Basel Committee
on Banking Supervision

Frequently asked questions on Basel III monitoring

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Frequently asked questions on Basel III monitoring

1. Introduction

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

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

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

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

2. General

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

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

3. Definition of capital

1. Please clarify what data should be populated in panel E) Memo item: Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation and below the threshold for deduction (D103:113, E103:113) in the "DefCap" worksheet.

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

4. Leverage ratio

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

   Answer: Yes.

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

   Answer: The Basel III leverage ratio exposure measure for the leverage ratio should generally follow the accounting value, coupled with the following adjustments for non-derivative exposures and non-securities financing transactions (non-SFTs): (i) net of specific provisions and valuation adjustments; (ii) do not reduce on-balance sheet exposures for physical or financial collateral, guarantees or credit risk mitigation purchased; and (iii) no netting of loans and deposits. Moreover, for derivative exposures the effect of netting according to the Basel II framework should be considered, while for SFTs netting of cash receivables with cash payables may only be recognised subject to the strict criteria set out in paragraph 33(i) of the Basel III leverage ratio framework. Please also refer to the Basel III leverage ratio framework for more details on how to calculate the exposure measure.

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

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

4. Can the Committee confirm that cross-product netting is not permitted under the Basel III leverage ratio exposure measure, and that the 40/60 rule embodied within paragraph 96 (iv) of Annex 4 of the Basel II framework applies to the allowable netting of the CEM add-on?

   Answer: Yes.

5. Given that the restriction on counterparty credit risk due to hedging of financial institution investments has been removed in the definition of capital, does this also apply in the context of the Basel III leverage ratio even though in general it does not recognise credit risk mitigation?

   Answer: In the context of the Basel III leverage ratio, the capital measure follows the criteria laid down in the Basel III standards for the definition of capital. This applies also to the hedging of investments in the capital of banking, financial and insurance entities.

In order to ensure that the capital and exposure measures are measured consistently, investments in the capital of banking, financial and insurance entities are excluded from the Basel III leverage ratio exposure measure for the same amount deducted from capital.

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

6. What is meant by credit risk mitigation? Any collateral pledged to us should be available, however, any hedges with counterparty risk will be hard to identify.

Answer: This requirement asks for delivery of gross positions for on-balance sheet exposures, ie guarantees, financial collateral or other risk mitigants are not allowed to reduce the on-balance sheet exposures. However, cash variation margin *received* associated with derivative transactions and fulfilling the criteria in paragraph 25 of the Basel III leverage ratio framework may be viewed as a form of pre-settlement and hence not considered as a credit risk mitigant for the purpose of the Basel III leverage ratio.

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

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

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

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

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

Answer: Yes.

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

Answer: This is correct.

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

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

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

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

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

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

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

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

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

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

15. deleted.

16. deleted.

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

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

18. deleted.

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

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

20. Panel J: Is it allowed to report a negative derivatives exposure according to the following formula: L8 + K21 – K22 – K23 + K38 in cells J167 and/or J170 in panel J? These cells are highlighted in red in case of negative amounts.

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. Panel G: To calculate the gross add-ons required for cells E123 and K123, do we need to set the PFE multiplier to one?

Answer: Yes.

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.

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. IRRBB

1. It is not clear how to report non-significant currencies: Is it mandatory to report the six most important currencies if 90% of the bank's consolidated banking book is covered by, for example, the three major currencies? Should only significant currencies (ie representing more than 2.5% of the banking book) be reported in isolation, and other currencies reported in an aggregated position (expressed in EUR)?

   Answer: There is no requirement to report a minimum number of currencies. To the extent possible, banks must report all significant currencies (ie representing more than 2.5% of the total consolidated banking book assets or liabilities). When significant currencies do not cover 90% of the bank's consolidated banking book assets or liabilities, banks should report other currencies until 90% of the bank's consolidated banking book assets or liabilities are covered (see Section 7.2.5 of the Basel III monitoring instructions). The template requires (up to) six main currencies to be reported separately in panels A to H. Moreover, calculations are automated for those currencies. For further currencies, results of calculations are to be reported in panel I starting from currency 7. These calculations can be automated as well by using a second template and copying the results currency-by-currency afterwards in panel I (see Section 7.11 of the Basel III monitoring instructions).

2. Does the 0% floor apply to the baseline scenario?

   Answer: The baseline scenario in the comprehensive IRRBB QIS is also floored at 0%; negative interest rates are hence not permitted

3. Should the base CPR be determined on expected prepayments or on historical data? Since there are as many expected CPRs as time buckets, and CPRs can differ by time bucket, please clarify how to derive standardised CPRs.

