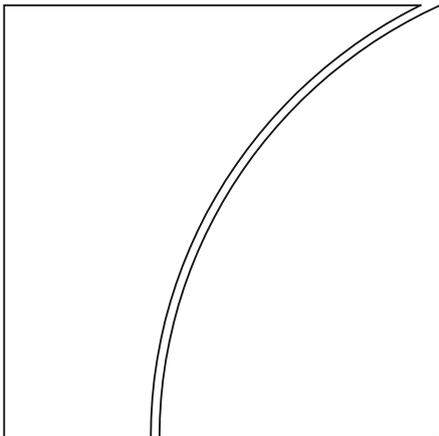


Basel Committee on Banking Supervision



Frequently asked questions on Basel III monitoring

16 July 2021



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ISSN 92-9131-872-8 (print)

ISSN 92-9197-872-8 (online)

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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.**

Unless noted otherwise, all paragraph references refer to the Basel Framework applicable at the reporting date.¹

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

2. General

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

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

2. Some of the data requested are based on standards as they will be applicable in 2023. While we are currently not yet applying IFRS 9, we will apply IFRS 9 in 2023. Therefore, should all 2023 data be reported on an IFRS 9 basis?

Answer: No. All data should be provided based on accounting standards as applicable at the reporting date, with the sole exception of the data to be provided on the "DefCap-Provisioning" worksheet.

3. How should banks fill in the reporting template that are subject to a de minimis exemption from the market risk capital requirements?

Answer: All four cells from C48 to D49 on the "General Info" worksheet should be set to "No".

4. How should banks report dividend amounts that have already been reserved for distribution and recognised as a liability on the balance sheet but not been paid out due to dividend payment restrictions?

Answer: Such amounts should be reported as distributions in panel C of the "General info" worksheet at the point in time they reduce regulatory capital.

¹ See www.bis.org/basel_framework.

3. Definition of capital

3.1 General

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

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

2. Can banks choose whether to include the amounts related to defaulted assets in cells D8 and D9 of the "DefCap" worksheet?

Answer: No. Banks in countries requiring a separate treatment of expected losses and provisions for defaulted assets (such as EU countries) **must exclude** the amounts related to defaulted assets from cells D8 and D9 of the "DefCap" worksheet and report them separately in cells D10 and D11. Conversely, banks in other countries **must include** these amounts in cells D8 and D9 and leave cells D10 and D11 empty.

3.2 TLAC

–

3.3 TLAC holdings

1. Please clarify what data should be populated in column F of the "TLAC holdings" worksheet: "RWA impact pure" and the interaction with the "Requirements" sheet.

Answer: The column F ("RWA impact pure") in "TLAC holdings" works in the same way as column F in panels B2, C2 and D2 of the "DefCap" worksheet. This means that banks need to report the RWA marginal impact of moving from the national implementation of the TLAC holdings standard (column D: "2022 national implementation") to the treatment under the Basel standard (column E: "Basel III pure").²

Where national implementation is still underway, banks have two options:

- Reporting in "TLAC holdings" the same amounts in columns D and E and zero in column F. This approach should be followed where it is likely that the national implementation will be aligned to the Basel framework. In this case, to avoid double counting, any impact on RWA deriving from the implementation of the Basel framework for the TLAC instruments needs to be included as a negative number in cell D119 in the "Requirements" worksheet;
- Reporting in "TLAC holdings" different data for the deductions of the TLAC instruments under the draft or final national rules (column D) and the Basel framework (column E) and in column F the marginal impact on RWA. This approach should be followed where national implementation has begun and where banks are able to provide data under the

² For further details, refer to the example reported in the Instructions (paragraph 4.2.3) for regulatory adjustments in the "DefCap" worksheet.

two different regimes (and compute the impact on RWA). In this case, banks are expected to include in the figures reported in cell D119 of the "Requirements" worksheet the RWA of TLAC instruments not yet deducted and not included in the "TLAC holdings" worksheet. This is in order to neutralise what under the current rules (excluding any rules on TLAC deductions) is under the RWA framework but will be deducted from the capital when the TLAC holdings standard is fully implemented.

