QIS Frequently Asked Questions (as of 11 Oct 2002)

Supervisors and banks have raised the following issues since the distribution of the Basel Committee's Quantitative Impact Study 3 (QIS 3). **These FAQs are intended to facilitate the completion of the QIS survey and should not be construed as a official interpretation of the final Accord.** The proposed Accord reforms, their interpretation and ultimate implementation by national supervisors remain subject to change from the on-going consultative process, of which QIS 3 is an essential component.

A. General

1. *The QIS Instructions and Technical Guidance documents frequently refer to various qualifying criteria of one kind or another. For example, under the IRB approach banks' PD, LGD and/or EAD estimates must meet certain minimum data requirements, including minimum observation periods. Similarly, banks must demonstrate that the exposures they treat as qualifying revolving facilities show a high ratio of future margin income to expected losses. What is the relevance of such criteria for purposes of the QIS?*

Answer: QIS3 aims to ascertain a realistic assessment of banks' capital requirements after implementation of the new Accord. We realise that not all banks will currently be able to satisfy all of the qualifying criteria or will have the necessary data available to make all of the required estimates. Best-efforts estimates are therefore acceptable for the QIS; however, bilateral consultation with your supervisor should be used to determine an approach that leads to the most realistic approximation of the proposed capital requirements. Where estimates are used, this should also be reported in the 'Notes' worksheet of the QIS electronic workbook.

2. *We plan to use total principal balances owed excluding accrued fees and interest. Is this acceptable?*

Answer: Yes, for QIS purposes this would be an acceptable approximation; however, the exclusion of accrued fees and interest should be reported in the 'Notes' worksheet of the QIS electronic workbook.

3. *Should we use spot or average balances for the QIS?*

Answer: We anticipate that most banks will use spot balances (i.e. balances as at a particular date); however, as an exception, it might be appropriate for some banks with highly volatile credit portfolios to use monthly or quarterly averages of daily balances. This should be discussed with your supervisor and the use of average balances reported in the 'Notes' worksheet of the QIS electronic workbook.

4. *What is the appropriate treatment of residual items such as fixed assets and other debtors. In the FIRB and AIRB approaches we found no mention of a capital requirement for tangible fixed assets. Is this correct? If yes, it seems incongruent that tangible fixed assets in the standardised approach have a 100% risk weight (since they are included in other assets) but in the FIRB and AIRB there is no capital requirement at all?*

Answer: Section A5 of the 'Data' worksheet requests information on 'Other Assets', which includes fixed assets and other 'residual' items. Also, information relating to the risk weighted assets of these items, calculated under current national capital rules (typically using a 100% risk weight), should be included in the data entered in cells E129 and E130 of the 'Capital' worksheet. This information enters the calculation of required capital under all of the proposed approaches, including the IRB approaches.

5. *Why does the QIS-template contain an item for 'assets not included'? What is the definition of this asset type?*

Answer: Ideally banks should include all their assets in QIS. Due to data limitations, inclusion of some assets (e.g. the portfolio of a minor subsidiary) may turn out to be an unsurpassable hurdle. For some banks exclusion of such assets is acceptable, as long as the remaining assets are representative of the bank as a whole, and at least 80% of assets is included in QIS. In order to ensure that your QIS submission can still be reconciled with your published accounts and supervisory returns a separate item for such omitted assets has been included in the template.

6. *The technical guidance (paragraph 23) mentions a floor of 90% respectively 80% of current capital requirements for IRB banks. How should we include this into the QIS templates?*

Answer: You should not. QIS calculations are carried out as if the floor were non-existent.

7. *Who should fill in the dark grey cells in the templates?*

Answer: No one, they should remain empty.