   Answer: Expected prepayments and historical data are not *substitutes* of each other. In particular, Section 7.6 of the Basel III monitoring instructions propose to calculate the currency-specific CPR for the baseline interest rate scenario by the ratio of historical prepaid fixed rate loans to all outstanding fixed rate loans subject to prepayment risk. Both the standardised fallback and the internal estimates approach for fixed rate loans subject to prepayment risk do not require the estimation of bucket-specific CPRs. In particular footnote 37 of the IRRBB consultative document states that *the base CPR may also vary over the life of each loan in the portfolio*.

4. Rather than being prepaid, loans can be renegotiated whereby the bank accepts to lower the loan rate between the current loan rate and the rate of a new loan that would be originated. Hence, the renegotiation process enables to mitigate the prepayment risk.

   Answer: The economic effect of a renegotiation is the same as of a prepayment. Thus, from an interest rate *repricing* perspective a renegotiation should be assumed to be similar to a prepayment and must be converted into a prepayment and reported accordingly (ie in panel D).

5. Can NMDs be represented through their replicating portfolios for the purpose of the unconstrained internal estimates panels?

   Answer: The replicating portfolio approach can be used in the unconstrained internal estimates panels on NMDs. Note that according to Section 7.1 of the Basel III monitoring instructions and for the purposes of the comprehensive IRRBB QIS banks are permitted to use their internal models or approaches even if they differ from the prescribed models or approaches in the IRRBB consultative document provided they can map their internal outcomes in a way consistent with the QIS requirements including parameter constraints. In any case, banks should liaise with their supervisors to assess the reasonableness of the reported figures.

6. It should be clarified that items that are micro-hedged, such as debt instruments, could be reported net of the hedging instruments. Hence, a micro-hedged structured debt could be reported as a floating rate debt.

Answer: In general, a higher accuracy can be achieved when each item is slotted separately. In cases where both instruments perfectly offset, there is no difference in reporting. As this QIS shall be conducted on a best effort basis, and separating items might become difficult, in some cases the net position will be likely to be used.

7. Some assets and liabilities are economically linked by nature (eg overdraft and demand deposits) and thus modelled similarly because rate-similar. For these instruments, the panels could be filled in on a net basis.

Answer: *Non-maturity assets* (NMAs) should be reported in panel F (see Section 7.8 of the Basel III monitoring instructions). The slotting of other economically linked instruments needs to be decided on a case-by-case basis. Banks should liaise with their national supervisors to assess the reasonableness of the reported figures.

8. The IRRBB consultative document seems to define *equity* implicitly through the portion that should be excluded from liabilities as "Common Equity Tier 1 (CET1), additional Tier 1 (AT1) or Tier 2 capital". This definition raises two issues: some of those instruments may be micro-hedged (AT1 and Tier 2) when they have fixed rate on a fixed maturity. The exclusion of these instruments would thus make the swap appear as an open interest rate position. CET1 in excess of the CET1 requirement would be excluded as well (and magnify the EVE sensitivity).

Answer: As set out in subsection II.2.1 of the IRRBB consultative document, banks must project all future notional repricing cash flows arising from interest rate-sensitive *liabilities*, other than liabilities constituting regulatory capital instruments of the respective capital ratios of the Basel III framework (ie Common Equity Tier 1 (CET1), additional Tier 1 (AT1) or Tier 2 capital). For simplicity and to reduce banks' reporting burden, *only* the CET1 capital ratios will be tested as part of this comprehensive IRRBB QIS. The *mirroring principle* of the CET1 capital ratio is preserved and CET1 is an eligible loss absorbing item, ie it appears in the numerator and, to avoid double recognition, must not be taken into account in the denominator of the capital ratio. Notional repricing cash flows associated with AT1 and Tier 2 instruments are included in this QIS exercise. Interest rate hedges are typically to be reported in panel A or panel G (for automatic interest rate options).

9. The pairing process of reference rates for basis risk is artificial. Please clarify that banks could use one reference rate as a pivot reference rate for all other reference rates to fill in the basis risk panels

Answer: The basis risk panels H2 and H4 of the "IRRBB exposures" worksheet do not require any pairing; only the net notional cash flow amount is requested.

10. As the shocks to interest rates are floored to 0%, it would make sense to take this into account in the multiplying factors that should be applied (ie when the downward shocks activate the 0% floor, the multiplying factor should be adjusted proportionately to the actual shocks (ie less than X2 multiplying factor).