4. Leverage ratio

1. For cash pooling transactions to be reported on panel A rows 19 and 20, please clarify how banks are to report 'Accounting balance sheet value' (column H) and 'Gross value (assuming no netting or CRM)' (column I). Relatedly, how are banks to report interest associated with cash pooling transaction accounts?

Answer: For 'Accounting balance sheet value' (column H), banks are to report the sum of all cash pooling transactions reported as assets on the bank's accounting balance sheet under its relevant accounting standard with consideration given to the regulatory scope of consolidation. For 'Gross value (assuming no netting or CRM)' (column I), banks are to report the sum of accounting values (net of specific provisions and valuation adjustments), assuming no accounting netting or credit risk mitigation effects. If amounts of interest associated with cash pooling transactions are included on the bank's balance sheet, these amounts should also be included in the values reported in column H and column I.

2. For some cash pooling accounts, transfers of credit and/or debit balances of individual participating accounts into a single account balance take place on a daily basis, while in other cases such transfers only occur on a weekly or monthly basis. How this should be reflected in the reporting of amounts on rows 19 and 20 of panel A?

Answer: All cash pooling accounts (regardless of the frequency of by which balance transfers take place) should be included in row 19. In row 20, banks should report only amounts associated with cash pooling transactions that fulfil the requirements of LEV30.12. Accounts that are subject to balance transfers into a single balance on at least a daily basis are considered to meet the criteria of LEV30.12. Accounts that are not subject to balance transfers on at least a daily basis must be assessed against the criteria in LEV30.12 to determine their measurement for purposes of the leverage ratio.

3. How should banks fill in the mandatory cells in panel G of the "Leverage ratio additional" worksheet if they can only calculate leverage ratio exposures for the end of the quarter?

Answer: In the cases where it is really not possible for a bank to calculate the mandatory values based on month-end data (sub-panel G1) or daily data (sub-panel G2), please fill column G for the corresponding row, and leave the other cells blank. Do not insert 0 values in these cells. The remaining columns should be filled in as appropriate. Please make sure to leave blank only the information for which the bank is not able to calculate, and fill the cells using month-end data (G1) or daily data (G2) as available.

4. How should banks treat the CCP leg of client-cleared transactions for purposes of reporting potential future exposure (PFE) under the December 2017 leverage ratio framework?

Answer: Banks should provide a value for PFE in row 33 that excludes the amount of PFE associated with the CCP leg of client cleared trade exposures to a QCCP as set out in LEV30.26.

5. Are the values to be reported in panel F (“Business model categorisation under the 2014 leverage ratio framework”) to be reported reflecting any applicable regulatory adjustments?

Answer: Banks should provide values in panel F without application of any associated regulatory adjustments.

6. Please clarify what data is to be provided in row 104 (‘Derivatives counterparty credit risk exposure’) and row 105 (‘Derivatives, potential future exposure (current exposure method; apply regulatory netting) in panel E (‘Memo: calculation of revised leverage ratio’).

Answer: In row 104, banks are to provide the replacement of derivatives as determined per the 2014 leverage ratio framework. In row 105, banks are to provide the potential future exposure amount of derivatives as determined per the 2019 version of the LEV standard.

7. Should banks include leverage exposures in the “Leverage ratio” worksheet that are temporarily exempted from the leverage ratio exposure measure (eg due to Covid-19-related measures)?

Answer: Banks should report exposures *including* exempted exposures on the “Leverage ratio” worksheet as appropriate. For example, exposure in cell I25 would be reported as if no exemptions were in place. The only exception is cell H103, where any exemptions of exposures should be reflected.

5. Liquidity

5.1 General

1. Deleted.
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. 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 result and may trigger exclusion from the analyses. 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

Questions 3–27 removed.

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. NSF30.21 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 that 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" worksheet?

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" worksheet, 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" worksheet?

Answer: Per NSF99.1, "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. Monitoring of credit risk reforms

6.1 General

1. Should data for the final Basel III framework provided on the "Credit risk (SA)" and "Credit risk (IRB)" worksheets reflect the full phasing in of IFRS 9 provisions where relevant?