8. *Should QIS data be reported in thousands or millions of Euro?*

Answer: As long as they use the same currency throughout the QIS-templates, banks are free to report in any currency they want. Generally we expect banks to report in millions of local currency, if you use another convention (e.g. reporting in thousands of Euro), you should indicate so in the notes section, in order to allow you supervisor to insert the correct conversion rate in cell E6 of the data worksheet.[1]

9. *If a bank intends to adopt the foundation IRB approach and completes the QIS templates following this approach, is it also necessary to fill out the standardised approach?*

Answer: Yes, all banks should complete the standardised approach templates. One of the purposes of QIS is to ensure that the 'incentive structure' of capital requirements is correct, i.e. the Committee wants to ensure that foundation IRB requirements are slightly lower than standardised approach requirements. In order to facilitate this calibration we do not only need information on foundation IRB, but also on standardised approach capital requirements, even if you do not intend to adopt the standardised approach.

10. *In some cases the definition of portfolios is not 100% identical under IRB and under the standardised approach. How should banks proceed in such cases?*

Answer: For QIS purposes, banks should including the same exposures in the same portfolio under all approaches. Thus, banks that are able to provide IRB data should use the IRB definition when calculating risk weighted assets under the current, standardised and IRB approaches. Banks providing data only for the standardised approach should use the standardised approach definition.

11. *Should uncommitted lines also be included in the data worksheet?*

[1] When a bank completes the templates using thousands, rather than millions of Euro the supervisor will simply enter 0.001 (i.e. 1,000/1,000,000) in this cell.

Answer: Yes, they should be included, but since they have a credit conversion factor of 0% the resulting risk weighted assets will equal zero in the current, the standardised, and the foundation IRB approach. Under advanced IRB, where banks have to estimate their own credit conversion factors (or EAD), banks' historical experience may suggest that part of these lines tends to be used upon default. In this case such exposures should also be included in part b) of the advanced IRB templates and a capital charge will result.

B. Trading Book

1. *For QIS purposes what exposures should be included in the trading book?*

Answer: Although there will be some refinement of the trading book definition under the new Accord, for purposes of QIS 3, banks should continue to use current national rules in defining their trading book exposures.

C. Standardised Approach

1. *How should real estate leasing be treated in the standardised approach?*

Answer: For QIS3 purposes, real estate leasing is to be treated as claims secured by real estate mortgages. The risk weights applicable will depend upon whether the real estate leasing is residential or commercial. If the former, the real estate leasing can be eligible to the 40% risk provided the use of strict valuation rules for determining the value of the leased property. If the latter, then a risk weight of 100% should be applied to the claim derived from the real estate leasing (i.e. such claims would not, for QIS3 purposes, receive a preferential risk weight of 50%).

2. *The Technical Guidance indicates that past due retail claims cannot be included in the regulatory retail portfolios for risk-weighting purposes. What does this mean?*

Answer: As indicated in paragraphs 43 and 46, such claims should be slotted in the same way as any other past due assets in the standardised approach, i.e. they are risk weighted at 150%. Moreover, past due exposures do not qualify as retail exposures for calculating the granularity limit as described in paragraph 43.

3. *When data on the availability of external ratings for certain exposures are not readily available, can we allocate all these exposures to the 'unrated' bucket or should we proceed in another way (e.g. categorising them according to the mapping from our internal grades)?*

Answer: For QIS purposes we want to make sure that we approximate capital requirements as accurately as possible. Ideally each exposure should be classified according to its rating. When necessary sampling procedures should be used. Unrated exposures should never be included in any other but the unrated bucket.

4. *Does the 'past-due' concept include also overdrafts?*

Answer: If the overdraft is within limit and the bank has not sought repayment from the customer, then don not treat as past due. If the bank has sought repayment of funds and the account is not brought within the limit within 90 days, treat as in past due. Also note that in the standardised approach it is possible to encounter situations where an exposure to a single counterparty is past due while other exposures to the same counterparty are not past due.

5. *Under the standardised approach, for non-mortgage retail exposures, what number of days counts as past due and what risk weight are past due exposures allocated to (100% or 150%)?*

Answer: For QIS, use 90 days and place the past due non-mortgage exposures in the 150% bucket. Note that for QIS purposes this applies even if your national supervisor has indicated that a longer past-due trigger should be used for the IRB approach.