Answer: This is a policy issue and does not affect the QIS. However, it can be communicated in the consultation to the Committee.

11. In the computation of the 90% minimum thresholds (Section 7.2.5 of the Basel III monitoring instructions) banks include the market values (underlying nominal values) of OBS exposure. It is not so clear if banks have to use nominal value or market value for derivatives contracts (eg options, IRS, FX swap).

Answer: Derivative contracts such as options, IRS, FX swaps are not off-balance sheet (OBS) exposures in the sense of the Basel II framework.[4] There is clearly a typo with regard to the valuation and should instead state as follows: *In the computation of these thresholds, banks include the ~~market values (~~underlying nominal values~~)~~ of OBS exposures*. Derivatives on the other hand must be included at the instruments accounting values (typically at their fair value) and, if interest rate sensitive, typically be reported in panel A or panel G (for automatic interest rate options).

12. If some relevant currencies are not in the list embedded in the QIS template, are we allowed to edit or to add the name of some currency codes in the "Parameters" worksheet (rows 210 to 240) in order to include the relevant currency inside the list?

Answer: The template is intended to provide all relevant currencies. Missing (material) currencies should be reported to the Basel Committee's Secretariat and will be included in an updated version of the template.

13. As for the IRRBB consultative document NMDs are segmented into retail and wholesale deposits and according to the deposit volume per depositors. However, in panel B3, the NMDs are slotted by deposit account. Please clarify whether the amount should be slotted by deposit or depositors.

Answer: Panel B3 also asks to separately report for retail and wholesale deposits. Banks have been asked to slot NMD balances by *deposit* account rather than by *depositor* in the comprehensive IRRBB QIS for reasons of simplicity, because several banks claimed that they could not slot NMDs by depositor. However, banks may alternatively slot their notional repricing cash flows by *depositor* in accordance with Subsection II.2.5 of the IRRBB consultative document if they are able to do so. The qualitative questionnaire includes a separate question on banks' slotting of deposit volumes under panel B3.

14. Should the interest rate shock scenarios be applied for the net interest income (NII) calculation instantaneously (sudden) or gradually in panel K, ie do the shocks occur at the beginning of the four-year horizon or do they occur gradually during a certain period (what period?) of the four-year horizon?

Answer: Yes, the interest rate shock scenarios are assumed to occur instantaneously as under the EVE measure.

15. The scenarios have mid-points of time buckets up to 25 years. Please clarify whether the rates beyond the 20 year term point (eg 30 year rate) all fall into the 25 year rate.

Answer: Panel M asks for continuously compounded (quasi) risk-free interest rates for several points in time. The points in time for which interest rates are requested are represented by the midpoints of the time bucket intervals. In particular, for the 19th time bucket the convention has been to set the maturity to 25 years.

16. Should panel H on basis risk also take items that are expiring after more than 12 months into account?

Answer: No, items expiring in more than 12 months are out of scope of panel H.

[4] See paragraphs 82 to 89, www.bis.org/publ/bcbs128.pdf.

17. Section 7.1 of the Basel III monitoring instructions states that qualitative information through a qualitative questionnaire will be requested. However, there is no information about what the closed form questions are. How are banks supposed to use this panel?

Answer: The qualitative questionnaire will be provided during the course of August 2015.

18. Are held-to-maturity instruments in the scope?

Answer: Held-to-maturity instruments are clearly in the scope if they are *rate sensitive* (see Section 7.2.3 of the Basel III monitoring instructions).

19. Panel E1a populated automatically outgoing notional repricing cash flows of fixed rate loan commitments while panel E1b (incoming notional repricing cash flows) needs to be populated manually for each scenario. Can panel E1b be made automatic as well?

Answer: Calculations of incoming notional repricing cash flows cannot be automated as this would require more granular information on the characteristics of the fixed rate loans expected to be drawn.

20. The definition "Part of the accounting value of automatic interest rate options that are reflected in the CET1 for the appropriate currency. Where subject to fair value accounting, this number will typically equate the economic value change of the option during its life, ie it can be given by the difference between the current economic value of the option and the option's value at inception." is unclear. Could you please clarify, with an example?

Answer: Example: A bank bought an explicit floor for €100 two years ago for hedging against downward interest rate movements; this explicit option is accounted for at fair value. At the inception, the strike of the option (level of the floor) was above the underlying reference interest rate of the option. Later, the underlying reference interest rates have decreased and the option value has increased to €110. The bank has registered an increase in the accounted value of the bought option with a direct effect on an increase on the CET1 of €10 which then must be reported in column J of panel G.

