 March 2015)

6. Does paragraph 14 (Annex 4, page 173) take priority over paragraph 15?

Answer: No. Paragraph 14 is not intended to take priority over paragraph 15. The instruments described in paragraph 15 do not **need to** meet the requirements of paragraph 14 in order to be presumed to be in the trading book.

(added on 5 March 2015, updated on 27 March 2015)

7. In paragraph 22 (Annex 4, page 175), is there a common definition for "retail and SME credit" that banks should use?

Answer: Yes. For the definition of "retail and SME credit", please refer to paragraph 231 of the Basel II framework.

(added on 5 March 2015)

8. With regard to the exclusion of certain currency risk positions in paragraph 6 (Annex 4, pages 171 and 172), the maximum exclusion is limited to investments in "affiliated but not consolidated entities" and "consolidated subsidiaries" denominated in foreign currencies. Can a bank include investments in branches denominated in foreign currencies in the maximum exclusion?

Answer: No. Branches are not capitalised separately so they should not be included in the calculation of the maximum exclusion.

(added on 5 March 2015)

6.2 The revised internal models approach

1. Section 7.1 (page 115) states: *"The "TB IMA" worksheet should be filled in by participating banks in the trading book exercise with approval to use the internal model approach (IMA). Data provided in this worksheet should only be based on the share of a participating bank's non-securitisation trading book that has received IMA approval."* According to the proposed market

risk framework, IMA approval will be granted on a desk-by-desk basis, while in the current market risk framework, IMA approval can be granted for specific risk factor categories. Consider a bank which has a trading desk exposed to specific interest rate risk and FX risk. This bank does not have IMA approval for calculating capital charges for specific interest rate risk, but has IMA approval for FX risk. Should the bank include or exclude this trading desk for the purpose of filling in the "TB IMA" worksheet?

Answer: For panel A of the "TB IMA" worksheet, the bank should include this trading desk. Where according to the bank's approval status some risks of a trading desk are capitalised under the current standardised measurement method, column G may be completed using the bank's internal sVaR measure rather than the regulatory sVaR measure. Separately, panel B of the "TB IMA" worksheet should be completed based on the risk factors for which the bank *currently* has IMA approval (ie the proposal of IMA approval on a desk-by-desk basis need not be considered).

(added on 17 February 2015)

2. In Annex 4, paragraph 171(k) (page 213), the liquidity horizons for different risk factor categories are set out. For FX rates, a distinction is made between "liquid currency pairs" and "other currency pairs". Two of the currency pairs that are deemed to be "liquid currency pairs" are USD/EUR and USD/SEK (footnote 22). Does this imply that EUR/SEK could be treated as a liquid currency pair?

Answer: No. EUR/SEK should be treated under the "FX rate – other currency pairs" category.

(added on 17 February 2015)

3. In Annex 4, paragraph 171(k) (page 213), is it confirmed that for the interest rate risk factor category, EUR, USD, GBP, AUD, JPY, SEK, CAD and the domestic currency of the participating bank should be subject to a 10 day liquidity horizon?

Answer: Yes.

(added on 17 February 2015)

4. In Annex 4, paragraph 171(k) (page 212), the third bullet states: "...on a desk-by-desk basis *n* can be increased relative to the values in the table below (ie the liquidity horizon specified below can be treated as a floor)." For correlated risk factors within a trading desk, is it mandatory to take the longer liquidity horizon as the floor?

Answer: No. Please carefully review the phrasing of the third bullet under paragraph 171(k).

(added on 17 February 2015)

5. In Annex 4, paragraph 173(c) (page 215), it is stated that "...To be considered modellable, a risk factor should have at least 24 observations per year (measured over the period used to calibrate the current expected shortfall model) with a maximum period of one month between two consecutive observations". Are risk factors derived from modellable risk factors considered to be modellable? For example,

Risk factors derived from pricing inputs:

- Constant maturity yields at specific tenor points "derived" (via curve fitting/bootstrapping exercise) from a set of bond prices;
- Implied volatility at specific tenor/maturity/moneyness on a volatility surface that is calibrated from a set of option prices;
- Volatility skew risk factor from a calibrated volatility surface;

- Calibrated correlation for a basket implied from prices of the basket and basket constituents; or
- Option adjusted spreads implied from prices of mortgages and interest rate curves.

Risk factors derived as part of the ES modelling process:

- A statistical factor model for the common movements of a number of yields or spreads derived from a principle component analysis on a set of bond yields or credit spreads that are derived from "real" prices of actual transactions;
- Benchmark factors and residual;
- Factor hierarchy in commodity prices capturing locations and grades;
- Market model (index) of equity prices.

Answer: For the purpose of the QIS, banks may treat risk factors derived from other modellable risk factors (such as those in the examples in the question) as modellable. Any "real" price that is observed for a transaction should be counted as an observation for *all* of the risk factors concerned (ie to all risk factors which are used to model the risk of the instrument that is bought, sold or generated through the transaction as part of the overall portfolio). For example, if a bank buys an option that is mapped to eight combinations of tenor, maturity, and moneyness, this transaction will be counted as an observation for each of the eight implied volatilities and for each for the risk factors used for modelling the risk of the underlying of the option.

(added on 17 February 2015)

6. In panel A of the "TB IMA" worksheet, please confirm how the 100 most material trading desks should be defined.

Answer: Column F of panel A should only be filled in with the stylised names of regulatory trading desks that should meet the key elements of a trading desk as defined in Annex 4, Appendix A (pages 225–226).

(added on 5 March 2015)

7. In panel B of the "TB IMA" worksheet, what should be reported under "revised model" (column C) and "current model" (column D)?

Answer: The "revised model" is automatically populated from the "TB general" worksheet, hence no data should be entered in this column. The "current model" column should include VaR plus sVaR (without applying the multiplier of 3) under the current IMA capital framework. As stated in Section 7.5.2 of the instructions (page 124), the migration component of the IRC model should be included in row 110 for "Credit spread risk: non-securitisations" and the default component of the IRC should be included in row 111 for "Default risk: non-securitisations".

(added on 5 March 2015)

8. Please confirm what information is to be inputted into row 4 of the "TB IMA P&L" worksheet.

Answer: Row 4 of the "TB IMA P&L" worksheet should be filled in with the date for each day of data that are included in rows 8 to 107.

(added on 5 March 2015)

9. Please confirm that panel C of the "TB IMA P&L" worksheet should include delta and vega risk factors only for the sensitivities based approach (ie the revised standardised approach).

Answer: Yes.

(added on 5 March 2015)

10. With reference to paragraph 171(k) in Annex 4 (page 212), if a bank can assign a longer liquidity horizon than the prescribed liquidity horizon floor on a desk level, how should this assignment take place? As an example, could this bank assign SPX to a 20-day (instead of 10-day) horizon and keep EURO STOXX at a 10-day horizon within one trading desk? Or should the bank set all equity large cap to either a 10-day or 20-day horizon?

Answer: The liquidity horizon floor applies at the risk factor level within a risk asset class. If a 20-day liquidity horizon is applied to SPX for a particular trading desk, this horizon applies to all instruments exposed to SPX at this trading desk. For EURO STOXX, the bank could still apply a 10-day liquidity horizon at the same trading desk.

(added on 5 March 2015)

11. With reference to paragraph 171(c) in Annex 4 (page 209), is footnote 21 (page 210) still relevant?

Answer: Footnote 21 is no longer relevant to paragraph 171(c).

(added on 5 March 2015)

12. With reference to paragraph 171(k) in Annex 4 (pages 212–213):

- (i) Please confirm that the liquidity horizon for “credit spread volatility risk factors” would have the same liquidity horizon as the “Credit (other)” category?
- (ii) Please clarify the liquidity horizon equity dividend risk factors can take on the horizon of the underlying equity price.
- (iii) Is there any currency dependency for the Interest rate – ATM volatility and FX volatility categories?
- (iv) Please confirm that the liquidity horizon for Recovery Rates risk factors can take on the horizon of the underlying credit spread (ie a bond with recovery risk would not split the credit risk and recovery rate risk into two different liquidity horizons)?
- (v) On which liquidity horizon should mono-currency basis risk and cross-currency basis risk be assigned?

Answer: With regard to:

- (i) Yes.
- (ii) No. In this example the liquidity horizon would fall under equity (other) at 120 days.
- (iii) No.
- (iv) Yes, but only for the purpose of the QIS.
- (v) These risk factors should both be assigned to FX (other) at 60 days.

(added on 5 March 2015)

13. In paragraph 171(k) (page 213), is footnote 22 incorrectly tagged to “FX rate – other currency pairs”?

Answer: Yes. Footnote 22 should instead be tagged to “FX rate – liquid currency pairs”.

(added on 5 March 2015)

14. With regard to paragraph 171(c), can banks use approximations to decompose their ES approach by risk class?

Answer: For the purpose of the QIS only, approximations may be reported where firms do not have systems available to perform the requisite decomposition of their ES.

(added on 5 March 2015)

15. Based on footnote 25 (Annex 4, page 215), if a risk factor is replaced by proxying with another risk factor plus an idiosyncratic add-on (to capture the basis risk between the two risk factors), would the add-on be treated as a non-modellable risk factor (NMRF)? Would all such idiosyncratic add-ons be capitalised separately without any diversification benefit?

Answer: Yes, the idiosyncratic add-on would be treated as a NMRF and all such add-ons must be capitalised separately without any diversification benefit.

(added on 5 March 2015)

16. Under paragraph 173(c) (Annex 4, page 215), would industry consensus pricing (eg from Markit) be considered as a modellable risk factor?

Answer: Industry consensus pricing must satisfy the same “real price” criteria as other pricing data. It cannot be treated as a “real” price unless the requirements in paragraph 173(c) are satisfied. For the purpose of the QIS, banks can use data derived from consensus pricing only if such data are deemed to satisfy the requirements in paragraph 173(c).

(added on 5 March 2015)

17. With regard to the Incremental Default Risk (IDR) model in paragraph 176 (Annex 4, pages 218–220), what does the term “incremental” refer to specifically?

Answer: The term “incremental” in the Incremental Default Risk (IDR) model refers to the IDR being an incremental, separate, requirement to the internal Expected Shortfall (ES) model. No offsetting permitted between the internal IDR model and the internal ES model.

(added on 5 March 2015)

18. Paragraph 176(c) (Annex 4, page 218) states that commodity and FX instruments as well as instruments subject to capital charges under the standardised approach are out of scope of the Incremental Default Risk (IDR) model. Does this mean that interest rate swaps, for example, are in the scope of the IDR model even though they have no issuer and hence no issuer default risk?

Answer: No, interest rate swaps are not in scope of the IDR model, unless their reference rate is subject to default risk. Only positions that are subject to default risk are in scope of the IDR model. As stated in paragraph 176(a), default risk is the risk of direct loss due to an obligor’s default as well as the potential for indirect losses that may arise from a default event.

(added on 5 March 2015)

19. Paragraph 176(t) (Annex 4, page 220) would require banks to use loss-given-default (LGD) from the current Basel II internal ratings-based approach (IRB) for credit risk. If national supervisory authorities apply constraints to IRB LGDs (eg floors), should these be taken into account for the purpose of the LGD in the Incremental Default Risk (IDR) model?

Answer: Yes. Where a bank has an approved LGD estimate used in its IRB approach, including any requirements on that estimate from the national supervisory authority, it should use that LGD estimate as the LGD in the IDR model.

(added on 5 March 2015)

20. Paragraph 176(b) and 176(i) (Annex 4, pages 218 and 219) would require correlations for default risk to be based on a period of stress. Paragraph 176(b) states that correlations must be “estimated over a 10-year time horizon and be based on a 1-year liquidity horizon”, while

paragraph 176(i) states that correlations between defaults among obligors “should be calibrated over a period of at least 10 years” and “must be measured over a liquidity horizon of one year”. What is the period that should be used for calibrating correlations in the IDR model?

Answer: As defined in paragraph 176(b), correlations for the IDR model should be calibrated based on a minimum of 10 years of data which includes a stress period for the portfolio.

(added on 5 March 2015)

21. In paragraph 180 (Annex 4, page 221), can the capital measure for non-modellable risk factors within model-eligible trading desks (SES) be computed across all model eligible desks for each specific non-modellable risk factor, or does this need to be calculated on a desk-by-desk basis?

Answer: SES should be calculated across all model eligible desks for each specific non-modellable risk factor.

(added on 5 March 2015)

22. In Section 7.2 of the QIS instructions (page 116), please clarify what “IMA approval” means – is it VaR model approval, general market risk model approval, specific risk model approval, or a combination of these? Does “internal model approval” in Section 7.3 (page 119) for “TB SBA” and in Section 7.5 (page 123) for “TB IMA” mean “IMA approval”? Please confirm that the trading portfolio for “TB SBA” worksheet should be different from the trading portfolio for “TB IMA” worksheet, unless all trading products are “IMA approved”?

Answer: IMA approval should be interpreted to be the same as “internal model approval”. Any instrument which is at least partially included in a model approval should be considered to have IMA approval. If a bank has internal model approval for all its trading activities, computations for the “TB SBA” and “TB IMA” worksheets should both be based on the bank’s entire non-securitisation trading book.

(added on 27 March 2015)

23. In the QIS instructions, Section 7.5.2 (page 124), please confirm that default risk captured in specific risk (non-IRC) modelling, if any, should be reported in the “Default risk: non-securitisations” row.

Answer: Yes.

(added on 27 March 2015)

24. In Section 7.5.2 of the QIS instructions (page 124), does the IRC portfolio used to calculate the IRC migration risk component and the default risk component for the “current model” (column D) within the “TB IMA” worksheet have to be the same portfolio used to calculate the “spread risk captured in VaR” and “Default risk: non-securitisation”? (Since the IRC portfolio includes only the products with credit specific risk model approval, it will be difficult to make system changes to expand the IRC portfolio, if the latter is larger.)

