Basel Committee
on Banking Supervision

Frequently Asked Questions on QIS5

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BANK FOR INTERNATIONAL SETTLEMENTS

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Frequently Asked Questions on QIS 5

Supervisors and banks have raised the following issues since the distribution of the Committee's fifth Quantitative Impact Study (QIS 5). **These FAQs are intended to facilitate the completion of the QIS survey, answer predominantly technical questions as regards the QIS 5 workbook and should not be construed as an official interpretation of the Basel II Framework.** The national implementation of the Basel II Framework and the interpretation of the rules are still on-going processes and remain subject to change.

This document will be updated frequently during the QIS 5 data collection exercise. Revised versions will be available on the Basel Committee's website (http://www.bis.org/bcbs/) or from the respective supervisory agency.

1. General

1.1 Technical and procedural questions

Is temporary partial use allowed in QIS 5?

For QIS purposes, qualified estimates for the IRB approaches would be preferable to a temporary partial use of the Standardised approach. If a bank is not able to provide such estimates, the respective exposures can either be

- included in the partial use calculation, the result of which must be entered in panel C5 of the Input worksheet; or
- excluded from QIS 5 and reported in the "assets not included" panels in the Input worksheet.

1.2 Scope of application

How should banks proceed in case the scope of application of the Basel II Framework is different from the scope of application of the current Accord?

For the analysis of QIS 5 results it is essential that capital requirements are calculated for the same set of exposures under both the current Accord and the new approaches. Banks should therefore use the scope of application of the Basel II Framework also when reporting capital figures and data for the current Accord.

In this specific case, banks should, however, adjust the figure to be provided as "total RWA according to current supervisory returns" in cell E83 of the Input worksheet.

- One option would be to try to estimate current Accord risk-weighted assets based on the Basel II scope of application. Such an estimate could be based on the calculation of current Accord risk-weighted assets in the QIS 5 workbook, but would also have to account for, e.g., risk-weighted assets for exposures which are reported as "not included in QIS 5".
- Another option would be to start from current Accord supervisory returns and adjust them for current Accord risk-weighted assets for exposures which are within the current scope of application, but outside the Basel II scope of application or vice versa.

Banks should discuss with the respective supervisor which method is most appropriate in each individual case.

1.3 Capital and provisions

How should portfolio-specific provisions be treated?

All provisions that cannot be allocated to individual exposures should be aggregated and reported as general provisions. It has to be decided according to national rules whether these provisions can also be included in the amounts eligible for inclusion in Tier 2 capital under the current Accord and/or the Standardised approach and/or in the EL-provisions calculation of the IRB approaches.

How should deductions for goodwill and other intangibles be treated?

Goodwill and deductions for other intangibles (if applicable under the respective jurisdiction) will automatically be deducted from Tier 1 capital in the Results worksheet. Such deductions must therefore neither be included in "other supervisory deductions" nor be deducted from the Tier 1 capital figure provided in panel B of the Input worksheet.

1.4 Exposures

How should on-balance sheet exposures be entered in panel D of the Input worksheet?

Banks should note any other assets not included elsewhere in the Input worksheet in panel D3 (for example assets which do not attract a regulatory capital charge or will remain subject to a 100% capital charge also under the Basel II Framework). Fixed assets acquired through credit defaults should be identified separately from other fixed assets for the bank's own use.

Assets subject to the partial use of the Standardised approach should not be allocated to the different portfolios, but reported on an aggregated basis in panel D4. In panel D5 banks should report assets that have not been included in the exercise but are included for current regulatory capital purposes.

As far as possible, banks should aim to reconcile the total on-balance sheet assets in panel D6 to their balance sheet at the reference date.

NEW: How should "Other Assets included" be treated that cannot be assigned to one of the predefined categories in panel D3 of the Input worksheet, and which are nevertheless not subject to a 100% risk weight?

Such exposures should be entered in rows 128 to 130, using the risk-weighted amount instead of the exposure amount. This means in particular that exposures subject to a 0% risk weight can be left out completely.

2. Credit risk mitigation

2.1 Substitution approach

Should guaranteed exposures be moved to the "other off-balance sheet" panels if the substitution approach is applied?

No. The assignment of an exposure to a certain panel depends on the underlying exposure, only the portfolio may change depending on the portfolio of the guarantor. For example, if a drawn exposure to a corporate is guaranteed by a bank, it has to be moved from the "Drawn exposures" panel of the Corporate worksheet to the "Drawn exposures" panel of the Bank worksheet.

The "Other off-balance sheet" panel, in contrast, is provided for cases in which the bank **is providing** a guarantee for an exposure held by a third party.

How should IRB exposures be treated if the portfolio of the guarantor is subject to partial use, whereas the portfolio of the obligor is not?

In line with the general approach to reporting of assets subject to partial use,

- In case of temporary partial use the bank should try to estimate IRB capital requirements. Only in case this should not be possible, the guaranteed portion of the exposure should be included in the temporary partial use.
- In case of permanent partial use in certain jurisdictions, banks should report the guaranteed portion in the cells provided for partial use.

Before moving exposures to the portfolio subject to partial use, banks should check that the resulting risk weight is lower than that resulting from the IRB approach without consideration of the guarantee. Only if this is the case, the exposure should be moved; otherwise it should be treated as unsecured.

Please note that banks have to report exposures subject to partial use of the Standardised approach in the Input worksheet. The Standardised worksheet is provided for comparison purposes only, and capital requirements will not be added to those of the IRB approaches.

In case of mortgages guaranteed by the government, banks may recognise the effect of guarantees either by substituting the PD, or by adjusting LGDs. However, if LGD is adjusted, a risk weight of zero cannot be achieved because the LGD floor particular to the mortgage portfolio is applied.

