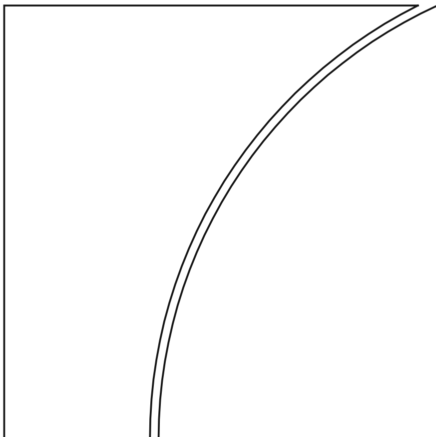
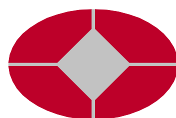
Basel Committee
on Banking Supervision



Frequently asked questions on Basel III monitoring

25 November 2016



BANK FOR INTERNATIONAL SETTLEMENTS

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Frequently asked questions on Basel III monitoring

1. Introduction

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

Paragraph numbers given in the remainder of this document usually refer to *Basel III: A global regulatory framework for more resilient banks and banking systems* ("the Basel III standards"), the *Basel III leverage ratio framework and disclosure requirements* ("the Basel III leverage ratio framework"), *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* ("the Basel III LCR standards") and *Basel III: The Net Stable Funding Ratio* ("the Basel III NSFR standards").[1]

In addition to the guidance for completing the monitoring template contained in this document, the Committee has published frequently asked questions as its official response to questions of interpretation relating to certain aspects of the Basel III standards. **Therefore, banks should also take into account the frequently asked questions on capital, counterparty credit risk and the leverage ratio published by the Committee.**[2]

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

2. General

1. In Section 2.1, it is mentioned that banks should calculate capital requirements based on the national implementation of the Basel II framework unless stated otherwise. Does this include deviations from the Basel capital framework if any?

   Answer: Yes. In some countries supervisors may have implemented additional rules beyond the Basel capital framework or may have made modifications to the framework in their national implementation, and these should be considered in the calculation of the capital requirements for the purposes of this exercise unless stated otherwise in the Instructions.

[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

3.1 General

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.

2. Can banks choose whether or not to include the amounts related to defaulted assets in cells D8 and D9 of the "DefCap" worksheet?

   Answer: No. Banks in EU countries **must exclude** the amounts related to defaulted assets from cells D8 and D9 of the "DefCap" worksheet and report them separately in cells D10 and D11. Conversely, banks in non-EU countries **must include** these amounts in cells D8 and D9 and leave cells D10 and D11 empty.

3.2 DefCap-provisioning

1. Please elaborate more on how to interpret "any loan past due for 90 days or more" in cells D16 and D20 in the "DefCap-provisioning" worksheet.

   Answer: Those cells in the "DefCap-provisioning" worksheet are based on the current standardised approach for credit risk (SA) and thus paragraph 75 of the Basel II framework is a right reference in this regard, ie referring to only 90 days past due (90 DPD). When jurisdictions implement more conservative criteria (eg adding a criterion of unlikeliness to pay) than the Basel 90 DPD criterion which can be recognised as national implementation of the Basel 90 DPD criterion, banks should fill in data on a nationally implemented basis. Cells D17 and D21 should be filled consistently with the treatment for cells D16 and D20.

2. Please clarify how to fill in cells D16 and D17 in the "DefCap-provisioning" worksheet if banks cannot allocate general provisions on a loan-by-loan basis.

   Answer: Banks should allocate total general provisions to cells D16 and D17 proportionally to the amount of exposures (or RWAs ideally) associated with those cells unless otherwise specified under the fully phased-in nationally implemented rule. If general provisions spread over both SA and IRB portfolios under the partial use of the standardised approach and cannot be allocated on a loan-by-loan basis, banks should calculate cells D10, D11, D16 and D17 in the same manner. In addition, the same proportional method can be applied to specific provisions, ie cells D20 and D21, if relevant.

   For example, a bank calculated general provisions of 200 on a pooled basis which cover loan exposures of 10,000. The loan exposures are broken down to 3,000 for the exposures that are past due for 90 days or more and 7,000 for the exposures that are not past due or past due for less than 90 days. In this case, the bank populates 60 (200/10,000*3,000) in cell D16 and 140 (200/10,000*7,000) in cell D17.

   In addition, in case that a bank can calculate RWAs in detail, it is ideal for the bank to calculate figures as follows. Total exposures of loan portfolios equal 10,000 where 3,000 in the "90 DPD or more" bucket and 7,000 in the "less than 90 DPD" bucket. First, convert these exposures into

RWAs. After the conversion, RWAs would be 4,500 (3,000*150%) in the "90 DPD or more" bucket and 3,500 (7,000*50%) in the "less than 90 DPD" bucket. The total RWAs equal 8,000. The second step is to allocate provision 200 into these two buckets (cells) in proportion to the RWAs. In this example, the bank populates 113 (4,500/8,000*200) in cell D16 and 87 (3,500/8,000*200) in cell D17.

When banks use a proportionate method, banks should explain the approach taken to their supervisor in a written form concurrently with the data submission.

3. Do cells D9 and D15 (Of which, are loan loss reserves for general banking risks (ie hidden reserves)) in the "DefCap-provisioning" worksheet include any accounting provisions for general banking risks?

   Answer: No. This cell corresponds to only "not publicly disclosed (hidden) reserves", accepted by banks' supervisory authorities, which, though unpublished, have been passed through the profit and loss account and are not allocated to an identified deterioration in any asset or group or subset of assets.

   Thus, these hidden reserves are not based on generally accepted accounting frameworks (eg IAS 39) but domestic regulatory treatments. Note that most jurisdictions do not have such domestic regulatory treatments, so these cells are expected to be irrelevant for most banks.

4. Should rows 34/35 in the "DefCap-provisioning" worksheet report figures before the threshold/full deduction, respectively?

   Answer: Yes. Row 34 collects the amount subject to the threshold deduction treatment and row 35 collects the amount subject to the full deduction treatment from CET 1 capital. Both figures should be based on "before deduction".