Answer: No. Data for both the current credit risk rules and the final Basel III framework should reflect any transitional rules regarding IFRS 9 provisioning as applied by the bank at the reporting date. In particular, this applies to

- All exposure and RWA amounts reported on the "Credit risk (SA)" worksheet; and
- Provisions provided in columns AL to AO as well as to the standardised approach exposures and RWAs provided in columns BY to CH and CO to CQ of the "Credit risk (IRB)" worksheet.

The Committee collects data on the impact of IFRS 9 provisioning separately on the "DefCap-provisioning" worksheet.

6.2 Worksheet "Credit risk (SA)"

1. Can banks report standardised approach real estate exposures under both the loan splitting approach and the whole loan approach?

Answer: No, banks should report their real estate exposures under either the loan splitting approach or the whole loan approach. The relevant supervisor will provide guidance to reporting banks as to which of the two approaches all banks in their jurisdictions should use.

2. Some non-banks can be treated as banks under CRE20.40 (2023 version) if the national supervisor determines that the regulatory and supervisory framework in their jurisdiction is equivalent to the one that applies to banks. What approach should banks follow when completing the template?

Answer: National supervisors will provide guidance on this to reporting banks in their jurisdiction.

3. How should commercial real estate exposures, where repayment is materially dependent on cash flows generated by the property securing the loan, be reported?

Answer: Commercial real estate exposures, where repayment is materially dependent on cash flows generated by the property securing the loan, should be reported in rows 131 to 134 of the worksheet. However, there is one exception. In cases where national supervisors have exercised discretion to allow banks to apply footnote 39 of CRE20.87, banks should report the exposures that meet the conditions in footnote 39 in rows 115 to 120 of the worksheet.

4. The logic check in cell AC123 checks that the inferred average risk weight for income-producing residential real estate is within 5% of 37.5%. Should the reference point be 35% instead?

Answer: Yes, please ignore any errors flagged by this particular check.

6.3 Worksheet "Credit risk (IRB)"

1. Under the AIRB approach there is a parameter floor on EAD (calculated as the on-balance sheet exposure plus 50% of the off-balance sheet exposure calculated using the applicable credit

conversion factor). Should banks apply this parameter floor to retail exposures as well as corporate exposures?

Answer: Yes, banks must apply the EAD floor to both corporate and retail exposures in completing the "Credit risk (IRB banks)" worksheet (See CRE32.36 and CRE.32.64)

2. Under the revised framework, has the 1.06 scaler that applies to RWA calculated under the IRB approach been removed for all exposures including sovereign exposures?

Answer: Yes. Footnote 3 of Basel III (December 2017) removes the 1.06 scaler for all risk-weighted asset amounts calculated under the IRB approach. Banks must not apply the 1.06 scaler in the RWA amounts reported in the revised IRB framework section of the "Credit risk (IRB banks)" worksheet.

3. Deleted.

4. How should equity exposures be reported in panel B of the "Credit risk (IRB)" worksheet?

Answer: In addition to reporting equity exposures in rows 51 to 54 of panel A, banks should report equity exposures in panel B. In panel B, exposures subject to a grandfathering treatment should be in row 78, typically with an EL amount of 0. Non-grandfathered exposures should be reported in row 77.

5. In columns CM and CN of panel A of the "Credit risk (IRB)" worksheet, should exposures be reported gross or net of provisions?

Answer: In columns CO and CP of panel A of the "Credit risk (IRB)" worksheet, exposures should be reported fully in line with the standardised approach exposure definition, in particular **net** of specific provisions (including partial write-offs). Any warnings in column CR that are triggered because of this should be ignored.

6.4 Worksheet "Securitisation"

1. When calculating the RWA under SEC-SA for exposures originally risk weighted using the SEC-IRBA and the SEC-ERBA to fill the values in column L of panel A2, could banks use 1,250% risk weight to these exposures in case the necessary information to use the SEC-SA formula (eg parameter 'w') is not available?