In such cases, banks intending to adjust LGD instead of PD should proceed as follows:

- They should use a separate LGD column for mortgage exposures subject to government guarantees for which a 0% LGD is appropriate.
- Since the LGD floor is applied to all LGD columns without exceptions, they must also define a 0% PD band in the blue row at the top of the matrix, i.e. where the PD floor is not applied.
- All exposures with a 0% LGD which are not subject to the LGD floor should be reported with the 0% LGD **and** moved to the blue row with a 0% PD.

To which portfolio should guaranteed exposures be assigned if the effect of guarantees is reflected by adjusting the LGD under the advanced IRB approach?

When banks adjust LGDs to reflect the effect of guarantees under the advanced IRB approach, they must always leave the respective exposures in the portfolio of the original obligor. Such exposures should also remain in the obligor's portfolio under the foundation IRB approach, the Standardised approach and the current Accord (see section 2.9.2 of the instructions).

If a bank is using a model to calculate effective EPE, it might be difficult to report an exposure amount before master netting agreements (due to co-modelling).

If it is impossible to report an exposure amount before master netting agreements, banks should report all such exposures net of master netting agreements throughout the workbook and indicate this to their national supervisor.

2.2 Double default treatment

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2.3 Collateral

In the foundation IRB worksheets the LGD band for financial collateral is fixed at 0%, and banks are required to enter (E–E*) in this column. Why are banks not supposed to report the original exposures in combination with LGD* as set out in paragraph 291 of the Basel II Framework?

When considering an individual exposure, this method is equivalent to adjusting the LGD using the formula provided in paragraph 291 and reporting this LGD in combination with the original exposure amount. However, given LGDs under the foundation IRB approach are otherwise fixed, adjusting exposures was found more appropriate for purposes of the QIS. One exception are the panels for repo-style transactions, where banks can choose between one of the two methods.

What does the abbreviation DIP stand for which is mentioned in the collateral type drop-down menu in the advanced IRB approach worksheets?

DIP stands for "debtor in possession". This is a special kind of loan granted to firms which are already subject Chapter 11 of US bankruptcy law.

3. Current Accord

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4. Standardised approach

Why are there specific risk-weights for intragroup exposures under the Standardised approach given QIS data should be provided at the group level?

Even though as a rule QIS data has to be provided at the group level, national supervisors might also be interested in data of individual legal entities. In this case it is helpful for future analysis to capture intragroup exposures separately.

How should claims secured by residential or commercial real estate be entered in the worksheet for the Standardised approach?

Claims secured by residential or commercial real estate have to be entered in one of the specific rows provided for such exposures. However, unless there is an additional guarantee, the exposure should be treated as uncollateralised and shown in the columns “all exposures” and “exposures without CRM” only. The same holds true for covered bonds.

5. IRB approaches

5.1 General questions

For exposures not subject to the PD floor, the IRB risk weight formulae as implemented in the QIS 5 workbook generate excessive or negative capital requirements for average PDs close to 0.029 basis points.

Banks should avoid this issue by either entering a PD of 0% or a PD of at least 0.1 basis points (i.e. 0.001%).

5.2 Foundation IRB approach

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5.3 IRB Retail

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5.4 Advanced IRB approach

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6. Securitisation

What is PMI?

Private Mortgage Insurance. Its a type of CRM, i.e., the borrower pays money to the insurance to insure the pay-back of his mortgage subject to certain conditions. It is very common in the US, but also used in other countries.

What is the relationship between credit enhancing IOs and gain on sale?

Credit enhancing IOs are usually a formal claim issued by the SPE. Thus, they are part of the 'formal' tranching of the securitisation structure. In contrast, under some accounting standards, such as IFRS or US GAAP, when selling assets to an SPE which are accounted for at amortised cost, gain on sale, i.e. the asset's future margin income, can be recognised as an asset.

Is it sufficient if banks in EU countries only provide data in the EU-specific panel C2 of the Standardised Securitisation worksheet?

No. The normal panel C2 of the Standardised Securitisation worksheet has to be filled in by **all** banks. Data in the EU-specific panel C2 is an **additional** data requirement for banks in EU countries.

7. Specialised lending

NEW: In the IRB SL Slotting worksheet, a CCF of 75% is applied to all undrawn exposures. How should exposures subject to a 0% CCF be entered?

There is indeed no possibility to enter exposures subject to a 0% CCF in the IRB SL slotting worksheet. As a workaround, such exposures should already be left out in the Input worksheet. The respective cells should only include those exposures which are subject to the 75% CCF.

8. Equity

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9. Trading book

Which exposures must be entered in the FIRB/AIRB Trading Book worksheets?

The Trading Book worksheets refer to those positions held in the trading book which are subject to a counterparty credit risk charge (repo-style transactions and OTC derivatives), regardless of the type of counterparty. In QIS, there is no distinction according to the type of counterparty (e.g. bank or corporate) for exposures assigned to the trading book.

What is the difference between the panels for repo-style transactions and OTC derivatives of the "normal" portfolios and these sections on the trading book panel/worksheet?

The calculation of capital requirements is the same for both cases. Exposures should be assigned to the trading book panel/worksheet in QIS 5 if and only if they are assigned to the trading book for regulatory purposes outside QIS.

Which banks must fill in the specific risk part of the Trading Book worksheets?

Only banks that do not calculate specific risk with an internal model.

How should specific risk and general risk be separated if a bank uses an internal model which integrates the two risk components in one calculation?

In this case, banks can include the resulting capital charge in total in the cell provided for general market risk.

10. Operational risk

The calculation of operational risk capital charges does not work if a bank enters "NI" or "NA" for missing data as requested in Section 7.2 of the instructions (September 2005 version).

Banks should leave the respective cells of the operational risk worksheet empty instead.

11. Examples

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