5. How should cells E47 to E49 and E56 to E58 of the "DefCap-provisioning" worksheet be filled in?

   Answer: Decimals indicating distribution of the increase should be populated in these cells, even though the cell format is for integer values and will thus show "0" or "1". For instance, if the increase in provisions will be between 10% and 20%, it is necessary to identify this increase will be distributed between stages 1, 2 and 3 (eg stage 1: 40%; stage 2: 50% and stage 3: 10%. This means that the increase in total provisions by 10% to 20% will be broken down into 40% in stage 1; 50% in stage 2; and 10% in stage 3). The total percentage of these three cells should equal 100%. In this case, decimals 0.4, 0.5 and 0.1 are excepted in E47, E48 and E49 respectively for SA banks.

3.3 TLAC

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4. Leverage ratio

4.1 General

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 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 cells D77 and J77 of the "Leverage Ratio" worksheet, should we only provide the amount resulting from the netting agreements or should we also include cash collaterals?

   Answer: Cells D77 and J77 should only include (i) the amount resulting from the netting, with the effects of collateral to be included in cells D79 and J79; and (ii) the gross value of derivatives that are treated off-balance sheet and therefore included in column E (and K) of panel A where applicable; following the relevant accounting frameworks.

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

   Answer: Yes.

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

    Answer: This is correct.

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

    Answer: Yes. According to paragraph 15 and footnote 4 of the Basel III leverage ratio framework, where a national GAAP recognises on-balance sheet fiduciary assets, these assets can be excluded from the Basel III leverage ratio total exposures measure provided the assets meet the criteria in IAS 39 for de-recognition and, where applicable, IFRS 10 for de-consolidation. When disclosing the Basel III leverage ratio, banks should additionally disclose the extent of such de-recognised fiduciary items.

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

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

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

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

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

14. deleted.

15. deleted.

16. deleted.

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

    Answer: As set out in Section 5.2.9 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. deleted.

19. Panel I: Do rows 141 to 143 of the "Leverage ratio" worksheet 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 141 to 143 refer only to the bank's centrally cleared client initial margins associated with derivative transactions included in the Basel III leverage ratio exposure measure.

20. Panel J: Is it allowed to report a negative derivatives exposure according to the following formula: L8 + K21 – K22 – K23 + K38 in cells J151 and/or J154 in panel J?

    Answer: Although unusual, negative derivatives exposures are indeed possible.

21. Panel G: Does paragraph 187 of the SA-CCR document[3] apply to global netting agreements (GNA), which are legally-enforceable agreements that enable a bank to net and margin client positions across products and across the bank's legal entities?

    Answer: Paragraph 187 of the SA-CCR document states that where a single margin agreement applies to several netting setts, the PFE add-on must be calculated according to the unmargined methodology. Since the collateral exchanged on a net basis as a consequence of GNA may be insufficient to cover the exposures arising from derivative transactions, paragraph 187 should apply.

22. deleted.

23. Panel G: To calculate the impact of collateral provided on the RC for rows 111 (all collateral) and 112 (non-cash collateral), should the reporting bank include all collateral provided or only those that are recorded on the bank's balance sheet?

    Answer: Rows 111 and 112 are designed to capture the impact of collateral provided on the RC under the unmodified SA-CCR approach and to assess any potential double counting of the amount of collateral posted in the calculation of the leverage ratio exposure measure. Under the current Basel III leverage ratio framework, row 21 should capture a grossing up of exposure measure from on- and off-balance sheet collateral provided, where the provision of such collateral has reduced the value of the balance sheet assets under the applicable accounting framework. Under certain accounting standards, row 18 should generally capture items such as receivables from cash collateral provided, which should be an asset item on the balance sheet.

    Therefore, for the calculation of rows 111 and 112, banks should include both on- and off-balance sheet collateral provided. Specifically, row 111 should include all collateral and row 112 should include non-cash collateral only.

24. Panel G: For row 113, should the bank report the amount of cash collateral provided and included in row 21?

    Answer: No. Row 113 requires the amount of receivables for cash collateral provided that is both included in row 18 and taken into account in the calculation of C or NICA under the unmodified SA-CCR approach.

25. Panel G: For the calculation of row 114, should the reporting bank include all collateral provided or only those that are recorded on the bank's balance sheet?

    Answer: Row 114 requires the gross value of all collateral provided, including those that are off-balance sheet. Row 113 could be considered as a subset of row 114.

[3] Basel Committee on Banking Supervision, *The standardised approach for measuring counterparty credit risk exposures*, March 2014, www.bis.org/publ/bcbs279.htm.

26. Panel G: Under the modified SA-CCR, setting the PFE multiplier at 1 would de-recognise (i) over-collateralisation within netting sets, and (ii) the effect of negative mark-to-market. Please confirm that for the purpose of the Basel III monitoring exercise, this was intended?

    Answer: Yes.

27. Panel K: Is panel K limited to the banking book or shall trading book exposures be included as well?

    Answer: Panel K refers to regular way sales or purchases of any securities that have not been settled yet at reporting date. There is no differentiation between banking and trading book.

28. Panel K: For banks that apply netting of cash receivables for securities sold against cash payables for securities purchased under trade date accounting, what form of netting should be reported on panel K?

    Answer: The only netting that should be reported for trade date accounting on panel K is the unconditional netting allowed for broker-dealers under US GAAP and Japanese GAAP. Other options for conditional netting (eg as provided by IAS 32) are not to be reported on panel K.

29. Panel A: Should the amount of the exposure measure that must be grossed up per paragraph 24 of the Basel III leverage ratio framework associated with collateral *provided* in derivative trades that is netted according to IAS 32.42 be reported in row 21 of the 'Leverage Ratio' template?

    Answer: Yes, the amount that was netted due to collateral provided is to be reported in row 21 so as to gross-up the exposure measure. Moreover, as the accounting value for derivatives is to be reflected in D8 and J8, the grossing-up in cells E8 and K8 refers to collateral received from derivative trades. The netted amount for other assets according to the relevant accounting standard is to be reported in cells D19 and J19.

30. Please confirm which cells in panel K (trade vs settlement date accounting) are mandatory.

    Answer: In order to facilitate automatic calculations on the "Leverage Ratio additional" worksheet, cells K190, L190, K191, L192 and L194 are all mandatory. A previous version of the template incorrectly indicated that cells L192 and L194 were optional, but this has been corrected in a revised version of the template.

4.2 Leverage ratio additional

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

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

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

    Answer: Yes.