6. *Under the standardised approach, how will the risk weights for retail commitments be determined?*

Answer: Under the standardised approach undrawn retail exposures that are unconditionally cancellable receive no capital charge. Other retail commitments are converted to credit equivalent amounts at 20% or 50%, depending on whether the maturity of the commitment is up to or beyond one year. Next the credit equivalent amount is risk weighted at 75%.

D. National Discretion

1. *In many cases, host-country decisions on national discretion items will affect the appropriate capital treatment to be applied to certain exposures in banks' portfolios. How should these exposures be treated in QIS 3?*

Answer: For QIS purposes, banks should apply the national discretions provided by their home supervisor across all of their exposures (i.e. host-country decisions relating to national discretion items should not impact on banks' responses to the QIS questionnaire). Refer to paragraph 2.2 of the QIS Instructions document.

2. *On the issue of rollout, what is the permissible level of flexibility with respect to the all-or-nothing approach (i.e. in completing the QIS to what extent can banks opt to use the standardised approach for certain 'immaterial' subsidiaries/portfolios, including in other jurisdictions)?*

Answer: The concept of rollout does not apply to QIS. In completing the QIS, banks should not mix estimates based on the standardised and IRB approaches. To the extent possible, banks should try to apply the IRB approach to their entire book, even if this means that estimates for some blocks of business will not be up to the standards that will be expected when IRB is ultimately implemented. Banks may use estimates to provide PD distributions to give more complete calculations for QIS. Where this is not possible, the relevant exposures should be excluded from the QIS analysis (though the existence of such exposures should be reported in the relevant sections of the 'Data' worksheet).

E. Credit Risk Mitigation

1. *When there is more than one type of collateral or when there is both collateral and guarantee covering an exposure, how should banks sub-divide the exposure in calculating the risk mitigation effect?*

Answer: When there is a difference in the risk-weighted assets depending on how the exposure is sub-divided, banks should calculate the effect of mitigation in a way that maximises the capital benefit of risk mitigation (i.e. the way that minimises the amount of risk weighted assets). Generally, for different types of collateral, this would mean calculating the effect of the risk mitigant in the same order as in the table presented in paragraph 256.

2. *Footnote 63 states that '(a) lower LGD may be substituted ... when the guarantee is supported by eligible collateral. Are there any conditions that such collateral must meet?*

Answer: The lending bank must have clear rights over the collateral, and must be able to liquidate or take legal possession of it, in a timely manner, in the event of default, insolvency or bankruptcy (or otherwise-defined credit event set out in the transaction document) of the borrower, even if the guarantor is not in default. All the minimum requirements set out in paragraphs 80-81 and 86-89 need to be met.

3. *How should the maturity for repos governed by master-netting agreements be calculated under the IRB approach when there is an explicit maturity adjustment?*

Answer: The weighted average maturity of the transactions under the master-netting agreement should be used, with a 5-day floor applied to the average. The nominal value of each transaction should be used for weighting the maturity.

4. *The rules say that no transaction using CRM techniques should obtain a higher capital charge than the same transaction without such techniques would receive. In some cases, however, using the substitution treatment for guarantees may lead to higher capital charges (e.g. if a retail exposure is guaranteed by a bank with a relatively high PD). How should we proceed in such cases?*

Answer: In such cases you should ignore the guarantee. If using substitution treatment would result in higher capital charges, capital charges must be calculated as if the guarantee were not available.

