Basel Committee on Banking Supervision

Frequently asked questions on the revised Pillar 3 disclosure requirements

August 2016
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Overview of risk management and RWA

Template OV1: Overview of RWA

**Question 1:** For counterparty credit risk (CCR) (rows 4–6), the split requested is by the exposure at default (EAD) methodology classification used to determine exposure levels rather than the risk-weighted asset (RWA) methodology classification used to determine risk weights. This contradicts the presentation for credit risk (rows 1–3) and securitisation (rows 12–15). Should line items be added (where necessary) to reconcile the disclosure to the total RWA?

**Answer:** Template OV1 does not request CCR to be split by risk weighting methodology, but by EAD methodology. Nevertheless, banks should add extra rows, as appropriate, to split the exposures by risk weighting methodology,\(^1\) in order to facilitate the reconciliation with the RWA changes in Template CCR7.

Linkages between financial statements and regulatory exposures

Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statements categories with regulatory risk categories

Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

**Question 2:** Further guidance is required for Template LI1. In particular:

(a) In what situations would the statement “the sum of amounts in columns (c) to (g) may not equal the amounts in column (b)” apply?

(b) Are assets deducted from regulatory capital in accordance with Basel III (eg goodwill and intangible assets) disclosed in column (g)?

(c) Are exposures required to be 1,250% risk-weighted to be disclosed in column (g)?

(d) Considering that the risk weighting framework bears on assets rather than liabilities, should all the liabilities be disclosed in column (g)? Should in any case deferred tax liabilities and defined benefit pension fund liabilities be included in column (g)?

**Answer:**

(a) The definitions accompanying Template LI1 state that “where a single item attracts capital charges according to more than one risk category framework, it should be reported in all columns that attract a capital charge”. For example, derivative assets/liabilities held in the regulatory trading book may relate to both column (d) and column (f). In such circumstances, the sum of the values in columns (c)–(g) would not equal to that in column (b). When amounts disclosed in two or more different columns are

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\(^1\) RWA and capital requirements under the Standardised Approach for credit risk weighting are to be subdivided in the standardised approach for counterparty credit risk (SA-CCR) and the internal models method (IMM), and the same for RWA and capital requirements under the IRB approach for credit risk weighting.
material and result in a difference between column (b) and the sum of columns (c)–(g), the reasons for this difference should be explained by banks in the accompanying narrative.

(b) Elements which are deducted from a bank’s regulatory capital (e.g., goodwill and intangible assets and deferred tax assets) should be included in column (g), taking into consideration the different thresholds that apply where relevant. Assets should be disclosed for the amount that is actually deducted from capital. Some examples are shown below:

- **Goodwill and intangible assets:** the amount to be disclosed in column (g) is the amount of any goodwill or intangibles, including any goodwill included in the valuation of significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation. The amount disclosed in the assets rows is net of any associated deferred tax liability which would be extinguished if the intangible assets become impaired or derecognised under the relevant accounting standards. The associated deferred tax liability is also to be disclosed in the liabilities rows of column (g).

- **Deferred tax assets:** for all types of deferred tax assets to be deducted from own funds, the amount to be disclosed in column (g) is net of associated deferred tax liabilities that are eligible for netting. The associated deferred tax liabilities are to be disclosed in the liabilities rows of column (g). For deferred tax assets, for which the deduction is subject to a threshold, the amount disclosed in column (g) in the assets rows is the amount, net of any eligible deferred tax liability, above the threshold. The associated deferred tax liabilities are also to be disclosed in the liabilities rows of column (g).

- **Defined benefit pension fund assets:** the amount disclosed is net of any deferred tax liabilities which would be extinguished if the asset should become impaired or derecognised under the relevant accounting standards. These deferred tax liabilities are also to be disclosed in the liabilities rows of column (g).

- **Investments in own shares (treasury stock) or own instruments of regulatory capital:** when investments in own shares or own instruments of regulatory capital are not already derecognised under the relevant accounting standards, the deducted amount disclosed is net of short positions in the same underlying exposure or in the same underlying index allowed to be netted under the Basel framework. These short positions are also to be disclosed in the liabilities rows of column (g).

(c) 1,250% risk-weighted exposures should be disclosed in the relevant credit risk or securitisation risk templates.

(d) The liabilities disclosed in column (g) are all liabilities under the regulatory scope of consolidation, except for the following, which are disclosed in columns (c), (d), (e) and (f) as applicable:

- **Liabilities that are included in the determination of the exposure values in the market risk or the counterparty credit risk framework.**

- **Liabilities that are eligible for the Basel netting rules.**

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2 Under paragraph 68 of the Basel III framework, subject to supervisory approval, banks that report under local GAAP may use the IFRS definition of intangible assets to determine which assets are classified as intangible and are thus required to be deducted.

