Basel Committee
on Banking Supervision

Frequently asked questions on Basel III monitoring

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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* ("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 and counterparty credit risk 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. Questions addressing issues in the original January 2014 version of the instructions which are no longer relevant for the revised version published in March 2014 are shaded green.

2. General

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

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

3. Definition of capital

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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.pdf); 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.pdf); Basel Committee on Banking Supervision, *Basel III: The Net Stable Funding Ratio*, Consultative Document, January 2014 (www.bis.org/publ/bcbs271.pdf).

[2] Basel Committee on Banking Supervision, *Basel III definition of capital – Frequently asked questions*, December 2011 (www.bis.org/publ/bcbs211.pdf); Basel Committee on Banking Supervision, *Basel III counterparty credit risk – Frequently asked questions*, December 2012 (www.bis.org/publ/bcbs237.pdf).

4. Leverage ratio

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

   Answer: Yes.

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

   Answer: The exposure measure for the leverage ratio should generally follow the accounting 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 limited netting of cash receivables with cash payables may be recognised subject to strict criteria. Please also refer to the Leverage ratio framework for more details on how to calculate the exposure measure.

3. It is not obvious whether the 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 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 leverage ratio even though in general it does not recognise credit risk mitigation?

   Answer: In the context of the leverage ratio, the capital measure follows the criteria laid down in the Basel III 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 exposure measure for the same amount deducted from capital.

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

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 leverage ratio.

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

Answer: No, derivative transactions should only be included in columns D and J.

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

Answer: Cell D77 should include only the amount resulting from the netting, with the effects of collateral to be included in cell D79.

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 leverage ratio under any circumstance, and if so under what circumstances?

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

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

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 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 leverage ratio?

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

14. Cells E20, K20, D76 to D79 and J76 to J79 can have negative numbers. However, in those cases the conditional formatting highlights these cells in red. Will the data nevertheless be eligible for submission and included in the analysis?

Answer: Yes indeed, the data remain eligible for submission and the red colour conditional formatting will not affect the outcome of the analysis. This issue has been addressed in version 2.7.2 of the reporting template.

5. Liquidity

5.1 General

1. It is cumbersome and time consuming to obtain data for rows 102 to 106 and 131 to 135 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 102 to 106 and 131 to 135 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 H442 (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 275 to 288.

   (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 290 to 295.

(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 275 to 288.
- 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 290 to 295.

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 56 and 59?

Answer: First report any assets qualifying for line 56 in that line. Then, report any assets not yet reported in line 56 that qualify for line 59. 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 59: 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 201 and 208, 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 201 and 208. 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 156, rather it should be reported in line 157 (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 194, 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 301 to 304, 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 323 regarding the cap on cash inflows compared to cash outflows?

Answer: Row 323 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 322 of the worksheet includes the amount of cash inflows before application of the cap, whereas row 324 of the worksheet includes the amount of cash inflows after application of the cap. In cases where the cap on inflows is binding, row 324 will be less than row 322 (and will equal row 323), whereas in cases where the cap on inflows is not binding, row 324 will be equal to row 322.

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 rows 72 and 76, 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 28 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 28 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: No distinction is made.

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

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

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

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

34. How are assets excluded from Level 1 and Level 2 in the LCR because they do not meet the operational requirements (line 59 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 261 (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 177 to 186 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 net derivatives payables/receivables in lines 48 and 257, 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 (≤ 3 months, > 3 months and ≤ 6 months etc)?

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

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 know derivatives", are they treated the same if they have same day settlement or if settled with two-day lag (T+2)?

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

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 four quarterly (three-month) time buckets on the NSFR worksheet.

6. Trading book hypothetical test portfolio exercise

The purpose of this section is twofold:

- First, the Trading Book Group answers some frequently asked questions with respect to the on-going hypothetical portfolio exercise.
- Second, the Trading Book Group would like to share with banks some additional instructions.

6.1 Questions and answers

Question number	Portfolio number	Questions and answers
0.1	General	**Q:** In general, trades are to be booked against an unspecified "counterparty". Can you please confirm whether counterparties are at the discretion of the participating banks or are there some further guidance? Particular choices might lead to the assignment of differing discounting curves. **A**: Trades are indeed to be booked against an unspecified counterparty. As neither counterparty credit risk, nor CVA, are to be computed, the choice of the counterparty should not affect market risks computations.
0.2	General	**Q:** Which liquidity horizons are non-ATM volatilities (eg if a volatility matrix is used, which depends on moneyness) to be mapped to? **A:** The liquidity horizons are specified on page 16 of the second consultative document. For non-ATM volatilities, please refer to the "(other)" categories (eg 60 days for FX non-ATM volatilities).
0.3	General	**Q**: The requirements for collateralisation are not specified. Are the derivatives collateralised, if yes in which currency? **A**: Derivatives are not to be collateralised. As neither counterparty credit risk, nor CVA, are to be computed, the choice of the counterparty should not affect market risks computations.