Answer: It is acceptable for these portfolios to be different.

(added on 27 March 2015)

25. With reference to Section 7.5.2 of the QIS instructions (page 124), please confirm that if a trading desk currently has internal model approval for general market risk, but not for specific risk, this desk should still be included in the IMA computations within the “TB IMA” worksheet. In such a case, the proposed IMA and proposed standardised approach (ie “SBA”) entries will include credit and default risks, whereas the current internal model approach would be reflected in specific risk charges as described in the current standardised approach. Should the current standardised specific risk charges be recorded in the “Current model” column (column

D) and would this fall into row 111 for "Default risk: non-securitisations"? Alternatively, would this be recorded in rows 110 or 112 for credit risk and equity risk respectively?

Answer: For the purpose of panel B of the "TB IMA" worksheet, desks which have internal model permission for either general or specific risks should not be included. Only the desks having permission for both general and specific risks should be included. The intention of this table is to have a clean comparison between current internal models, revised internal models and the revised standardised approach. Since there is no clean way to map specific and general risk to the asset classes of the revised framework, those desks should be ignored.

(added on 27 March 2015)

26. Please confirm that for each trading desk, each individual risk factor treatment in the liquidity horizon table in paragraph 171(k) (Annex 4, page 213) may be increased independently. For example, the liquidity horizon for "Credit spread – corporate (IG)" may be increased for a desk while the liquidity horizon is not increased for any other risk factors.

Answer: Yes, this is correct.

(added on 27 March 2015)

27. When increasing the specified liquidity horizon as described in the third bullet of paragraph 171(k), may we use a liquidity horizon other than 20, 60, 120 and 250 days?

Answer: No. The intention of the increase in liquidity horizon is to avoid breaking hedging relationships with risk factors that are assigned to longer liquidity horizons. Therefore, only the prescribed values of n (namely 10, 20, 60, 120, 250) are available.

(added on 27 March 2015)

28. With reference to paragraph 171(k) (page 213), are sovereigns limited to government issuers only or do they include agencies and other issuers backed by government?

Answer: For the purpose of the QIS, sovereigns include any public sector agencies that are treated as sovereigns by the national supervisory authority.

(added on 27 March 2015)

29. With reference to paragraph 171(k), what liquidity horizon should be chosen for a rate that contains components of multiple asset classes and liquidity horizons? For example, consider a government bond yield for a 'AAA' sovereign issued in its domestic currency. This is a domestic, investment grade (IG) interest rate and as such should probably attract a 10-day liquidity horizon. However this rate also encapsulates the credit spread risk of the sovereign, thus attracting a 20-day credit spread horizon. Which horizon should be employed in this case?

Answer: In the above example the longer 20-day liquidity horizon should be used.

(added on 27 March 2015)

30. With reference to paragraph 171(k), if a bank's VaR model for securities (eg bonds) is price-based, what liquidity horizon does the bank assign to this (composite) risk factor? Do we align it with the relevant interest rate category, credit spread category and does the answer depend on indicators such as the primary sensitivity? For example, should a bank use a 10-day or 20-day liquidity horizon for a G10 government bond, if its VaR model is price-based?

Answer: In these cases the longer liquidity horizon of the relevant risk factors should be used.

(added on 27 March 2015)

31. With reference to paragraph 171(k), banks' risk management approach and systems decompose any non-USD cross-rates into USD-based rates (eg AUD/JPY is broken down into

AUD/USD and USD/JPY). Given cross-rates can have a different liquidity horizon to the USD rates, please advise how this should be handled within the proposed internal models approach.

Answer: The liquidity horizon should be assigned based on the original position. In the above example, the liquidity horizon would be the one relevant for AUD/JPY.

(added on 27 March 2015)

32. With reference to paragraph 173(c) (Annex 4, page 215), do the same prices used to determine whether a risk factor is modellable have to be used to calibrate the ES model?

Answer: No. The process for modellable risk factors has two separate steps: Step 1 – the bank determines if there is sufficient data to satisfy the conditions for modellability as set out in paragraph 173(c); Step 2 – if step 1 proves the risk factor is modellable the bank should choose the data most appropriate to calibrate its model (which may be different from the data used in step 1).

(added on 27 March 2015)

33. With reference to paragraphs 173 and 176 in Annex 4, please confirm that default risk is exempt from the non-modellable risk factor (NMRF) treatment and should not be capitalised as an NMRF?

Answer: Yes, default risk is not subject to the non-modellable risk factor (NMRF) treatment specified in paragraph 173 of Annex 4.

(added on 27 March 2015)

34. Within the treatment of incremental default risk (IDR) under internal models (Annex 4, paragraph 176, page 218), are banks expected to calculate losses prior to default using an IRC-like model?

Answer: The IDR should calculate the loss on default relative to the current valuation.

(added on 27 March 2015)

35. In paragraph 176(b) (Annex 4, page 218), please give more details on modelling with two systemic risk factors. Should two global systematic factors (eg one global country and one global industry) be modelled or should each issuer be assigned to two systematic factors out of a larger set of x factors (eg US and banking, or DE and utility, or FR and insurance)?

Answer: The IDR model should include two types of systemic risk factors (eg industry and region). Each issuer would then be assigned to a factor within these two risk factor types.

(added on 27 March 2015)

36. In paragraph 176(e) (Annex 4, page 218), "the bank must assume constant positions over the one-year horizon" for computing the IDR capital charge. Please provide guidance on the requirements implied by this statement. We note that EBA guidelines on the Incremental Default and Migration Risk Charge (IRC) issued on 16 May 2012³ indicate the following:

- *Page 16 of the 2012 EBA guidelines: "When assuming a one-year constant position, which implies not adopting liquidity horizons, institutions should consistently apply to all IRC positions an instantaneous shock over the one-year capital horizon (referred to as 'one-year constant position assumption')."*

³ Available at www.eba.europa.eu/regulation-and-policy/market-risk/guidelines-on-the-incremental-default-and-migration-risk-charge-irc-

- *Page 39 of the 2012 EBA guidelines: "The issue of maturity mismatches occurs only if liquidity horizons are defined, as per wording in the CRD III / CRR. It is not an issue in the case of a constant position assumption. We agree that a liquidity horizon of one year for all positions is not different from the constant position assumption over one year."*

Please confirm that "constant position" for IDR should be understood as applying an instantaneous shock over the one-year capital horizon and that maturity mismatches (eg between trades and their hedges) are not to be modelled.

Answer: The correct understanding is as per paragraph 176: constant position over the one year horizon. This can be interpreted in the same way as the EBA guidelines quoted in the question.

(added on 27 March 2015)

37. In paragraph 176(e) (page 218), do we need to apply liquidity scaling in our default risk calculations for equities as futures and stocks are highly liquid, or can we treat equities as tenor-less?

Answer: As defined in paragraph 176(e), the liquidity horizon for all positions when in the IDR model is one year.

(added on 27 March 2015)

38. With regard to Section 6.2, question 10 of this FAQ document, the FAQ states that the liquidity horizon floor can be applied only for selected risk factors on a desk leaving the rest of risk factors untouched. The FAQ appears to contradict the description of the liquidity horizon floor in Section 3.2.2 (page 18) of the December 2014 CP on the *Fundamental review of the trading book*.⁴ In the CP, it seems that once the longest liquidity horizon is chosen, it has to be applied to all the risk factors on that desk, while the FAQ says that the floor can be applied only for selected risk factors on a desk, leaving the rest of risk factors untouched. Please confirm that liquidity horizon floors can be selected on a per-risk-factor-basis and not on a per-desk basis?

Answer: Yes, it is correct that longer liquidity horizons can be set on a per-risk-factor-basis and then applied for all positions exposed to that risk factor on a trading desk. The December 2014 CP states that "if the bank wishes to use a longer liquidity horizon for a certain risk factor, it has to do so for the whole trading desk" (page 18). This means that the longer horizon for that risk factor has to be applied for all positions on the desk. This is also what the FAQ states in Section 6.2, question 10 of this document.

(added on 27 March 2015)

39. How should indices be treated with respect to default risk of equity instruments under the internal models approach and standardised approach? Should banks calculate the jump to default exposure by defaulting each individual price to zero and summing the total exposure as the exposure of the index? Alternatively, should banks consider the exposure of the index value jumping to zero and assigning that exposure proportionally across the index constituents?

⁴ Available at www.bis.org/bcbs/publ/d305.pdf.

Answer: The price of each individual underlying should be set to zero. For the standardised approach, for the purpose of the QIS, banks can also set the exposure of the index value at zero. In such cases, banks should clearly explain why they were not able to apply the decomposition in the qualitative document to be submitted together with the template.

(added on 27 March 2015)

6.3 The revised standardised approach

1. In Annex 4, paragraph 63 (page 187), please provide additional clarity for how banks should define “residual maturity” of *the underlying of an option* with vega risk exposure to general interest rate risk (GIRR), ~~credit spread risk (CSR) and/or the commodity risk asset class~~. Consider a bank which transacts in a swaption comprising a one-year call option on a three-year interest rate swap. What is the “residual maturity” of this swaption?

Answer: In the above example, the “residual maturity” of the swaption is three years, regardless of whether the bank is the buyer or seller of the call option.

(added on 17 February 2015, updated 5 March 2015)

2. With regard to the preamble included in Annex 4 (pages 181–183), please provide more clarity on the treatment described in Section I: “In the vega risk context...”.

Answer: Please note that in the vega risk context, Section I relates not just to indices, but to all “options where all instruments have sensitivities for delta risk of the same sign”. This also includes certain basket options. Section I deals specifically with options on multiple underlyings. Options where all underlying instruments have sensitivities for delta risk are of the same sign (eg indices) are to be decomposed with respect to their vega risk. The instruction to decompose these option into constituent vega risk positions each of which corresponds to a single delta risk factor has to be read in conjunction with Section II of the preamble. Please see the following examples:

Example 1: The vega of an option on a basket of two equities is decomposed into distinct constituent vega risk positions for each of the underlying equities. The decomposition is made according to the risk weight that applies to the respective equity according to para 54 (b). The dimensions moneyness and maturity of the vega risk positions are determined according to the moneyness and maturity of the option.

Example 2: The vega of an option on a basket of two CDSs with different issuers is decomposed into distinct constituent vega risk positions for each of the underlying names. The decomposition is made according to the parallel shift of the respective credit spread curve according to paragraph 56(a) in Annex 4 (page 184). The dimensions moneyness and maturity of the vega risk positions are determined according to the moneyness and maturity of the option.

(added on 5 March 2015)

3. With regard to the preamble in Annex 4 (pages 181–183), please clarify the computation steps of the vega risk framework in Section III: “Further clarification on vega risk computation”, and provide banks with the parameters α and β (Annex 4, page 183). Would there be a less computationally intensive way to capture vega risk?

Answer: Within the preamble in Annex 4, Section “III: Further clarification on vega risk computation” (page 182) is to be replaced in full with the following text:

[For the purpose of the QIS, two approaches for computing vega risk can be used: (i) the “full vega risk computation” and (ii) the “reduced vega risk computation”.

“Full vega risk computation”

Several vega risk positions are specified based on the term and moneyness structure of implicit volatilities. Specifically, vega risk positions are computed for each node of the ATM volatility matrix (cube for GIRR) along two dimensions (three dimensions for GIRR):

- *The maturity of the option*: Relevant tenor(s) as specified in the delta risk context for General Interest Rate Risk – 0.25 years, 0.5 years, 1 year, 2 years, 3 years, 5 years, 10 years, 15 years, 20 years and 30 years.
- *For GIRR vega risk only – the residual maturity of the underlying of the option at the exercise date of option*: Relevant tenor(s) as specified in the delta risk context for General Interest Rate Risk – 0.25 years, 0.5 years, 1 year, 2 years, 3 years, 5 years, 10 years, 15 years, 20 years and 30 years.
- *Smile risk*: Relevant moneyness risk factors – 80% ATM, ATM (100%) and 120% ATM.

Any option that does not lie precisely on one of these nodes must be mapped by the bank to the nearest nodes. For example, an equity option that is 90% ATM with maturity 1.5 years must be mapped to the 80% ATM and ATM (100%) nodes for the maturities 1 year and 2 years.

For the purpose of the QIS, the correlation ρ_{kl} between vega risk exposures should be computed as follows: $\rho_{kl} = \rho_{T_k, T_l}^{(all\ asset\ classes)} \cdot \rho_{T'_k, T'_l}^{(GIRR\ only)} \cdot \rho_{M_k, M_l}$

With:

- $\rho_{T_k, T_l}^{(all\ asset\ classes)} = e^{-\alpha|T_k - T_l|}$, with T_k the maturity of the option related to vega risk factor k and T_l the maturity of the option related to vega risk factor l ;
- $\rho_{T'_k, T'_l}^{(GIRR\ only)} = e^{-\alpha|T'_k - T'_l|}$, with T'_k the maturity of the underlying instrument of the option related to vega risk factor k and T'_l the maturity of the underlying instrument of the option related to vega risk factor l ; and
- $\rho_{M_k, M_l} = e^{-\beta|M_k - M_l|}$, with M_k the moneyness related to vega risk factor k and M_l related to vega risk factor l , expressed as a percentage of the spot price of the option.

Several values of α and β will be tested during the QIS. These values are set as follows:

- Scenario (a): $\alpha = 0.01$ and $\beta = 0.25$;
- Scenario (b): $\alpha = 0.05$ and $\beta = 1$; and
- Scenario (c): $\alpha = 0.1$ and $\beta = 5$.

In the “TB SBA” worksheet, banks should report Kb values for vega risk of each bucket based on computations using scenario (a): $\alpha = 0.01$ and $\beta = 0.25$.