5. *At multiple places the technical guidance indicates that banks must ensure that their adjustments to PD and/or LGD estimates do not reflect double default effects. What exactly does that mean?*

Answer: If a bank has an exposure to a counterparty with a PD of 1% that is guaranteed by a counterparty with a PD of 0.5% the risk mitigating effect of this guarantee is recognised by allowing the bank to treat this exposure as if it were an exposure to the guarantor rather than the original obligor. A truly risk sensitive model would also recognise the effect that default of the guarantor is only an issue when the original obligor is also in default. In an ideal case—when defaults of the obligor and the guarantor are fully independent—this would imply that capital requirements could be based on a PD that equals $PD_{obligor} \times PD_{guarantor}$, a number which would be considerably smaller than either the PD of the obligor or that of the guarantor and consequently there would be a considerable difference in capital requirements. The difference between both numbers is called the double default effect. The true double default effect is highly dependent upon the correlation between obligor and guarantor at the moment of default of the obligor. Estimation of this correlation is beyond the scope of the new capital accord, and consequently any double default effects should be ignored for purposes of calculating capital requirements.

F. Definition of Default/Loss

1. *We plan to use gross principal write-off adjusted for expected recovery as the definition of loss. Is this acceptable?*

Answer: Banks providing LGD information in QIS 3 should take account of all of the required loss elements, including unpaid principal and accrued interest, discount effects and the direct and indirect costs of collecting on defaulted exposures. Where this information is not (or is not easily) available, banks should incorporate estimates for each of these elements. Use of estimates for one or more of the required loss elements, and the basis of the estimates, should be reported in the 'Notes' worksheet of the QIS electronic workbook.

2. *We understand that data should be reported using the 90-days past due trigger except for credit cards, for which banks in our country will follow the national industry and accounting practice of 180-days past due. Will similar treatment be extended to non-retail exposures? For example, are the following cases considered acceptable: (i) for a loan which is fully (i.e. 100%) government guaranteed, a 365 days past due trigger will apply; (ii) for fully secured loans (where the collection of the debt is in process and the collection efforts are reasonably expect to result in the repayment of the debt or in restoring to current status), a 180-days past due trigger will apply.*

Answer: In the case of retail (i.e. not just credit cards) and PSE exposures, national supervisors may substitute figures of up to 180 days for the usual 90-days figure. Banks should refer to the National Discretions checklist (Item 28) provided by their national supervisor to see if they should apply a longer than 90-days definition to certain products.

For all other exposures, banks should follow the usual rule of 90 days. If this is not possible, disclose the definition used and discuss the effects of the non-compliant definition in the 'Notes' worksheet of the QIS electronic workbook.

3. *The IRB definition of default introduces the term 'material' credit obligation. The 90-days past due trigger is supposed to be a backstop. So if the credit obligation is considered immaterial, then the obligor or obligation in question would not be in default. If this is correct, will the level of materiality be determined by the Basel Committee, national supervisors or the banks themselves?*

Answer: It is unlikely that the Committee will provide an exact definition of materiality. The fact that the word materiality is mentioned mainly functions as a safety valve that ensures that it is not necessary to declare default in situations where a default definitely is not in order (e.g. a corporate obligor who is € 1 over its overdraft limit for more than 90 days but also has a performing multimillion euro facility). Banks should explain what definition of material they used for QIS purposes.

G. Maturity

1. *Will the maturity adjustment in both the Foundation and Advanced IRB approaches now definitely be Mark to Market (MTM) based, rather than the choice of MTM or Default Mode that existed in CP2?*

Answer: There is no longer a Default Mode-based option as contemplated in CP2. The explicit maturity adjustments being used for both the FIRB and AIRB are based on a mark to market methodology.

2. *The maturity adjustment in paragraph 235 of the instructions contains a LOG-function. Is this a power 10 log (^{10}log) or a natural logarithm (^{e}log)?*

Answer: The IRB maturity adjustment function uses the natural logarithm (i.e. ^{e}log which in Excel is the LN() function).

H. Operational Risk

1. *Where can I find answers to the operational risk FAQs?*

Answer: A separate FAQ for Operational Risk will shortly be posted on the BIS-website.

I. IRB-inputs: PD, LGD and EAD

1. *For purposes of IRB can overdraft facilities be considered uncommitted (with a 0% conversion factor)?*

Answer: Not automatically. In order to be eligible for the 0% conversion factor such overdraft facilities should be unconditionally and immediately cancellable. See paragraph 275 of the instructions for further guidance.