Question number	Portfolio number	Questions and answers
0.4	General	**Q:** Some expiration dates / maturities fall on holidays or weekends. According to the instructions the premium shall be paid at the date of execution. Our trading systems allow only cash flow payments at working days. How should we deal with this? **A:** Please refer the supplemental instructions below.
0.5	General	**Q:** Full revaluation models exist for 1 and 10 day holding periods currently. Re-developing full revaluation to support different holding periods is difficult to achieve in the timeframe specified. **A:** Criteria establishing which assumptions are acceptable, and which are not, are clearly established in the instructions document, please refer to Section 7.4 on page 110 of the instructions.
0.6	General	**Q:** Banks today use data from external data providers (like Markit), this is not allowed any more unless a bank can prove that the data used are committed quotes? **A:** This is correct. In order to use Markit data, banks should ensure than in "real life conditions", they would be able to prove that those data are committed quotes. Otherwise, those prices should be regarded as non modellable risk factors. For the Basel III monitoring exercise, the approximation can be accepted.
0.7	General	**Q:** Will it still be acceptable to generate older missing data where the last few recent years exist, but prior to that the quality deteriorates? **A:** For the Basel III monitoring exercise, this will be accepted.
0.8	General	**Q:** Do equities have to be included in IDR? **A:** Yes they do.
0.9	General	**Q:** This document states below (QA 12) that the reporting banks should use a running coupon of 100 bp for all CDS in portfolio 25. Some of these CDS (on Allianz, Siemens and Shell) are also contained in other portfolios. Hence, could you please advise whether a fixed 100 bp coupon should be used for all corporates, or whether street convention should be followed? **A:** Please apply strictly the FAQ document, ie for portfolio 25, the convention should be 100 bp running for each CDS single name of this portfolio; for any other portfolio including CDS, the conventions should be as defined in the supplemental instructions (6.2.(e)).
1	6	**Q:** Concerning portfolio #6 (Barrier option), the number of contracts specified in the January 2014 version of the instructions is 20. During the last RWA benchmarking exercise, it was also originally 20, but was then increased up to 40, in order to make VaR on this portfolio more comparable to the VaR of the other portfolios. Which number of contracts should we consider? **A:** For portfolio #6, please consider a number of contracts of 40.
2	2–7	**Q:** The following specifications are missing: currency, type of option (American, European), settlement (3M, 2Y, next expiry), treatment of premium in VaR distribution. **A:** The currencies are given in the report template. As for the rest, please refer to the supplemental instructions below.
3	8	**Q:** The long €5 million 10-year German Treasury Bond mentioned in the January 2014 version of the instructions actually matures in 5 years. Could you confirm which bond to use? **A:** Please use the 10-year German Treasury Bond (ISIN: DE0001102333, expiry 15 February 2024) instead of the DE0001135374.
4	9	**Q:** How should the fixed rate be reported in cell H13 of the "TBHPE" worksheet? **A:** The fixed rate should be reported in the unit per cent. For example, 1.5% would be entered as "1.5" (and **not** as "0.015").
5.1	10	**Q:** Two specifications contradict each other: (i) the swaption is ATM and (ii) the strike corresponds to the fixed rate of portfolio #9. Could you confirm the strike should indeed correspond to the fixed rate of portfolio #9? **A:** We confirm.

Question number	Portfolio number	Questions and answers
5.2	10	**Q:** Two specifications in the January 2014 version of the instructions contradict each other: (i) the swaption ticker is the Bloomberg ticker eusv0210 and (ii) the underlying swap has the same characteristics as the swap described in portfolio #9. The portfolio #9 is a swap against Euribor 3M, while by convention eusv0210 corresponds to a swaption against Euribor 6M. Could you confirm the underlying swap? **A:** The underlying swap is the swap described in portfolio #9, whose ticker is eusw10v3.
5.3	10	**Q:** Could you confirm the convention to be used for the underlying swap is a "modified following" convention, ie a T+2 convention? Taking into account the fact that 21 February 2016 is a Sunday would mean that we would have the expiry date (of swaption): 22 February 2016. In addition, should the swap start be delayed, as it was during the RWA benchmarking exercise? ie: – effective date of the swap: 24 February 2016 – maturity of the swap: 24 February 2026 **A:** We confirm that you should consider: – expiry date (of swaption): 22 February 2016 – effective date of the swap: 24 February 2016 – maturity of the swap: 24 February 2026
5.4	10	**Q:** Should we consider ourselves as buyer or seller of the swaption? **A:** Banks should consider they sell the option on the swap. The counterparty of the bank therefore buys the right to enter a swap with the bank; if the counterparty exercises its right, it will receive the fixed rate, while the bank will receive the floating rate.
6	12	**Q:** For portfolio 12 (inflation swap) we have modified the index start and end date specified in the January 2014 version of the instructions as follows: – Index end = November 2023 instead of February 2024 – Index start = November 2013 instead of February 2014, as the specified end date of the index will otherwise be unknown at the maturity of the swap. Can you please confirm this is correct? **A:** We confirm.
7.1	13	**Q:** Concerning portfolio #13 (Covered FX call), the notional of the forward according to the January 2014 version of the instructions is $25 million. During the last RWA benchmarking exercise, it was also originally $25 million, but was then decreased down to $20 million, in order to make VaR on this portfolio more comparable to the VaR of the other portfolios. Which notional should we consider? **A:** for portfolio #13, please consider a notional of the forward of $20 million.
7.2	13	**Q:** The reference to the "ECB reference rate at the end of day 21 February 2014 is ambiguous: it seems that the ECB rate is fixed at 14:15. **A:** Using the ECB rate which is fixed at 14:15 is fine.
8.1	14	**Q:** How should the basis over Euribor be reported in cell H18 of the "TBHPE" worksheet? **A:** The basis should be reported in the unit basis points. For example, 1.5 basis points would be entered as "1.5" (and **not** as "0.00015" or "0.015").
8.2	14	**Q:** Should it be assumed that, for portfolio 14, the constant currency payer (ie participating bank) still has the USD-equivalent of EUR 20,000,000, received on 21 February 2014, during the period from 17–28 March 2014? **A:** Yes, it should be assumed that the constant currency payer retains these funds during the period of 17–28 March for portfolio 14.
8.3	14	**Q:** Should it be assumed that there is exchange of principle at the start and end of the transaction in portfolio 14? **A:** Yet, it should be assumed that there is exchange of principle at the start and end of the transaction in portfolio 14.