3 The applicable netting rules under the Basel framework include:

- credit risk SA: paragraphs 109, 117, 118, 139, 188;
**Question 3:** What is the relationship between Template LI1 and Template LI2?

(a) Is column (g) in Template LI1 included in column (a) of Template LI2?

(b) What are the assets and liabilities to be disclosed in rows 1 and 2 of column (a) in Template LI2?

(c) Does Template LI2, row 3 (total net amount under regulatory scope of consolidation) represent the difference between the entries in row 1 (asset carrying value amount under scope of regulatory consolidation) and row 2 (liabilities carrying value amount under regulatory scope of consolidation)?

**Answer:**

(a) Template LI2 is focused on assets in the regulatory scope of consolidation that are subject to the regulatory framework. Therefore, column (g) in Template LI1, which includes the elements of the balance sheet that are **not** subject to the regulatory framework, is not included in Template LI2. The following linkage holds: column (a) in LI2 = column (b) in LI1 – column (g) in LI1.

(b) Row 1 of Template LI2 includes only assets that are risk-weighted under the Basel framework, while row 2 includes liabilities that are considered for the application of the risk weighting requirements, either as short positions, trading or derivative liabilities, or through the application of the netting rules to calculate the net position of assets to be risk-weighted. These liabilities are not included in column (g) in Template LI1 (see question 2(d)). Assets that are risk-weighted under the Basel framework include assets that are not deducted from capital because they are under the applicable thresholds or due to the netting with liabilities.

(c) Row 3 = row 1 – row 2.

**Question 4:** In Template LI2, is column (a) the sum of columns (b) to (e)?

**Answer:** Column (a) is not necessarily equal to the sum of columns (b) to (e) due to assets being risk-weighted more than once (see question 2(a)).

In addition, exposure values used for risk weighting may differ under each risk framework depending on whether standardised approaches or internal models are used in the computation of this exposure value. Therefore, for any type of risk framework, the exposure values under different regulatory approaches can be presented separately in each of the columns if a separate presentation eases the reconciliation of the exposure values for banks.

**Question 5:** What is the difference between the required disclosure in row 2 (liabilities carrying value amount under regulatory scope of consolidation) and row 6 (differences due to different netting rules, other than those already included in row 2).

**Answer:** Row 2 refers to balance sheet netting, while row 6 refers to incremental netting in application of the Basel rules (when not already covered by the balance sheet netting). The netting rules under the Basel framework are different from the rules under the applicable accounting frameworks.

- credit risk IRB: paragraphs 173, 174, 293, 299, 309, 335, 345, 353, 474;
- counterparty credit risk: credit risk rules plus Annex IV paragraphs 10–19, paragraph 89 and paragraphs 96(i)–(iii);
- securitisation: paragraph 583; and
- market risk: paragraphs 709(ii) and (iii), and 718(i),(xiii),(xiv),(xv),(xx),(xxxii),(xLvi) and (xLii).
The incremental netting in row 6 could represent an additional deduction from the net exposure value before application of the Basel netting rules (when those rules lead to more netting than the balance sheet netting in row 2) or a gross-up of the net exposure value when the off-balance sheet netting operated in row 2 is broader than what the Basel netting rules allow.

**Question 6:** How does the disclosure in Template LI2, in particular row 3 (total net amount under regulatory scope of consolidated) relate to accounting equity?

**Answer:** The netting between assets and liabilities in Template LI2 does not lead to accounting equity under a regulatory scope of consolidation being disclosed in row 3. Assets and liabilities included in rows 1 and 2 are limited to those assets and liabilities that are taken into consideration in the regulatory framework. Other assets and liabilities not considered in the regulatory framework are to be disclosed in column (g) in Template LI1 and are consequently excluded from rows 1 and 2 of Template LI2 (see question 3).

**Question 7:** For Template LI2, what is row 7 (differences due to consideration of provisions) meant to be? Is this meant to include the entire allowance under the advanced internal rating-s based (A-IRB) approach?

**Answer:** The exposure values under row 1 are the carrying amounts and hence net of provisions. Nevertheless, exposures under the foundation internal ratings-based (F-IRB) and A-IRB approaches are risk-weighted gross of provisions. Row 7 therefore is the re-inclusion of general and specific provisions in the carrying amount of exposures in the F-IRB and A-IRB approaches so that the carrying amount of those exposures is reconciled with their regulatory exposure value. Row 7 may also include the elements qualifying as general provisions that may have been deducted from the carrying amount of exposures under the Standardised Approach and that therefore need to be reintegrated in the regulatory exposure value of those exposures. Any differences between the accounting impairment and the regulatory provisions under the Basel framework that have an impact on the exposure amounts considered for regulatory purposes should also be included in row 7.

**Question 8:** For Template LI2, how would the entry in row 10 (exposure amounts considered for regulatory purpose) differ from the balance sheet values under a regulatory scope of consolidation? Is it correct that there would be no differences to be explained, given that market risk does not have exposure values and the linkage for the other risk categories does not apply?

