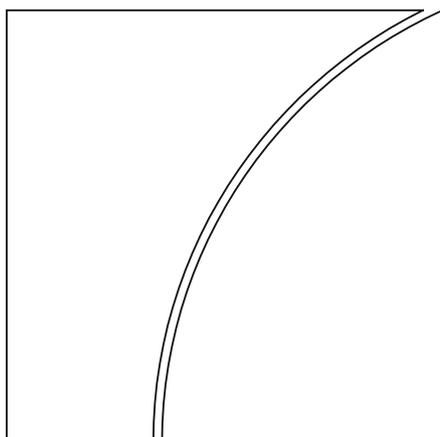


Basel Committee on Banking Supervision



Frequently asked questions on Basel III monitoring

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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

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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; 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.

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 (D103:113, E103:113) in the "DefCap" 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.

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.

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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 *margined* transactions according to the SA-CCR, but with the exception of using (i) the maturity factors for *unmargined* transactions according to paragraph 164; and (ii) a PFE multiplier of one (paragraph 149).

16. The instructions on row 116 of the "Leverage Ratio" worksheet for the PFE of all *unmargined* 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 *unmargined* transactions.

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.

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.

19. Panel I: Do rows 149 to 151 of the *Leverage ratio* template refer to *all* initial margin included in the Basel III leverage ratio exposure measure, or only to the bank's centrally cleared client initial margin associated with derivative transactions?

Answer: Rows 149-151 refer only to the bank's centrally cleared client initial margins associated with derivative transactions included in the Basel III leverage ratio exposure measure.

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),

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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.

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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".

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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 assigning the RSF factor, the maturity corresponding to the reverse repo or that of the underlying security?

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

- How should reverse repo balances be reported if the collateral received in connection to the reverse repo has been re-hypothecated in a repo or similar transaction?

Answer: If the collateral received in connection to a reverse repo has been re-hypothecated 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 balances of the associated reverse repo should be reported as encumbered for the period of re-hypothecation or for the maturity of those balances, whichever is longer. For more information refer to Section 6.2.2 of the Basel III monitoring instructions.

- How should reverse repo balances be reported if collateral received in connection to the reverse repo has been sold outright rather than re-hypothecated in a repo or similar transaction?

Answer: If the collateral received as a result of a reverse repo has been sold, the balances of the reverse repo should be reported as encumbered for a period equal to the entire maturity of the associated reverse repo.

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. 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).

42. 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

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maturity category". Where possible, banks should allocate the amortising portion across the maturity time buckets on the NSFR worksheet.

43. 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.

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