Answer: No. Since the intention of this column is to compare the sensitivities of SEC-IRBA and SEC-ERBA with that of SEC-SA, applying a 1,250% risk weight by default would introduce a bias in the results of the analyses. (Note that a value of 1,250% would be acceptable if it actually results from calculation using the SEC-SA formula.) In cases where the bank is not able to use the SEC-SA to risk weight these exposures, banks may do one of the following, in this order of priority: (i) use a best estimate for 'w', based on the performance information on the underlying pools that banks must have access to on an ongoing basis as part of the Basel III securitisation framework due diligence requirements for exposures risk weighted using the risk weight approaches; (ii) set $w = 0\%$ and proceed with the calculations; or (iii) leave the field blank. Please do not send a default value like the 1,250% risk weight approach or a 0% risk weight in this column L.

7. Operational risk

1. How should banks interpret the term "gross" in the description of "BI gross of excluded divested activities (per supervisory approval)" under row 69?

Answer: Banks should report in row 71 an adjusted Gross Income that excludes divested activities (after application of paragraph 30). This row will be used to analyse the impact of paragraph 30 in the 'OpRisk' under the final Basel III framework. Furthermore, under panel B banks should use the regulatory scope of consolidation at the specific reporting year (before application of paragraph 30).

The above reporting would be consistent to panel C, ie reporting in the first step values without considering supervisory approval (rows 31–36 and rows 47–54) and in the second step considering supervisory approval (rows 41–43 and 57–59).

8. Trading book

8.1 Worksheet "TB"

1. Deleted.
2. Deleted.
3. Deleted.
4. Deleted.
5. Deleted.
6. Deleted.
7. Deleted.
8. Deleted.
9. How should banks intending to use the simplified standardised approach for market risk fill in the Basel III monitoring reporting template?

Answer: Banks using the simplified standardised approach under the revised framework should select "Yes (simplified SA)" in cell D48 of the "General Info" worksheet. For the purpose of this exercise, the criteria set out in MAR11.7 are deemed applicable. Banks that do not meet the criteria but indicate to use simplified SA will not be considered in the analysis.

All banks selecting the simplified SA should only complete panel B1a of the "TB" worksheet. For such banks, data submitted in panels B1b, B2, B3, B4 and C of the "TB" worksheet (ie capital requirements under the revised standardised approach or internal models approach) will be ignored.

10. When is the expected time point in the future to determine whether a bank determined to apply for the internal models permission in the cells for "intended/forthcoming internal models permission" per each trading desk in panel C of the worksheet "TB"?

Answer: The bank should enter a response of 'unknown', 'Yes' or 'No' based on whether the bank has decided to apply for internal models permission for the specific regulatory trading desk to use the revised IMA prior to or on January 2023 (reflecting one-year implementation deferral announced in March 2020). For example, if the bank has decided to apply for an IMA in the far future (beyond 2023) for a certain trading desk, the response should be 'No', and if the bank is

still in the process of considering whether or when to apply the IMA approval for certain trading desks, the response should be 'Unknown'.

11. Deleted

8.2 Worksheet "TB IMA Backtesting-P&L"

1. Deleted.
2. Deleted.
3. Deleted.
4. Deleted.
5. Deleted.
6. Deleted.

9. CVA

1. Deleted.
2. Deleted.
3. Deleted.
4. Deleted.
5. Deleted.
6. Deleted.
7. Deleted.
8. Should the values of K_reduced and K_hedged entered by a bank reflect the discount factor for BA-CVA?

Answer: No, K_reduced and K_hedged should always be reported **before** applying the discount factor for BA-CVA.

The formulae in cells C122 and D122 of the "CCR and CVA" worksheet reflect the discount factor for BA-CVA in the calculations of the total respective CVA capital requirement. Even if banks submit their data in an earlier version of the reporting template, the necessary correction will be applied in the analyses, even though the results shown in the reporting template are not correct.

10. Counterparty credit risk

1. Deleted.
2. Deleted.
3. What is the scope of transactions to be reported in rows 52 and 53 of the "CCR and CVA" worksheet?

Answer: Consistent with the reporting of CVA capital requirements in panel B, banks should disregard any national exemptions and include all exposures in the calculation that are subject

to CVA capital requirements under the Basel framework. This applies to both the calculations under the current as well as the revised exposure framework.