The total vega risk capital charge for each risk asset class should be reported separately for scenarios (a), (b) and (c) in the “TB SBA” worksheet.

“Reduced vega risk computation”

For banks which are not able to aggregate data to capture smile risk/ATM volatilities, an alternative approach may be used for the QIS.

Vega risk positions are computed along one dimension (two dimensions for GIRR):

- *The maturity of the option:* Relevant tenor(s) as specified in the delta risk context for General Interest Rate Risk – 0.25 years, 0.5 years, 1 year, 2 years, 3 years, 5 years, 10 years, 15 years, 20 years and 30 years.
- *For GIRR vega risk only – the residual maturity of the underlying of the option:* Relevant tenor(s) as specified in the delta risk context for General Interest Rate Risk – 0.25 years, 0.5 years, 1 year, 2 years, 3 years, 5 years, 10 years, 15 years, 20 years and 30 years.

The correlation ρ_{kl} between vega risk exposures should be computed as follows:

$$\rho_{T_k T_l}^{(all\ asset\ classes)} = e^{-\alpha|T_k - T_l|}$$

- with T_k the maturity of the option related to vega risk factor k and T_l the maturity of the option related to vega risk factor l ;
- *For GIRR vega risk only:* T_k may be defined as the discrete mid-point between the two bounds of each maturity band (ie between the maturity of the option and residual maturity of the underlying of the option). For example, $\rho_{0.25\ to\ 0.5, 1\ to\ 2}^{(all\ asset\ class)} = e^{-\alpha|0.75 - 1.5|}$.

Several values of α will be tested during the QIS. These values are set as follows:

- Scenario (a): $\alpha = 0.01$
- Scenario (b): $\alpha = 0.05$
- Scenario (c): $\alpha = 0.1$

In the "TB SBA" worksheet, banks should report Kb values for vega risk of each bucket based on computations using Scenario (a): $\alpha = 0.01$.

The total vega risk capital charge for each risk asset class should be reported separately for scenarios (a), (b) and (c) in the "TB SBA" worksheet.

Relevant information for the "full" and "reduced" vega risk computations

For the purpose of the QIS:

- The above maturity and moneyness dimensions for vega risk factors relate to properties of the option as an instrument (ie the option as a whole has a particular maturity and moneyness). Yet, apart from these any vega risk factor also has a dimension in terms of the underlying of the option. This dimension is specified in Section II of the preamble (Annex 4, page 181). For example, with respect to an option on a single equity, this underlying dimension is the spot price of the equity. Hence, any vega risk factor for an equity option has three dimensions: maturity and moneyness of the option and underlying equity spot price.
- The correlations above apply between risk factors that are of the same underlying dimension. The correlations between vega risk positions of different underlying dimensions are determined according to the same intra-bucket (ρ_{kl}) and across-bucket (γ_{bc}) correlations that would apply to the delta risk factors that correspond to their underlying dimensions (eg the correlation between any vega risk factor with underlying dimension "Coca Cola equity price" and any vega risk factor with underlying dimension "Pepsi Cola equity price" will be the same as between the correlation between the Coca Cola share price and the Pepsi Cola share price).
- For GIRR the risk factors above already include a dimension for the residual maturity of the underlying of the option at the exercise date. This implies that for GIRR the above correlations already specify between all vega risk factors for options whose underlying is subject to GIRR of a particular currency. Hence, only the correlation between vega

risk factors for options whose underlying is subject to GIRR of two different currencies needs to be specified. The correlation between GIRR options with different currencies as underlying is 0.5 as for delta risk.

The closed-form questions under panel D in the "TB general" worksheet will be used to ask banks whether the "full" or "reduced" vega risk computation method was used. As stated in the instructions, the closed form questions will be circulated to participating banks in due course.]

(added on 5 March 2015)

4. Which part of the QIS instructions should banks refer to for the most updated set of vega risk factor definitions?

Answer: Please refer to the preamble in Annex 4, Section II (pages 181–182).

(added on 5 March 2015)

5. For all asset classes, should correlation scaling (to recognise basis risk) be compounded if there is more than one attribute which differs between two risk exposures? For example, commodity type C2 is identical to commodity type C1 (including signs), and differ only in terms of grade and delivery location. Should the correlation scaling be multiplication by $(1+x)^2$ or by $(1+x)$?

Answer: In the example within the question, the correlation scaling should be multiplication by $(1+x)$.

(added on 5 March 2015)

6. For the reporting of the breakdown of SBA correlations (QIS instructions, page 120), should the summation for the terms $\Sigma(1)$ and $\Sigma(1-x)$ be restricted to run only over terms representing the same tenor point across different curves (for GIRR and CSR)?

The format for reporting the breakdown of the SBA correlation terms is such that detailed information is provided for each off-diagonal term (eg 0.25yr vs 0.5yr, 3yr vs 10yr etc), with additional terms (labelled $\Sigma(1)$ and $\Sigma(1-x)$) that capture correlations for the on-diagonal tenors for different curves (eg, 0.25yr OIS vs 0.25yr BOR, 3yr OIS vs 3yr BOR). However, the description of $\Sigma(1)$ and $\Sigma(1-x)$ on page 120 is such that it could also be construed to capture any off-diagonal terms where the SBA correlation is 1 (eg the 20yr vs 30yr correlation is 1). The implication of this is that some points will be double counted. Please clarify?

Answer: Both $\Sigma(1)$ and $\Sigma(1-x)$ should only cover terms representing the same tenor point *but across different curves*. There should be no double-counting of tenor points.

(added on 5 March 2015)

7. In the definition of vega risk sensitivities for each asset class, given that the industry sometimes uses normal volatilities instead of lognormal volatilities, should the same scalar of 0.55 be used in all instances?

Answer: Yes. The 55% scalar should be used in all instances. When a bank uses normal volatilities in its system, it must operate an additional variable change in order to use lognormal volatilities.

(added on 5 March 2015)

8. In the definition of VR_{ik} (ie for vega risk) should σ_i be indexed by k as well, therefore written σ_{ik} ?

Answer: Yes. The correct definition of VR_{ik} for all asset classes should read as follows:

$$VR_{ik} = 0.55 \cdot \left(\frac{\sqrt{LH}}{\sqrt{10}} \right) \cdot \left(\frac{dV_i}{d\sigma_{ik}} \cdot \sigma_{ik} \right). \text{ Note that options are often (but not always) priced using a}$$

single implied volatility. Yet, even when an option has an underlying that corresponds to a single delta risk factor the option may be mapped to more than one vega risk positions, eg when its tenor lies between two regulatory tenors. Therefore, in the example the option i is mapped to vega risk position for two distinct risk factors k_1 and k_2 .

(added on 5 March 2015)

9. In Annex 4, it is stated that between vega and delta exposures across asset classes, the correlation is set at 1 for same-sign risk positions and -1 for different-sign risk positions. This is equivalent to having no diversification or hedging benefit recognised between vega and delta risk exposures. Is this correct?

Answer: Yes. There is no diversification or hedging benefit recognised between vega and delta risks.

(added on 5 March 2015)

10. The preamble of Annex 4 (page 181) states that for GIRR curvature and vega risks, all rates (spot and forward) should be floored at zero for computational reasons. Should this same adjustment be applied to credit spread risk?

Answer: Yes. The same adjustment should be applied to credit spread risk.

(added on 5 March 2015)

11. For GIRR curvature risk, the aggregation across tenors for a given currency has been clarified in the QIS instructions. Can it therefore be assumed that the correlation matrices for "maturity tenors" are redundant for GIRR curvature risk?

Answer: Yes. For GIRR curvature risk, $\sum CVR$ is equal to Kb for each currency bucket.

(added on 5 March 2015)

12. For GIRR and CSR curvature risk factors, does one curve (eg OIS, BOR, Bond, CDS) represent a single risk factor?

Answer: As stated in the preamble (Annex 4, page 181), for GIRR only one yield curve should be used as a risk factor for each currency. For CSR: non-securitisations, only one curve should be specified as a risk factor for each name, with no distinction made between a General Electric bond curve and a General Electric CDS curve.

(added on 5 March 2015)

13. For GIRR curvature risk, the QIS template gathers only two data points per currency for GIRR (columns IC and ID): Kb and $\sum CVR$. This seems legitimate if one ignores inflation, and the two columns should be equal to the unique CVR position obtained by parallel shifts. Does it mean inflation is always ignored for GIRR curvature risk?

Answer: Yes, inflation can always be ignored for GIRR curvature risk.

(added on 5 March 2015)

14. The risk factor definition for foreign exchange (FX) vega risk and curvature risk is described in the preamble in Annex 4 (page 182) as "currency pairs". This appears to supersede the definition for FX curvature risk described in paragraph 62 (page 187) which begins with "all the exchange rates between the currency in which an instrument is denominated and the reporting currency..." Please clarify the correct definition of FX vega and curvature risks.

Answer: For vega risk related to cross currency FX options, please use the definition "currency pairs" (ie of the two relevant currencies of the option), as mentioned in the preamble (page 182). For delta and curvature risk definitions of FX, please use the definition "all the exchange

rates between the currency in which an instrument is denominated and the reporting currency..." as fully described in paragraph 62 (Annex 4, page 187).

(added on 5 March 2015)

15. If vega risk for FX is defined as "currency pairs", how should panel E, cells O125 to T155 in the "TB SBA" worksheet be filled in, given that each row is defined by currency?

Answer: Please refer to the following example for filling in cells O125:T155 in the "TB SBA" worksheet: For a bank with a reporting currency in CAD, data related to

- options with a EUR/CAD pair should be filled in cells O126 to T126.
- options with a AUD/CAD pair should be filled in cells O129 to T129.
- options with all currency pairs that do not reference the CAD (ie the reporting currency of the bank) should be filled in cells O155 to T155.

(added on 5 March 2015)

16. In the "TB SBA" worksheet, can it be confirmed that under panel E (foreign exchange risk), cells F155 to N155 and U155 to AC155 are to be left blank? Please also confirm that cells F159 and F161 to F164 ("listed currencies") are to be reported based on computations within cells F125 to AC154 only.

Answer: Yes. Cells F155 to N155 and cells U155 to AC155 are to be left blank. Cells F159 and F161 to F164 are to be reported based on computations from cells F125 to AC154 only.

(added on 5 March 2015)

17. What should be filled in cells G159 and G161 to G164 ("all currencies")?

Answer: These cells should be filled in with corresponding information from cells F159 and F161 to F164 *plus* delta, vega and curvature risk capital charges from all other currencies that are not listed in rows 125 to 155.

(added on 5 March 2015)

18. With regard to curvature risk factors, for indices can shocks be applied to all underlying instruments at the same time?

Answer: No.

(added on 5 March 2015)

19. In paragraph 68 (Annex 4, page 188), sensitivities for equity risk factors are expressed as 1% relative variation of the equity risk factor. This definition fits for equity spot prices in our bank's system but not for dividend forecasts and repos. Can an alternative definition be set out for equity dividend forecasts and repos that is different from equity spot price?

Answer: For the QIS all equity risk factor sensitivities are subject to the definition in paragraph 68. For a given equity name/issuer, there should be no double-counting between spot price, dividend forecasts and repo price. For instance, dividend forecasts for an equity name/issuer should not be included as a risk factor if this is fully captured in the spot price.

(added on 5 March 2015)

20. With regard to equity risk correlations, basis risk recognition appears to be applicable in both same and different names in the example on page 164 (Annex 3 of the instructions), while the text on page 197 (Annex 4) indicates that basis risk should be recognised between two risk factors related only by the same name. Which is correct?

Answer: The basis risk recognition for equity risk as defined on page 197 (Annex 4) is correct. All risk factor and correlation definitions implied in Annex 3 are superseded by Annex 4.

(added on 5 March 2015)

21. Where should "healthcare" be mapped in the buckets for equity risk in paragraph 106 (Annex 4, page 196)?

Answer: "Healthcare" should be mapped to buckets 1 and 5 in the table within paragraph 106.

(added on 5 March 2015)

22. In Annex 3 (page 164 and 167), please clarify if the following elements within the correlation examples are correct?

- (i) Equity (page 164): Are $\Sigma(rho+)^2$ and $\Sigma(rho-)^2$ incorrectly specified?
- (ii) Foreign exchange (page 167): Does the "Rho" column for delta risk, within buckets, contain any errors?

Answer: On (i), yes. $\Sigma(rho+)^2$ should be in the last row for Equity {Different Name; Same Sign; Rho = 9.02%}, while $\Sigma(rho-)^2$ should be in the second to last row {Different Name; Different Sign; Rho = 2.25%}.

On (ii), yes. The "Rho" column for foreign exchange should read from top to bottom: {Netting; Netting; 95%; 90%; 70%; 65%; 85%; 80%}.

(added on 5 March 2015)

23. In the "TB SBA" worksheet, should the following cells be left blank?

- (i) Cells K62 ($\Sigma rho+$) and L62 ($\Sigma rho+(1+x)$)
- (ii) Cells K86 ($\Sigma rho+$) and L86 ($\Sigma rho+(1+x)$)

Answer: Yes.

(added on 5 March 2015)

24. On the treatment of indices in the delta risk framework, how should a bank deal with indices that it cannot decompose?

Answer: When a bank cannot decompose an index into its constituents, the bank may proceed as follows for the purposes of the QIS:

- Treat the index as if it were a risk factor.
- Assign the index to the asset class that is predominant among its constituents according to its judgment.
- Within the predominant asset class assign the index to the bucket with the highest risk weight among the buckets to which at least one index constituent would have otherwise been allocated. If the bank cannot determine the applicable highest risk weight, it should include the index in the residual bucket of the predominant asset class if there is one. Otherwise, banks should leave out the risk positions from the index. (For GIRR and FX risk there are no residual buckets.)

