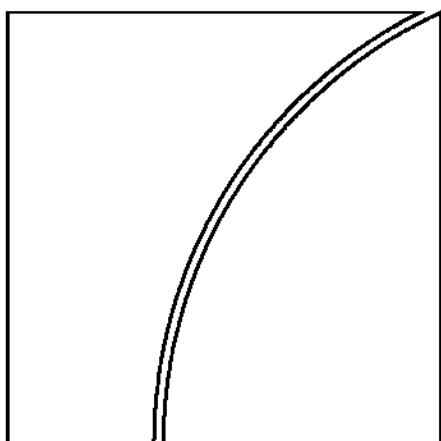


Basel Committee
on Banking Supervision



**Frequently asked
questions on the
comprehensive
quantitative impact study**

18 May 2010



BANK FOR INTERNATIONAL SETTLEMENTS

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Frequently asked questions on the comprehensive quantitative impact study

1. Introduction

This document provides answers to technical and interpretive questions raised by supervisors and banks during the Committee's comprehensive Quantitative Impact Study (QIS). **This document intends to facilitate the completion of the impact study questionnaire. The answers provided are not to be construed as an official interpretation of the documents mentioned below or other documents published by the Committee.** The consultative documents, their interpretation and ultimate implementation by national supervisors remain subject to change from the on-going consultative process, of which the comprehensive quantitative impact study is an essential component.

Unless stated otherwise, paragraph numbers given in the remainder of this document refer to the Basel II framework, as amended through the *Revisions to the Basel II market risk framework*.¹ Furthermore, the frequently asked questions refer to the following documents:

- *Revisions to the Basel II market risk framework* ("the Revisions")² and *Guidelines for computing capital for incremental risk in the trading book* ("the Guidelines");³
- *Enhancements to the Basel II framework* ("the Enhancements")⁴;
- *Strengthening the resilience of the banking sector* ("the Resilience document");⁵ and
- *International framework for liquidity risk measurement, standards and monitoring* ("the Liquidity document").⁶

This document will be updated frequently during the comprehensive QIS data collection exercise. Revised versions will be available on the Basel Committee's website (<http://www.bis.org/bcbs/qis/>).

Questions which have been added since the previous version of the FAQs are shaded **yellow**; questions which have been revised are shaded **red**.

¹ Basel Committee on Banking Supervision, *International convergence of capital measurement and capital standards: A revised framework, comprehensive version*, June 2006; Basel Committee on Banking Supervision, *Revisions to the Basel II market risk framework*, July 2009.

² Basel Committee on Banking Supervision, *Revisions to the Basel II market risk framework*, July 2009.

³ Basel Committee on Banking Supervision, *Guidelines for computing capital for incremental risk in the trading book*, July 2009.

⁴ Basel Committee on Banking Supervision, *Enhancements to the Basel II framework*, July 2009.

⁵ Basel Committee on Banking Supervision, *Strengthening the resilience of the banking sector*, consultative document, December 2009.

⁶ Basel Committee on Banking Supervision, *International framework for liquidity risk measurement, standards and monitoring*, consultative document, December 2009.

2. General

1. *Do "current risk-weighted assets for credit risk (including CCR and non-trading credit risk)" include risk-weighted assets for banking risk positions only?*

Template, "General Info" worksheet, panel D1, rows 85 to 88.

This position should include risk-weighted assets for credit risk for banking book positions and for counterparty credit risk, irrespective of whether the position giving rise to counterparty credit risk is assigned to the banking or the trading book. The position should not include any specific risk capital charges for trading book positions subject to credit risk; these capital charges should exclusively be included in the market risk capital charge as appropriate (rows 89 to 95).

2. *Please provide further guidance on what is meant by "discretionary compensation payments", includable only if they result in depletion of Tier 1 capital.*

Template, "General Info" worksheet, panel C, row 75.

The QIS asks firms to enter the total amount of discretionary staff bonus payments and other discretionary staff compensation payments made during each of the years from 1999 to 2009 and notes that firms should only include payments "if they result in a reduction of Tier 1 capital." For purposes of the QIS, discretionary staff bonus payments and other discretionary compensation payments include all variable payments made to staff that the firm is not contractually obliged to make. Firms should only include such payments if they result in a reduction in Tier 1 capital or would have resulted in an increase in Tier 1 capital if they had not been made. For example, under US GAAP, a firm is required to classify as a liability certain shares that give employees the right to require their employer to repurchase shares in exchange for cash equal to the fair value of the shares. As such discretionary compensation payments result in a reduction in GAAP equity and consequently Tier 1 capital, they would be included in row 75 of the "General Info" worksheet. Similarly, discretionary payments made out of retained net income would have resulted in an increase in Tier 1 capital if they had not been made and therefore should also be included in row 75. By contrast, compensation paid to employees in the form of newly issued shares may in certain circumstances result in an increase in the number of outstanding shares with no change in GAAP equity and consequently no reduction in Tier 1 capital. These amounts should not be included in row 75 of the "General Info" worksheet.