2. *The Retail IRB framework makes reference to asset maturity being 'subsumed in the correlation assumption,' suggesting the risk weight functions have been calibrated for maturity. Does this have any impact on the way PDs should be calculated?*

Answer: No. The fact that the maturity is subsumed in the correlation assumption just implies that for retail mortgages no explicit maturity adjustment is required. This decision was based on the consideration that the introduction of a separate maturity adjustment for retail mortgages would be too complicated since this would require a separate analysis of prepayment risk and transition behaviour of mortgage counterparties, etc.

3. *A common method of deriving PD is to use monthly or quarterly data from a particular pricing segment within a portfolio. A potential issue arises if the observations are drawn from a growing portfolio. The loss information will be biased to the early portion of the loss vintage curve, and the early portion of the loss vintage curve is not fully ramped. Therefore, losses will be lower and PD will be understated. Is this acceptable?*

Answer: In general, the Committee wants to look to strong internal bank practices as a guidepost. Where a bank believes the issue identified here is material, presumably the bank is considering whether additional steps (i.e. segmentation by vintage) are necessary to achieve appropriate estimates of risk and economic capital. The Committee has stepped back from explicit mandatory segmentation requirements in areas such as this because of concerns with excessive burden and complexity, but with the understanding that banks will take the appropriate steps to deliver unbiased estimates of PD. Over time, of course, approaches that do not deliver unbiased estimates will be shown to be inadequate through the results that they produce.

4. *To which maturity band should banks allocate default items in foundation IRB tables? What does maturity mean in such a case?*

Answer: For the purpose of calculating correct capital requirements, banks can assign defaulted exposures to any maturity band they like since the maturity correction is a function of PD and when PD equals 1 (as is the case for defaulted loans) the maturity correction becomes nil, i.e. for defaulted assets capital requirements do not depend upon maturity. The QIS-templates automatically take account of this and include such exposures in the column 'maturities exempted from the explicit maturity adjustment'.

5. *In some portfolio's (e.g. smaller leasing transactions) individual PD estimates may not be available. How should banks deal with such transactions?*

Answer: For purposes of QIS the bank should first determine whether the portfolio meets the retail definition. In that case it should be included in the retail portfolio using average PD, LGD and EAD figures for homogeneous buckets of this pool of assets (for purposes of QIS the bank may treat the whole portfolio as a single bucket if completing QIS otherwise would not be possible). If the portfolio does not satisfy the retail criteria, it should be included in the corporate portfolio. All eligible collateral, if any, should be taken into account for calculating (foundation) IRB LGDs. Although corporate exposures should be rated individually, we realise that such a requirement may not be realistic for QIS. Consequently, for this exercise some concept of an average PD may suffice. In addition, banks can use estimates.

6. *What does the Committee mean by time weighted versus default weighted LGDs and EADs?*

Answer: A time weighted LGD is calculated by first calculating LGDs for individual years, then averaging these LGD estimates. It gives disproportionate weight to a default that occurs in a year when few other credits default. If LGD is correlated to the number of defaults, then a time weighted LGD is biased estimate of the cycle average LGD. A simple illustration may help to clarify this issue. Assume we have the following loss history:

year 1: 10 defaults of € 1, average loss 10 cents

year 2: 1000 defaults of € 1, average loss 90 cents

year 3: 10 defaults of € 1, average loss 10 cents

LGD is obtained by dividing total losses by total amount of assets in default (or a process that results in that outcome), not by adding 10, 90 and 10 and dividing by 3 (or a similar procedure), i.e. we would obtain a number closer to 90 then to 10 (in this case 88.4%). This is what we call a default weighted LGD. Ceteris paribus the same logic should be applied when calculating EAD.

7. *Are banks allowed to correct PD and LGD estimates in order to reflect the impact of credit derivatives?*

Answer: Yes, advanced IRB banks are allowed to do so, although they should ensure that their estimates do not take into account any effect of double default (see question E.5).