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

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

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

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

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

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

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

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

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

   Answer: For the purpose of reporting the CVA attributable to a particular counterparty in column M, banks should calculate CVA at the portfolio level (for all relevant counterparties) and allocate CVA to each counterparty on a best-efforts basis. Likewise, risk-weighted capital requirements for counterparty credit risk using SA-CCR in column L should be allocated to each counterparty on a best-efforts basis.

7. What should be reported on panel B row 20 ("Off-balance sheet items with a 100% CCF in the LR CD including Option A for unsettled financial asset purchases") and row 22 ("Off-balance sheet items with a 100% CCF in the LR CD including Option B for unsettled financial asset purchases"), particularly if a bank does not have any unsettled financial asset purchases to report?

   Answer: Banks should report in rows 20 and 22 the notional amount of all off-balance sheet items with a 100% CCF per the consultative document on the Revisions to the Basel III leverage ratio. In row 20, banks should additionally reflect any amounts associated with unsettled financial asset purchases per the treatment specified in Option A in the consultative document. In row 22, banks should additionally reflect any amounts associated with unsettled financial asset purchases per the treatment specified in Option B in the consultative document. If a bank does not have any unsettled financial asset purchases to report in either rows 20 or 22, the values reported in rows 20 and 22 should be equal and reflect the notional amounts of any other types of exposures that receive a 100% CCF per the consultative document. The latter also applies to banks using *trade date accounting*.

8. If a bank reports zero values for unsettled financial asset purchases on panel F, what should be entered on row 21 ("Reported unsettled financial asset purchases as OBS items with a 100% CCF?")?

   Answer: A bank should select "No" on row 21 if it does not report any unsettled financial asset purchases on panel F.

9. For reporting panel B, what definition of "commitments" should be used for determining off-balance sheet items?

   Answer: For the purposes of reporting off-balance sheet items associated with commitments in panel B, banks should use the definition of "commitments" as specified in paragraph 8 of the Annex of the consultative document *Revisions to the Basel III leverage ratio framework*.

10. For reporting values for modified SA-CCR on panels C and E, should the bank include the 1.4 alpha factor in the values reported?

    Answer: No. Values of modified SA-CCR on panels C and E should be reported without having applied the 1.4 alpha factor. However, on panel H reporting of SA-CCR-based measures in columns J and K and SA-CCR-based capital requirements in column L should reflect the application of the 1.4 alpha factor.

11. For the calculation of the Basel III leverage ratio per the consultative document in panel I, what methodology has been applied?

    Answer: For purposes of panel I, the calculation of the exposure measure reflects proposals as included in the consultative document *Revisions to the Basel III leverage ratio framework* (April 2016), the impact of which is based on a combination of data reported on the "Leverage Ratio" and "Leverage Ratio additional" worksheets. In particular, the value for on-balance sheet exposures in panel I takes into account the deduction of eligible provisions (paragraph 10) and PVAs (paragraph 12) as well as the clarification on cash pooling transactions (paragraph 17) as specified in the consultative document. The exposure value for pending settlement transactions is based on the two options (ie options A and B as specified in paragraph 16) as proposed in the consultative document, including associated amounts treated as OBS items (Annex paragraph 9). The measurement of derivative exposures (including those associated with transactions cleared on behalf of a client) is based on a modified version of the SA-CCR (paragraphs 19 through 29) and clarifications for the treatment of written credit derivatives (paragraphs 30 through 35). Regarding OBS items, the upper bounds of CCFs as proposed in the consultative document (Annex paragraphs 8 through 13) are applied to notional amounts as reported in panel B. Consistent with the consultative document, as there have been no proposed revisions to the measurement of securities financing transactions (SFTs), the calculation in panel I utilises the measurement of SFTs as reported on the "Leverage Ratio" worksheet according to the January 2014 Basel III leverage ratio framework.

12. For reporting panel H, how should a bank provide information on "Enforceability of netting and collateral arrangements" in column N?

    Answer: A revised version of the template allows for banks to select a value of "1", "2", "3" or "4" from the drop-down menu in column N. The table below details that those values correspond to the following responses.

1	Netting
2	Collateral
3	Both
4	Neither

    Banks that do not use the most recent version of the template may simply type in the numerical value that corresponds to the relevant response.

13. Please confirm the nature of the check included in row 30.

    Answer: Both the description and formulas used for these checks in the original version of this worksheet contain known errors. The intent of this check is to confirm whether the reported value of replacement cost without an FX haircut applied to cash variation margin is less than

replacement cost with an FX haircut applied to cash variation margin (ie the value of row 29 is less than row 30 as reported for the same period). A revised version of the template reflects the corrected check. A corrected version of this check also will be incorporated for the purposes of reviewing submitted templates.

14. Please confirm the check included in row 63.

Answer: The formula used for check in the original version of this worksheet contains a known error due to a missing cell reference in the formula. The intent of this check is to confirm whether securities financing transactions (SFTs) in the form of open repos as reported on row 63 do not exceed the value of total SFTs as reported on row 15 of the "Leverage Ratio" worksheet. A revised version of the template reflects the corrected check. A corrected version of this check also will be incorporated for the purposes of reviewing submitted templates.

15. Please confirm the formatting of cell I55 ("Trade date accounting Option A: amount of gross cash receivables without any offsetting: Receivables").

Answer: The formula used for automatically populating this cell in the original version of this worksheet contains a known error, which has been corrected in a new version of the template. Banks that do not use the most recent version of the template should disregard the error check in rows 55 and 56 and ensure that values are reported on cells K190, K191 and L192 of the "Leverage Ratio" worksheet so that the correction may be implemented post-submission.

5. Liquidity

5.1 General

1. It is cumbersome and time consuming to obtain data for rows 103 to 107 and 132 to 136 of the "LCR" worksheet ("additional deposit categories with higher run-off rates as specified by supervisor"). Since the weight is set to 0%, what is the significance of collecting these data? How should these amounts be reported on the "NSFR" worksheet?

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

Amounts reported in lines 103 to 107 and 132 to 136 of the "LCR" worksheet should be reflected in the amount reported in cell C11 on the "NSFR" worksheet.

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

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

Answer: All relevant breakdowns on the templates should be filled in on a "best- efforts" basis. Leaving a relevant row blank may distort the end result and may trigger exclusion from the analyses. Furthermore the LCR calculation may not produce a result in cell H443 (the LCR

percentage) if any required cells are left blank. If cells are not applicable, then they are known to be zero and thus a zero value should be entered in such cells.