Alternatively, for the purpose of the QIS, banks can set the exposure of the index value at zero; in such case, banks should clearly explain why they were not able to apply the decomposition in

a qualitative document to be submitted together with the template (see question 39, Section 6.2 of this FAQ document above).

(added on 27 March 2015)

25. Could you describe, step by step, the treatment of indices for the purpose of vega risk?

Answer: First, the vega sensitivity of the option (the option vega multiplied by the option's implied volatility) should be mapped to the relevant nodes of the volatility matrix (cube for GIRR) (see question 3, Section 6.3 above). Second, for each node, the vega sensitivities should be distributed across the index constituents based on the ratio of the weighted sensitivity to that constituent divided by the sum of the weighted sensitivity to all the constituents.

(added on 27 March 2015)

26. Please describe further how smile risk should be calculated under the "full vega risk computation" set out in Section 6.3, question 3 of this FAQ document?

Answer: The option pricing model used by the firm should be used when computing the vega risk positions. If any other pricing model is used (eg an approximation is made), this should be described in the separate qualitative document to be submitted to national authorities together with the template.

(added on 27 March 2015)

27. For the vega risk computations set out in Section 6.3, question 3 of this FAQ document, could a mixture of "full" and "reduced" approach be used for the purpose of this QIS?

Answer: Ideally, only the full approach should be used. If this is not possible because banks are not able to aggregate data to capture smile risk/ATM volatilities, the reduced approach should be used instead. Any combination of the "full" and the "reduced" approaches should be duly documented in the separate qualitative document to be submitted to national authorities together with the template.

(added on 27 March 2015)

28. With respect to vega risk treatment of complex options, how should the treatment apply to spread options and multi-underlying options including a mixture of longs and shorts? More generally, how should the approach apply to the most complex trades?

Answer: It is an inevitable consequence of a standardised approach for market risk that some risks of complex products are not covered in the most risk sensitive manner possible.

In order to get an overview, the Committee would like to use the QIS to collect figures about the volume of the instruments whose risks are not properly captured (ie instruments subject to "residual risks" beyond those captured by the residual buckets). **Banks will therefore be asked to state the sum of the gross notional amounts of instruments as a percentage of the total capital requirement under the proposed standardised approach, and as a percentage of the total gross notional amounts of their trading book. These data will be gathered through a forthcoming set of closed-form questions (to be filled in under panel D of the "TB general" worksheet).** Banks will be requested to report the notional amounts for any instruments that have at least one of the following properties:

- The instrument is subject to a risk that is not represented by any of the risk factors specified for the standardised approach; or
- The change in value of the instrument given a shift to at least one of the relevant risk factors is poorly approximated by the sensitivities (ie deltas and vegas) in conjunction with the formulas for the determination of curvature risk; or

- The bank cannot perform a calculation required under the standardised approach for the instrument.

For instruments which do not have a notional amount (eg digital options on exotic underlyings), the maximum potential loss should be used. For instruments for which neither the notional amount nor the maximum potential loss can be determined, the bank will be asked to list such instruments in its accompanying qualitative document.

In addition, banks will be asked to include instruments with residual risks into the general calculations for all risk aspects that are covered by the proposed standardised approach.

(added on 27 March 2015)

7. Standardised approach to credit risk

7.1 Supplementary guidance on the “BB SA general” worksheet

7.1.1 General guidelines

The Basel Committee recognises the difficulty in completing the TFSA QIS as many of the risk drivers in the template have not been previously requested and therefore may not be readily accessible in risk management systems. However, the Committee would like to derive the maximum value from this QIS exercise and emphasises that the necessary efforts must be made to complete the template to the greatest extent possible, using proxies if necessary.

- For each exposure category, if the risk drivers are not available per the calculation specified in the Consultative Paper, banks are asked to calculate a proxy in lines with the guidance provided below.
- Banks are requested to map their exposures based on the exposure categorisation proposed in the Consultative Paper. This includes exposures currently subject to the existing Standardised approach and the IRB approach.
- To aid in data analysis, please submit any necessary qualitative comments in a separate Word document.
- Due to data quality issues, there may be circumstances when the built-in error messages “PASS/FAIL” will read “FAIL” although the bank has appropriately entered data. Surveys with a “FAIL” message will still be processed. However, please provide an explanation for the error message.
- For each exposure category, to the extent that the requested granularity is not available, banks are requested to input exposures according to the thresholds that represent the majority of their portfolio. Importantly, to the extent that banks know that they do not have any exposures according to the requested thresholds and drivers, banks should input a 0 in those rows and columns. To the extent that banks do not know if they have any exposures according to the requested thresholds and drivers, banks should leave such rows and columns **blank**. Examples are provided below to further clarify this point.
- To summarise blanks and 0s:
 - Blank means not applicable, or no information is available.
 - 0 means that the bank has information, but it is a nil exposure.
- Regarding credit risk mitigation, exposures treated under the Simple Approach recognising eligible financial collateral, guarantees or credit derivatives should be included in the rows

relevant for the direct obligor for on/off balance sheet exposure and pre-CRM columns (ie columns G to I and L). For all other columns, these exposures should be included in the rows relevant for the guarantor or collateral originator. Any portion of the exposure that is not protected by financial collateral, a guarantee or credit derivative should remain in the row of the direct obligor. For example, in an SFT between banks, collateralised by a sovereign bond, the exposure pre-CRM should be captured in the relevant bank rows. Following the risk weight substitution, the amount of the exposure covered by the sovereign bond, should be recorded in the relevant sovereign row. The amount of the exposure not covered by the sovereign bond, shall remain in the banks row. Note that the exposure will move between rows only for the post-CRM and subsequent columns.

- Within a given exposure category, risk drivers should be applied to the same population.
- Banks should complete the majority of the template based on performing assets. Past due exposures (balance sheet figure) are captured only in row 20 in the Summary information on whole credit risk portfolio section. Losses for each portfolio experienced during the reporting year (income statement figure) are reported in column O (estimation of losses/NPL amount) throughout the template. Note that if a bank cannot populate column O with a PnL amount as provided for in the instructions, banks can input the amount nonperforming assets as of the end of the reporting date (balance sheet amount).

7.1.2 Section: Summary information on whole credit risk portfolio

1. Columns G, H and O must be populated for all exposures and portfolios.
2. IRB banks should separately apply all three RWA approaches (current SA, proposed SA and IRB) across their entire banking book. IRB banks will be calculating RWA three times for all portfolios.
3. For banks that do not have approval to apply the IRB, the IRB columns (columns P to W) are to be left blank. Such banks will be calculating RWA twice for all portfolios
4. For IRB banks that do not have approval to apply the IRB to all portfolios, the portfolios without approval are to be included in columns U and V. For such banks, there will be some overlap between columns U and V and I to K.
5. For banks that can only apply the proposed SA to a portion of their exposures, due to certain data limitations or other obstacles, columns L and M should be populated using the entire banking book and column N is to be populated using a weighted average risk weight for their particular portfolio based on the risk weights under the proposed SA.
6. Rows 8 to 19 and row 21 should include only performing (non-defaulted) exposures. All past due or defaulted exposures – according to the IRB definition in Basel II, paragraph 452 – should be included in row 20. For banks that only use the standardised approach, it is expected they apply rules set out in paragraph 78 of the Basel II framework.
7. Row 19 should include exposures that meet the regulatory retail requirements.
8. Row 21 should capture Other Retail, plus any other exposures.

7.1.3 Breakdown panels (general guidelines):

1. Banks must only enter exposures into the breakdown panels for which they can apply the proposed SA and one or both of the current SA and the IRB. (In the event that a bank can input exposures in a breakdown panel using the proposed SA and not the current SA or the IRB, banks should still input figures according to the proposed SA and leave the other columns blank.) Therefore, the exposures in the breakdown panels are “bound” by the proposed SA. This is to ensure comparability. For example, if a bank has \$50 of exposure in their corporate

portfolio for which they have revenue and leverage risk drivers, then those corporate exposures should be included in the Corporate breakdown panel and the bank must then apply either both or one of the current SA and IRB to the same exposures.

2. Banks must populate exposures with no available risk drivers or proxies as follows:

Exposure type	Treatment in the breakdown panels
Bank exposures with no available risk drivers or proxies	Panel B2, beginning row 536
Senior corporate debt exposures with no available risk drivers or proxies	Panel C2, "No leverage/revenue" rows
Residential real estate exposures with no available risk drivers or proxies	Exclude such exposures from the breakdown panels
Commercial real estate exposures with no available risk drivers or proxies	Exclude such exposures from the breakdown panels
Regulatory retail with no risk drivers or proxies	Exclude such exposures from the breakdown panels

7.1.4 Section: Summary of data provided in breakdown panels below

1. Amounts entered represent the subset of the credit portfolio for which banks can apply the revised standardised approach. Banks should work with their home supervisors to determine the best way to maximise the data provided. Options include:

- (a) Providing all data points on only a subset of the portfolio (eg home country only); and/or
- (b) Calculating proxies for certain risk drivers.

Banks should in all cases provide a written summary describing the population provided, the reasons why entire coverage could not be achieved and any details surrounding the calculation of proxies.

2. Amounts entered in this section should agree to the amounts entered in panels A to F. For different options sometimes provided in panels A to F, banks should apply the risk drivers to the same subset of data.

Panel A1–A3: Exposures to Sovereigns and PSEs

For each panel, complete rows 1 to 6 or 7 to 12 depending on the option used in your country. One option will be left blank. Columns I through K will equal L through N except for differences in CCF and CRM.

Panel A4: Exposures to MDBs

1. Highly rated MDBs in row 93 are those MDBs that are granted a 0% risk weight by the Basel Committee. The list of MDBs is contained in footnote 47 and is excerpted below:

MDBs currently eligible for a 0% risk weight are: the World Bank Group comprising the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), the European Investment Fund (EIF), the Nordic Investment Bank (NIB), the Caribbean Development Bank (CDB), the Islamic Development Bank (IDB), the Council of Europe Development Bank (CEDB), and the International Finance Facility for Immunisation (IFFIm).

2. MDBs that are not eligible to receive a 0% risk weight and were previously risk weighted as banks according to option 2 under Basel II paragraph 63 should be input in rows 94 to 99. Such MDBs should comply with the characteristics of qualifying MDBs as described in 11b of the consultative paper.
3. Any other MDB shall be risk weighted as a corporate. The on and off-balance sheet exposure should be recorded in row 100, and the subsequent columns should be populated in the corporate panel.

Panel B1: Exposures to banks

1. CET1 RBC ratio:

- (a) **Threshold granularity not available:** To the extent that banks do not readily have access to the granularity requested, banks should make an informed decision and input exposures according to the CET1 thresholds that represent the majority of their interbank exposures. See below for an example:

External rating	CET1 ratio	Rows
Option 1: AAA	9.5% to 12%	128 to 133
Option 1: BBB+	7% to 9.5%	194 to 199

- (b) **0s and blanks:** If a bank knows that they do not have exposures to a bank within a certain CET1 band, input a 0 into those rows. If a bank does not know if they have an exposure to a bank within a certain CET1 band, those rows should be left blank.
- (c) **Proxies:** As needed, banks are requested to proxy the CET1 ratio. Such a proxy can be calculated as follows:

$$\frac{\text{Common stock} + \text{Surplus} - \text{treasury shares} + \text{retained earnings} + \text{AOCI} - \text{Goodwill}}{\text{Risk-weighted assets}}$$

If a proxy is not possible, banks should use the available Tier 1 RBC ratio.

2. Net NPA:

- (a) **Threshold granularity not available:** To the extent that banks do not readily have access to the granularity requested for the net NPA ratio, banks are requested to make an informed decision and input exposures according to the net NPA thresholds that represent the majority of their interbank exposures. See below for an example:

External rating	CET1 ratio	Net NPA	Rows
Option 1: AAA	9.5% to 12%	<1%	128 to 129
Option 1: AAA	9.5% to 12%	1% to 3%	130 to 131
Option 1: BBB+	7% to 9.5%	1% to 3%	196 to 197
Option 1: BBB+	7% to 9.5%	>3%	198 to 199

- (b) **0s and blanks:** If a bank knows that they do not have exposures to a bank within a certain net NPA band, input a 0 into those rows. If a bank does not know if they have an exposure to a bank within a certain net NPA band, those rows should be left blank.
- (c) **Proxies:** As needed, banks are requested to proxy the net NPA ratio. Such a proxy can be calculated as follows:

Preferred option	<u>Nonperforming loans – Provisions</u> Total loans
Alternative option	<u>Nonperforming loans</u> Total loans

(d) **Proxy unavailable:** If a bank is unable to estimate net NPA or a similar proxy, input exposures according to the relevant CET1 threshold in the 1% to 3% Net NPA rows (eg for AAA rated banks with a CET1 ratio between 9.5% and 12%, rows 130 and 131).

3. Original maturity:

(a) **Threshold granularity not available:** If a bank does not know the original maturity of the exposure, input exposures in the >3 months row according to the relevant CET1 and/or net NPA thresholds.

Panel B2: Exposures to banks for which obligor's disclosure is insufficient

Banks are kindly reminded that this is not a fallback panel – all efforts should be made to use proxies in order to populate panel B1, in accordance with above guidance.

Panel C1a: Exposures to corporates/senior corporate exposures/option A

1. Revenue

(a) **Threshold granularity not available:** To the extent that banks do not readily have access to the granularity requested for revenue, banks are requested to make an informed decision and input exposures according to the revenue thresholds that represent the majority of their senior corporate exposures. See below for an example:

External rating	Revenue	Rows
A+ to A-	EUR 500m–EUR 1bn	615 to 618
A+ to A-	> EUR 1bn	619 to 622
BBB+	EUR 50m–EUR 100m	635 to 638
BBB+	EUR 100m–EUR 500m	639 to 642

(b) **0s and blanks:** If a bank knows that they do not have exposures to a corporate within a certain revenue band, input a 0 into those rows. If a bank does not know if they have an exposure to a corporate within a certain Revenue band, those rows should be left blank.