21. Should the portion of conditional prepayment rates (CPRs) that is not rate-sensitive (eg results from demographics) be mixed with rate-dependent CPRs?

Answer: A separation of CPRs in rate-dependent and rate-independent (additive) portions is not permitted. Banks are required to provide a CPR for the baseline scenario which can be composed of the CPRs of several homogeneous (sub-)portfolios (see subsection II.2.6 of the IRRBB consultative document). As part of the bank's internal segmentation, each of these homogeneous (sub-)portfolios may have individual characteristics (eg demographics) which might go along with different prepayment rates and, thus, different base CPRs. The multipliers are assumed to consider only rate-dependent movements in base CPRs.

22. The Basel III monitoring instructions define non-maturity deposits (NMDs) as *liabilities of banks where the bank has the right to change the interest rate and the depositor is free to withdraw at any time since they have no contractually agreed maturity date*. Hence, the definition of NMDs in the Basel III monitoring instructions focuses on non-maturing and non-repricing deposits, what is significantly different from the IRRBB consultative document which focuses on non-maturing deposits. Please clarify which definition of NMDs holds.

Answer: The intention of the comprehensive IRRBB QIS is not to change the definition of NMDs as set out in subsection II.2.5 of the IRRBB consultative document.

23. Please clarify that banks could use their internal models to report non-interest bearing assets (for the portion of them that are not cancelled out since netted out of CET1).

Answer: First note that non-interest bearing assets which are interest rate sensitive and are not deducted from CET1 capital fall within the scope of the IRRBB capital requirements and hence should be considered (see Section 7.2.3 of the Basel III monitoring instructions). A typical example of assets which formally may bear no interests but which have rate-sensitive components (eg rate-sensitive fees) and/or often involve interest rate hedges are mortgage servicing rights (MSRs); in those cases MSRs would hence fall within the scope of the comprehensive IRRBB QIS.

Second, if an item cannot be assigned to panels A to E or panel G, it should be reported in panel F. The Basel III monitoring instructions state in Section 7.8 that internal estimates can be employed without any restrictions for those products/instruments reported under panel F.

24. How should banks input inflation-linked transactions?

Answer: Rate-sensitive products which are linked to inflation require an assumption on the evolution of the rate-insensitive component. As the QIS shall be conducted on a best effort basis, simple but prudent assumptions are recommended. For instance, the current/last observed value, forecasts of an economic research institute or other generally accepted market practices (eg forward inflation expectation curves) can be employed. However, the evolution shall be conducted for the baseline interest rate scenario and retained in all interest rate shock scenarios, ie it is not permitted to assume another evolution of the variable in an interest rate shock scenario than under the baseline scenario.

25. What other instruments besides non-maturity assets (NMAs) should be captured in panel F (other IRRBB exposures)? Could the Committee give some more examples?

Answer: Banks must allocate their products to the prescribed product categories in the IRRBB consultative document and hence to panels A to E and G to the extent possible. Only after a disciplined internal process of mapping and after consulting with their national supervisors may banks be allowed to use panel F as a fallback for the remaining products. Examples of possible products not easily *mapped* to panels A to E and G identified so far may include MSRs and various kinds of non-maturity assets (NMAs) such as overdraft facilities, credit cards, commitments. Banks are required to list the products slotted in panel F in the qualitative questionnaire.

26. What are the approaches for calculating CPR (conditional prepayment rate), IMRS (internally measured redemption speed) and TDRR (term deposit redemption ratio)? What time period are we looking at? Are they all subject to what banks conduct using IMS currently?

Answer: Calculation of CPRs has been already answered in the FAQs. The parameters for term deposits are calculated similarly (see Section 7.5 of the Basel III monitoring instructions for the IMRS/TDRR). For the purposes of the QIS, the time period can be chosen by banks. However, considered data history depth should be broadly consistent with that assumed in the baseline interest rate scenario.

27. Panel G on automatic interest rate options includes fixed rate debt securities with a prepayment option for the issuer (page 131 of the Basel III monitoring instructions). In the valuation of the optionality in these debt securities (eg Tier 2 debt instruments), does the Committee suggest including other drivers than interest rates such as spread movements driven by credit and liquidity?