5.2 LCR

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

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

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

(a) The bank could retain the collateral which would thereby be available for return when the reverse repo matures. In this case, the collateral may be included in the stock of high-quality liquid assets (if it satisfies the qualifying criteria) and repo transactions may roll-off in which case an inflow may be taken into account. The reverse repos should then be reported in lines 276 to 289.

(b) The bank could sell the collateral to another party, in which case the bank would take a short position (it has sold assets it does not own outright). The collateral then cannot be included in the stock of high-quality liquid assets. In this case, per paragraph 147 of the Basel III LCR standards, there is no need to report an outflow for the bank's short position, but the reverse repo cannot roll-off either, so there will not be an inflow of the cash extended in the reverse repo (ie it is assumed that the reverse repo will be rolled over to cover the bank's short position). The reverse repos should then be reported in lines 291 to 296.

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

- If the repo transaction matures within 30 days, resulting in an outflow, the collateral may return within 30 days and the reverse repo could unroll resulting in an inflow (unless the collateral consists of Level 1 assets, in which case the reverse repo is assumed to roll-over in full). The reverse repos should then be reported in lines 276 to 289.
- If the repo transaction matures beyond the 30-day horizon, the collateral will not return within 30 days and the reverse repo is assumed to continue to roll-over in full and not generate any inflows. The reverse repos should then be reported in lines 291 to 296.

5.2.1 Stock of highly liquid assets

4. Section 6.1.1 of the instructions states "All assets ... should be under the control of the function charged with managing the liquidity of the bank". Can unencumbered high-quality trading assets qualify for the stock of liquid assets if internal procedures exist such that these trading assets would be put under the control of the liquidity risk management function in times of stress?

Answer: Assets qualifying for the stock of liquid assets should meet all of the operational requirements noted in paragraphs 31 to 40 of the Basel III LCR standards at all times (not just in times of stress) including:

(a) The stock should be under the control of the function charged with managing the liquidity of the bank (eg the treasurer), meaning the function has the continuous authority, and

legal and operational capability, to monetise any asset in the stock (paragraph 33 of the Basel III LCR standards);

(b) Control must be evidenced either by maintaining assets in a separate pool managed by the function with the sole intent for use as a source of contingent funds, or by demonstrating that the function can monetise the asset at any point in the 30 day stressed period and that the proceeds of doing so are available to the function throughout the 30 day stressed period without directly conflicting with a stated business or risk management strategy (paragraph 33 of the Basel III LCR standards).

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

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

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

Answer: No, only securities can be included.

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

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

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

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

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

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

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

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

11. Where the cap on Level 2 assets or the cap on Level 2B assets is binding for a bank (meaning that certain otherwise eligible assets are excluded from the stock of high-quality liquid assets), can

the inflows on these excluded assets count in the denominator of the LCR as inflows (falling within the next 30 calendar days)?

Answer: No, Level 2A or Level 2B assets that are excluded from the stock of high-quality liquid assets because of the caps should remain reported in panel Ab (if Level 2A) or panel Ac (if Level 2B) and not be reported as inflows. However, assets that are excluded from the stock of high-quality liquid assets because they do not meet the operational requirements and are not reported in panel Ab (if Level 2A) or panel Ac (if Level 2B) can be included as inflows.

5.2.2 Cash outflows

12. Do "transactional accounts" in row 85 include "current accounts" from retail customers?

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

13. Regarding a relationship account "where the customer has another relationship with the bank", does this include a situation where the customer has more than one product apart from a "non-transactional account" (eg more than just one savings account)?
    Answer: Yes, the term "relationship" in this context refers to the customer having other products (ie loans, other deposit accounts) that makes it less likely that the customer will withdraw the deposits were the LCR stress scenario to unfold.

14. Row 60: The stock of high-quality liquid assets should not be designated to cover operational costs (such as rents and salaries): Does this effectively mean that 30-day expected operational costs are treated as an outflow?

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

15. Regarding "notes, bonds and other debt securities issued by the bank are included in this category regardless of the holder, unless the bond is sold exclusively in the retail market and held in retail accounts (including small business customers treated as retail)," can such bonds be treated as retail or small business customer deposits if they have been sold to a primary bank and from the primary bank then sold to retail customers or small business customers?

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

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

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

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

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

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

established methods of financial mathematics, then this liability should be modelled with early termination in the LCR?

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

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

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

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

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

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

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

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

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

23. In paragraph 114 of the Basel III LCR standards, it is assumed for secured funding transactions that involve Level 1 assets that no reduction in funding availability against these assets is assumed to occur due to their high-quality nature. For Level 2A assets, for example, a 15% reduction in funding availability will be assigned to maturing secured funding transactions backed by these assets and conducted with counterparties other than the bank's domestic central bank. Under this assumption, if a bank engaged in a $100 repo transaction backed by a Level 2A asset with a counterparty other than the bank's domestic central bank, only $85 would be assumed to roll over. Is the $15 that is assumed not to roll over eligible for the stock of high-quality liquid assets, subject to the appropriate haircut?

    Answer: No. The $15 represents a loss of funding and is taken into account as a cash outflow (the denominator of the ratio) as a result of the 15% weighting in line 195, rather than be incorporated in the stock of liquid assets.

24. The Basel III monitoring instructions state that "the amount of a commitment to be treated as a liquidity facility is the amount of the currently outstanding debt issued by the customer (or

proportionate share, if a syndicated facility) maturing within a 30 day period that is backstopped by the facility. The portion of a liquidity facility that is backing debt that does not mature within the 30-day window is excluded from the scope of the definition of a facility. Any additional capacity of the facility (ie the remaining commitment) would be treated as a committed credit facility and should be reported as such." Please clarify how the supporting lines are included in the LCR calculation.

Answer: When short-term debt, such as commercial paper, has a liquidity line as support, only the portions of the line that are supporting issued and outstanding debt that matures within 30 days and that which, in addition, could be used within the 30-day timeframe (ie the available, unused capacity) are to be included in the LCR calculation.

