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## COVER NOTE TO SUPERVISORS ON QIS 3 TECHNICAL INFORMATION

QIS 3 is a comprehensive assessment of the proposed capital requirements for the standardised, foundation IRB and advanced IRB approaches under the New Basel Capital Accord as well as the capital charges for operational risk and securitisation. Submissions should be returned to national supervisors **by 20 December 2002**. The results of QIS 3 will provide important input for the third consultative paper.

The Basel Committee distributed a draft of the QIS 3 package in July 2002 in order to allow banks time to review the questionnaire and to start gathering and mobilising the data required to complete the QIS 3 exercise. Since then, banks and supervisors have provided comments and raised queries in various areas. To the extent possible, comments and queries have been addressed in the enclosed documents.

The enclosed QIS 3 information package contains two sets of documents: (i) a larger, comprehensive package for banks aiming to complete the standardised, IRB foundation or IRB advanced approach for credit risk and (ii) a separate, smaller package for banks only completing the standardised approach for credit risk for QIS 3. Banks aiming to submit data on the IRB approaches should use the comprehensive package. The smaller package has been provided for banks **only** completing the standardised approach for credit risk and the basic indicator or standardised approach (i.e. not the advanced measurement approach) for operational risk. In addition, this smaller package does not include worksheets, instructions or technical guidance relating to securitisation. Banks with material involvement in securitisation, even if they are not planning to use the IRB approaches to credit risk or the AMA approach to operational risk, should use the comprehensive package and complete the securitised assets worksheets. The larger, comprehensive QIS 3 package has been made available on the Basel Committee's website. The smaller QIS 3 package has not been placed on the website. Supervisors should provide the appropriate package to banks in their country.

Each package contains the following documents:

- QIS 3 Press Release
- QIS 3 Overview Paper
- QIS 3 Electronic Workbook
- QIS 3 Instructions
- QIS 3 Technical Guidance
- QIS 3 Areas of National Discretion Checklist - to be completed by supervisors before distributing to banks

The documents are complementary and should be read in conjunction. For the most part, they are technical documents designed to help staff working on QIS 3. These documents should not be construed in any manner as the final guidance on the New Basel Capital Accord by the Committee. In addition, please note that the Areas of National Discretion

Checklist may be updated during the QIS 3 exercise - there may be other areas of national or supervisory discretion not currently included in the checklist, and minor modifications may be made to existing items. Later this week supervisors will receive a summary of the national discretion responses received from many of the countries that are participating in the QIS 3 exercise. Supervisors are encouraged to forward the summary to participating banks.

The questionnaire is a book of Excel worksheets. Banks are required to enter data into cells in the worksheets and, in most cases, formulae embedded in the worksheets will calculate risk-weighted assets. Banks need only enter data in the yellow cells in the worksheets. The risk-weight functions have been updated since the distribution of the July draft. The instructions provide guidance for banks on completing the worksheets. They describe what data needs to be collected and how it should be input into the worksheets. It is essential that banks follow the instructions when completing the questionnaire. Significant changes to the QIS package since the July draft package was distributed are discussed at the beginning of the instructions.

The main change since the July draft package is the addition of two worksheets designed to capture the capital requirements for securitisations. This area of the worksheets is relatively new and banks will potentially find this area of the QIS exercise demanding and resource intensive. Supervisors should liaise with banks to ensure that securitisation exposures are treated properly. To help banks with the calculations, a separate worksheet – the supervisory formula approach (SFA) “calculator” – has been provided. Supervisors may provide this worksheet to banks that are aiming to complete the IRB approach for securitisations in QIS 3. The calculator enables banks to compute the capital charge under the SFA for securitisation. Banks are then required to enter the results (i.e. the capital charge) and some of the basic inputs into the securitisation worksheets in the main QIS workbook. However, national supervisors are encouraged to discuss the detailed information in the SFA calculator – this will act as an important part of the validation process to ensure that the QIS 3 results are accurate and will also enable banks and supervisors to understand the results.

Banks are asked to cover at least 80% of their worldwide exposures for QIS 3. However, it is recognised that banks may not have exact data on all of the requested elements and, therefore, estimates are acceptable for the purposes of this exercise as long as they are representative of the bank’s portfolio and can be justified. In addition, for purposes of the QIS 3 exercise, banks are not necessarily expected to meet the minimum standards set forth in the accompanying guidance. National supervisors should discuss with banks how they have arrived at the estimates for QIS 3 purposes and, as far as possible, should attempt to understand how these might have affected the results.

Throughout the QIS 3 process, supervisors are strongly encouraged to maintain a continuous dialogue with their banks. This will enable banks to discuss solutions to problems as they occur and ensure proposals are interpreted accurately. Supervisors will be able to share insights and provide advice where necessary. The Basel Committee will be posting to its website a list of frequently asked questions (FAQs) and associated responses that are intended to assist banks in completing QIS 3. The FAQs will be updated as necessary during the exercise. Supervisors should encourage banks to refer to the FAQs when queries arise about the QIS exercise. Queries should be submitted to supervisors via email so that they can be easily recorded and forwarded as necessary to interested parties. As a first point of contact, supervisors should contact:

- G10 countries – Bob Maahs
- Non-G10 EU and accession countries – Massimo Marchesi
- Other non-G10 countries – Stefan Hohl and Guy Eastwood

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