J. Provisions

1. *How should specific provisions against non-defaulted assets be treated?*

Answer: Most specific provisions will be created against defaulted assets. The Committee realises, however, that in some cases relatively small specific provisions will be created against non-defaulted assets. For QIS-purposes, such provisions should be allocated to the pool for general provisions (such amounts must be separately identified in the 'Notes' spreadsheet). The QIS-treatment differs from the Technical Guidance, which indicates that a specific provision on a non-defaulted asset will be used to offset the EL-charge on this asset. Surpluses will not be eligible to offset the capital charges on any other asset (see paragraph 331 of the Technical Guidance). If a bank or supervisor is of the opinion that treating all specific provisions on non-defaulted assets, as surplus general provisions will result in a material misrepresentation of QIS-findings for this bank, only the portion of such provisions eligible upon implementation can be included.

2. *If an obligor only defaults on part of an exposure, wouldn't it be more consistent to declare only this part of the exposure in default and create a specific provision against it?*

Answer: The proposed capital accord uses a PD-definition that is obligor-specific. Each obligor should have one, unique PD. This automatically implies that all exposures of an obligor will go into default simultaneously.[2] Consequently, the amount in default and the exposure size will be identical. Exposures must be measured as the amount legally owed, i.e. gross of any provisions. The provisions will be used to offset the capital charge on the defaulted asset.

An example may clarify this. If an obligor defaulted on a total loan amount of 100 with an LGD of 45% and the bank creates a provision of 45 the risk weighted assets equal 12.5 X ((45% X 100) - 45) = 0, which reflects the fact that any expected losses have been provisioned for. If we would have corrected exposure size rather than capital charges risk weighted assets would have equalled 12.5 X 45% (100 - 45) = 12.5 X 24.75 which would have been too high.

3. *In some jurisdictions provisions exist that are specific to a certain portfolio (e.g. all loans to a specific industry or loans to obligors in a specific country). How should such portfolio specific provisions be treated?*

[2] As indicated in paragraph 343 of the technical instructions there are two exceptions two this rule. Firstly, in the case of country transfer risk, where a bank may assign different borrower grades depending on whether the facility is denominated in local or foreign currency. Secondly, when the treatment of associated guarantees to a facility may be reflected in an adjusted borrower grade. In either case, separate exposures may result in multiple grades for the same borrower.

Answer: For purposes of QIS you may treat such provisions as if they were general provisions (indicate the amounts involved in the 'Notes' spreadsheet). The QIS-treatment differs from the Technical Guidance, which indicates that such provisions are available to offset the EL-portion of the capital charge against the portfolio to which they relate. If a bank or supervisor is of the opinion that treating all portfolio specific provisions as surplus general provisions will result in a material misrepresentation of QIS-findings for this bank, only the portion of such provisions eligible according to the Technical Guidance can be included.

4. *What does the item 'general provisions not included' in capital mean?*

Answer: General provisions are only eligible as tier 2 capital up to a maximum of 1.25% of risk weighted assets. Some banks may have an amount of provisions above this limit. Moreover, some banks may not be able to include general provisions in tier 2 capital since they would otherwise breach the limit of tier 2 to tier 1 capital. The amount of provisions not included in capital (i.e. any amount in excess of one of the caps mentioned in the previous sentence) should be reported here and will be used to offset the EL-component of capital requirements under the IRB-approaches.