Answer: For the valuation of fixed rate debt securities with an automatic prepayment option a treatment similar to the one described in Section 7.9 of the Basel III monitoring instructions for the case of wholesale term deposits or wholesale fixed rate loans must be applied. The strike rate should reflect the contractual interest rate of the instruments (including embedded margins) and the underlying rate of the option should be the total market interest rate (including margins) of new term fixed debt securities with a maturity equal to the residual maturity of the term deposit.

The margins considered in the underlying rate of the options must be the same under the baseline interest rate scenario and under the interest rate shock scenarios 1 to 6 (this margin must be the margin of new instruments at the reference date of this Basel III monitoring exercise, ie 30 June 2015) and the changes in the underlying rate of the options across the different interest rate shock scenarios should only reflect the changes in the risk-free interest rates.

28. Should panel G also include liabilities that are floored at 0%?

Answer: No, the embedded optionality inherent in the zero lower bound on instruments on the bank's liability side should not be considered as an automatic interest rate option for the purposes of panel G.

29. Our interpretation of panels H2 and H4 on basis risk, being consistent with a NII measure, and looking at the calculation, is that just principal cash flows should be provided. Can you please confirm that this is the case?

Answer: Panels H2 and H4 ask for net notional repricing cash flows (see Section 7.10 of the Basel III monitoring instructions). Thus, interest payments are to be considered in the basis risk panels.

30. Panel C (term deposits subject to early redemption risk) excludes deposits that depositors have no legal right to withdraw. All deposits can be withdrawn (in certain life events for example). Also, it excludes deposit withdrawals of which will result in a significant penalty. What is significant? Can the loss of accrued interest be considered as significant loss?

Answer: According to Subsection II.2.6 of the IRRBB consultative document (and Section 7.5 of the Basel III monitoring instructions) a *significant penalty* is defined as a *penalty that at least compensates for the loss of interest between the date of withdrawal and the contractual maturity date and the economic cost of breaking the contract*.

31. In the Basel III monitoring instruction (Section 7.2.4), one of the guidelines for determining a retail customer is whether the total aggregated liabilities raised from one small business customer is less than the equivalent of €1 million. What would this threshold be for other currencies in concern?

Answer: To the extent possible banks should use the same threshold as the one used for the purposes of paragraphs 70, 231 and 232 of the Basel II framework. Jurisdictions which have transposed the Basel II framework into their national legislations have defined equivalent threshold amounts. Lower thresholds may be used. In case of doubts, banks should liaise with their national supervisors to assess the reasonableness of their categorisation.

32. Section 7.2.5 (materiality of currencies) of the Basel III monitoring instructions and the QIS template need to be aligned. To populate the panels in IRRBB capital requirements, banks having more than six currency positions representing more than 2.5% of the balance sheet would need to perform many calculations outside the QIS template and/or manage multiple QIS templates. Either all IRRBB exposures panels are expanded to cope with more currencies or the QIS template allows a *catch-all* currency code, like 'etc'.

Answer: To add a catch-all-currency would make the template useless for calculating, measuring the impact and calibrating minimum capital requirements. The calculations for the six major currencies have been inserted to the templates to facilitate the data collection.

33. All six scenarios for the NII approach seem to be required in panel K, but consultation specifies only parallel up and down.

Answer: The earnings-based (NII) measure is required to be calculated only for parallel up and down shocks in the standardised approach (see Subsection II.4 of the IRRBB consultative document). However, as stated under option 3 for calculating minimum capital requirements, the NII measure either under the parallel up or under the parallel down interest rate scenario is employed to offset EVE losses in all six interest rate shock scenarios. This is a simplification as ensuring scenario-consistency between the EVE loss measure and NII measure would have considerably increased the complexity of the approach. Thus, for comparing the NII measure in parallel and non-parallel interest rate shock scenarios, banks should fill in panel K (IMS) for each of the prescribed six interest rate shock scenarios.

34. In panel E of the IRRBB exposures worksheet on fixed rate loan commitments (pipelines), should fixed rate loan commitments where the underlying loan is also subject to prepayments have to be reported there? In order to take this into account, they will assume similar prepayment behaviour as in the standardised fallback of panel D (fixed rate loans subject to prepayments). Is this the correct approach?

Answer: Yes, ideally incoming notional repricing cash flows associated with the future expected fixed rate loans in panels E1b or E2b (assuming here they remain in all cases on the balance sheet for the purposes of EVE loss calculations) should also take scenario-dependent expected future prepayments into account. In so doing, banks should use either the standardised fallback or the internal estimates approach as indicated in panel D2.

