Basel Committee
on Banking Supervision

Frequently asked questions on Basel III monitoring ad hoc exercise

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Frequently asked questions on Basel III monitoring ad hoc exercise

1. Introduction

This document provides answers to technical and interpretive questions raised by supervisors and banks during the Committee's Basel III monitoring ad hoc exercise. **The document intends to facilitate the completion of the monitoring ad hoc exercise 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") and the *Basel III leverage ratio framework and disclosure requirements* ("the Basel III leverage ratio framework").[1]

In addition to the guidance for completing the monitoring ad hoc exercise 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]

2. General information

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3. TLAC

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[1] Basel Committee on Banking Supervision, *Basel III: A global regulatory framework for more resilient banks and banking systems (revised June 2011)*, June 2011, 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.

[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.

4. Leverage ratio

1. Are "bilateral derivatives" in panel H3 intended to include both OTC derivatives and CCP-cleared OTC derivatives?

   Answer: No. The client leg of CCP-cleared derivatives is captured in panel H1 (ETD) and panel H2 (OTC). Panel H3 (bilateral derivatives) captures trades with non-CCP counterparties.

2. The instructions for panel H indicate "in the case of bilateral trades, if the bank has fewer than five counterparties from which IM is received, remaining rows should be completed for top counterparties as determined by their associated Basel III leverage ratio exposure measure as calculated per the current Basel III leverage ratio framework." Does this mean that for the remaining rows banks should fill out only column D and columns I through N?

   Answer: Yes.

3. For reporting panel H, is there a specific approach that should be used to determine net income associated with a particular counterparty?

   Answer: No. Net income for derivatives exposures associated with a particular counterparty should be reported on a best efforts basis.

4. For reporting panel H, if a bank was not operating its client clearing business at full scale during the period for which data is to be reported, should the bank report net income associated with counterparties during the period based on the actual net income for the period or based on estimates for net income assuming the business had been operating at full scale?

   Answer: For purposes of this QIS, the bank should report its estimates for net income associated with each counterparty as if the business had been running at full scale.

5. For reporting panel H, should top counterparties be identified by initial margin received from each counterparty before or after any applicable haircuts?

   Answer: Top counterparties should be identified by initial margin received before any haircuts are applied.

6. For reporting panel H, in the case of counterparties which pledge their deposits of securities, should initial margin received be determined as the sum of all pledged cash and non-cash? If yes, in this case should the identification of top counterparties be determined by initial margin received despite these counterparties not necessarily being those from which the most initial margin is required?

   Answer: In the case cited, initial margin received should be the sum of all pledged cash and non-cash. Top counterparties should continue to be identified and sorted by initial margin received.

7. Given that CVA is calculated on a portfolio level, how should banks attribute amounts of CVA to individual counterparties in column M of panel H?

   Answer: For the purpose of reporting the CVA attributable to a particular counterparty in column M, banks should calculate CVA at the portfolio level (for all relevant counterparties) and allocate CVA to each counterparty on a best efforts basis.

5. EAD CCF

1. Are the amounts to be reported in rows 18 to 22 EAD CFF panel B mutually exclusive? If so, in what order should they be completed given that for certain facilities more than one row may be applicable?

   Answer: Yes, these rows are mutually exclusive. The order in which these rows should be completed is as follows:

   - First: "of which: commitment to provide an off balance sheet facility" (row 22)
   - Second: "of which: corporate commitment unconditionally cancellable at any time by bank without prior notice" (row 21)
   - Third: "of which: with certain drawdown" (row 18)
   - Fourth: "of which: original maturity ≤ 1 year" (row 19)
   - Fourth: "of which: original maturity > 1 year" (row 20)

   Therefore, banks need to work out the total that will show in row 17, and then first extract the subset that are "commitments to provide and off balance sheet facility" and report these in row 22. Second, from what is left, extract the corporate commitments that are unconditionally cancellable at any time by bank without prior notice and report these in row 21. Third, from what is left, extract the facilities with certain draw down and report these in row 18. Finally, split the residual between facilities with a maturity less than one year and more than one year (rows 19 and 20).

6. CCR

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7. CRM

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8. IRB current

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9. IRB Proposed

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10. IRB Portfolio Migration

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11. AIRB Input Floors

1. The procedure for allocating amounts in columns E to H at the end of Section 7.5 of the instructions does not work for certain panels where amounts are calculated automatically. How should the panels in this worksheet be completed?

Answer: The procedure for allocating the amounts in columns E to H described at the end of Section 7.5 of the instructions should only be used in panels A, B and C1.