**Answer:** In general, under a regulatory scope of consolidation, the accounting carrying amount and the regulatory exposure value would vary due to the incidence of off-balance sheet elements, provisions, and different netting and measurement rules.

Under market risk, the regulatory exposure value will also differ from the accounting carrying amount. Differences could be due to off-balance sheet items, netting rules and different measurement rules of market risk positions via prudent valuation (as opposed to fair valuation in the applicable accounting framework).

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4 “Provisions” refer to “specific provisions” and “general provisions” set out in paragraph 60 of the Basel III framework.
Credit risk

Template CR1: Credit quality of assets

**Question 9:** Do “debt securities” include equity investments subject to the credit risk framework?

**Answer:** No. However, banks may add a row between rows 2 and 3 for “other investment” (if needed) and explain in the accompanying narrative.

**Question 10:** The definition of “default” which is used in Templates CR1 and CR2 exists only in the IRB framework. How should banks using the standardised approach for credit risk interpret “default” in the SA-CR framework?

**Answer:** For a bank using the standardised approach for credit risk, the default exposures in Templates CR1 and CR2 should correspond to the secured and unsecured portions of claims “past due for more than 90 days”, as stated in paragraph 75 of the Basel II text.

**Question 11:** The validation rule reads 
\[\text{[CR1:1/d]} = \text{[CR3:1/a]} + \text{[CR3:1/b]}\]. The interpretation based on the validation rule is that the gross carrying value after allowances/impairments for loans [CR1:1/d] should equal the carrying values of unsecured exposures [CR3:1/a] and the carrying values of exposures secured by collateral [CR 3:1/b]. Should exposures secured by financial guarantees [CR3:1/d] and/or credit derivatives [CR3:1/f] be included within the equation?

The same issue applies for the validation rule which reads 
\[\text{[CR1:2/d]} = \text{[CR3:2/a]} + \text{[CR3:2/b]}\].

**Answer:** The validation rules are correct when there are no exposures secured by guarantees and/or credit derivatives. However, in cases where there are exposures secured by guarantees and/or credit derivatives, the validation rules to be applied (with reference to the revised columns for Template CR3 in Question 15) are:

- \[\text{[CR1: 1/d]} = \text{[CR3: 1/a]} + \text{[CR3:1/b]}\], where \[\text{[CR3:1/b]} = \text{[CR3:1/b]} + \text{[CR3:1/d]} + \text{[CR3:1/f]}\]; and

**Question 12:** Template CR1 includes off-balance sheet exposures while Template CR2 does not. Accordingly, \[\text{[CR1:4/a]}\] does not always equal to \[\text{[CR2:6/a]}\], as set out in the linkages in the template. Does the formula only work when there is zero defaulted off-balance sheet exposure?

**Answer:** National supervisors have discretion to decide whether off-balance sheet exposures should be included in Template CR2. Banks should disclose in their accompanying narrative whether defaulted exposures include off-balance sheet items.

Template CRB: Additional disclosures related to the credit quality of assets

**Question 13:** What is the definition of “restructured exposures” in the context of the disclosures?

**Answer:** Banks should disclose the definition of restructured exposures they use (which may be a definition from the local accounting or regulatory framework).
Template CRC: Qualitative disclosure requirements related to credit risk mitigation techniques

**Question 14:** Considering confidentiality issues, to what extent is credit derivative provider information required in row (c)?

**Answer:** In the application of paragraph 11 on proprietary and confidential information, a bank does not need to disclose specific items that lead to disclosures of confidential or proprietary information, but must disclose more general information about the subject matter of the requirement instead. A bank must also explain in the narrative commentary to the disclosure the specific items which have not been disclosed and the reasons.

Accordingly, banks should disclose a meaningful breakdown of their credit derivative providers, and set the level of granularity of this breakdown in accordance with Principle 11. For instance, banks are not required to identify their derivative counterparties nominally if the name of the counterparty is considered to be confidential information. Instead, the credit derivative exposure can be broken down by rating class or by type of counterparty (eg banks, other financial institutions, non-financial institutions).

Template CR3: Credit risk mitigation techniques – overview

**Question 15:** How should the disclosure be made, in an example where a loan has multiple types of credit risk mitigation and is over-collateralised (eg a loan of 100 with land collateral of 120 as well as guarantees of 50)?

**Answer:** When an exposure benefits from multiple types of credit risk mitigation mechanisms, the exposure value should be allocated to each mechanism by order of priority based on the credit risk mitigation mechanism which banks would apply in the event of loss. Disclosure should be limited to the value of the exposure (ie the amount of over-collateralisation does not need to be disclosed in the table). If the bank wishes to disclose information regarding the over-collateralisation, it may do so in the accompanying narrative.