Question number	Portfolio number	Questions and answers
9.1	15	**Q:** Concerning portfolio #15 (the knock-out option), the notional (as indicated in Annex 2.4 of the January 2014 version of the instructions) is €1 million. During the last RWA benchmarking exercise, it was also originally €1 million, but was then increased up to €15 million in order to make VaR on this portfolio more comparable to the VaR of the other portfolios. Which notional should we consider? **A:** for portfolio #15, please consider a notional of €15 million.
9.2	15	**Q:** How should the 3-month forward gold price be reported in cell H21 of the "TBHPE" worksheet? **A:** The 3-month forward gold price should be reported in the unit US dollars per ounce.
10.1	18	**Q:** For portfolio 18 (oil put), two contracts could be used to determine the strike price (strike = 6-month end-of-day forward price on 21 February 2014). It would make sense to use the U4 Sep contract. Please confirm this assumption, given the fact that the difference of one day can have a significant impact on the strike that is used. **A:** We confirm, the contract to be used is the U4.
10.2	18	**Q:** How should the oil price be reported in cell H22 of the "TBHPE" worksheet? **A:** The oil price should be reported in the unit US dollars per barrel.
11	23	**Q:** Can you please confirm the following interpretations of portfolio descriptions: The notional of each single name CDS in portfolio 23 should be €1 million (ie €5 million in total across the five names). **A:** We confirm.
12	25	**Q:** Can you please clarify the convention to be used for determining the running coupon of each of the CDS single-name? **A:** The convention should be 100 bp running for each CDS single name of this portfolio.
13	26	**Q:** in the January 2014 version of the instructions, the ISIN code FR001132266 is incomplete (it contains only 11 digits instead of 12), could you please confirm which ISIN is correct? **A:** The correct ISIN code is FR0011322668.
14.1	27	**Q:** in the January 2014 version of the instructions, two specifications contradict each other: (i) on page 139, it is stated that the index should be the iTraxx Europe Crossover series 20; (ii) on page 147, it is stated that the index should be the iTraxx Europe Crossover series 19. Could you confirm we should use the series 20? **A:** We confirm.
14.2	27	**Q:** The expiration date of this portfolio is 29 August 2014. This date is non-standard, whereas 16 July 2014, 20 August 2014, or 17 September 2014 are more standard. Do you confirm we should use 29 August 2014? **A:** We do not confirm. Instead, please use 20 August 2014.
15.1	28	**Q:** In Annex 2.7 of the January 2014 version of the instructions (p 148), maturity dates of the CDS have not been updated since the RWA benchmarking exercise. In order to keep a 5Y maturity, the closest maturity date would be 20 March 2019. Could you please confirm us which date to use for those two CDS? **A:** The date should indeed be changed from the instructions. Please use 20 March 2019.
15.2	28	**Q:** Can you please confirm the following interpretations of portfolio descriptions: The "quanto CDS" in portfolio 28 is a EUR-denominated CDS on Spain, and the "delta hedge CDS" is a USD-denominated CDS on Spain **A:** We confirm.

Question number	Portfolio number	Questions and answers
16	21 and 26	**Q:** Regarding the CDS on Prudential, we think there is a confusion between – Prudential PLC (UK firm) which Redcode is 7B878P, and – Prudential Financial INC (US firm) which Redcode is 7B8752. The Redcode in the January 2014 version of the instructions is the one of Prudential PLC. Yet, given that: – the currency for this CDS is USD – the Doc clause is MR for this CDS, which is standard in the US – The related bond is issued by Prudential Financial INC, We think the Redcode that the Committee meant is the one of Prudential Financial INC (Redcode 7B8752). Could you therefore confirm that for those two portfolios the Redcode 7B878P should be replaced by the Redcode 7B8752? **A:** We confirm.

6.2 Supplemental instructions

In order to ensure the accurate and consistent execution of the exercise across all participating institutions, banks are asked to familiarise themselves with the following supplemental instructions and assumptions:

(a) For the exercise itself, banks should assume they enter all positions on 21 February 2014, and once positions have been entered, each portfolio ages for the duration of the exercise. Furthermore, banks should assume it does not take any action to manage the portfolio in any way during the entire exercise period. Unless explicitly stated otherwise in the specifications for a particular portfolio, strike prices for options positions should be determined relative to prices for the underlying as observed at market close on 21 February 2014.