35. Can it be confirmed that the comprehensive IRRBB QIS is requesting a projection of notional repricing cash flows associated with future loans arising out of drawdowns? If confirmed, are banks expected to forecast these future loans (incoming cash flows) assuming a specific duration, mix of floating to fixed rate loans or future prepayment? What assumptions should banks make about how the future loans will be funded?

Answer: Yes, the comprehensive IRRBB QIS is requesting a projection of notional repricing cash flows associated with the future loans arising out of drawdowns. As set out in the above, banks are requested to slot incoming notional repricing cash flows (by scenario) associated with the future expected fixed rate loans in panels E1b or E2b. The EVE loss measure prescribed in the IRRBB consultative document takes a *static view* in that it does not make any assumptions regarding future business/production. Hence rather than making any assumptions regarding the funding of the loans (or any other changes to the balance sheet mix), the approach in panel E tries to quantify the marginal contribution of the fixed rate loan commitments to the EVE loss measure by calculating the difference between the scenario-dependent outgoing notional repricing cash flows (ie the drawdowns) and the incoming notional repricing cash flows from the future associated loans (assuming they remain on the balance sheet).

36. A portion of NMDs bears administered rate, and is reported in the NMDs panels. When caps/floors applied to NMDs are binding, a higher portion of NMDs are considered short term: either overnight or shorter than the six year term. Please clarify the articulation between basis risk panels and NMDs as well as equity treatment.

Answer: Exposures from the NMD panels should be included in the basis risk panels. Notional repricing cash flows from columns F and H to L for panels B2a to B2c are to be considered for basis risk purposes.

37. Why are we asked to exclude own equity for NII calculations? Does equity have no sensitivity under a NII sensitivity calculation?

Answer: This is consistent with the accounting, as net interest income remains unaffected by the level of a bank's own equity.

38. All incoming and outgoing notional repricing cash flows must be stated with a positive sign. If prime rate is the base rate for spread calculation, how do we present the negative spread for a variable rate mortgage that carries a customer rate of prime minus spread (eg prime – 70bps)?

Answer: In panels A and F, incoming (outgoing) *negative* spreads should be reported in the panels for outgoing (incoming) notional repricing cash flows to preserve the positive sign convention. In other panels, a negative sign for those incoming or respectively outgoing notional repricing cash flows should be reported. However, it is very unlikely that negative spreads will result on aggregate in negative numbers to be reported in the panels.

39. Can internal estimates changes in interest rate swap rates be approximated by the implied forward rate? What methods should they be estimated in?

Answer: The bank can estimate the rates in the method they use in their IMS, including the implied forward rate.

40. In Subsection II.2.4 of the IRRBB consultative document (p 19, footnote 30), it is noted that "a floating rate loan for debt security with a floor would be treated as if there were no floor…and its full outstanding balance slotted in the corresponding time band. Similarly, a callable bond issued by a bank at a fixed yield would be treated as if it matured at its longest contractual term, ignoring the call option". Would it be acceptable to assume the same for principal guaranteed options for inflation-indexed government bonds? Or can they be considered automatic interest rate options?

Answer: The treatment of inflation-linked products has been described above.

41. How should notional repricing cash flows from bond futures be assessed?

Answer: For the purposes of the comprehensive IRRBB QIS, a bond future should be decomposed in its primary underlying financial instrument legs, ie for long (short) positions (i) *outgoing (incoming)* notional repricing cash flows equivalent to the *cash price* paid (received) by the purchaser (seller) to be slotted into the time bucket including the delivery date of the bond; and (ii) *incoming (outgoing)* notional repricing cash flows of the underlying (*cheapest-to-deliver*) bond in panel A. Where the cheapest-to-deliver optionality is considered *material* for the defined interest rate shock scenarios, panel F1a (F1b) may be used to report the *incoming (outgoing)* notional repricing cash flows associated with the cheapest-to-deliver bond under each interest rate shock scenario. In the latter case, banks are required to list the product in the qualitative questionnaire.

42. In the computation of the basis risk shock parameters, the Basel III monitoring instructions refer to the definition as 99th percentile of the three-month moving average of the three-month reference rates differentials (see Subsection II.4.3 of the IRRBB consultative document). This measure captures the absolute spread between the rates pairs, rather than the variation of the absolute spread. A suggested alternative is to use the variance from mean, ie standard deviation of the three-month moving average of the three-month reference rates differentials. Are we allowed to tweak this methodology?

Answer: No, the QIS template must test the outcome of the IRRBB consultative document. However, it can be communicated in the policy consultation to the Basel Committee.