The following scenarios illustrate how Template CR3 should be completed (note: the illustration assumes the replacement of columns (c), (e) and (g) by a new column – refer to question 11).
### Definitions:

**Exposures to be secured:** carrying amount of exposures which have at least one credit risk mitigation mechanism (collateral, financial guarantees, credit derivatives) associated with them. The allocation of the carrying amount of multi-secured exposures to their different credit risk mitigation mechanisms is made by order of priority, starting with the credit risk mitigation mechanism expected to be called first in the event of loss, and within the limits of the carrying amount of the secured exposures.

**Exposures secured by collateral:** carrying amount of exposures (net of allowances/impairments) partly or totally secured by collateral. In case an exposure is secured by collateral and other credit risk mitigation mechanism(s), the carrying amount of the exposures secured by collateral is the remaining share of the exposure secured by collateral after consideration of the shares of the exposure already secured by other mitigation mechanisms expected to be called beforehand in the event of a loss, without considering overcollateralisation.

**Exposures secured by financial guarantees:** carrying amount of exposures (net of allowances/impairments) partly or totally secured by financial guarantees. In case an exposure is secured by financial guarantees and other credit risk mitigation

<table>
<thead>
<tr>
<th></th>
<th>a</th>
<th>New column (b1)</th>
<th>b</th>
<th>d</th>
<th>f</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unsecured exposures: carrying amount</td>
<td>Exposures to be secured</td>
<td>Exposures secured by collateral</td>
<td>Exposures secured by financial guarantees</td>
<td>Exposures secured by credit derivatives</td>
</tr>
<tr>
<td>(i)</td>
<td>One secured loan of 100 with collateral of 120 (after haircut) and guarantees of 50 (after haircut), if bank expects that guarantee would be extinguished first</td>
<td>0</td>
<td>100</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>(ii)</td>
<td>One secured loan of 100 with collateral of 120 (after haircut) and guarantees of 50 (after haircut), if bank expects that collateral would be extinguished first</td>
<td>0</td>
<td>100</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>(iii)</td>
<td>Secured exposure of 100 partially secured: 50 by collateral (after haircut), 30 by financial guarantee (after haircut), none by credit derivatives</td>
<td>0</td>
<td>100</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>(iv)</td>
<td>One unsecured loan of 20 and one secured loan of 80. The secured loan is overcollateralised: 60 by collateral (after haircut), 90 by guarantee (after haircut), none by credit derivatives. If bank expects that collateral would be extinguished first.</td>
<td>20</td>
<td>80</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td>(v)</td>
<td>One unsecured loan of 20 and one secured loan of 80. The secured loan is undercollateralised: 50 by collateral (after haircut), 20 by guarantee (after haircut), none by credit derivatives.</td>
<td>20</td>
<td>80</td>
<td>50</td>
<td>20</td>
</tr>
</tbody>
</table>
Frequently asked questions for revised Pillar 3 framework

**mechanism**, the carrying amount of the exposure secured by financial guarantees is the remaining share of the exposure secured by financial guarantees after consideration of the shares of the exposure already secured by other mitigation mechanisms expected to be called beforehand in the event of a loss, without considering overcollateralisation.

*Exposures secured by credit derivatives: carrying amount of exposures (net of allowances/impairments) partly or totally secured by credit derivatives. In case an exposure is secured by credit derivatives and other credit risk mitigation mechanism(s), the carrying amount of the exposure secured by credit derivatives is the remaining share of the exposure secured by credit derivatives after consideration of the shares of the exposure already secured by other mitigation mechanisms expected to be called beforehand in the event of a loss, without considering overcollateralisation.*

**Question 16:** What are the values to be ascribed to collateral, guarantees and credit default swaps?

**Answer:** Banks should disclose the amount of credit risk mitigation calculated according to the regulatory framework, including both the costs to sell and of haircut.

**Template CR5: Standardised Approach – exposures by asset classes and risk weights**

**Question 17:** Where should exposures to central counterparties (CCPs) be included?

**Answer:** Exposures for trades, initial margins and default fund contributions are included in Template CCR8. Exposures stemming from loans to CCPs excluding initial margins and default fund contributions should be included within the credit risk framework considering the CCP as an asset class item. These loans should be included in the exposure class where the national implementation of the Basel framework allows exposures to CCPs to be included.

**Template CRE – Qualitative disclosures related to IRB models**

**Question 18:** What is meant by “scope of the supervisor’s acceptance of approach” under row (d)?

**Answer:** The “scope of the supervisor’s acceptance of approach” refers to the scope of internal models approved by the supervisors in terms of entities within the group (if applicable), portfolios and exposure classes, with a breakdown between F-IRB and A-IRB, if applicable.

**Template CR7: IRB – Effect on RWA of credit derivatives used as CRM techniques**

**Question 19:** What is the required disclosure if an exposure is only partially hedged by a credit derivative? For instance, consider a loan with nominal exposure of $100, risk weight of 150% and therefore RWA of $150. The bank buys a CDS with a $30 nominal amount, and the risk weight of the protection provider is 50%. Which values should be entered in columns (a) and (b)?

