Basel Committee on Banking Supervision

Frequently asked questions on the CVA QIS exercise

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BANK FOR INTERNATIONAL SETTLEMENTS

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1. Introduction

This document provides answers to technical and interpretive questions raised by banks with regard to the Committee's QIS exercise on credit valuation adjustment (CVA) risk framework proposals using data as of 31 December 2015.[1] **The document intends to facilitate the completion of the QIS template and is not to be construed as an official interpretation of other documents published by the Committee.**

2. FAQs

1. The Basel Committee has recently eliminated the internal model approach for CVA (IMA-CVA). May banks report IMA-CVA data nonetheless?

   Answer: Yes, although the Committee has eliminated the IMA-CVA from its consideration for revisions to the CVA risk framework, banks may report the IMA-CVA data if they wish or if specifically requested by their national supervisor.

2. Banks do not currently model accounting CVA for immaterial portfolios and securities financing transactions (SFTs). Providing data on these portfolios is therefore likely to prove challenging. As such, may banks choose to exclude CVA for these portfolios from calculations?

   Answer: Immaterial portfolios and SFTs may be excluded from this exercise. Banks should provide in a separate document the reasons for exclusion and a description of the omitted portfolios (eg types of trades, types of counterparties, whether exposures were collateralised and an estimate of the size of the exposures, eg in terms of current exposure and/or exposure-at-default for counterparty credit risk capital requirements).

3. If a netting set has one part in scope for the FRTB-CVA framework, while another part of the netting set is not in scope for the FTRB-CVA framework, should the part not in scope then fall under the basic approach for CVA (BA-CVA)?

   Answer: The treatment should be consistent with the way CVA capital charge is calculated under the Advanced Approach of the current CVA framework. In both the Advanced Approach of the current framework and Option B of the FRTB-CVA approaches of the proposed framework, the netting set should be split into two subsets: a pure IMM subset and an unmodellable subset. The unmodellable subset should be treated under the Standardised Approach for the current framework and under the BA-CVA for the proposed framework.

4. The "entire CVA book" is required for the 'Proposed CVA' worksheet, ie banks will include positions for which they can actually calculate standardised approach for CVA (SA-CVA) and BA-CVA. Should the same book be used for the data reported on the 'General Info' worksheet?

   Answer: The "entire CVA book" should be the same for the calculations in both the 'General Info' and the 'Proposed CVA' worksheets. For the 'General Info' worksheet, banks should apply the current CVA framework only to the portfolios for which they calculate SA-CVA and BA-CVA in the 'Proposed CVA' worksheet.

5. In rows 33-42 of the 'General Info' worksheet, it may be difficult to designate a single counterparty as margined or unmargined because a bank may have both margined and unmargined trades with the counterparty. How should this be handled for purposes of reporting?

[1] Instructions for the CVA QIS exercise are available at: www.bis.org/bcbs/qis/instructions_CVA_QIS.pdf

Answer: A counterparty may be attributed to either the margined or unmargined categories based on whether the resulting exposure is mostly determined by margined or unmargined trades. Trades under a one-way margin agreement in the counterparty's favor (ie the bank posts collateral, while the counterparty does not) should be treated as unmargined.

6. May internal ratings be used to determine whether a counterparty is considered "Investment Grade" or "High Yield"?

   Answer: Yes, a bank's internal ratings may be used.

7. Under the BA-CVA, what risk weight should apply to counterparty exposures that cannot be mapped to any of the sectors prescribed in paragraph 100 of the draft CVA text in the annex of the instructions? How should a bank differentiate between investment and non-investment grade for such exposures?

   Answer: For the purposes of the QIS, please apply a risk weight of 12% to counterparty exposures that cannot be mapped to any of the sectors prescribed under paragraph 100 of the draft CVA text (both investment and non-investment grade). This is consistent with the risk weights applied to the "Other sector" bucket for counterparty credit spread risk (per paragraph 56 of the draft CVA text).