43. Are interest payments in the scope of the basis risk panels?

Answer: As stated in Section 7.10 of the Basel III monitoring instructions, the scope for the basis risk panels encompasses notional repricing cash flows from panels A to F with a repricing maturity of less than one year for the main currencies. Thus, interest payments are to be considered in the basis risk panels.

44. Why are the checks in cells E306 and K306 the "Checks" worksheet (and the equivalent cells E551 and K551 in the "IRRBB calc" worksheet) false even though the bank does not report data for currency 2?

Answer: These checks may erroneously read "FALSE" in some instances when currency 2 is not reported by the bank. If the bank does not report currency 2 then the error may be ignored if banks are satisfied they have reported correctly. This is due to incorrect formulae contained in cells E521, E536, K521 and K536. This issue may also cause erroneous checks in cells E305 and

K305 of the "Checks" worksheet (and the equivalent cells E550 and K550 in the "IRRBB calc" worksheet) in some circumstances.

45. How are banks supposed to calculate the rate shock for administered rate products for the purpose of panel H on basis risk? The Basel III monitoring instructions require data over the past 10 years and then calculate three-month moving averages, but on which administered rate products?

Answer: The QIS shall be performed on a best effort basis. If the data history does not cover a period of 10 years, a shorter one can be used. Alternatively and for the purposes of the comprehensive IRRBB QIS, banks may estimate a historic stress level for their administered rates, which takes into account any factors that may affect the bank's ability to adjust their rates following the general interest rate shock scenarios. Representative products with administered rates shall be used for calculating parameters for basis risk. Note also that banks may be using the standard shock parameters as a fallback. The rate shock for administered rate products should be calculated in a similar manner to how the rate shock for other rates is calculated. Ideally over 10 years, the administered rate, like the policy rate, should have a significant data series even though it does not change on a daily basis. Administered rate products can be both assets (mortgages) and liabilities (deposits).

46. On panel H, what rate measurement does the *interbank rate* and *repo rate* refer to?

Answer: The interbank rate refers to the unsecured interbank funding rate for the bank in a given currency, whereas the repo rate refers to the secured interbank funding rate for the bank in the same currency. These rates may or may not be benchmark rates like LIBOR which are common to all industry participants. Note that for currencies which have a daily benchmark (such as LIBOR), the benchmark may be used to form a part of the interest rate curve with the rest of the curve based on market observed/transacted prices such as swap rates. For instance, for a bank operating in the UK, its GBP interbank rate curve could be built as a combination of LIBOR rates for maturities up to one year, and the GBP swap rates thereafter. The repo rate is the secured funding rate for the currency. This is the rate at which the bank can fund itself by borrowing against collateral such as government bonds. The rates should be calculated on a best efforts basis. Rates obtained by treasury in its daily liquidity management operations may be used.

47. Under option 4 for calculating minimum capital requirements for the standardised approach (Annex 3 of the IRRBB consultative document), is it the intent of the Committee to include or exclude credit costs in the NIP calculation? Including credit costs would be more focused on net interest margin than net interest income. Clarification to this would be helpful.

Answer: The NIP shall include credit costs (see IRRBB consultative document, p 61).

48. On the scope of panel J, should non-interest rate sensitive assets like *property, plant and equipment* (PP&E), real estate, as well as non-interest rate sensitive liabilities like CET1 capital be excluded from the panels I and J?

Answer: The scope of instruments (see Section 7.2.3 of the Basel III monitoring instructions) also applies to this panel. Hence, only interest rate sensitive assets and liabilities are to be considered. However, column K is asking for total assets (consolidated account) and thus should include those items.

49. Automatic interest rate option positions from *internal risk transfer* (IRT) from banking book to trading book might not be part of the balance sheet. Please confirm that these positions can be neglected in columns H and J of panel G.

Answer: Yes, it is confirmed that automatic interest rate option positions from internal risk transfer from banking book to trading book might not be part of the balance sheet. In accordance with Section 7.2.3 of the Basel III monitoring instructions all notional repricing cash flows must be reported *post* recognition of eligible IRT. However, as columns H and J ask for accounting values and values reflected in capital, IRT positions would likely have to be reported with a zero amount.

50. Please clarify that automatic interest rate option positions from *internal risk transfer* (IRT) from banking book to trading book shall be included in panel G.

Answer: In accordance with Section 7.2.3 of the Basel III monitoring instructions all notional repricing cash flows must be reported *post* recognition of eligible IRT. As a result automatic interest rate option positions resulting from IRT must be included in Panel G.