(b) For the purpose of pre-exercise validation banks should provide to their local supervisor on 28 February 2014 the valuation of each portfolio and the 10-day 99% VaR based upon end of day prices observed on 21 February using the pre-exercise validation data template provided. Where possible, the exact timing of the valuation should be as per the table below:

Portfolio number	Valuation time
1 and 4	4.30pm London
2, 3 and 6	4.30pm New York
5 and 7	4.30pm London
8–12 and 14	5.00pm London
13 and 15	4.30pm New York
16	4.30pm New York
17	1.30pm New York
18	2.30pm New York
19–28	5.00pm London

(c) Banks should calculate the risks of the positions without taking into account the funding costs associated to the portfolios (ie no assumptions are admitted as per the funding means of the portfolios).

(d) Banks should exclude to the extent possible counterparty credit risk when valuing the risks of the portfolios.

(e) For transactions that include long positions in CDS, assume an immediate up-front fee is paid to enter the position as per the market conventions as indicated by Markit Partners (25, 50, 100bps for investment grade, 500bps for high yield).

(f) Assume that the maturity date for all CDS in the exercise follow conventional quarterly termination dates, often referred to as "IMM dates".

(g) Additional specifications required in order to compute pricing calculations required for CDS positions should be done in a way that is consistent with commonly used market standards.

(h) Use the maturity date (ie some options expire on third Saturday of the month, etc) that ensures the deal is closest to the term-to-maturity specified. For any material details of the product specification that are not explicitly stated in this document, please provide the assumptions you have used along with the results (ie day count convention, etc).

(i) The acronyms ATM, OTM and ITM refer to an option's moneyness: ATM stands for "at the money", OTM stands for "out of the money", and ITM means "in the money".

(j) Assume that all options are traded over-the-counter unless explicitly specified in the portfolios

(k) Follow the standard timing conventions for OTC options (ie expiry dates are the business day following a holiday)

(l) Assume that the timing convention for options is as follows: The time to maturity for a n-month option entered on 21 February is in n months. For example, a 3-month OTC option entered on 21 February 2014 expires on 21 May 2014. If options expire on a non-trading day, adjust the expiration date as per business day conventions consistent with common practices. Also provide explicit details on the nature of the adjustment made.

(m) Assume that the exercise style for all OTC options specified is as follows:

- **American** for single name equities and commodities; and
- **European** for equity indices, foreign exchange and Swaptions.

(n) For all options exclude the premium from the initial market value calculations (ie options are to be considered as "naked").

(o) In the case that a bank is required to make additional assumptions beyond those specified above that it believes are relevant to the interpretation of its exercise results (eg close of business timing, coupon rolls, mapping against indices, etc), it should submit a description of those specifications in a separate document accompanying its return template.

6.3 Consensus values for market values and additional information

The following table contains some consensus values, ie the values most frequently reported by banks on 28 February 2014 and in the re-submissions received since then. It neither means those values are the "true" prices, nor that a bank providing different results than those ones will be removed from the sample.

Instead, those numbers should be used by banks in order to better check their own results. If a bank submits, say, a market value of 100 for a given portfolio while the consensus value is 200, the bank should first double check its computation, and if it still finds such a different value from the consensus, it should seek feedback from its supervisor.

Banks are invited to send revised versions of their "pre-exercise validation" contributions to their supervisors on the fly (ie no specific deadline is set for that, yet the highest the reactivity on the side of the banks, the best the feedback from the Committee). If such revised versions lead to consensus values different from the values in the table below, the list of consensus values may be revised.

Portfolio	Market value (mean or range)	Additional information (mean)
1	2,000,000	6838
2	150,000	1204
3	750,000	1836
4	-290,000	6838
5	-15000 to 15000	3131
6	130,000	1836
7	97,500	3132
8	-16,000,000	
9	-10,000 to 10,000	1.75
10	-70,000 to -60,000	
11	1,800,000	
12	-300,000	
13	-500,000	1.37
14	50,000	-5.5
15	200,000	0.73
16	800,000	
17	-10,000 to 10,000	1,320
18	-50,000	100
19	-5,000 to 5,000	
20	11,000,000	
21	100,000	
22	145,000	
23	100,000	
24	550,000	
25	0 to 5,000	
26	10,500,000	
27	-750,000	
28	-120,000	

7. Interest rate risk in the banking book (IRRBB)

1. How should exposures with embedded interest rate options (whether bought or sold) be reported in panels A and B Undiscounted incoming/outgoing cash flows according to repricing dates in the banking book except options?

Answer: *Automatic* embedded interest rate options (whether bought or sold) are explicit option instruments whose market value responds non-linearly to changes in interest rates, without requiring any action by the customer. These are to be ignored for the purpose of panels A and B. For example:

(a) a floating rate loan or debt security with a floor would be treated as if there were no floor, hence it would be treated as if it fully repriced at the next reset date, and its full outstanding balance slotted in the corresponding time band;

(b) a bond that was callable by the issuer at a fixed yield would be treated as if it matured at its longest contractual term, ignoring the embedded call option.

Options of the *prepayment* type are not considered automatic options as they require the holder to actively exercise the option. For such *behavioural* options contractual repricing may be adjusted by management's estimates of prepayment risk in a manner that is consistent with the institution's internal risk measurement system.

2. Panel D asks to report sold financial interest rate options (short positions).

(a) What do you mean in the instructions by *nominal amounts and prices should be stated with a plus sign*?

(b) Also, must the *Nominal* (to be reported in column 1) amount be taken into account when filling in the rest of columns 2, 3, 4, and 5?

(c) Can you provide an example?