For example, assume $75 of debt is currently outstanding, of which $50 is due within 30 days and the remaining $25 balance is due beyond 30 days. This paper is backed by a $120 liquidity facility. The amount of the facility to be included in the LCR calculation as a liquidity facility is $50. The $45 in available, unused capacity (calculated as the total line of $120 less the $75 in outstanding debt) would be prescribed the credit facility draw rate associated with the counterparty type to which the facility is provided. The $25 of debt due outside the 30-day window would not be included in the LCR calculation (since that $25 is funded by debt that could not come due within the 30 days hence no resulting bank outflow could occur within the LCR horizon).

5.2.3 Cash inflows

25. According to the instructions to rows 302 to 305, interest payments should be reported as part of contractual inflows. However, interest payments are an element that is currently not observed in this kind of reporting, and retrieving data on this will be challenging given the timeframe and current IT set-up.

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

26. What is the purpose for row 324 regarding the cap on cash inflows compared to cash outflows?

Answer: Row 324 calculates the maximum amount of cash inflows – ie 75% of cash outflows – to be taken into account in the quantification of net cash outflows, in line with paragraph 144 of the Basel III LCR standards. A cap on total inflows is introduced to prevent banks from relying solely on anticipated inflows to meet their outflows and also to ensure that a minimum amount of liquid assets is held by the bank (ie a minimum of 25% of cash outflows). Row 323 of the worksheet includes the amount of cash inflows before application of the cap, whereas row 325 of the worksheet includes the amount of cash inflows after application of the cap. In cases where the cap on inflows is binding, row 325 will be less than row 323 (and will equal row 324), whereas in cases where the cap on inflows is not binding, row 325 will be equal to row 323.

27. According to paragraphs 171 and 172 of the Basel III LCR standards, when consolidating the LCR, the excess of buffer on an entity can be counted on consolidated LCR only when assets are transferable. Does the liquidity transfer depend on the type of asset (cash, sovereign bonds, corporate bonds, …) or does it depend only on characteristics related to the reporting entities (incorporation country, …) and in that case the whole excess is treated in the same way (and no different restrictions are applied according to the product type)?

Answer: When considering whether excess liquidity on a legal entity basis can be included in a firm's consolidated LCR, the firm should consider the provisions outlined in paragraphs 36 to 37 and 171 to 172 of the Basel III LCR standards. In particular it should demonstrate that:

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

5.3 NSFR

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

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

29. Regarding secured borrowing in lines 43 through 47, are repos, collateral lending and covered bonds included in this field?

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

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

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

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

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

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

    Answer: Assuming that "financial instruments" means derivatives, they should be reported as outlined in Section 6.2.2 of the instructions.

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

    - In which line(s) should they be reported? As loans depending on the counterparty? If so, this treatment does not seem to agree with paragraph 32 of the Basel III NSFR standards (if the bank will receive cash, then the RSF of the transaction would be 0%).

      Answer: Reverse repos should be reported as cash loans according to counterparty. Paragraph 32 is only applicable to assets on balance sheet. Most accounting standards do not result in such assets being recorded on a bank's balance sheet.

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

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

- What maturity should be considered for 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 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).

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 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.

6. Operational risk

44. Could you please clarify the treatment of data for operational risk when the information is not available?

Answer: Page 134 of the Basel III monitoring instructions on operational risk incorrectly states that a zero should be entered in instances where information is not available. In line with the Basel III monitoring instructions where information is not available, the corresponding cell should be left empty.

7. Sovereign exposures

1. The "Check to panel A (RWA)" checks (cells Q151 to Q170 and cells AE151 to AE170) and "Check to panel A (Exposure)" checks (cells R151 to R170 and cells AF151 to AF170) appear to be incorrect as the formulas do not check against the RWA and exposure values in panel A as intended by the checks.

Answer: Yes, the cell references for the formulas in panel D are off by one column. The correct formulas are indicated below. For banks using version 3.4.0 of the Basel III monitoring workbook, the formulas would be amended when the templates are submitted (ie there is no need for any actions on the part of the bank). For banks using version 3.4.1 of the Basel III monitoring workbook, the formulas have already been amended.

Affected cell	Correct formula	Affected cell	Correct formula
Q151	=IF(SUM(E151:J151)=~~E7~~ D7,"Yes","No")	R151	=IF(SUM(K151:P151)=~~G7~~ F7,"Yes","No")
Q153	=IF(SUM(E153:J153)=~~E14~~ D14,"Yes","No")	R153	=IF(SUM(K153:P153)=~~G14~~ F14,"Yes","No")
Q155	=IF(SUM(E155:J155)=~~E21~~ D21,"Yes","No")	R155	=IF(SUM(K155:P155)=~~G21~~ F21,"Yes","No")
Q156	=IF(SUM(E156:J156)=~~E22~~ D22,"Yes","No")	R156	=IF(SUM(K156:P156)=~~G22~~ F22,"Yes","No")
Q158	=IF(SUM(E158:J158)=~~E25~~ D25,"Yes","No")	R158	=IF(SUM(K158:P158)=~~G25~~ F25,"Yes","No")
Q160	=IF(SUM(E160:J160)=~~E32~~ D32,"Yes","No")	R160	=IF(SUM(K160:P160)=~~G32~~ F32,"Yes","No")
Q162	=IF(SUM(E162:J162)=~~E39~~ D39,"Yes","No")	R162	=IF(SUM(K162:P162)=~~G39~~ F39,"Yes","No")
Q164	=IF(SUM(E164:J164)=~~E48~~ D48,"Yes","No")	R164	=IF(SUM(K164:P164)=~~G48~~ F48,"Yes","No")
Q166	=IF(SUM(E166:J166)=~~E51~~ D51,"Yes","No")	R166	=IF(SUM(K166:P166)=~~G51~~ F51,"Yes","No")
Q168	=IF(SUM(E168:J168)=~~E57~~ D57,"Yes","No")	R168	=IF(SUM(K168:P168)=~~G57~~ F57,"Yes","No")
Q170	=IF(SUM(E170:J170)=~~E63~~ D63,"Yes","No")	R170	=IF(SUM(K170:P170)=~~G63~~ F63,"Yes","No")
AE151	=IF(SUM(S151:X151)=~~H7~~ G7,"Yes","No")	AF151	=IF(SUM(Y151:AD151)=~~J7~~ I7,"Yes","No")