**Answer:** Under the IRB approach, credit derivatives are recognised as credit risk mitigation (CRM) techniques for the F-IRB and A-IRB. In both cases, banks can reflect the risk mitigating effect of credit derivatives on an exposure by adjusting their probability of default (PD) or loss-given-default (LGD). Banks should disclose in Template CR7:

- **in column (a):** the RWA of an exposure secured by a credit derivative calculated without reflecting the risk mitigating effect of credit derivatives (in the example, banks would disclose $150); and
- **in column (b):** the RWA of the same exposure calculated reflecting the risk mitigating effect of credit derivatives (in the example, banks would disclose $150 + 30*50% = 120).
Template CR9: IRB – Backtesting of probability of default per portfolio

**Question 20:** Is the “weighted average PD” in column (d) to be calculated based on the formula below?

\[
\frac{\sum PD_i \times EAD_i}{\sum EAD_i}
\]

**Answer:** “Weighted” means EAD-weighted. For this purpose, the formula above is correct since the data will be comparable to those reported in column (i).

**Question 21:** Which are the models referred to within the “scope of application”: the borrower risk rating model (to generate risk rating for each obligor in the portfolio) or the PD estimation model (to calibrate PD for each risk rating level)?

**Answer:** The models to be disclosed refer to any model, or combination of models, approved by the supervisor, for the generation of the PD used for calculating capital requirements under the IRB approach. This may include the model that is used to assign a risk rating to an obligor, and/or the model that calibrates the internal ratings to the PD scale.

**Question 22:** For column (c), how should “external rating equivalent” be interpreted in the context of the retail portfolio?

**Answer:** “External rating equivalent” refers to external ratings that may, in some jurisdictions, be available for retail borrowers. This may, for instance, be the case for small and medium-sized enterprises (SMEs) that fit the requirements to be included in the retail portfolios which in some jurisdictions could have an external rating, or a credit score or a range of credit scores provided by a consumer credit bureau. However, where such external ratings are not available, they need not be provided.

**Question 23:** For column (d) (weighted average PD), are these estimated or actual PDs? Should these figures be weighted by estimated exposure?

**Answer:** These are the estimated PDs assigned by the internal model authorised under the IRB approaches. The PD values are EAD-weighted and the “weight” is the EAD at the beginning of the period.

**Question 24:** For column (e) (arithmetic average PD by obligors), is this a simple average or weighted by obligors?

**Answer:** In column (e), the average PD by obligors is the simple average. Arithmetic average PD = sum of PDs of all accounts (transactions) / number of accounts.

**Question 25:** How should “defaulted obligors” be defined, for the purpose of the disclosure template?

For column (f) (number of obligors), please clarify how “obligors” are defined from a retail perspective. Should “end of the previous year” include only non-defaulted accounts at the beginning of the year, or both defaulted and non-defaulted accounts? Should “end of the year” include all active accounts at the end of the year?

For column (g) (defaulted obligors in the year), please clarify whether it is related to accounts that defaulted during the year or from inception.
**Answer:** The definition of obligors or retail obligors is the same as for other obligors; any individual person or persons, or an SME. Furthermore, where banks apply the “transaction approach”, each transaction shall be considered as a single obligor. A defaulted obligor is an obligor that meets the conditions set out in paragraphs 452–459 in the Basel framework.

For column (f), the “end of the previous year” includes non-defaulted accounts at the beginning of the year of reference for disclosure. The “end of the year” includes all the non-defaulted accounts related to obligors already included in the “end of the previous year” plus all the new obligors acquired during the year of reference for disclosure which did not go into default during the year.5

For column (g), “defaulted obligors” includes: (i) obligors not in default at the beginning of the year who went into default during the year; and (ii) new obligors acquired during the year—through origination or purchase of loans, debt securities or off-balance sheet commitments—that were not in default, but which went into default during the year. Obligors under (ii) are also separately disclosed in column (h).

The PD or PD range to be included in columns (d) and (e) is the one assigned at the beginning of the period for obligors that are not in default at the beginning of the period.

**Question 26:** Is the average historical annual default rate to be disclosed in column (i) before the margin of conservatism?

**Answer:** Yes, it is before the margin of conservatism.

**Question 27:** What considerations can institutions reference when disclosing a model performance test (backtesting) when the test is not aligned to the year-end disclosure timetable?

**Answer:** The frequency of the disclosure is not linked to the timing of the bank’s backtesting. The annual disclosure frequency does not require a timetable of model backtesting that is calibrated on a calendar year basis. When the backtesting reference period is not calibrated on a calendar year basis, but on another time interval (for instance, a 12-month interval), “year” as used in columns (f), (g) and (h) means “over the period used for the backtesting of a model”. Banks must, however, disclose the time horizon (observation period/timetable) they use for their backtesting.