Answers:

(a) When the instructions refer to nominal amounts and prices should be stated with a plus sign, banks are requested to report sold interest rate options as if they were long positions (bought options instead of sold options). That means that column 1 (*Nominal*) and columns 3, 4 and 5 (*Option Value*) must have a positive sign. However, the sign of the delta may be negative (depending on the kind of instrument) and hence the sign of the figure to be reported in column 2 must be the same as the sign of the delta of a long interest rate option. For instance:

- long floors have a negative delta: when interest rates go up the price decreases and when interest rates go down the price increases; hence the figure to be reported in column 2 should be negative;
- long caps have a positive delta: when interest rates go up the price increases and when interest rates go down the price decreases; hence the figure to be reported in column 2 should be positive.

(b) Yes, indeed. The intention is to take the nominal amount into account when filling in the option values in columns 3, 4 and 5, ie the price of a long option of 1 monetary unit should be multiplied by the Nominal amount reported in column 1. In particular, regarding column 2 the delta of a long option for one monetary unit should be multiplied by the *Nominal* amount reported in column 1.

(c) Example: Assume the bank has a floor sold at a level of 3% in the reporting currency with a nominal amount of $20,000 and a residual maturity of 15 years. Also assume a flat term structure of interest rates at 2% (ie the floor is in the money) with a volatility of 20%. Note also that for this bank the reporting currency in cell C38 is USD and the unit in cell C39 of the 'General Info' worksheet is reported to be 1. The nominal amount to be reported in column 1 should then be $20,000 with a plus sign. Column 2 will be negative as the delta of a long floor is negative (ie the option price decreases when interest rates increase). The prices (in columns 3, 4 and 5) will be stated with a plus sign and for a nominal of amount of $20,000.

	Nominal	Delta *Nominal	Option Value under observed IR Curve	Option Value under parallel 200 bp shock interest rate scenario	
				upward	downward
(ii) Embedded interest rate options in liabilities					
3.1. Floor over reference interest rate at next repricing date (floor in the money)	20.000	-19,73	2.703	568	8.365

3. How should column 1 of (i) row 83 *1. Caps sold over floating loans and debt securities*; (ii) row 86 *2. Fixed interest rate debt securities with prepayment option for the issuer (swaption receiver sold)*; (iii) row 90 *3. Floors sold over floating debt securities issued*; and (iv) row 93 *4. Fixed interest rate debt securities issued with prepayment option for the investor (swaption payer sold)*; be reported?

Answer: Banks should report the total nominal amount of all balance sheet items, irrespective of whether or not they have interest rate optionalities. This information is collected in order to assess the materiality of embedded sold interest rate options by different categories of assets and liabilities. In particular, for

(a) row 83 *1.* Caps *sold over floating loans and debt securities*, the total nominal amounts of all floating loans or debt securities, irrespective of whether or not they have interest rate options;

(b) row 86 *2. Fixed* interest *rate debt securities with prepayment option for the issuer (swaption receiver sold)*, the total nominal amount of all fixed interest rate debt securities, irrespective of whether or not they have prepayment options;

(c) row 90 *3. Floors sold over floating debt securities issued*, the total nominal amounts of all floating debt securities issued irrespective of whether or not they have interest rate options;

(d) row 93 *4. Fixed interest rate debt securities issued with prepayment option for the investor (*swaption *payer sold)*, the total amount of all fixed interest rate debt securities issued irrespective of whether or not they have prepayment option.

4. In the case where sold interest rate options are hedged through bought interest rate options, should the hedge be reported in panel D on sold financial interest rate options?

Answer: The part of a financial interest rate option sold that is effectively *hedged* by a financial interest rate option bought should be deducted from the amount of the former. For recognising a hedge, the strike, the maturity and repricing terms should be well matched. Hedging capacity of a bought option can however only be used once. For example, if the bank has two sold floors over $100 million each and one bought floor over $100 million, all with strike rate 3%, then the bought floor can only be used to remove one of those sold floors but not both.

5. In case the interest rate for one or more tenor points on the current interest rate curve are below the 200bp, how should the 200bp shock for calculating the option value in column 5 be applied?

Answer: In that case the maximum downward interest rate shock should be applied at the given tenor of the term structure with the restriction that the final interest rate after the shock not be negative. In practice, a non-parallel downward interest rate shock could be applied.

6. What volatility should banks be using when calculating the option value under the observed interest rate curve in column N? The heading in the instructions prescribes a 20% volatility, which contradicts the text in the instructions where banks are asked to use the volatility level reported in cell F78.

Answer: There has been a typo in the heading of the instructions. Please do not consider the 20% volatility level and use the volatility reported in cell F78 for the calculation of the option values in columns 3, 4, and 5 instead. The instructions should hence read as follows:

84, 85, 87, 88, 91, 92, 94, 95, 98, 99, 101, 102, 104, 105, 107, 108	N	Option value ~~(volatility of 20%)~~ under observed IR curve	Option's price under the initial IR curve for the nominal ~~maintained~~ amount. The volatility informed in F78 must be used for this calculation. The value will be stated for the nominal of the position.

7. Should only significant currencies be reported (ie representing more than 5% of banking book assets and liabilities) in the IRRBB worksheet or should one consider an "all currency" template?

   Answer: Banks should only report their interest rate sensitive positions in the most *significant* currencies (ie representing more than 5% of banking book assets and liabilities) up to a maximum of seven currencies. As opposed to panel A.3 of the CSRBB worksheet where a bucket for *residual* currencies has been added, banks should only report up to the *seven* most significant currencies in the IRRBB worksheet.