Affected cell	Correct formula	Affected cell	Correct formula
AE153	=IF(SUM(S153:X153)=~~H14~~ G14,"Yes","No")	AF153	=IF(SUM(Y153:AD153)=~~J14~~ I14,"Yes","No")
AE155	=IF(SUM(S155:X155)=~~H21~~ G21,"Yes","No")	AF155	=IF(SUM(Y155:AD155)=~~J21~~ I21,"Yes","No")
AE156	=IF(SUM(S156:X156)=~~H22~~ G22,"Yes","No")	AF156	=IF(SUM(Y156:AD156)=~~J22~~ I22,"Yes","No")
AE158	=IF(SUM(S158:X158)=~~H25~~ G25,"Yes","No")	AF158	=IF(SUM(Y158:AD158)=~~J25~~ I25,"Yes","No")
AE160	=IF(SUM(S160:X160)=~~H32~~ G32,"Yes","No")	AF160	=IF(SUM(Y160:AD160)=~~J32~~ I32,"Yes","No")
AE162	=IF(SUM(S162:X162)=~~H39~~ G39,"Yes","No")	AF162	=IF(SUM(Y162:AD162)=J39 I39,"Yes","No")
AE164	=IF(SUM(S164:X164)=~~H48~~ G48,"Yes","No")	AF164	=IF(SUM(Y164:AD164)=~~J48~~ I48,"Yes","No")
AE166	=IF(SUM(S166:X166)=~~H51~~ G51,"Yes","No")	AF166	=IF(SUM(Y166:AD166)=~~J51~~ I51,"Yes","No")
AE168	=IF(SUM(S168:X168)=~~H57~~ G57,"Yes","No")	AF168	=IF(SUM(Y168:AD168)=~~J57~~ I57,"Yes","No")
AE170	=IF(SUM(S170:X170)=~~H63~~ G63,"Yes","No")	AF170	=IF(SUM(Y170:AD170)=~~J63~~ I63,"Yes","No")

2. The "Check to panel A" checks (cells AK113 to AK126) in panel C appear to be incorrect as the formulas do not check against the RWA and exposures corresponding to the illustrative cases in panel A.

Answer: Yes, the cell references for the formulas in the panel are off by two rows. The formula for cell AK126 is also incorrect. The correct formulas are indicated below. For banks using version 3.4.0 of the Basel III monitoring workbook, the formulas would be amended when the templates are submitted (ie there is no need for any actions on the part of the bank). For banks using version 3.4.1 of the Basel III monitoring workbook, the formulas have already been amended.

Affected cell	Correct formula
AK113	=IF(AJ113=(F~~11~~9+I~~11~~9+M~~11~~9+N~~11~~9),"Yes","No")
AK114	=IF(AJ114=(F~~12~~10+I~~12~~10+M~~12~~10+N~~12~~10),"Yes","No")
AK115	=IF(AJ115=(F~~18~~16+I~~18~~16+M~~18~~16+N~~18~~16),"Yes","No")
AK116	=IF(AJ116=(F~~19~~17+I~~19~~17+M~~19~~17+N~~19~~17),"Yes","No")
AK117	=IF(AJ117=(F~~28~~26+I~~28~~26+M~~28~~26+N~~28~~26+F~~35~~33+I~~35~~33+M~~35~~33+N~~35~~33+F~~42~~40+I~~42~~40+M~~42~~40 +N~~42~~40),"Yes","No")
AK118	=IF(AJ118=(F~~29~~27+I~~29~~27+M~~29~~27+N~~29~~27+F~~36~~34+I~~36~~34+M~~36~~34+N~~36~~34+F~~43~~41+I~~43~~41+M~~43~~41 +N~~43~~41),"Yes","No")
AK119	=IF(AJ119=(F~~28~~26+I~~28~~26+M~~28~~26+N~~28~~26),"Yes","No")
AK120	=IF(AJ120=(F~~29~~27+I~~29~~27+M~~29~~27+N~~29~~27),"Yes","No")
AK121	=IF(AJ121=(F~~35~~33+I~~35~~33+M~~35~~33+N~~35~~33),"Yes","No")
AK122	=IF(AJ122=(F~~36~~34+I~~36~~34+M~~36~~34+N~~36~~34),"Yes","No")
AK123	=IF(AJ123=(F~~42~~40+I~~42~~40+M~~42~~40+N~~42~~40),"Yes","No")
AK124	=IF(AJ124=(F~~43~~41+I~~43~~41+M~~43~~41+N~~43~~41),"Yes","No")
AK125	=IF(AJ125=(F~~54~~52+I~~54~~52+M~~54~~52+N~~54~~52+F~~60~~58+I~~60~~58+M~~60~~58+N~~60~~58+F~~66~~64+I~~66~~64+M~~66~~64 +N~~66~~64),"Yes","No")
AK126	~~=IF(AJ126=(F55+F61+F67+I55+I61+I67+M55+M61+M67+N55+N61+N67),"Yes","No")~~ =IF(AJ126=(F53+I53+M53+N53+F59+I59+M59+N59+F65+I65+M65+N65),"Yes","No")

8. Trading book

8.1 TB

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

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

2. If a bank reports IMA capital requirements for modelled desks in panel B2 (rows 103 through 134), for which desks should it report SBA capital requirements in panel B2?

   Answer: Banks that report IMA capital requirements for modelled desks in panel B2 should report SBA capital requirements for those same desks (ie modelled desks) in rows 166 through 177, and should report SBA capital requirements for the remaining desks that the bank does not model (ie non-modelled desks) in rows 179 and 181 through 183.

3. In panel B3(b), please clarify how a bank should split residual risk add-on (RRAO) by risk class (rows 172 through 176) given that some RRAO categories (eg weather, longevity) do not clearly fit in the listed risk classes.

   Answer: A bank may allocate RRAO other than those listed in rows 172 through 176 to whichever risk class it chooses. However, in making this allocation, the bank should be consistent in grouping various risks for purposes of reporting IMA (panel B3(a)) and SBA (panel B3(b)).

4. In panel B2(b), please confirm the RRAO risk weights that are applied per the FRTB for each risk.

   Answer: Risk from an exotic underlying (row 102) should be multiplied by 1% (ie 0.01), whereas gap risk (row 99), correlation risk (row 100) and behavioural risk (row 101) should be multiplied by 0.1% (0.001). The formula used in the template to aggregate these RRAO components (for row 98) has been corrected in the new version of the template. Banks have the option of using the revised version of the template to reflect this correction. For banks that utilise an older version of the template, a correction to the multipliers will be made upon receipt of the submission.