**Counterparty credit risk**

**Template CCR5 – Composition of collateral for CCR exposure**

**Question 28:** Under columns (e) and (f), how should the term “collateral” be interpreted with regard to securities financing transactions (SFTs)?

Interpretation 1: Collateral used is defined as referring to one leg of the transaction only. Example: a bank transfers securities to a third party, which in turn posts collateral to the bank. The bank would report only collateral received in column (e).

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5  Banks have discretion as to whether to include obligors who left during the year within the “end of the year” number.
Interpretation 2: Collateral used is defined as referring to both legs of the transaction. Example: a bank transfers securities to a third party, which in turn posts collateral to the bank. The bank reports both legs of the transaction in Template CCR5. The collateral received is reported in column (e), while the collateral posted by the bank is reported in column (f).

**Answer:** Interpretation 2 applies, and “collateral” refers to both legs of the transaction.

The case below illustrates the cash and security legs of two securities lending transactions in Template CCR5:
- Repo on foreign sovereign debt with $50 cash received and $55 collateral posted
- Reverse repo on domestic sovereign debt with $80 cash paid and $90 collateral received

<table>
<thead>
<tr>
<th></th>
<th>e</th>
<th>f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateral used in SFTs</td>
<td>Fair value of collateral received</td>
<td>Fair value of posted collateral</td>
</tr>
<tr>
<td>Cash – domestic currency</td>
<td>50</td>
<td>80</td>
</tr>
<tr>
<td>Cash – other currencies</td>
<td>50</td>
<td>80</td>
</tr>
<tr>
<td>Domestic sovereign debt</td>
<td>90</td>
<td>55</td>
</tr>
<tr>
<td>Other sovereign debt</td>
<td>55</td>
<td>55</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>135</td>
</tr>
</tbody>
</table>

**Question 29:** The “purpose” of the template asks for a breakdown of all types of collateral posted or received. The content section, however, asks for collateral used. These numbers differ as certain transactions are over-collateralised (ie >100% of exposure) and therefore not all collateral would be used for risk mitigation. Should the template include all collateral posted/received or just collateral that is applied?

**Answer:** The numbers reported in Template CCR5 should be the total collateral posted/received (ie not limited to the collateral that is applied/used for risk mitigation). The purpose of the template is to provide a view on the collateral posted/received rather than the value accounted for within the regulatory computation. If the bank wishes to disclose the collateral eligible for credit mitigation, it may do so using an accompanying narrative.

**Question 30:** Does “domestic currency” refer to the transaction currency or the bank’s reporting currency?

**Answer:** When exposure classes use “domestic currency”, these refer to items of collateral that are denominated in the bank’s (consolidated) reporting currency and not the transaction currency.

**Question 31:** In the case of disclosures on a consolidated basis, does “domestic sovereign debt” refer to sovereign debt of the jurisdiction where the parent company of the bank is incorporated, regardless of the currency of denomination?

**Answer:** “Domestic sovereign debt” refers to the sovereign debt of the jurisdiction of incorporation of the bank, or, when disclosures are made on a consolidated basis, the jurisdiction of incorporation of the parent company.
**Question 32:** For the fair value of collateral received or posted, is it before or after any haircut?

**Answer:** For disclosure purposes, the fair value of collateral received or posted must be after any haircut. This means the value of collateral received will be reduced by the haircut (i.e., \( C(1 - H_s) \)) and collateral posted will be increased after the haircut (i.e., \( E(1 + H_s) \)).

**Template CCR7 – RWA flow statements of CCR exposures under the Internal Model Method (IMM)**

**Question 33:** Template CCR7 refers to an RWA flow on IMM exposures. Row 4 (Model updates – IMM only) and row 5 (Methodology and policy – IMM only) are specifically to include only model and methodology/policy changes relating to the IMM exposures model. Where in the template would changes to the IRB models that result in changes in risk weights for positions under the IMM be reported?

**Answer:** Template CCR7 is consistent with Template OV1, which requests a split by EAD methodology and not by risk weighting methodology. Banks are recommended to add rows to report any changes relating to risk weighting methodology if they deem them useful. The row breakdown is flexible and intends to depict all the significant drivers of changes for the RWA under counterparty credit risk. Specific rows should be inserted when changes to the IRB model result in changes to the RWA of instruments under counterparty credit risk whose exposure value is determined based on the IMM.

**Template CCR8 – Exposures to central counterparties**

**Question 34:** Given that the new CCP rules are applicable from 1 January 2017, should the first disclosure date be 30 June 2017 or 31 December 2017?

**Answer:** The frequency is semiannual, with first disclosure based on the exposures as at 30 June 2017.

**Question 35:** Is it necessary to fill in row 10, “unfunded default fund contributions”? For instance, when a bank is not a clearing member but a client of the clearing member, is it necessary to post exposures to the clearing member in this template?