8. In panels A to C of the IRRBB worksheet, should the entire interest cash flows be reported in the maturity ladder, including other risks and commercial components of the actual interest rate (interest, liquidity, credit risk and commercial margin), or should instead only Fund Transfer Pricing (FTP) rates be considered to get an estimate of the "pure" rate component?

   Answer: Banks should report the entire interest cash flows in panels A to C.

9. Should intragroup interest rate sensitive cash flows be reported gross or should they be netted against each other?

   Answer: Banks should report the consolidated interest rate positions, so they should net their interest rate sensitive cash flow positions across entities which fall within the regulatory scope of consolidation. Intragroup positions with entities not falling within the regulatory scope of consolidation should instead be reported *gross*.

10. Should a LCR-like approach be applied to term deposits (ie term deposits should be considered as NMDs when early withdrawals are allowed and do not result in a significant penalty that is materially greater than the loss of interest according to paragraph 82 and footnote 38 of the Basel III LCR framework)?

    Answer: Term deposits have contractual *repricing* dates. In jurisdictions where term deposits have severe early withdrawals, adjustments should be made to reflect the instability of the deposit balances through adjusting the maturities of these balances. However, the *repricing* characteristics do not change. The NMD treatment applies only to products without contractual *repricing* characteristics.

11. How should banks determine the stable portions of NMDs?

    Answer: Banks should use their internal methodologies for assessing the stability of NMD balances that are assigned term *repricing* characteristics for interest rate risk purposes.

12. How should banks calculate pass-through rates on stable deposits? What if a bank's definition of core deposits in interest rate risk differs from that used for liquidity risk purposes?

    Answer: The bank should report and explain their internal methodologies for assigning term *repricing* characteristics of NMDs for interest rate risk purposes. NMD *repricing* characteristics for interest rate risk management purposes may or may not be consistent with the treatment of NMDs for liquidity risk management purposes.

13. Only one volatility value should be used to calculate the entire sold options portfolio in the bank's major currency in panel D, irrespective of tenor and moneyness. Does this mean that banks are free to choose the most appropriate volatility?

Answer: Indeed, one volatility value as reported in cell F78 of the IRRBB worksheet should be used to calculate the entire sold options portfolio, and banks are free to choose the most appropriate value.

14. How should banks report the repricing cash flows in case instruments are subject to customer behaviour such as prepayments or early withdrawals?

Answer: Banks should apply their own assumptions on the mapping of such cash flows into time bands as long as it is consistent with their internal measurement systems and forecasted interest rate paths. Note that in line with the answer to IRRBB FAQ 1 behavioural options such as prepayments or early withdrawals are to be reported in panels A to C and not in panel D.

15. How should inflation-linked deposits without contractual repricing dates, ie deposits whose interest rate is a function of a specific inflation rate, be reported?

Answer: For the purposes of the IRRBB worksheet it is recommended to treat those inflation-linked deposits in the same way as other NMDs, slotting the corresponding cash flows among maturity buckets depending on either internal assumptions or external official publication of the provisional inflation-repricing dates.

16. For the purposes of panel D can sold options be considered hedged through applying delta hedging?

Answer: Only if the delta hedges meet the requirements of well-matched strike, maturity and repricing terms as set out in the answer to IRRBB FAQ 4 can they be considered.

17. Banks should only report IRRBB in currencies with significant cash flows. How should banks report cash flows related to cross currency swaps and forwards that have one leg in a significant currency that needs to be reported and the other leg in a currency that is not significant?

Answer: The bank should report cash flows of the leg in the significant currency and ignore cash flows of the leg in the non-significant currency.

18. Some variable customer loans with cap normally carry floors. However, there is no place in the current template for those floors. Should those floors be reported under panel D under caps? If not, can this hedge simply be ignored for the purpose of IRRBB reporting?

Answer: Note that floors on loans are bought options and not sold options and hence should be ignored for the purposes of reporting for the IRRBB worksheet. The caps on the loans however are sold options and, while to be ignored in panels A to C, should be reported in panel D (rows 83 to 85) if denominated in the currency with the highest nominal total amount (ie most significant currency as indicated in panel A).

19. How should banks map interest and principal cash flows of their floating rate instruments into the time bands in panels A and B?

Answer: The next coupon and full notional should be placed in the next repricing maturity bucket. Cash flows pertaining to spreads should not be slotted to buckets beyond the next repricing maturity.

20. Should equity capital (on the liability side) be reported in the IRRBB worksheet?

Answer: No, for the purposes of IRRBB banks' equity capital (on the liability side) should not be reported.

21. Are banks required to report non-interest bearing assets such as other assets (eg fixed assets including real estate, intangible assets, etc) or equity exposures in the IRRBB worksheet?

Answer: No, for the purposes of IRRBB those assets should be excluded.

22. Over which time horizon should NMD pass-through rates on stable deposits be measured in response to a shift in interest rates?

Answer: For the purposes of the IRRBB worksheet, banks should measure *pass-through rates* in response to a shift in interest rates until the full effect of the market rate move haves been passed through to the customers according to banks' internal estimates.

23. How should interest rate swaps be reported where there is no transfer of notionals? Should only the interest payments be taken into account, or both the interest and the notionals at the respective repricing dates?