3. *Should an existing Tier 1 instrument which converts to ordinary shares during the period be reported as (a) "Other Tier 1 buyback of repayment (gross)" and "Capital raised – Tier 1 common stock (gross)"; or (b) simply not be reported in this section at all since Tier 1 is unaltered?*

Template, "General Info" worksheet, panel C, row 74.

Since Tier 1 would be unaltered, the treatment under (b) is appropriate.

4. *When a group's coverage has changed over time (gain or loss of subsidiaries), is it necessary/mandatory or not to provide "pro forma" figures (that is to say: modified in order to take into account changes of the group's scope) when time-series are needed?*

Time series data should be provided even if there are structural breaks such as mergers or changes in the accounting framework. However, these structural breaks should be outlined in an additional qualitative document.

3. Definition of capital

3.1 Technical issues

1. **Correction alert:** *The formula in cell G198 of the “DefCap” worksheet shows deductions as a negative number even though they should be positive. This also produces wrong results in cell C19.*

Template, “DefCap” worksheet, cells C19 and G198.

Please ignore the values shown in these cells.

3.2 Interpretive issues regarding the change in risk-weighted assets due to the application of the definition of capital proposal (“DefCap” worksheet, panel A)

1. *Please provide a definition of financial entities.*

Template, “DefCap” worksheet, panel A.

For purposes of the proposals related to the definition of capital, and the related QIS worksheets, institutions should apply the definition of “financial entities” consistent with how this definition is applied in their national jurisdiction under the Basel I and/or Basel II rules.

3.3 Interpretive issues regarding various capital elements (“DefCap” worksheet, panel B)

1. *For purposes of the definition of deferred tax assets, please clarify what is meant by “not based on the future profitability of the bank”.*

Template, “DefCap” worksheet, panel B6.

As clarified in the Resilience document, deferred tax assets that do not rely on the future profitability of the bank to be realised include those that can be realised from taxes paid in prior carryback years. That is, deferred tax assets that do not rely on the profitability of the bank to be realised are those that have value even if the bank does not have future taxable income. Deferred tax assets that rely on the future profitability of a bank to be realised include, but are not limited to, those that arise when a bank has incurred a loss for financial reporting/accounting purpose but not for tax reporting purposes. These deferred tax assets will only be realised when the bank makes taxable income for financial reporting/accounting purposes.

2. *Should we include shares owned for employee stock option plans?*

Template, “DefCap” worksheet, panel B7.

For purposes of the QIS, whether a bank should deduct shares owned for employee stock option plans will depend on the specifics of the employee stock option plan. If as part of the plan, the bank is exposed to losses on its own shares, then it should include these shares as part of the amount of own shares deducted for purposes of the QIS.

3. *Please clarify what is meant by “amount of outstanding financing which group has provided for the purpose of a third party purchasing own shares”.*

Template, “DefCap” worksheet, panel B7.

The amount requested is that which has been provided in outstanding financing for the purposes of a third party purchasing the bank’s own shares. For purposes of the QIS, the amount may be limited to the amount of outstanding financing the bank has knowingly provided to a third party to purchase the bank’s own shares.

4. *Please provide some clarity on the information requirements for row 135. We understand it to be short puts on our own stock but a more clear definition is requested. If the reference is to short positions (exchange-traded), there is no issue but this may be challenging for other derivatives.*

Template, “DefCap” worksheet, panel B7.

Short positions with no counterparty credit risk include only those positions for which the bank is not exposed to any counterparty credit risk. As a general matter, we would expect very few short positions not to have any counterparty credit risk. An example of a short position with no counterparty credit risk would be if a bank borrows its own stock, sells the stock and then must return the borrowed stock. By way of contrast, short exposures to own stock through a forward contract or total return swap, for example, would contain counterparty credit risk.

5. *When responding to the second question regarding “unrestricted and unfettered access to asset”, should we disclose the impact assuming the conditions have been met in a theoretical sense or only if those conditions are demonstrated under current circumstances?*

Template, “DefCap” worksheet, panel B12.

For purposes of the QIS, supervisory approval is not needed to determine whether a bank has “unrestricted and unfettered access” to assets in a fund; a bank should make its own determination about whether or not it meets this criterion.

6. *Table 1 of panel B3 requests data on unrealised net gain (loss) on financial assets measured at fair value for accounting purposes. It is not clear whether the data required are in respect of current year unrealised gains and losses or are cumulative to date.*

Template, “DefCap” worksheet, panel B3.

The data requested are cumulative to date, consistent with the amount reported under the relevant accounting standards.

7. *Panel B7 and version 1 of panel B8 refer to “short positions” that involve no counterparty risk for the purposes of netting. Question 4 above provides an example of short positions with no counterparty risk; however, it is not clear whether short positions with no counterparty risk also refer to positions in which a central counterparty is used.*

Template, “DefCap” worksheet, panels B7 and B8.

For purposes of the QIS, short positions in which a central counterparty is used would be considered to have counterparty credit risk.

8. *Is the reference in panel B1 to accounting consolidation or prudential consolidation (ie banking group and other entities consolidated for prudential purposes)? Please state whether the same approach applies in tables B2 to B11.*

Template, “DefCap” worksheet, panels B1 to B11.