**Answer:** When a bank is not a clearing member but a client of a clearing member, it should include its exposures to unfunded default fund contributions if applicable. Otherwise, banks should leave this row empty and explain the reason in the accompanying narrative.

**Securitisation**

**Template SEC1: Securitisation exposures in the banking book**

**Question 36:** Template SEC1 requires the disclosure of “carrying values”. Is there a direct link between columns (c), (g) and (k) of Template SEC1 and column (e) of Template LI1?

**Answer:** Reconciliation is not possible when Template SEC1 presents securitisation exposures within and outside the securitisation framework together. However, when banks choose to disclose Template SEC 1 and SEC 2 separately for securitisation exposures within the securitisation framework and outside that framework, the following reconciliation is possible: the sum of on-balance sheet assets and liabilities included in columns (c), (g) and (k) of Template SEC1 is equal to the amounts disclosed in column (e) of Template LI1.
Question 37: Should institutions disclose RWA before or after the application of the cap?

Answer: RWA figures disclosed in Templates SEC3 and SEC4 should be before application of the cap, as it is useful for users to compare exposures and RWA before application of the cap. Columns (a)–(m) in Templates SEC3 and SEC4 should be reported prior to application of the cap, while columns (n)–(q) should be reported after application of the cap. RWA after application of the cap are disclosed in Template OV1.

Question 38: When bank investors complete Template SEC4, do they have to take into account whether the originator of a securitisation transaction complies with the significant risk transfer criteria?

Answer: No, Template SEC4 should include all investor securitisation positions that are treated under the securitisation framework, regardless of whether any originator or sponsor complies with the significant risk transfer criteria.

Market risk

Template MRA: Qualitative disclosure requirements related to market risk

Question 39: Under the revised Pillar 3 disclosure requirements, banks must describe the “scope and nature of risk reporting and/or measurement systems” as one of their objectives and policies for market risk management frameworks. What is the disclosure required?

Answer: Banks should include descriptions relating to positions covered by the approach and the underlying trading activities that impact each type of market risk factor (eg interest rate risk factors, equity risk factors, foreign exchange risk factors, commodity risk factors). These may include:

(a) their risk analysis and risk management systems;

(b) how (a) corresponds to the nature and volume of transactions;

(c) how reporting and measurement systems provide an overall understanding of all the risks associated with the bank’s market activities, including, at least on a day-to-day basis, the risks resulting from trading book positions;

(d) a description of the organisational and internal control procedures;

(e) the communication mechanisms between the different parties involved in risk management (management body, senior management, business lines and central risk management function); and

(f) the frequency of reporting and the process set up to regularly update and assess the reporting and measurement systems.
Template MRB: Qualitative disclosures for banks using the Internal Models Approach

**Question 40:** What is the intended relationship between the stressed value-at-risk (SVaR) and the stress testing under Section B, for item (g) (Description of stress testing applied to the modelling parameters)?

**Answer:** The requirement in Section B, item (g) applies to VaR and SVaR models. Banks should describe the main scenarios that they have developed to capture the characteristics of the portfolios to which the VaR and SVaR models apply at the group-wide level, including the methodology for the selection of the stress period.

**Question 41:** Regarding Section C, item (d) (Approach used in the validation of the models), is the approach to be covered for every model or only for when a model is updated during the reporting period?

**Answer:** A general description of the process developed to ensure that the internal models have been adequately validated by suitable parties (i.e., independent and qualified to ensure that the models are conceptually sound and capture all material risks, including specific criteria related to incremental default and migration risk) should be provided in each annual Pillar 3 report. Banks should also explain how the validation process is implemented, when the models are initially developed as well as when any significant changes are made to the models, and how they ensure a periodic validation to capture any significant structural changes in the market or in the composition of the portfolios covered by the models.

**Question 42:** According to the description of the scope of application under the revised Pillar 3 disclosure requirements, “the commentary must include the percentage of capital requirements covered by the models described for each of the regulatory models (VaR, stressed VaR, IRC, Comprehensive Risk Measure).” Given that the breakdown of capital charges due to each of the components is disclosed under Template MR2, is the qualitative disclosure still required?

**Answer:** The purpose of this percentage is to inform how representative the internal models used within the group that are described in the qualitative part for VaR/SVaR/IRC/CRM are, relative to the main models used within the group. This would not be relevant if only one model was used for all the entities included in the consolidated group for each internal model of VaR/SVaR/IRC/CRM. For instance, for disclosure requirements in Template MRB, if within a banking group of six entities, five consolidated banking entities use an “X” VaR model representing 90% of the total capital charge calculated based on the VaR model of the consolidated banking group, and one entity uses a “Y” VaR model (different from the “X” model), the banking group should specify that the description of the qualitative characteristics of the internal VaR model represents 90% of the capital charge calculated based on the VaR model of the banking group, to give users an indication of how representative the model described is.