2. Leverage

(a) **Threshold granularity not available:** To the extent that banks do not readily have access to the granularity requested for leverage, banks are requested to make an informed decision and input exposures according to the leverage thresholds that represent the majority of their senior corporate exposures. See below for an example:

External rating	Revenue	Leverage	Row
A+ to A-	EUR 500m–EUR 1bn	1x to 3x	615
A+ to A-	> EUR 1bn	3x to 5x	620
BBB+	EUR 100m–EUR 500m	1x to 3x	639
BBB+	EUR 100m–EUR 500m	3x to 5x	640

(b) **0s and blanks:** If a bank knows that they do not have exposures to a corporate within a certain leverage band, input a 0 into those rows. If a bank does not know if they have

an exposure to a corporate within a certain leverage band, those rows should be left blank.

- (c) **Data unavailable:** If a bank does not know the leverage, input exposures according to the relevant revenue threshold in the 3x to 5x rows.

Panel C1b: Exposures to corporates/senior corporate exposures/option B

1. Profitability

- (a) **Threshold granularity not available:** To the extent that banks do not readily have access to the granularity requested for profitability, banks are requested to make an informed decision and input exposures according to the profitability thresholds that represent the majority of their senior corporate exposures. For example, if the majority of a bank's exposures to senior corporate debt are to corporates that are:

External rating	Profitability	Rows
A+ to A-	5%–10%	765 to 768
A+ to A-	> 10%	769 to 772
BBB+	0%–5%	781 to 784

- (b) **Os and blanks:** If a bank knows that they do not have exposures to a corporate within a certain profitability band, input a 0 into those rows. If a bank does not know if they have an exposure to a corporate within a certain profitability band, those rows should be left blank.

2. Leverage: Follow guidance included for leverage ratio for panel C1b.

Panel C2: Other senior corporate exposures, specialised lending, subordinated debt and equity

- Banks are reminded that the no leverage/revenue data row should only be used if an informed decision is not possible for C1a and C1b.
- If banks cannot evaluate specialised lending exposures based on the counterparty (see paragraphs 28 and 29 of the Consultative Paper), apply the applicable flat risk weights.

Panel D1: Exposures secured by residential real estate/option A

Note that the proposed LTV risk driver is calculated as:

$$\frac{\text{Current loan value}}{\text{Original property value}}$$

1. LTV ratio:

- (a) **Threshold granularity not available:** To the extent that banks do not readily have access to the granularity requested, banks should make an informed decision and input exposures according to the LTV thresholds that represent the majority of their residential real estate lending. See below for an example:

LTV	Rows
80%–90%	1021 to 1034
90%–100%	1035 1048

- (b) **Os and blanks:** If a bank knows that they do not have any residential real estate exposures with a certain LTV band, input a 0 into those rows. If a bank does not know

if they have any residential real estate exposures within a certain LTV band, those rows should be left blank.

- (c) **Proxies:** As needed, banks can use a current loan to value ratio, calculated as follows:

Preferred option	$\frac{\text{Current loan value}}{\text{Current property value}}$
Alternative option	$\frac{\text{Loan at origination}}{\text{Original property value}}$

2. DSC:

Note that DSC is calculated after tax, at origination, as:

$$\frac{\text{Debt service payments (monthly or annual)}}{\text{Total income (monthly or annual)}}$$

- (a) **Threshold granularity not available:** To the extent that banks do not readily have access to the granularity requested for the DSC ratio, banks are requested to make an informed decision and input exposures according to the DSC thresholds that represent the majority of their residential real estate lending. See below for an example:

LTV	DSC	Rows
80%–90%	40%–45%	1029 to 1030
80%–90%	45%–50%	1031 to 1032
90%–100%	30%–35%	1039 to 1040
90%–100%	25%–30%	1037 to 1038

- (b) **Os and blanks:** If a bank knows that they do not have any residential real estate exposures within a certain DSC band, input a 0 into those rows. If a bank does not know if they have any residential real estate exposures within a certain DSC band, those rows should be left blank.
- (c) **Proxies:** Banks are requested to proxy DSC including taxes. Banks can proxy taxes by using the average taxation rate in their jurisdiction. Banks can use the current DSC, if the DSC at origination is unknown. Furthermore, if banks do not have the information of the income of the borrower but have underwriting practices that set limits based on debt to income ratios, they can use this information as a proxy to input the exposures to the relevant bucket.
- (d) **Proxy unavailable:** If a bank is unable to estimate DSC, input exposures according to the relevant LTV threshold in the > 50% rows.

3. Currency:

- (a) **Currency unavailable:** if the bank does not know the currency of the main income, input exposures in the currency of main income row for the relevant LTV and DSC ratios.

Panel D2: Exposures secured by residential real estate/option B

1. LTV – see guidance provided above for D1.
2. DTI: Note that DTI is calculated as

$$\frac{\text{Total debt}}{\text{Total annual income}}$$

- (a) **Threshold granularity not available:** To the extent that banks do not readily have access to the granularity requested for the DTI ratio, banks are requested to make an informed decision and input exposures according to the DTI thresholds that represent the majority of their residential real estate lending. See below for an example:

LTV	DTI	Rows
80%–90%	4x – 5x	1139 to 1140
80%–90%	5x – 6x	1141 to 1142
90%–100%	3x to 4x	1147 to 1148
90%–100%	≤ 3x	1145 to 1146

- (b) **0s and blanks:** If a bank knows that they do not have any residential real estate exposures within a certain DTI band, input a 0 into those rows. If a bank is unaware they have any residential real estate exposures within a certain DTI band, those rows should be left blank.
- (c) **Proxies:** Banks are requested to proxy DTI including taxes. Banks can proxy taxes by using the average taxation rate in their jurisdiction. Banks can use the current DTI, if the DTI at origination is unknown. Furthermore, if banks do not have the information of the income of the borrower but have underwriting practices that set limits based on debt to income ratios, they can use this information as a proxy to input the exposures to the relevant bucket.
- (d) **Proxy unavailable:** If a bank is unable to estimate DTI, input exposures according to the relevant LTV threshold in the > 50% rows.
3. Currency:
- (a) **Currency unavailable:** if the bank does not know the currency of the main income, input exposures in the currency of main income row for the relevant LTV and DTI ratios.

Panel E1: Exposures secured by commercial real estate/option A

1. **Additional information on risk weight – column D:** For exposures secured by CRE that are not specialised lending (project finance, object finance, commodities finance, income producing real estate, acquisition, development and construction exposures) use the RW based on senior corporate exposures, regulatory retail or other retail:

Counterparty	Risk weights
Senior corporate exposures	60% to 300%
Regulatory retail	75%
Other retail	100%

2. **For banks that are eligible to apply footnote 59 (excerpted below):**

- (a) Exposures input into Office/multipurpose (tranche ≤ 60% LTV), receive a 50% risk weight. The remainder of the exposure should be input into Office/multipurpose (tranche over 60% LTV) and be risk weighted per the counterparty type.
- (b) For banks that do not apply footnote 59, all exposures must be included in Other.

FN 59:

However, in exceptional circumstances for well-developed and long established markets, exposures secured by mortgages on office and/or multipurpose commercial premises and/or multi-tenanted commercial premises may be risk-weighted at [50%] for the tranche of the loan that does not exceed 60% of the loan to value ratio (as defined in paragraph [40]). This exceptional treatment will be subject to very strict conditions, in particular:

- the exposure does not meet the criteria to be considered specialised lending as defined in paragraph [21];
- the risk of loan repayment must not be materially dependent upon the performance of, or income generated by, the property securing the mortgage, but rather on the underlying capacity of the borrower to repay the debt from other sources;
- the property securing the mortgage must meet the same operational requirements as for residential real estate, as prescribed by paragraph [37]; and
- two tests must be fulfilled, namely that (i) losses stemming from commercial real estate lending up to the lower of 50% of the market value or 60% of loan-to value (LTV) based on mortgage-lending-value (MLV) must not exceed 0.3% of the outstanding loans in any given year; and that (ii) overall losses stemming from commercial real estate lending must not exceed 0.5% of the outstanding loans in any given year. This is, if either of these tests is not satisfied in a given year, the eligibility to use this treatment will cease and the original eligibility criteria would need to be satisfied again before it could be applied in the future. Countries applying such a treatment must publicly disclose that these and other additional conditions (that are available from the Basel Committee Secretariat) are met. When claims benefiting from such exceptional treatment have fallen past-due, they will be risk-weighted at [100%].

Panel E2: Exposures secured by commercial real estate/option B

3. **Additional information on risk weight – column D:** For exposures secured by CRE that are not specialised lending (project finance, object finance, commodities finance, income producing real estate, acquisition, development and construction exposures) use the RW based on senior corporate exposures, regulatory retail or other retail:

Counterparty	Risk weights
Senior corporate exposures	60% to 300%
Regulatory retail	75%
Other retail	100%

4. If the RW is unknown, banks should input exposures according to the relevant LTV band in the <60% risk weight section (rows 1 to 10). If the proposed thresholds are not available for LTV, banks should calculate a weighted average and populate the rows which represent the concentration of their CRE lending. If the type of CRE is unknown, banks should include exposure in the "Other" row for the relevant risk weight and LTV.

Panel F1–F4: Retail exposures

1. **Scope:** Panels F1 to F4 should only capture exposures that meet the regulatory retail definition. In addition, banks should calculate options A to D for the same dataset.
2. **DSC:** banks should follow previously stated guidance on DSC included above.

3. If the currency is unknown, banks should include exposures in currency of main income row.

7.1.5 Qualitative memo:

Each participating bank should include in its data submission a memo describing:

- The completeness of the data provided relative to overall portfolio and with respect to the individual exposure classes;
- Detail on how proxies were calculated, the use of alternative risk drivers (eg Tier 1 instead of CET 1 for exposures to banks) or the assignment of exposures where risk drivers or proxies are not available;
- Detail on why the risk drivers are not readily accessible; and
- Detail on "FAIL" messages in the "PASS/FAIL" checks.

7.2 Frequently asked questions

29. We would like to seek clarification on column O (NPL amount) of the "BB SA General" worksheet. For off-balance sheet items, should the reporting bank populate the EAD or EAD pre-CCF as the NPL amount?

Answer: In the *Instructions for Basel III monitoring*, revised 13 February 2015, a clarification was included regarding the NPL amount to be included in column O: "Non-performing loans (NPL) (column O) should represent the losses for each portfolio experienced during the last reporting year." Therefore, EAD pre or post-CCF would not be the correct measure. Banks should input the losses for that portfolio for the year ended 31 December 2014 (an income statement measure) in that column. Also see question 20 for further information.

(added on 17 February 2015)

30. The QIS template, under retail exposures, option C (row 1271 of the worksheet "BB SA general"), refers to using "maturity" as one of the drivers. As this term is not defined in the completion instructions, could you please clarify if "maturity" is intended to mean contractual or residual maturity?

Answer: Residual maturity should be provided. Also see question 15 for further information.

(added on 17 February 2015)

31. In answering the asset class specific information, if there is no data satisfying the definitions of rows, should a bank report "0" or keep those rows blank? For example, if a bank cannot check the CET1 ratio or net NPA ratio of all bank exposures and it reports the data of bank exposures to the panel for exposures for which obligor's disclosure is insufficient, should the rows regarding bank exposures be kept blank or filled with 0? In many other worksheets, yellow cells must be filled with data, even if it is 0.

Answer: If the bank does not have information to report the requested breakdowns, it should leave the cell blank. The bank should only report "zero" where it knows that the exposure is nil. Please refer to Section 2.2 of the Basel III monitoring instructions. Note that banks must try to calculate the risk drivers for their counterparty banks, even if they can only calculate CET1 and net NPA for a subset of their bank counterparties. Banks are also encouraged to proxy the risk drivers if possible. Although the QIS is complex, banks should avoid defaulting to the highest risk weight.

(added on 5 March 2015)

32. In the case of the exposures secured by residential real estate and by commercial real estate, are there any rows in which a bank can report data when it cannot check either or LTV or DSC (or any other risk driver). What should a bank do in such a case? Should a bank not report any data regarding the exposures secured by residential real estate or commercial real estate if it cannot check the relevant risk drivers?

Answer: If the bank knows the LTV ratio but not the DSC, then for the applicable LTV ratio (eg 20% to 30%, 30% to 40%), they should report the exposure in the "DSC > 50%" and "currency of main income" row.

If the bank does not know LTV, it should leave the breakdown panel blank (particularly panels D and E2). However, the real estate exposures should be included in the summary information on the whole portfolio section and a risk weight of 100% should be applied.

(added on 5 March 2015)

33. For calculating DSC as a risk driver, the consultative document says that the income netted with tax should be used. If a bank can obtain only the gross income and cannot calculate the net income, can the bank use the gross income instead of the net income for this QIS? Or should the bank keep these cells blank?

Answer: The bank should try to proxy the income after taxes – see answer to question 14. In case it is not possible, it could report based on gross income. In any case, the bank should submit a word file explaining the data that it has submitted.

(added on 5 March 2015)

34. For the proposed standardised approach the RWA calculation can only be done for exposures provided in the breakdown panels below so how should any gap between the population analysed in the breakdown tabs and the total portfolio be completed? We would suggest leaving the proposed standardised approach RWA section in the whole portfolio panel blank.

Answer: The proposed standardised approach RWA section in the whole portfolio panel should not be left blank.

For banks that can only apply the proposed SA to a portion of their exposures, and have input these exposures into the breakdown panels, columns L to M in the Summary information on whole credit risk portfolio panel should be populated using the entire banking book (not just the portion of exposures in the breakdown panels) and column N is to be populated using a weighted average risk weight for the bank's particular portfolio based on the risk weights under the proposed SA.