51. Please clarify that for columns H and J of panel G in case that an embedded automatic interest rate option is not priced separately in accounting the total value of the banking product (the one that has the embedded option) is to be used.

Answer: No, only the value of the automatic embedded interest rate options stripped out shall be considered in columns H and J of panel G. These values (respectively the cells in columns H/J) could be zero if the economic value/economic value changes for the embedded interest rate option itself is not represented in the balance sheet/profit and losses statements.

52. In panel G, embedded bought interest rate options are to be reported in line 605. Please confirm that the corresponding hedge (sold interest rate option) should be reported in line 602.

Answer: Yes, it can be confirmed in the case of the most significant currency. The same logic holds for the other significant currencies.

53. Panel G, columns K to V: Is it correct that following the Basel III monitoring instructions (p 113) numbers are to be reported in absolute values? In this case hedging relations will not be transparent and information possibly needed for further aggregation of data would be lost. Please clarify that panel G, columns K to V, can be filled with negative values, too.

Answer: No, the economic values (columns I, K to P and Q to V) must be filled with positive values (irrespectively of being sold or bought interest rate options). Also the same criteria apply for the notional (column G) and for the contribution of the payoff of the automatic interest rate option to the one year NII (columns W to Y).

54. Shall the total net operating income in panel J include (i) the contribution to the net interest income coming from the trading book instruments; as well as (ii) the gains and losses on financial instruments?

Answer: Yes, both components are to be included. The total net operating income shall include net commission and fee income as well as expenses and net gains on financial instruments. The *net of* is a clear typo in the Basel III monitoring instructions.

55. We understand the inclusion of customer margin is to contractual maturity date; on a variable rate mortgage the principal amount will be modelled in the overnight (ON) bucket but the margin (including credit and liquidity spread) will be modelled out to contractual maturity. Should the margin flows calculation be based on principal amount outstanding taking into account contractual repayments as well as behavioural prepayments?

Answer: Variable rate mortgages fall in the scope of panel A (see Section 7.3 of the Basel III monitoring instructions whereby the optionality (whether sold or bought) should be ignored for the purpose of slotting notional repricing cash flows. So no optionality (ie prepayment) is considered in filling in panel A. In principle, it can be assumed to reprice at the next reset date. Margin (including credit and liquidity spread) should be modelled over contractual maturity period based on the principal amount outstanding taking into account contractual repayments only, not behavioural prepayment. The optionality is to be considered in panel G.

56. What kind of products are considered fixed rate loans subject to prepayment risk? Are wholesale products considered? Are floating rate loans with fixed rate options not considered?

Answer: Fixed rate loans subject to prepayment risk are defined and described in detail in both Subsection II.2.6 of the IRRBB consultative document and Section 7.6 of the Basel III monitoring instructions. Detailed guidance on the categorisation of customers is provided in Section 7.2.4 of the Basel III monitoring instructions. Floating rate loans shall be reported in panel A for both retail and wholesale customers whereby the optionality (whether sold or bought) should be ignored for the purpose of slotting notional repricing cash flows. So no optionality (ie prepayment) is considered in filling in panel A but rather in panel G (see previous question).

57. We have embedded bought interest rate options that are hedged with explicit sold interest rate options. There is no line in panel G to be filled in showing this intended hedging relationship (something like *Sold hedging bought interest rate options*) that would correspond to line 606 ("Bought hedging sold interest rate options")

Answer: The line 606 (*Bought hedging sold interest rate options*) can be used to represent those embedded bought interest rate options that are hedged by explicit interest rate options.

7. Operational risk

1. It seems that the validation check among panels D and E of the "OpRisk" worksheet regarding the AMA RWAs *before* application of regulatory add-ons does not work since row 187 computes the AMA RWAs *after* the application of regulatory add-ons.

Answer: The validation check in row 187 of panel E is missing a term. It will be modified as follows in version 3.1.2 of the reporting template:

row 175 – (row 184 + row 185 + row 186) = row 167 – **row 168**.

Banks using an earlier version of the reporting template can ignore errors which would not occur with the correct specification of the check.

2. The formulas in row 170 of panel D of the "OpRisk" worksheet, columns L and M, are incorrect as they are adding rows 163 to 166 instead of rows 164 to 167.

Answer: This issue has already been addressed in version 3.1.1 of the reporting template (bug #0083). Banks using version 3.1.0 of the reporting template can ignore errors which would not occur with the correct specification of the check.