K. Purchased Receivables

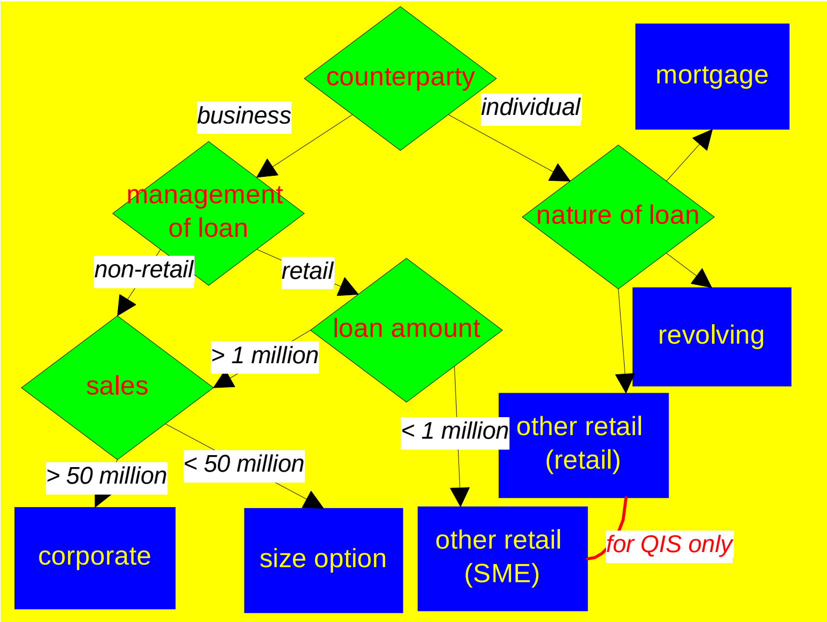
1. *Are banks obliged to apply the receivables treatment (top-down approach) even if they have data that allows them to calculate requirements on the individual loans (bottom-up approach)?*

Answer: Banks are not obliged to apply the 'top-down' approach for receivables when they can and choose to apply 'bottom-up' approach. However, even under 'bottom-up' approach, banks are required to include capital charges for both default risk and dilution risk. Dilution risk may be excluded if banks can demonstrate to its supervisor that it is immaterial.

L. Retail Exposures

1. *In assessing whether a small business qualifies for retail treatment, should banks determine its total exposure or that of its banking group to the small business?*

Answer: Loans extended to small businesses are eligible for retail treatment provided the total exposure of the *banking group* (and NOT the bank) is less than €1 million. See the decision tree underneath for additional information.



2. *Should overdrafts be included under revolving facilities, or is this treatment limited to credit card exposures?*

Answer: Application of the revolving facilities treatment is not limited to credit cards. All revolving facilities that meet the requirements laid down in paragraph 195 of the Technical Guidance document can be included in this portfolio. Note that in order to make an decision on this issue you should contact your supervisor, since your supervisor has to concur that treatment as a qualifying revolving exposure is consistent with the underlying risk characteristics of the sub-portfolio.

M. Scope of Application

1. *Banks are asked to complete the worksheets for consolidated group exposures on a worldwide basis. Does this mean that we should not report by country or region?*

Answer: Banks may collect the data for their own purposes in any fashion they choose. However, for the final output banks should submit only a single, consolidated set of QIS spreadsheets.

2. *How should we report within-group bank exposures in the QIS templates?*

Answer: QIS is to be completed on a consolidated basis, consequently exposures between entities within the consolidated group should not be taken into account. If any entities are non-consolidated, exposures to such entities should be treated as ordinary interbank exposures (ceteris paribus the same holds for any other within-group exposures).

N. SMEs

1. *Does the firm size adjustment for SMEs in the banking book also apply to SME exposures in the trading book?*

Answer: Since this is unlikely to be a material issue, for purposes of QIS, the firm size adjustment will be ignored in the trading book (according to the Technical Guidance, however, trading book exposures will be eligible for application of this adjustment, as it should not matter in which book the credit exposure resides).

2. *Should the turnover criterion of € 50 million for determining whether a corporate is an SME be based on the latest turnover or the average turnover of the past three years?*

Answer: For purposes of QIS, specifying more detailed regulation is left to the national supervisor.

3. *If a bank lacks the turnover data necessary to apply the firm size adjustment, can assumptions be made?*

Answer: Yes, for QIS purposes a bank that lacks the relevant data should do this. Without making such assumptions its QIS-results could be seriously biased.