(added on 10 March 2015)

35. Where there is more than one choice for calculation of the risk weight under the revised approach (eg commercial real estate, see below) how should this be reflected in column N? Which option should be used?

Answer: For purposes of column N in the Summary information on whole portfolio panel, use the following when options are presented:

- 1) Senior corporate exposures: Option A
- 2) Residential real estate: Option A
- 3) Commercial real estate: Option A

- 4) Retail exposures: The summary panel does not need to agree to the breakdown panels. Input all regulatory retail exposures into row 19 and apply a 75% risk weight. Populate panel F on a best efforts basis and apply the risk drivers to the same regulatory retail dataset. Column N for panel F should be left blank.
- (added on 10 March 2015)
36. Regarding the comments in the general remarks in Section 8.3.3 regarding specialised lending, we understand this to mean we should report slotting exposures in columns P to W in the whole portfolio panel but are not required to report data under the slotting approach in the breakdown panels. Please confirm our understanding is correct.
- Answer:** Exposures that are currently treated under the supervisory slotting criteria approach should be included in the summary sections of the template: Summary information on whole credit risk portfolio (columns P, Q and W) and Summary of data provided in breakdown panels below (columns P and Q).
- Exposures that are currently treated under the supervisory slotting criteria approach should be included in the relevant breakdown panels in columns P and Q.
- (added on 10 March 2015)
37. Based on our reading of the proposed rules we would expect that the RWAs under the two commercial real estate options would give different results so the RWA check totals in rows 45 and 46 will not agree (fine for other columns).
- Answer:** See answer to question 7. Only use option A to populate column N in the Summary information on whole credit risk portfolio panel.
- (added on 10 March 2015)
38. For exposures to banks, the Committee's proposals seem to suggest that banks located in countries which do not apply an equivalent regulation to Basel III should be treated as corporates. Which countries should be considered as non-equivalent?
- Answer:** Per the proposal, only internationally active banks located in countries which do not apply the Basel framework should be treated as corporates (see footnote 48 of the Consultative Paper). For purposes of this QIS, apply the bank framework to all banks.
- (added on 10 March 2015)
39. For a given counterparty, should we use its social account or consolidated (or sub-consolidated accounts) in priority?
- Answer:** For banks and corporates, the risk weight should be based on the standalone financial statements of the legal entity to which the bank has an exposure. If this is not possible, apply the risk weight based on the entity's consolidated financial statements (ie those of the legal entity and its subsidiaries). Do not use consolidated financial statements of any wider group of which the entity is a subsidiary.
- (added on 10 March 2015)
40. Exposures to banks located in countries estimated as applying non-equivalent regulation should be reported as corporates. Can we consider that an exposure to a bank located in a non-equivalent country but which is a subsidiary of a banking group located in an equivalent country and which is included in the prudential consolidation of this group is to be included as bank?
- Answer:** Yes.
- (added on 10 March 2015)

41. Exposures to banks located in countries estimated as applying non-equivalent regulation should be reported as corporates. EBITDA is not a data item available for banks so will be reported as insufficient information for option B, while it will be possible to populate option A for corporates. Should we maintain such a discrepancy or not populate option A at all?

Answer: See answer to question 10 – for purposes of this QIS, apply the bank framework to all banks. At their option, banks can also separately send in information regarding their population of bank counterparties in countries applying non-equivalent regulation.

(added on 10 March 2015)

42. If data on income net of taxes is not available, what proxy should be used?

Answer: Banks are requested to proxy DSC including taxes. Banks can proxy taxes by using the average taxation rate in their jurisdiction. Banks can use the current DSC, if the DSC at origination is unknown. Furthermore, if banks do not have the information of the income of the borrower but have underwriting practices that set limits based on debt to income ratios, they can use this information as a proxy to input the exposures to the relevant bucket.

(added on 10 March 2015)

43. Exposures have to be split between maturity buckets, what is the definition of the maturity: Final legal maturity? Weighted average maturity for amortising exposures? Residual maturity or maturity as calculated under paragraph 320 of the Basel II framework (effective maturity)? The Committee's FAQ document of 17 February 2015 mentions only the residual maturity (without any detail).

Answer: Maturity refers to residual maturity (based on the final legal maturity as stated in the contract).

(added on 10 March 2015)

44. Where an exposure would be reported in different asset classes under IRB, current and proposed standardised approaches on which basis should columns G and H which are applicable to all approaches be reported?

Answer: Exposures in columns G and H should be based on the asset classes in the proposed standardised approach.

(added on 10 March 2015)

45. Columns G and H should include all exposures subject to credit risk regardless of which exposures they are currently on.

Answer: Yes.

(added on 10 March 2015)

46. Columns I to K should include all exposures, ie both exposures currently on the standardised approach and a calculation under current standardised rules for exposures currently on the IRB approach, based on our reading of Section 8.2.3. However we would like to clarify this to avoid any issues of double counting, to check that IRB exposure would be included in these columns and not only in the IRB columns?

Answer: Yes. Columns I to K should include all exposures. For IRB banks that do not have approval to apply the IRB to all portfolios, the portfolios without approval are to be included in columns U and V. Therefore there will be some overlap between columns I to K and columns U to V.

(added on 10 March 2015)

47. Similarly columns L to N include all exposures subject to credit risk regardless of which approach they are currently on, as above. Please confirm.

Answer: Confirmed.

(added on 10 March 2015)

48. Estimation of losses: What is this data going to be used for as it is not part of the proposed standardised rules? What is the definition for this item? (The additional guidance in the FAQ of 17 February is still not clear.)

Answer: Column O – Estimation of losses / NPL amount is intended to capture the loss (income statement figure) on the portfolio for the reporting year. This data will be used to assess the riskiness of the particular portfolio.

Note that if a bank cannot populate column O with a PnL amount as provided for in the instructions, banks can input the amount nonperforming assets as of the end of the reporting date (balance sheet amount). To define nonperforming, IRB banks should use the definition Basel II, paragraph 452. For banks that only use the standardised approach, it is expected they apply rules set out in paragraph 78 of the Basel II framework.

(added on 10 March 2015)

49. Do you confirm that the exposure to be reported under column P is post CCF?

Answer: Confirmed.

(added on 10 March 2015)

50. Columns P to W should also be all exposures subject to credit risk, columns P to T relate to data under the IRB approach, and U and V relates to exposures which are currently on the standardised approach. Although column U is headed partial use we assume that all exposures on standardised approach for IRB banks should be reported not just those with a permanent partial exemption, ie also those which will roll out. Please confirm.

Answer: Confirmed.

(added on 10 March 2015)

51. The RWA column is greyed out for senior corporate exposures in rows 737 to 856, and for exposures secured by residential real estate in rows 1065 to 1164 so the RWA check totals will not work for these items (fine for other columns).

Answer: Confirmed.

(added on 10 March 2015)

52. Is it required to report the average DSC after taxes deduction, should we include income taxes or other type of taxes? If yes, please specify.

Answer: Income taxes only.

(added on 10 March 2015)

53. If data on income net of taxes is not available, what proxy should be used?

Answer: Banks can proxy taxes by using the average taxation rate in their jurisdiction. Furthermore, if banks do not have the information of the income of the borrower but have underwriting practices that set limits based on debt to income ratios, they can use this information as a proxy to input the exposures to the relevant bucket. If banks cannot estimate taxes, then leave column D blank.

(added on 10 March 2015)

54. Which risk weights should be used for covered bonds (Basel, ie no preferential risk weights or CRR risk weights)?

Answer: An exposure to a covered bond is an exposure to a bank under the Basel framework. The bank should risk weight exposures to covered bonds according to paragraphs 12 to 18 of the Consultative Paper. The bank's risk weight will be determined by its CET1 RBC and net NPA ratios.

(added on 10 March 2015)

55. Should banks take into account the SME supporting factor in the CRR?

Answer: Do not take into account the SME supporting factor included in the CRR. The Consultative Paper on revisions to the standardised approach to credit risk does not include a specific SME treatment. Exposures to SMEs are to be risk weighted according to either the corporate or retail exposure classes in the consultative paper.

(added on 10 March 2015)

56. Regarding NPL amount (column O) – Should banks populate only losses for SA asset classes under column O, or should that include losses for both IRBA and SA asset classes?

Answer: Non-performing loans (NPL) (column O) should represent the losses for each portfolio experienced during the last reporting year. Banks should populate losses for their entire credit portfolio in column O – inclusive of both IRBA and SA asset classes.

Note that if a bank cannot populate column O with a PnL amount as provided for in the instructions, banks can input the amount nonperforming assets as of the end of the reporting date (balance sheet amount). To define nonperforming, IRB banks should use the definition Basel II, paragraph 452. For banks that only use the standardised approach, it is expected they apply rules set out in paragraph 78 of the Basel II framework.

(added on 10 March 2015)

57. Regarding CCFs applied by AIRB banks in panel D in the BB SA additional tab – (a) Does this panel only apply to the retail off-balance sheet exposures under AIRB approach? (b) Suppose customer A's total limit is \$1,000. As of end-Dec14, the customer has drawn down \$400 as letter of credit, should \$400 be populated for both cells M61 and N61 and the remaining undrawn amount of \$600 (assuming the facility is not cancellable) be populated for both cells M57 and N57?

Answer: (a) Yes – panel D only applies to the CCFs under the Advanced IRB approach per paragraph 316 of Basel II. The panel applies to both retail and wholesale off-balance sheet exposures.

(b) Assume Customer A has a conditionally cancellable commitment with a total limit \$1,000 and an original maturity of greater than 1 year. As of December 2014, Customer A has drawn down \$400. \$1000 should be populated in cell M58 and \$600 should be populated in cell N58. Row 57 is the sum of rows 58 and 59.

(added on 10 March 2015)

58. In worksheet "BB SA General" there is a Summary section and a breakdown section. If the Bank in some parts is only able to supply data in the Summary section (for example column O NPL amount), ie not able to report on detailed breakdown level we will have "FAIL" in control-checks, is it ok to send the report with FAIL in control-checks or shouldn't we report anything in that column?

Answer: It is okay to have a “FAIL” in the control-checks, meaning that the amounts reported in the Summary of data provided in breakdown panels below does not equal the amounts reported in the Summary information on whole credit risk portfolio section.

(added on 10 March 2015)

59. In the instructions for Basel III monitoring page 2 “This data collection exercise should be completed on a best-efforts basis. Ideally, banks should include all their assets in this exercise. However, due to data limitations, inclusion of some assets (for example the portfolio of a minor subsidiary) may turn out to be an unsurpassable hurdle. In these cases, banks should consult their relevant national supervisor to determine how to proceed.” If bank has data limitations, ie not sourced data and with unsurpassable hurdle in these cases, the data might be excluded on both summary and breakdown level?

Answer: Yes. The data collection exercise is being conducted on a best efforts basis and data can be excluded, even in the summary section, if necessary.

(added on 10 March 2015)

60. Our systems are lacking data on CET1 ratio and NPA ratio. Is it possible on best effort basis to use a simplified method like Net impaired loans (impaired loans – provisions) / Gross loans?

Answer: Proxies for CET1 are as follows:

- Preferred option:
$$\frac{\text{common stock} + \text{surplus} - \text{treasury shares} + \text{retained earnings} + \text{AOCI} - \text{goodwill}}{\text{risk-weighted assets}}$$
- Alternative option: Tier 1 risk-based capital ratio.

Proxies for Net NPA are as follows:

- Preferred option: $\frac{\text{nonperforming loans} - \text{provisions}}{\text{total loans}}$
- Alternative option: $\frac{\text{nonperforming loans}}{\text{total loans}}$.

(added on 10 March 2015)

61. How should RWA be calculated for those institutions for which the disclosure is insufficient. See section 2 of the Institutions part of the “BB SA general” worksheet (row 536 in template). As far as we can see the RWA column for the proposal calculation is to be filled in. We haven’t found a proper paragraph in instructions.

Answer: For purposes of the QIS, banks are encouraged to calculate risk drivers by focusing on a subset of their interbank portfolio or using proxies to calculate the risk drivers. However, consistent with paragraph 16 of Annex 1 of the Consultative Paper, if an obligor bank’s disclosure is insufficient for calculating the CET1 ratio and the Net NPA ratio, then a risk weight of 300% must be applied under the proposed standardised approach.

(added on 10 March 2015)

62. Regarding the BB SA general section, panel F1 – Retail Exposures, Option A. In the event that a bank has exposures to a corporate counterparty that qualify for regulatory retail treatment, how should DSC be calculated in these instances? What is the definition for total income for corporate counterparties?

Answer: Exposures included panel F must meet the definition of regulatory retail included in paragraph 34 of Annex 1 of the consultative paper:

"34. To be included in the regulatory retail portfolio and be eligible for the preferential treatment, claims must meet all of the following four criteria:

- *Orientation criterion: the exposure is to an individual person or persons or to a small business;*
- *Product criterion: the exposure takes the form of any of the following: revolving credits and lines of credit (including credit cards and overdrafts), personal term loans and leases (eg instalment loans, auto loans and leases, student and educational loans, personal finance) and small business facilities and commitments. Mortgage loans and securities (such as bonds and equities), whether listed or not, are specifically excluded from this category.*
- *Low value of individual exposures: the maximum aggregated exposure to one counterparty cannot exceed an absolute threshold of €1 million.*
- *Granularity criterion: no aggregate exposure to any single counterparty⁵² can exceed 0.2%⁵³ of the overall regulatory retail portfolio, unless national supervisors have determined another method to ensure satisfactory diversification of the regulatory retail portfolio."*

For corporate counterparties that meet the above requirements, banks should use EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) as the income measure when calculating the DSC ratio.