5. In panel B4, please confirm if the expected shortfall (ES) values reported in column L should include the multiplier.

   Answer: Per the instructions for this panel, the multiplier should be applied to the VaR values report in columns G and H, but should not be applied to the ES values in column L.

6. In panel B2(c), please confirm if the values of ES at the risk factor class level should include the multiplier.

   Answer: Per the instructions for this panel, the multiplier should not be applied to the ES values reported.

7. In panel B2, how should a bank report non-securitisation hedges to the non-correlation trading portfolio (non-CTP) and any associated standardised approach risks?

   Answer: Bank should report non-securitisation hedges to both non-CTP and CTP portfolios in Section B2(b). For example, an FX hedge of a securitisation instrument should be reported under panel B2(b) and, thus, excluded from values provided in panel B2(d).

8. In panel B4, should a bank report the status of its internal models permission in column F based upon desks that (i) currently are approved to use internal models or (ii) it anticipates to receive approval to use internal models?

   Answer: Banks should respond in column F based on whether each desk is currently approved to use internal models.

9. In panels B2(a) and B2(b), should a bank report values based all desks (ie modelled and non-modelled) or only non-modelled desks.

   Answer: Panels B2(a) and B2(b) should be reported only based on desks for which capital charges may not be calculated using internal models.

10. In panel B2(d), please confirm the calculation for non-CTP and CTP securitisations in cells G136 and G141, respectively.

    Answer: The formulas included in the original version of the template incorrectly omitted the "Other" subcomponents of both non-CTP and CTP securitisations (ie cells G140 and G145, respectively). These formulas have been corrected in a new version of the template. For banks that utilise an older version of the template, the updated formula will be applied to the data submitted to reflect this correction.

8.2 Backtesting – P&L

1. For purposes of reporting, what source should be referenced for definitions of the terminology used in the worksheets "TB" and "TB IMA Backtesting-P&L"?

   Answer: For purposes of reporting, definitions of terminology used in the worksheets "TB" and "TB IMA Backtesting-P&L are intended to be consistent with definitions specified in the final market risk standard *Minimum capital requirements for market risk*.[4]

2. Should standardised desk capital charges be based on the largest of the three scenario approaches (ie high, medium and low) for the bank or should they be based on the largest of the scenario approaches for the desk.

   Answer: The standardised capital charges for each desk should be based on the largest capital charge outcome when applying the three correlation scenarios by desk.

3. Which P&L (actual, hypothetical or risk-theoretical) must be applied in calculating the "p-values" as defined under the final market risk standard?

   Answer: Hypothetical P&L should be used in this instance.

4. CVA hedges currently are captured in the market risk capital framework. Given that CVA hedges are expected to move to the FRTB-CVA framework, should CVA hedges be excluded from the QIS Trading Book worksheets (both for current and new capital)?

   Answer: Eligible credit valuation adjustment (CVA) hedges that are included in the CVA capital charge must be removed from the bank's market risk charge calculations in the trading book for

[4] Basel Committee on Banking Supervision, *Minimum capital requirements for market risk*, January 2016, www.bis.org/bcbs/publ/d352.pdf.

purposes of the QIS Trading Book worksheets. For purposes of this QIS, eligible CVA hedges are defined in Annex 1 of the document *Instructions: CVA QIS*.[5]

5. Please clarify the format by which dates are to be reported in row 7.

Answer: Dates must be reported in a format recognised by MS Excel as a date value. The bank must use a consistent date format within its submission across all time periods reported in row 7. If a consistent format is not applied (eg month and day are reported in inconsistent order within the submission, MM/DD in some columns and DD/MM in others), the submission will generate an error and the data reported cannot be used. Furthermore, dates reported on row 7 must be reported in ascending order from left to right (eg corresponding with the increasing values in row 6 of T in column G, T+1 in column H, T+2 in column I, etc).

Banks are highly encouraged to ensure the format for dates reported in row 7 meet the above-listed standards so as to ensure that the data reported can be analysed.

6. Please clarify the format by which banks are to report the "Unique desk ID" in column C.

Answer: For a given trading desk, banks must use an identical "Unique desk ID" that is consistent over time to ensure that a usable time series for each desk can be constructed across submissions of the Basel III monitoring template. For example, if a given trading desk is included in submissions for the end-December 2015 and end-June 2016 exercises, the same "Unique desk ID" should be assigned to that desk in both submissions. If a particular trading desk has been closed and is no longer to be reported in submissions of the template, the "Unique desk ID" that has previously associated with that trading desk should not be reused to identify any new trading desk.

Furthermore, the "Unique desk ID" must be reported as a number.

8.3 TB SA current

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8.4 TB SA FRTB

1. In the summary table and panels A through G, please confirm the calculations of total SBA and the total capital charges for each risk class are consistent with the FRTB.

Answer: The formulas used in the template to generate the total SBA (row 16) and total capital charges per risk class (rows 20, 36, 52, 68, 84, 100, 116) have been corrected in a new version of the template. Banks have the option of using the revised version of the template to reflect these corrections. For banks that utilise an older version of the template, corrections to the calculations in those cells will be made upon receipt of the submission.

8.5 TB closed form questions

This section lists a series of closed form questions banks should respond to on the "TB" worksheet (rows 291 through 305) in line with the instructions provided below.

The following table outlines a number of valuation adjustment categories. For a given valuation adjustment type, banks should select a response (ie "1", "2" or "3") using the drop-down menu to indicate whether it was accounted for in the calculation of the bank's reported values for HPL, RTPL or both as

[5] Basel Committee on Banking Supervision, *Instructions: CVA QIS*, February 2016, www.bis.org/bcbs/qis/instructions_CVA_QIS.pdf.

reported for the purpose of this QIS. In responding to the items below, please select the most appropriate of the following three options:

1) HPL **only**

2) RTPL **only**

3) HPL **and** RTPL

4) **Neither** HPL nor RTPL

In a separate document, please provide a brief statement regarding the bank's current ability to calculate the different types of P&L solicited by the exercise. As an example, if the bank currently is not able to calculate RTPL but instead provides 'simulated' estimates, please state so.