Template MR2: RWA flow statements of market risk exposures under an IMA

**Question 43:** Does “foreign exchange” refer to foreign exchange translation movements?

**Answer:** This row is intended to capture changes in RWA under the market risk internal models approach arising from foreign currency translation movements.

**Question 44:** For Internal Models Approach (IMA) banks, the market risk capital charge is the maximum of (i) quarter-end figures; and (ii) average figures of the last 60 days, with the multiplier applicable to those banks. Given that row 1 states “at previous quarter-end” and row 8 states “at the end of reporting
period", does the template require flow analysis based upon quarter-end figures (i.e., the amount presented in the rows in this template do not necessarily match the actual market risk capital charge under the Pillar 1 requirement)?

**Answer:** As specified in the definitions: “Total RWA at end of reporting period: derived risk-weighted assets corresponding to the total capital requirements for market risk on the basis of internal model approaches * 12.5”; this amount must reconcile with the amounts shown in Template OV1. Therefore, row 1 must reflect “the end of previous reporting period”, and the rows in this template must match the actual market risk charge under the Pillar 1 requirement.

As the linkage in Template OV1 states that “OV1: Amount in OV1:18/a, is equal to [MR2:8/f]”, the amount in OV1:18/b is equal to [MR2:1/f].

If the derived RWA from the capital requirement for any of the columns (a)–(d) / rows 1 or 8, is not directly provided by the model, but is instead calculated from the 60-day average (for VaR and SVaR), the 12-week average measure or the floor measure (for CRM), the bank may add an additional row for regulatory adjustment (as presented below) in order to be able to provide the reconciliation required in Template MR2 as well as the key drivers’ amounts in rows 2–6.

<table>
<thead>
<tr>
<th></th>
<th>a</th>
<th>b</th>
<th>c</th>
<th>d</th>
<th>e</th>
<th>f</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VaR</td>
<td>Stressed VaR</td>
<td>IRC</td>
<td>CRM</td>
<td>Other</td>
<td>Total RWA</td>
</tr>
<tr>
<td>1</td>
<td>RWA at previous quarter-end</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a</td>
<td>Regulatory adjustment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>RWA at previous quarter-end (end of day)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Movement in risk levels</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Model updates/changes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Methodology and policy</td>
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<td></td>
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<tr>
<td>5</td>
<td>Acquisitions and disposals</td>
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<td>6</td>
<td>Foreign exchange movements</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>7</td>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8a</td>
<td>RWA at end of reporting period (end of day)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8b</td>
<td>Regulatory adjustment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8c</td>
<td>RWA at end of reporting period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Example for illustration**

For instance, for VaR extra rows would be inserted for the use of 60-day average models in each of the illustrative cases outlined above, with additional narrative to explain row 1b and 8b:
Template MR4: Comparison of VaR estimates with gains/losses

**Question 45:** Is the disclosure necessary? It could reveal sensitive information such as capital multipliers.

**Answer:** The daily VaR measures in the template are to be reported before additional capital charges at the supervisor’s discretion, but Template MR4 should show the number and the extent of the backtesting exceptions, with an analysis of the main outliers. Template MR4 provides backtesting information on the daily regulatory VaR calibrated to a one-day holding period to compare with the 99% confidence level with its trading outcome. To the extent that the template is intended to provide information on the reliability of the VaR estimates in highlighting the frequency and the extent of the outliers in the backtesting results, the daily VaR value is the same as that disclosed in Template MR3, meaning that it does not include additional capital charges at the supervisor’s discretion. The narrative information should provide information on the number and the extent of the backtesting exceptions.

**Question 46:** Both hypothetical and actual backtesting results are requested, but are actual results needed if they are not reported to regulators?

**Answer:** Except when national supervisors have explicitly limited the backtesting to one of these two approaches, banks must present a meaningful comparison of the daily VaR measures on trading outcomes for actual and hypothetical changes in the corresponding portfolio’s value.

**Question 47:** The accompanying narrative to the disclosure template states: “Banks must disclose similar comparisons for actual P&L and hypothetical P&L (developed in accordance with paragraphs 18 to 20 of Annex 10a part II of the Basel framework).” What does “similar comparisons” mean?

**Answer:** For the key models used at the group-wide level, banks must disclose a comparison between the daily VaR measures and the trading outcomes corresponding to hypothetical changes in the
portfolio’s values (based on a comparison between the portfolio’s end-of-day value and, assuming unchanged positions, its value at the end of the subsequent day), as well as a comparison between the daily VaR measure and the trading outcomes corresponding to actual changes in the portfolio’s values (based on a comparison between the portfolio’s end-of-day value and its actual value at the end of the subsequent day).

As instructed in Template MR4, daily VaR should reflect the risk measures (used for regulatory purposes) calibrated to a one-day holding period to compare with the 99% confidence level with its trading outcomes for both actual and hypothetical P&L.