(added on 10 March 2015)

63. Since no revision of the current approach has been proposed for sovereigns, PSEs and MDBs, should columns L, M and N be greyed out in rows 25 to 32 and 54 to 100?

Answer: The approaches for sovereigns and PSEs have not changed, but the approaches for MDB have been clarified which may lead to changes in the treatment of MDBs at certain banks. In addition, the CCFs have changed as well as the supervisory haircuts which could impact post CCF and post CRM amounts. Due to these potential deviations, columns L, M and N in rows 25 to 32 and 54 to 100 cannot be greyed out.

(added on 10 March 2015)

64. Exposures currently subjected to the IRB approach: do they have to be included also in the current and / or revised standardised approach?

Answer: Yes. IRB banks should separately apply all three RWA approaches (current SA, proposed SA and IRB) across their entire banking book. IRB Banks will be calculating RWA three times for all portfolios. Exposures are to be mapped based on the proposed consultative paper.

(added on 10 March 2015)

65. In the instructions, Section 8.2.3 state that "All exposures should be categorised based on their treatments under the existing and revised standardised approaches. Current IRB treatments will therefore be reflected in the IRB RWA column only." However, there is not an RWA column for the IRB approach in the template. How can this be interpreted?

Answer: IRB banks should separately apply all three RWA approaches (current SA, proposed SA and IRB) across their entire banking book. IRB banks will be calculating RWA three times for all portfolios. Exposures are to be mapped based on the proposed consultative paper. Include in column Q, the average RW for IRB exposures. Column P * column Q will equal the average RWA under the IRB. The template does not have a specific column to capture this amount.

(added on 10 March 2015)

66. In the instructions, Section 8.2.2 state that that "For the cross-check and breakdown panels (row 22 onwards) IRB parameters, average risk weight, and EL amounts provided in columns P to S, should not include defaulted exposures. Columns T to W are not required for the cross-check or breakdown panels." Does it means that the defaulted exposures have to be included in columns related to current SA and revised SA (columns G to O) in the breakdown and cross-check panels?

Answer: Banks should complete the majority of the template based on performing assets. Past Due exposures (balance sheet figure) are captured only in row 20 in the Summary information on whole credit risk portfolio section. Losses for each portfolio experienced during the reporting year (income statement figure) are reported in column O (Estimation of Losses/NPL amount) throughout the template. Note that if a bank cannot populate column O with a PnL amount as provided for in the instructions, banks can input the amount nonperforming assets as of the end of the reporting date (balance sheet amount).

(added on 10 March 2015)

67. For column P to W, should banks convert their IRB book to the standardised approach? Or do banks report Standardised Approach portfolios under columns I to K, and then report what these would look like under the proposed new standardised approach on columns L to N, and IRB portfolios to be reported as they currently are?

Answer: Banks are requested to map their exposures based on the exposure categorisation proposed in the Consultative Paper. This includes exposures currently subject to the existing Standardised approach and the IRB approach.

(added on 10 March 2015)

68. The proposed rule includes two alternatives to the supervisory collateral haircuts, one which uses public credit ratings and one which does not. Which should be used?

Answer: All banks should use the supervisory haircut table based on external ratings. The proposed non-ratings based table was not intended to be used as part of this QIS.

(added on 10 March 2015)

69. Where should sovereign exposures under Basel II paragraph 54 (exposures to sovereign of incorporation denominated in domestic currency and funded in that currency) be included in the QIS template?

Answer: Jurisdictions that apply paragraph 54 of Basel II (paragraph 5 of the Consultative Paper) should include such sovereign exposures to the AAA to AA- row (ie zero risk weight), assuming that the national discretion allows for a 0% risk weight.

(added on 10 March 2015)

70. How should we classify exposure to local authorities that are not currently classified as sovereigns? Indeed a specific capital treatment exist for local authorities in Europe (they are treated as institutions but the risk drivers are not appropriate for these exposures)

Answer: Such institutions are to be treated as PSEs and risk weighted according to external ratings using either Option 1 (credit rating of the sovereign) or option 2 (credit rating of the PSE).

(added on 10 March 2015)

71. Are IRB banks expected to calculate risk weighted assets for exposures currently treated under the IRB using the current Standardised Approach?

Answer: Yes, IRB banks are expected to calculate risk weighted assets for exposures currently treated under the IRB using the current Standardised Approach.

An intended output of the QIS is to understand the impact of the proposed standardised approach to credit risk versus the current standardised approach and IRB regarding the amount of capital assigned to exposures and portfolios. This will help assess if the proposed risk drivers are directionally consistent with the current methodologies; meaning that they assign higher risk weights to exposures assigned higher risk weights by the current SA and IRB and similarly lower risk weights to exposures assigned lower risk weights by the current SA and IRB. Comparison across all three methodologies will also help to inform the Committee as to the reasonableness of the SA as a floor to the IRB.

Therefore, IRB banks should separately apply all three RWA approaches (current SA, proposed SA and IRB) across their entire banking book. IRB banks will be calculating RWA three times for all portfolios.

(added on 20 March 2015)

72. Regarding columns U and V, FAQs no°22 notes that all exposures on the standardised approach for IRB banks, and not just those with a permanent partial exemption, should be reported under columns U and V. Please confirm if there will be overlap between columns U and V and columns I to K.

Answer: Yes, there will be overlap between columns U and V and columns I to K. Completing the template this way will enable the Committee to understand the impact to a bank's capital requirements under the current SA, proposed SA and IRB.

(added on 20 March 2015)

73. Do you confirm that we should report in the row "Secured" the exposure secured by both funded and unfunded protection?

Answer: In panel F, option B "secured" means funded protection through durable goods (eg car, machines, etc). Unfunded protection (eg guarantees) would be reflected, as in the rest of the template, in columns capturing post-CRM data.

For example, Bank A has a \$100 exposure, secured by \$40 in durable goods. Bank A should input \$100 into the secured row \$0 in the unsecured row.

(added on 20 March 2015)

74. Should banks report an Expected Loss (EL) for slotting exposures in column T?

Answer: Yes, banks should report an Expected Loss (EL) in Column T as required by paragraphs 377 to 379 of Basel II.

(added on 20 March 2015)

75. What is the treatment for residential real estate exposures that are not owner occupied (rental units)?

Answer: Loans made to individuals, secured by non-owner occupied residential real estate exposures that meet the requirements of paragraph 37 in the Consultative Paper, can be risk weighted using the residential real estate lookup table and included in panel D. If the bank is able to calculate DSC, rental income must be deducted from income.

If such exposures do not meet the requirements of paragraph 37, then such exposures are treated as "other retail" and assigned a risk weight of 100%. Such exposures should be included in "other exposures" in the "Summary information on whole credit risk portfolio" section, and excluded from the breakdown panels.

Note that in accordance with paragraph 38, if a bank is unable to calculate LTV, then such an exposure is assigned a risk weight of 100%. For purposes of the QIS, if a bank does not know

the LTV or a proxy, such an exposure should be included in "other exposures" in the "Summary information on whole credit risk portfolio" section, and excluded from the breakdown panels.

Loans made to corporates, secured by residential real estate, may qualify as specialised lending in accordance with paragraph 21 of the consultative paper (eg IPRE) and should be included in the relevant panels in the template.

(added on 20 March 2015)

76. In Annex 1; paragraph 46 details how a secured exposure, under certain criteria applicable only to the collateral, would have a risk weight of 120%. Can the exposure be treated as an unsecured corporate exposure if doing so would result in a lower risk weight, consistent with "no transaction in which CRM techniques are used shall receive a higher capital requirement than an otherwise identical transaction where such techniques are not used"? Where should such a CRE exposure be reported?

Answer: Although collateral is credit risk mitigant, the use of collateral for both residential real estate exposures and commercial real estate exposures are not part of the formal CRM techniques.

CRE, option A permits a bank to ignore the commercial real estate collateral and assign a risk weight based on the counterparty. Under CRE, option B, the risk weight is determined based on the LTV and if an LTV is not available, a risk weight of 120% is assigned to the exposure. For purposes of the QIS, if a bank does not know the LTV of a CRE exposure, exclude the exposure from panel E2. The exposure should be included in the "Summary information on whole credit risk portfolio" section.

(added on 20 March 2015)

77. Per Section 8.3.3 in the *Instructions for Basel III monitoring*, option B requests a profitability risk driver for audited companies only. What qualifies as an audited company?

Answer: Audited companies are meant to include companies that receive a clean/unqualified audit opinion from an external audit firm. Review engagements and preparation of the financial statements are not sufficient.

(added on 20 March 2015)

78. Per Section 8.4.4, for length of established relationship, the Instructions mention the length of time for which the customer has had "either a transactional account or credit product". Can investment accounts also be included?

Answer: Yes, investment accounts can also be included.

(added on 20 March 2015)

79. What exchange rates should be used when converting currencies?

Answer: To help ensure consistency in the QIS exercise, banks should use exchange rates published for the GSIB exercise, located at <http://www.bis.org/bcbs/gsib/>. Banks can use annual average exchange rates when converting PnL amounts and the spot rate when converting balance sheet amounts.

(added on 20 March 2015)

80. On the "BA SA general" worksheet, where will residential mortgage backed securities go?
- Answer:** Residential mortgage backed securities that meet the definition of a securitisation, per the *Revisions to the Securitisation Framework*, published in December 2014, are to be excluded from the BB SA worksheets. For residential mortgage backed securities that are not securitisations, classify them according to current practice.
- (added on 20 March 2015)
81. For banks and corporates, do we need to be able to calculate the various ratios (CET1, leverage and NPA), in order to allocate to the appropriate row?
- Answer:** Yes, see supplementary guidance for more details.
- (added on 20 March 2015)
82. On the "BB SA additional" worksheet, would the top 20 counterparties include those for covered bonds and mortgage-backed securities?
- Answer:** Yes, so long as they are exposures to banks. Per FAQ 52, some mortgage-backed securities may qualify as securitisations exposures (ie if tranching) and therefore would be excluded from the BB SA worksheets.
- (added on 20 March 2015)
83. Rows 1273 to 1298: Where should we report exposures for which the maturity and length of established relationship are unavailable?
- Answer:** For regulatory retail exposures, where the bank is unable to determine the maturity and length of established relationship, exclude such exposures from the breakdown panels (rows 1273 and 1298) but include them in row 19 in the "Summary information on whole credit risk portfolio" section.
- (added on 20 March 2015)
84. If the counterparty is as bank whose parent company is a corporate and we do not have the risk drivers for the counterparty, can we use the figures of the parent company? In this instance, CET1 RBC and the net NPA ratio are not relevant risk drivers of the corporate mother company.
- Answer:** If it is not possible to calculate a proxy for the risk drivers per the Supplementary Guidance, then include such an exposure in panel B2.
- (added on 20 March 2015)
85. Could you please clarify whether the amount of losses to be reported in column O concerns the exposures currently treated under the standardised approach only or both the IRB and standardised perimeters?
- Answer:** Report losses for all exposures in each row, regardless of the approach that the bank is using to calculate capital requirements.
- (added on 20 March 2015)
86. Should columns T, U and W be expressed as a percent of EAD or as whole numbers? Cells are formatted as percent.

Answer: Columns P to Q in the template capture the relevant IRB parameters. Expected Loss (Column T), Exposures subject to partial use of the SA (Column U), and Provisions (Column W) are formatted as percentages, although these amounts are usually expressed in whole numbers. As a workaround, banks are requested to copy the format from column P to columns T / U / W, before entering any amounts. This will allow banks to enter whole numbers into these columns and not percentages. This workaround only needs to be performed for columns T / U / W, rows 9 to 21.

(added on 20 March 2015)

87. How should banks report securities financing transactions (SFTs) and non-cleared OTC derivatives in the template?

Answer: See below for instructions for reporting of SFTs and non-cleared OTC derivatives in the "BB SA general" worksheet.

- (i) Column G (On-balance sheet exposures): exclude amounts related to SFTs and non-cleared OTC derivatives
- (ii) Column H (Off balance sheet exposures (pre-CCF)):
 - Non-cleared OTC derivatives: include the EAD calculated as the sum of the current exposure and PFE. Banks may use any approved methodology for calculating the EAD. Collateral should not be recognised in this column.
 - SFTs: include the credit exposure amount using the bank's current approved methodology. Collateral should not be recognised in this column.

Current standardised approach

- (iii) Column I (Post-CCF pre-CRM exposure): include the same amounts as calculated for column H.
- (iv) Column J (Post-CCF post-CRM exposure): Only difference with respect to column I is that in this column collateral can be recognised.

Proposed standardised approach

- (v) Column L: Post-CCF pre-CRM exposure:
 - Non-cleared OTC derivatives: include the EAD calculated as the sum of the current exposure and PFE. Banks must use either CEM or SA-CCR for calculating the EAD. Collateral should not be recognised in this column.
 - SFTs: include the credit exposure amount using the comprehensive approach with supervisory haircuts. Collateral should not be recognised in this column.
- (vi) Column M: Post-CCF post-CRM exposure only difference with respect to column L is that in this column collateral can be recognised. As applicable (ie for SFTs or when using CEM for derivatives), banks should use the revised standard supervisory haircuts (see paragraph 108 of the consultative paper).

IRB

- (vii) 7. Column P: Exposure on IRB: this column captures the EAD of SFTs and non-cleared OTC derivatives including the benefits of collateral. Banks should use whatever approach they are currently using and describe what they are applying in the supporting qualitative document.

(added on 27 March 2015)

88. Where should a bank report loans to corporates, secured by residential real estate, that do not meet the requirements for specialised lending?

Answer: Per the consultative paper, such exposures would be treated as other loans in the look-up table for residential real estate (see Annex 1, paragraph 38). For purposes of the QIS, a specific row has not been provided for such an exposure, so banks should input such amounts in the > 50% DSC row, or the > 6x DTI row, according to the applicable LTV. Banks should note this in supporting documentation (ie specify the amount of exposures in these rows that are treated as other loans).