Answer: As a general criteria, even though there is no exchange of principal each leg has to be included in the respective tenors when the interest rate changes: that is, for floating interest rates both interest cash flows and principal should be slotted to the next repricing date, whereas for the fixed interest rate leg the principal should be slotted into the maturity tenor and all the interest cash flows at their respective tenors until maturity. Note also that this holds for derivatives instruments which are not options.

24. Some mortgages with fixed rate periods of more than ten years carry a legally binding prepayment option which can be exercised by the borrower after ten years. As most mortgages are amortising, the volume of the corresponding options decreases over time. Which cash flow amount is supposed to be reported under panel A? Is it the volume of the loan, the expected starting volume (respective current volume if the first ten years have already happened) of the option or the average amount of the option?

Answer: A bank should report the mortgage loan with cash flows that are adjusted by management's estimates of prepayment risk in a manner that is consistent with the institution's internal risk measurement system (cf also IRRBB FAQ 1).

25. What is the definition of wholesale, when referring to panel C? In particular, can we consider deposits from financial institutions as transactional accounts? Should we include non-financial corporates in wholesale?

Answer: Please refer to the paragraph 75 and 85 to 111 of the Basel LCR framework. The segmentation for wholesale and transactional accounts should be in line with the Basel III LCR framework. For the purposes of the IRRBB worksheet, banks should segment *operational* wholesale deposits as set out in paragraphs 93 to 104 of the Basel III LCR framework into the *transactional* segment. Non-financial corporate deposits must be considered wholesale unless they fall under paragraph 89 of the LCR framework (small business customers).

26. Whenever one of the maximum seven currencies is selected in column C of the IRRBB worksheet for panels A to C and the bank has no cash flows for a given panel, should the corresponding rows be left empty or should the bank fill them with zeros?

Answer: Consistent with the general principle used in the Basel III monitoring worksheets, banks should fill the corresponding rows with zeros.

27. A combo box option for the currencies in cells C9 to C15 of the "IRRBB" worksheet refers to the currency *BRI*. What currency does this refer to?

Answer: *BRI* is a typo and should be *BRL*, ie the ISO currency code for the *Brazilian Real*. Banks which have cash flows in *Brazilian Real* to be reported in the IRRBB worksheet should hence select *BRI* from the combo box.

28. How should currency *Others* be used in column C of panel A in the IRRBB worksheet? How should the *FX conversion rates used* in column R be computed if more than one currency is bundled in *Others*?

Answer: Given a series of operational difficulties to accommodate for the currency categories not explicitly listed in the *IRRBB* worksheet, the currency option ***Others*** in the combo box in cells C9 to C15 should **no longer be used**. Hence all currencies listed in panel A must be clearly identified. Other significant currencies for the bank which are not listed in the combo box should simply not be reported.

29. How should the *Percentage of total* in column Q of panels A to C in the IRRBB worksheet be calculated?

Answer: To the extent possible, the *Percentage of total* (column Q in panels A to C of the *IRRBB* worksheet) should be understood as:

(a) sum of cash inflow amounts across the maturities in the currency of a specific row in panel A as a percentage of the total cash inflow amounts across all currencies, including non-significant currencies in panel A; and

(b) sum of cash outflow amounts across the maturities in the currency of a specific row in panels B and C as a percentage of the total cash outflow amounts (ie total across all outflows in panels B and C), including non-significant currencies.

30. What is the sign convention for slotting incoming vs outgoing cash flows in panels A to C of the *IRRBB* worksheet?

Answer: All cash inflows in panel A must be reported with positive signs and all cash outflows in panels B and C must be reported with negative signs. To the extent that the bank has cash inflows associated with non-maturity deposits, they should be reported in panel A (cf also IRRBB FAQ 14).

31. How should a bank report in the *IRRBB* worksheet if it is not operationally capable of slotting the repricing cash flows by maturity bucket for a given currency?

Answer: In line with the general QIS convention, if the bank is not operationally capable of slotting the repricing cash flows by maturity bucket for a given currency it should leave the corresponding row blank (cf also IRRBB FAQ 26).

32. How should the bank report cash outflows for non-maturity deposits (NMDs) if it cannot segment according to (i) retail vs wholesale; and/or (ii) transactional vs non-transactional?

Answer: Without prejudice to the answer to IRRBB FAQ 31 above, if the bank cannot segment NMDs for a given currency according to

(a) retail vs wholesale, it should report all cash flows as wholesale in panels C3 and/or C4 and fill panels C.1 and/or C.2 with zeros;

(b) transactional vs non-transactional, it should report all cash flows as non-transactional in panels C.2 and/or C.4 and fill panels C.1 and/or C.3 with zeros.

Whenever the bank collapses panels for a given currency as described above, it should report the *proportion of stable deposits* and *pass-through rates* in a pooled way. In case the bank cannot determine the *proportion of stable deposits* and/or the *pass-through rates*, the cell must remain empty.

8. Credit spread risk in the banking book (CSRBB)

1. Should panel A include all credit risk exposures on the balance sheet (eg cash, loans, bonds, and other assets) or just include assets with market prices? In case all assets need to be reported, how should banks determine the residual maturity for assets on balance sheet without any maturity, such as cash and other assets?