For panels C2 to C11 the following procedure should be used. For the RWA column (column G) in panel CX (where X is the panel being competed), for each exposure:

a) Calculate the RWA for the full exposure ($RWA_{panel\ CX}$) under the PD and LGD floors set out in panel CX.

b) Calculate the RWA of the full exposure using the baseline floors set out in panel C1 ($RWA_{baseline}$).

c) For the rows that relate to the parts of the exposure where the PD and LGD floors do not change relative to the baseline, the amount reported in those row must be the same amount reported in panel C1 for that exposure.

d) For the rows that relate to parts of the exposure where the PD and LGD floors do change relative to the baseline, the total amount to be reported in those rows is: $RWA_{panel\ CX}$ minus the amounts reported in (c) above. Note that amounts for rows of exposure in which PD or LGD floors change are **not** subtracted.

e) In cases where the floors on multiple parts of the exposure change relative to the baseline, the total amount calculated in (d) should be allocated across the rows relating to the parts of the exposure where the floors change. This allocation should be based on the relative sizes of these parts of the exposure (after the applicable haircuts).

The same procedure as described above for RWA (column G) should be followed for reporting the EL amounts (column H) and EAD bound by the floors (column F).

As an example of the above methodology, consider an exposure of €100 that has RWA of €9 under the baseline proposal, consisting of €50 secured by CRE (post haircut), €30 secured by eligible financial collateral (post haircut) and the remaining €20 is unsecured. Under Panel C1 the risk weighted assets will be reported as €4.5 in (=€9 · €50/€100) in the "Exposures secured by CRE/RRE" row, €2.7 in (=€9 · €30/€100) in the "Exposures secured by financial collateral" row, and €1.8 in (=€9 · €20/€100) in the "Unsecured portion of secured exposure" row.

Assume that the exposure is now being reported in panel C4, and the RWA of the exposure are now €10 due to the higher floor relating to certain parts of the exposure. It can be seen that the floors on the part of the exposure secured by financial collateral do not change relative to the baseline. Therefore, the amount that is reported in panel C4 according to point (c) in the methodology above is the same as the amount reported in panel C1 (ie €2.7 is to be reported in the financial collateral row, which will feed into this automatically). According to point (e) above, the remaining RWA of €7.3 (=€10 – €2.7), must be allocated to the rows “Exposures secured by CRE/RRE” and “Unsecured portion of secured exposure” based on the relative sizes of these parts of the exposure (after the applicable haircuts). Therefore, €5.2 (=€7.3 · €50/(€50+€20)) is to be reported in the “Exposures secured by CRE/RRE” row and €2.1 (=€7.3 · €20/(€50+€20)) is to be reported in the “Exposures secured by financial collateral” row.

12. AIRB LGD Downturn

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13. FIRB Parameters

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14. Other IRB Changes

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15. IRB Questions

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16. TB

1. The multiplication factor m_c is not included in the calculation of IMCC in paragraph 189 of the revised market risk standard, *Minimum capital requirements for market risk*. Should the value reported in cell C31 be equal to $IMCC \times m_c$?

   Answer: Yes. The value reported in cell C31 should be the product of $IMCC \times m_c$, with $m_c = 1.5$.

2. In calculating IMCC (across all asset classes, with full diversification) in cell C31, what value should be assigned to the parameter ρ?

   Answer: The value of ρ should be set at 0.5 as per paragraph 189 of the revised market risk standard.

3. Are banks to reflect diversification effects to report “SBM (delta, vega, and curvature) – both non-securitisations and securitisations – (inclusive of diversification effect from GIRR)” in cells C18 and C39 of the ‘TB’ worksheet?

   Answer: Yes. Banks should include all diversification effects in cells C18 and C39, reflecting the standardised capital requirement for both non-securitisation and securitisation portfolios after taking any diversification into account. Diversification effects may include those recognised in the market risk standard that are associated with general interest rate risk (GIRR), credit spread risk (CSR) and foreign exchange (FX) risk. For example, banks may include non-securitisation CSR hedges for securitisation positions if they are recognised in the revised market risk standard.

4. Paragraph 161 of the revised market risk standard states that "The SA capital charge for an individual cash securitisation position can be capped at the fair value of the transaction." However, instructions for the 'TB' worksheet do not address this issue. Panels B1 and B2 have cells for SBA, Residual Risk Add-On and DRC for securitisations, but the instructions do not specify how to report any capped capital charge these positions. In which cell(s) should this capped capital charge be reported?

   Answer: Capital for securitisation (non-CTP) positions which trigger the max loss provision should be prorated under the relevant components of the SA capital charge, limiting the total capital contribution of these positions to their fair value. Specifically, individual components of the SA capital charge should equal the component's share of actual capital multiplied by the fair value of the position. Any deviations from the proposed treatment should be explicitly noted in an explanatory document accompanying the submission.

17. TB SA current

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18. TB SA FRTB

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