(added on 27 March 2015)

89. How should cash and gold be treated for purposes of the proposed revisions to the standardised approach for credit risk?

Answer: The consultative document does not specify a different treatment for cash and gold. For QIS purposes, banks should include cash and gold in other exposures (row 21) and assign a 0% risk weight. Banks should note this treatment in supporting documentation (ie specify the amount of cash and gold in this row).

(added on 27 March 2015)

90. Non-profit entities are classified as Corporate exposures in the Basel III framework. In the consultative document *Revisions to the Standardised Approach for credit risk*, Annex I, paragraph 20, the following definition is given: *"For the purposes of calculating capital requirements, this category includes senior exposures (loans, bonds, receivables etc) to incorporated entities, associations, partnerships, proprietorships, trusts, funds and other entities with similar characteristics, except those which qualify for one of the other exposure classes. The corporate exposure class includes exposures to insurance companies and other financial corporates that cannot be treated as bank exposures as determined by paragraphs [12 and 13]"*. Do we have to classify non-profit entities as senior corporate exposures or put them in the residual class "Other exposures" in the summary panel?

Answer: Non-profit entities should be treated as corporates.

(added on 1 April 2015)

8. TLAC

1. TLAC term sheet section 21 sets four criteria for determining material subsidiaries. Can you please confirm that criterion c means the 5% of the denominator of the Basel III leverage ratio?

Answer: Yes, the 5% threshold is based on the Basel III leverage ratio.

(added on 5 March 2015)

2. Please clarify what is meant by "location of issuance" in the TLAC location worksheet.

Answer: Please fill in the table based on the location of the infrastructure chosen for the settlement of the liabilities. For example, a bond issued by a UK G-SIB, listed in Switzerland under New York law, denominated in USD and settled at the US DTCC should be reported in the column "US". Euro-bonds settled at Euroclear / Clearstream should be reported in the "EU (excl UK)" total column, even if issued by a UK firm. The "of which EU home country" should only include issuances settled at the infrastructure in the home country of the resolution entity filling in this template. If the settlement system is not known, please use the jurisdiction of the governing law.

(added on 5 March 2015)

3. Section 21 of the TLAC term sheet sets the criteria for identifying material subsidiaries. One of the criteria is “generates more than 5% of the consolidated revenues of the G-SIB group”. How should “revenues” be defined?

Answer: Total operating income should be used.

(added on 26 March March 2015)

4. Cell C11 on panel A of the “G-SIB TLAC external” worksheet includes Tier 2 instruments on an unamortised / post-regulatory adjustment basis. It is clear that regulatory capital should be reported as per 2022 (end of phase in arrangement). Does this mean that for Tier 2 instruments that do not satisfy the PONV requirements, these should not be included in panel A but they can instead be included in non-regulatory capital TLAC in panel B? For example, if a bank has Tier 2 of 100, not bearing PONV arrangements, and has received now (March 2015) a haircut of 30% according to the phase in arrangement, should it report this instrument as 0 regulatory capital (as per 2022 requirement) and as 100 qualified TLAC in relevant cells in panel B?

Answer: Yes, that is correct

(added on 26 March March 2015)

5. The information in rows 21 to 26 of the “TLAC holdings” worksheet suggests that the holdings of TLAC instruments might be subject to the same thresholds or deductions as those applied for regulatory capital instruments. Is this correct?

Answer: Yes.

(added on 26 March March 2015)

6. It is unclear why for significant investments (where banks hold more than 10% of equity of an institution) there should be a deduction from Tier 2 capital while for non-significant investments the deductions apparently would be made from CET1 (although this is not clear). The intention of row 40 should be explained in the instructions.

Answer: Row 40 is an automatic calculation, so nothing needs to be entered in this row. Under this analysis, non-significant investments are not deducted from CET1. The corresponding deduction treatment is applied to mirror the approach in Basel III.

(added on 26 March March 2015)

7. It is not clear what RWA should be inserted in row 45. The instructions refer to RWA related to rows 20 and 40 – while row 20 refers to the net short position, row 40 states the amount to be deducted from Tier 2 (which could be interpreted as the corresponding net short position, however, as indicated in the previous point, it is not clear why this should be a Tier 2 deduction).

Answer: Yes, row 40 is the same amount as the one of net short position of significant investment which will be used for this analysis.

(added on 26 March March 2015)

8. It is not clear why there would be inputs required for RWA of amounts not deducted (rows 32 and 33) under three different cases, if these RWA refer to capital instruments rather than liabilities. There should only be one RWA number for each of the rows which is totally independent of the cases in columns C, D and E.

Answer: The template re-calculates the corresponding rule, considering adding TLAC liabilities. Thus, rows 32 and 33 should change depending on the amount of TLAC liabilities.

(added on 26 March March 2015)

9. It is not clear what should be reported in rows 32 to 34 (RWAs for investments not deducted) as the basis for calculation is not known (since risk weights would be specific to the issuer of the liability but banks have no way of determining what “remains” in the not-deducted bucket, so they would presumably have to use some average risk weight. Clarification is sought on how this should be determined).

Answer: This mirrors the approach in the previous QIS for the definition of capital. You are correct that the risk weight will depend on the issuer of the liability. Banks can complete this on a best efforts basis if it is problematic (eg using an average risk weight).

(added on 26 March March 2015)

10. Where TLAC-eligible instruments are held in the trading book, these attract RWA for market risk. While it may be possible to report the RWA for specific market risk (issuer risk), it will not be possible to report meaningful RWA for general market (interest rate) risk of these holdings, given the arbitrary nature of estimating the impact of removing certain positions from value-at-risk (VaR) models at any given point in time. It should be specified which RWA should be reported in row 44 of the “TLAC holdings” worksheet.

Answer: Row 44 of the “TLAC holdings” worksheet is an automatic reference to cell D39 of the “Requirements” worksheet. For row 45 please just include RWAs for TLAC instruments held in the banking book.

(added on 26 March March 2015)

11. The “G-SIB external” worksheet, panel A (regulatory capital) asks in column G for AT1 instruments issued in the form of debt (not shares). Clearly shares are not debt, so it is not apparent what the difference to column F (issued in the form of debt – liabilities in the balance sheet) is. Can the Committee provide an example of an instrument which would be issued in the form of debt but is not classified as a liability, or otherwise clarify the intent of this item?

Answer: The definition in column F relates to accounting definitions; that is, instruments that are classified as liabilities under accounting standards. Column G does not refer to accounting definitions and could, therefore, include any AT1 instrument that is not a share (common share or preferred share) but still classified for accounting purposes as equity.

(added on 26 March March 2015)

12. In panel A of the “G-SIB TLAC external” worksheet it is not clear why Tier 2 instruments of the resolution entity (row 11) should be reported prior to amortisation with the nominal amount, while Tier 2 instruments issued by subsidiaries but eligible at consolidated level (row 13) would be considered after amortisation.

Answer: For row 11 of the “G-SIB TLAC external” worksheet, Tier 2 instruments that no longer qualify for regulatory capital (due to amortisation) but over one year residual maturity could still count towards TLAC hence the nominal amount is sought. For row 13, this relates to instruments issued from subsidiaries which, as per section 9 of the term sheet, can only count “to the extent that they are recognised as Tier 1 or Tier 2 capital instruments for the purpose of consolidated capital requirements”.

(added on 26 March March 2015)

13. Panel B case 4(i) of the “G-SIB TLAC external” worksheet asks for instruments issued by the resolution entity and subsidiaries. In this consolidated context, what is the signification of “home law” in column I: the law of the subsidiary or the law of the parent resolution entity?

Answer: Home law means the law governing the parent resolution entity. So the instruments to be included in column I is instruments **not** governed by the home law of the resolution entity, ie not meeting the term sheet section 16.

(added on 26 March March 2015)

14. Panel B case 4(ii) of the "G-SIB TLAC external" worksheet (rows 39 to 44) asks for the exclusion of "deposits". It is unclear what is meant by deposits in this case, in particular, whether interbank deposits should be considered deposits or "other wholesale funding" for the purposes of this exercise.

Answer: This refers to retail and quasi-retail deposits (insured and uninsured). Interbank deposits or wholesale should not be considered to be "deposits" ie they should be **included** in rows 39 to 44 of the "G-SIB TLAC external" worksheet.

(added on 26 March March 2015)

15. Panel C3 of the "G-SIB TLAC external" worksheet refers to "Significant investments in unsecured liabilities in each case issued by other G-SIBs (or subsidiaries of G-SIBs) that are outside the scope of regulatory consolidation and where the bank owns more than 10% of the issued common share capital or where the entity is an affiliate". What is the definition of and "affiliate" in this instance? Is the reference to "entity" to the entity of which the G-SIB is a creditor?

Answer: This mirrors the approach in the "DefCap" worksheet rows 84 to 86. Please see paragraph 84 and footnote 30 of Basel III "An affiliate of a bank is defined as a company that controls or is controlled by, or is under common control with, the bank. Control of a company is defined as (1) ownership, control or holding with power to vote 20% or more of a class of voting securities of the company; or (2) consolidation of the company for financial reporting purposes."

(added on 26 March March 2015)

16. With regards to panel C of the "G-SIB TLAC external" worksheet please clarify if row 57 "Gross holdings of unsecured liabilities" and row 58 "Permitted offsetting short positions in relation to the specific gross holdings included above" should be inclusive of cash positions only, or both cash positions and synthetic exposures.

Answer: It should include direct, indirect and synthetic holdings in line with the approach for the holdings of capital set out in Basel III.

(added on 26 March March 2015)

17. The data to be provided in columns D to AB on the "TLAC internal" worksheet suggests solo-level data. However, data for material subsidiaries is usually available at a sub-consolidated level (including subsidiaries in the same country and, sometimes, small foreign subsidiaries) rather than at a solo level by entity. In our view, the sub-consolidated view should also be relevant for internal TLAC allocation and we would propose to allow data submission at this level.

Answer: It is important for the numerator of TLAC to follow the instructions as set out. It is neither solo nor sub-consolidated because only certain instruments can count depending on whether issued by the material subsidiary or an entity below (eg some regulatory capital instruments). For the denominator, rows 44 to 47 ask for both sub-consolidated and solo data.

(added on 26 March 2015)

18. For the "TLAC location" worksheet, it is unclear what is meant by "liabilities issued" by the resolution entity in cases 4(i) and 4(ii). Presumably these cases refer mainly to deposits from corporates and financial institutions and other liabilities that could be subject to bail-in, but

these are not "issued" by the institution. Banks are unclear about the intent of the instructions, which state "not through contract and deposits".

Answer: Cases 4(i) and 4(ii) are very similar (but not identical) to cases 4(i) and 4(ii) in the G-SIB TLAC external sheet. Please read "other subordinated liabilities of the resolution entity..." or "other senior liabilities of the resolution entity..." instead of "liabilities issued...".

Case 4(i) and (ii) includes liabilities listed in Sections 12b, 12c, 12f and 12g of the Term Sheet, but does not include (i) regulatory capital, (ii) liabilities listed in Sections 12d and 12e, and (iii) deposits. Case 4(i) does not include subordinated liabilities reported in case 1, and case 4(ii) does not include senior liabilities reported in case 3.

(added on 26 March 2015)

19. Since cases 4(ii) and 4(ii)b should consider "senior" liabilities, is it not the case that the fields in columns Q (contractually subordinated) and R (structurally subordinated) should be greyed out for rows 22 to 24 and 43 to 45 of the "G-SIB TLAC location" worksheet?

Answer: Yes, these cells should be greyed out. Please leave these cells unpopulated.

(added on 26 March 2015)

20. Although the TLAC term sheet issued by the FSB appropriately excludes internal TLAC for home-country subsidiaries of the parent group, members in countries where it appears that the authorities may nevertheless impose TLAC on such subsidiaries may wish to submit supplemental data on the effects of assessing internal TLAC on home-country subsidiaries. This is because such assessments may have a substantial effect on overall group TLAC, especially if the higher end of the proposed range is adopted, and thus are important to take into account in considering the calibration.

Answer: A material subsidiary as set out in section 21 of the term sheet is "an entity incorporated in a national jurisdiction other than that in which the resolution entity is incorporated". Collecting data on home-country subsidiaries is therefore out of the scope of this QIS.

(added on 26 March 2015)

21. Given that TLAC term sheet item 5 indicates "G-SIBs that are headquartered in emerging markets will not, initially, be subject to the Common Pillar 1 Minimum TLAC requirement," should banks treat their holdings of TLAC-eligible instruments issued by G-SIBs headquartered in emerging markets in the same manner as they treat their holdings of TLAC-eligible instruments issued by other G-SIBs?

Answer: Yes. Because all G-SIBs are subject to the TLAC standard, banks should treat their holdings of TLAC-eligible instruments issued by G-SIBs headquartered in emerging markets in the same manner as their holdings of TLAC-eligible instruments issued by other G-SIBs.

(added on 2 April 2015)

22. Instructions of the TLAC exercise, panel B of the "G-SIB TLAC external" worksheet: We would appreciate some clarification of the following sentence: "Please note that in order for liabilities to meet criterion b (not callable on demand without supervisory approval), this could be implemented through supervisory regulations. Banks can therefore assume that all instruments will meet this criterion."

Answer: The instructions are used for determining "excluded liabilities", so it means that the bond in question is eligible for TLAC and not "excluded liabilities".

(added on 2 April 2015)

23. How should banks treat perpetual subordinated debt when calculating weighted average residual yield to maturity?

Answer: Please report them as a liability with a residual maturity of 10 years.

(added 2 April 2015)

24. The market price for some subordinated liabilities such as loans issued privately is not available. How should banks report the yield to maturity?

Answer: Please report an approximated market price by checking the price for similar products.

(added on 2 April 2015)