Row	Question	Adjustment	Definition	Answer
291	Q-1	IPV	An adjustment following independent verification of market prices or model inputs leading to a restatement of the fair value.	
292	Q-2	Model uncertainty	An adjustment reflecting uncertainty due to either (i) estimation of a valuation parameter or (ii) choice of model, eg local vs stochastic vol, 1- or 2-factor interest rate evolution.	
293	Q-3	Model limitation	An adjustment reflecting day-to-day use of a simpler pricing model.	
294	Q-4	Concentration	An adjustment reflecting deviation of model fair value from a realisable exit cost for an outsized position.	
295	Q-5	Liquidity	An adjustment reflecting uncertainty in fair value related to lower confidence in a parameter/price due to lower market activity.	
296	Q-6	CVA	An adjustment reflecting market value of counterparty credit risk.	
297	Q-7	DVA	An adjustment reflecting the market price of a bank's own default risk.	
298	Q-8	FVA	An adjustment reflecting funding cost implications of a trade not under perfect CSA.	
299	Q-9	MVA	An adjustment reflecting expected future funding cost due to initial margin.	
300	Q-10	KVA	An adjustment reflecting he cost of regulatory capital through the life of the contract.	
301	Q-11	Bid / Offer	An adjustment reflecting deviation of mid (as required for backtesting) to the more conservative of bid/offer.	
302	Q-12	Market operations	A P&L component reflecting new deals, fixes, exercises and system changes.	
303	Q-13	Intraday P&L	A P&L component arising from positions bought after open and sold before close on the same day.	
304	Q-14	Write down / Write offs	Valuation adjustment due to the default of the issuer of the exposure.	
305	Q-15	Theta	A P&L component attributable to the passage of time ceteris paribus.	

9. Survey on the interaction of regulatory instruments

As the Committee plans to regularly assess its most important regulatory reforms in the coming years, the Research Task Force (RTF) of the Committee[6] has added a worksheet to the Basel III monitoring reporting template to collect new data on the role of multiple regulatory constraints in Basel III.

The new "Survey" worksheet contains 23 questions which will provide an indication of (i) the perceived degrees of coherence and complexity of the soon-to-be finalised Basel III framework; (ii) whether, over time, the interaction of multiple regulatory requirements has made regulatory capital the main driver of capital allocation and pricing; and (iii) the role of buffers, both voluntary and required, as well as planning periods for assigning balance sheet capacity. The questionnaire is also designed to provide a better understanding of the qualitative importance of different requirements and the ways in which individual banks might adjust to new regulatory constraints to help inform regulators about the consequences of such constraints on the overall system.

1. How should responses to question 4 be filled in (rows 17 to 30 of the "Survey" worksheet)?

   Answer: Please fill in exactly one cell per row, depending on whether the incentive to engage in the relevant activity is expected to be reduced, increased or stay the same; the remaining cells should be left empty. In each of the three columns, please do not use any of the ranks more than once. This also applies to the column "stay the same", although we will not distinguish between the ranks when analysing this column.

2. In question 4, do the terms covered bonds and securitisation refer to investments or origination?

   Answer: Investments.

3. Which kind of risk-based capital requirements are considered?

   Answer: Total capital requirements.

4. Which regulatory buffers should be considered in the target risk based capital ratio?

   Answer: All regulatory buffers.

[6] The RTF serves to the Policy Development Group. It acts as a forum for research economists to engage in research projects on supervisory and financial stability issues, and for liaison with the academic sector.

Annex

Expectations for reporting of market risk-related data elements

The items below provide additional guidance on the manner in which a number of market risk-related data elements are to be reported on the 'TB' and 'TB IMA Backtesting P&L' worksheets. This guidance is intended for the purposes of the Basel III Monitoring exercise.

1. 'TB' Worksheet, Panel B2 (FRTB market risk capital charge)

- Capital charge components reported in Panel B2(b) should be calculated based only on positions which **can not** be modeled (ie include positions belonging to non-modellable trading desks).
- Capital charge components reported in Panel B2(c) should be calculated based only on positions which **can** be modeled (ie include positions belonging to modellable trading desks).

2. 'TB' Worksheet, Panel B4 (Risk metrics at desk level)

- Columns G:K (ie Current framework): The sum of these columns should equal the desk's current capital charge.
- Columns O:Q (ie FRTB standardised approach): The sum of these columns should equal the desk's FRTB capital charge under the assumption that all positions in the desk cannot be modeled (in other words, banks should assume full use of the standardised approach).
- Columns L:N (ie FRTB internal models approach): This calculation is relevant only for banks that use IMA. The sum of these columns should equal the desk's FRTB capital charge under the assumption that all positions in the desk can be modeled (in other words, banks should assume full use of the internal models approach). More precisely, if you are a partial use bank, only report data here if you can model all positions in the desk.
- Column L: Expected shortfall (ES) should be calculated taking into account the limitation of diversification benefits in accordance with the IMCC-formula as specified in paragraph 189 of the *Minimum capital requirements for market risk*[7] (ie applying $\rho = 0.5$).
- To the extent possible, for each desk, please make sure that both, internal model charge (columns L:N) and standardised charge (O:Q) are provided.

3. 'TB IMA Backtesting P&L' Worksheet, Panel A4 (P values)

- The calculation of p values must be based on a comparison of Hypothetical P&L and 99% VaR. Please delete any reported data that do not conform to this requirement (eg comparing Hypothetical P&L with 97.5% ES).

4. 'TB IMA Backtesting P&L' Worksheet, Panel B2 (Hypothetical P&L)

- For the purposes of calculating Hypothetical P&L, valuation adjustments which cannot be calculated on a daily basis should be excluded. Valuation adjustments which **are** calculated daily should be included in Hypothetical P&L.

[7] Available at www.bis.org/bcbs/publ/d352.pdf.

5. 'TB IMA Backtesting P&L' Worksheet, Panel B3 (Risk-theoretical P&L)

- Banks should only report Risk-theoretical P&L data if the data are based on the definition of Risk-theoretical P&L as provided in the FRTB. Approximations derived from Hypothetical P&L or some other input are not acceptable and should not be reported. Please delete any reported data that do not conform to this requirement.

6. 'TB IMA Backtesting P&L' Worksheet, Panel D (Risk factor data)

- This panel is intended to assess the appropriateness of relative calibration between IMA and SA at the risk factor level. Banks must provide data for at least one day.