   Answer: In panel A of the CSRBB worksheet total banking book exposures pre-CRM (non-securitisations and non-credit derivatives) should be reported. Exposures should be post-CCF and hence not only include on-balance sheet exposures but also off-balance sheet items. However, the following exposure types should be excluded:

   - securitisations and structured credit instruments (these are to be reported in panel C);
   - credit derivatives (to be reported in panel D);
   - counterparty credit risk (CCR) exposures resulting from OTC and centrally-cleared derivatives;
   - trading book exposures;
   - non-credit obligations such as cash and other assets (eg real estate, intangibles, commodities, or gold held in vaults);
   - equity exposures in the banking book.

2. How should banks differentiate credit quality between investment grade (IG) and high yield (HY)? Should the distinction be based on banks' internal ratings or external ratings?

   Answer: The classification should be based on issuer ratings. If external ratings are available, they should be applied. Otherwise, internal ratings may be used as a substitute, and banks should apply the mapping of PDs to external rating grades as set out on page 130 of the instructions for Basel III monitoring (Section 9 on *Partial use*).

3. Is the sector segmentation based on the debt facility or the issuer?

   Answer: The sector segmentation in panels A.1 and B should be based on the issuer, just like the classification of investment grade (IG) and high yield (HY) exposures in the respective panels.

4. Would you please clarify how to calculate credit spread risk in the banking book and capital requirements with the CSRBB data collected?

   Answer: At this stage, the collection of CSRBB data is not designed to calculate capital requirements for credit spread risk in the banking book, but rather to provide information on the actual composition of banking books to inform policy making.

5. How are sectors to be defined in panels A.1 and B (eg NAICS code)?

   Answer: Panels A.1 and B in the CSRBBB worksheet use the same sector classification as in the Fundamental review of the trading book.

6. In panel C should banks only report exposures in securitisations where they act as investors, or should they also report securitisation exposures where they act as originators?

Answer: For the purposes of this round of the Basel III monitoring, reporting in the CSRBB worksheet should be before recognition of credit risk mitigation techniques (ie pre-CRM). Hence, exposures to a *true sale* securitisation should all be reported in panel C, irrespective of whether the bank acts as an originator or as an investor. However, where a bank acts as an originator of a *synthetic* securitisation and this synthetic securitisation is structured through the use of credit risk mitigation techniques as part of the credit risk transfer mechanism, only the underlying exposures should be reported in panels A and/or B and hence the credit risk transfer be disregarded (ie not to be reported in panel C). Notional amounts of credit derivatives are nevertheless to be reported in panel D.

7. For synthetic securitisations, should the rating of the tranches or the rating of the underlying be considered?

Answer: As described in the answer to CSRBB FAQ 6, the originating bank should only look at the rating of the underlying exposures, whereas for an investing bank the rating of the tranches should be considered.

8. In the design of the CSRBB worksheet, panels A.1 and A.2 should reconcile. However, according to the instructions panel A.1 banks should report exposures *post*-CCF (January 2014 version of the instructions, page 122, Section 8.2), whereas for panel A.2 banks should report exposures *pre*-CCF and pre-CRM (page 124, Section 8.2.2) given the instructions the two panels will not reconcile. Please clarify the intention?

Answer: The references to *pre*-CCF in the detailed instructions for rows 38 to 41 are clear typos and should be changed to *post*-CCF. The *exposure amounts* to be reported in panels A.1 and A.2 should reconcile and hence be post-CCF and pre-CRM.

9. Please confirm that for panel A.2 the disconnect between reported EAD (pre-CRM) and the EAD (post-CRM) used in the calculation of the risk weights is intended?

Answer: Yes, the distinction is intended, as the intention is to ensure that panels A.1 and A.2 reconcile on the one hand (ie pre-CRM) while at the same time ensuring consistency with the Basel II framework regarding the calculation of the risk weights (ie post-CRM).

10. How should retail exposures be slotted to panels A and B of the CSRBBB worksheet?

Answer: *Retail exposures* should be slotted into the *Other* sector segment.

11. Footnote 42 of the instructions refers to counterparty credit risk (CCR) as set out in Annex 4 of the Basel II framework, including for those exposures classified as belonging to the trading book. This is in contradiction with the first paragraph of Section 8.2. How should this be interpreted?

Answer: The reference made to the trading book in footnote 42 is a typo. Indeed, the CSRBB worksheet only deals with banking book exposures. Moreover, as clarified in CSRBB FAQ 1, counterparty credit risk (CCR) exposures resulting from derivative exposures should also be excluded. The reference to Annex 4 hence only includes non-derivative CCR exposures (eg securities financing transactions (SFTs) in case the internal models method (IMM) is used) *pre*-CRM.

9. Partial use and roll out

1. The Section *9. Partial use* of the Instructions make a cross-reference to rows 40 and 41 regarding "Claims secured by residential property" as well as to rows 61 and 62 regarding exposures resulting from free-deliveries for trading book-only counterparties, under the permanent partial use and roll out respectively. However, the cross-references to the rows do not match with the corresponding items.

Answer: The cross-references are indeed typos and the corresponding paragraph should instead state as follows:

"*Rows ~~41~~40 and ~~42~~41 refer to exposures classified as "Claims secured by residential property" under the permanent partial use and roll out respectively, and which would be classified as "retail" under the IRB approach according to paragraphs 231 to 233 of the Basel II framework. Rows ~~61~~60 and ~~62~~61 refer to exposures resulting from failed free-deliveries for trading book-only counterparties (including where the fallback 100% risk weight is applied (paragraph 6 of Annex 3 of the Basel II framework)).*"