Banks should refer to prudential consolidation in all cases.

9. *Should goodwill arising on the application of the equity method be reported in this table?*

Template, “DefCap” worksheet, panel B4.

Yes, goodwill arising on the application of the equity method (for insurance or industrial subsidiaries) should be included in the table as a deduction from common equity.

10. *How should net unrealised gains/losses on holdings in non-financial quoted companies valued at historic cost or equity method be treated in this panel?*

Template, “DefCap” worksheet, panel B3.

In panel B3 banks should only consider net unrealised gains/losses for amounts measured at fair value.

11. *Regarding minority interest, should only the component related to capital and share premium be reported here or also the retained earnings component?*

Template, “DefCap” worksheet, panel B2.

The component related to retained earnings and AOCI has to be included in the minority interest related to common equity (ie, in the first row of table 1).

12. *When referring to individual capital requirements (or contribution to consolidated risk-weighted assets given by each subsidiary), in case of higher specific capital requirement set by the supervisor (eg 10% instead of 8%), should the higher specific requirement be used or always the 8%?*

Template, “DefCap” worksheet, panel B2.

The actual Pillar 1 minimum capital requirement should be used.

13. *For holdings allocated in the AFS portfolio, should the fair value or initial cost be reported? What approach should be taken when the equity method is applied to insurance holdings?*

Template, “DefCap” worksheet, panels B1 and B8.

Panel B1 should be used to report the capital and reserves as determined by the relevant accounting standards prior to the application of any regulatory adjustments. As a consequence panel B1 will include net unrealised fair value gains and losses in the AFS portfolio. Therefore, for AFS assets it is the fair value that is reported in panel B8. The historic cost should only be reported in panel B8 when the holding is measured at historic cost in the financial statements.

When the equity method has been applied to holdings of shares of an entity (eg, insurance entity), the group’s share of the entity’s current net assets is reported on the group’s balance sheet. It is this carrying value that should be reported under panel B8 (not the original cost). The goodwill related to such entities should not be reported here, but instead reported as goodwill under panel B4.

14. *In case of derivative transactions on equity indexes comprising own shares or shares of other financial companies, are these transactions included in indirect holdings?*

Template, “DefCap” worksheet, panels B7 and B8.

Derivative transactions in equity indexes are included in indirect holdings, please see the definition of indirect holdings included on page 19 of the Instructions for the QIS and the subsequent examples.

15. *To what extent may deferred tax assets (DTAs) and deferred tax liabilities (DTLs) be netted in the calculation of rows 123 and 128?*

Template, “DefCap” worksheet, panel B6.

DTAs and DTLs may be netted only to the extent that is allowed for accounting purposes, ie if the ability exists to offset current tax assets and liabilities and the DTA and the DTL are levied by the same taxation authority. Netting of DTAs and DTLs across tax jurisdictions is not permitted.

16. *In the instructions for the QIS, pages 16–17, panel B2 (Minority interest), table 4, third and fourth bullet points which explain how to attribute part of the surplus to the minority shareholders (distinguishing between common and non-common minority shareholders), it is not clear whether the “minority common (non-common) shareholder’s share of the subsidiary” to be multiplied by the subsidiary’s surplus capital is calculated on total capital or on common equity (non-common Tier 1).*

The “minority common (non-common) shareholder’s share of the subsidiary” has to be calculated as the amount of common (non-common) minority interest divided by the subsidiary’s total capital.

3.4 Total Tier 1 instruments (“DefCapTier1” worksheet, panel C)

1. *In reporting each capital instruments issued by the group, should minority interest, ie shares or other capital instruments issued by subsidiaries also be reported?*

Template, “DefCapTier1” worksheet.

Yes, the Tier 1 worksheet should include Tier 1 instruments issued by consolidated subsidiaries.

3.5 Total Tier 2 and 3 instruments (“DefCapTier23” worksheet, panel D)

1. *Is row 11 (“Tier 2 – limited in inclusion in Tier 2”) intended to cover Tier 2 capital in excess of current regulatory limits on Tier 2 capital or is it intended to cover those instruments that are subject to a limited inclusion in Tier 2 capital?*

Template, “DefCapTier23” worksheet, row 11.

This row is intended to cover instruments that currently are eligible in Tier 2 capital but are subject to a sublimit (in addition to the current requirement in many jurisdictions that the maximum amount of Tier 2 capital that may be included in total capital is limited to 100% of Tier 1 capital, less certain adjustments). For example, in many jurisdictions, subordinated debt and certain other Tier 2 capital instruments that may be included in Tier 2 capital are limited to 50% of Tier 1 capital (less certain adjustments). These instruments that are subject to a limited inclusion in Tier 2 capital should be included in row 11.

4. Leverage ratio

4.1 Technical issues

1. *In other assets, we include bonds and banking book portfolios valued at amortised cost. In column D, these amortised cost items are therefore not included in fair values. In panel C, row 80, there is a check whether the total assets equal total sum of positive fair values. This creates a mismatch since we include amortised cost items in total assets but not in positive fair values. How to solve this?*

Template, "Leverage ratio" worksheet, panel A.

Please include the same amount in column D, even if it is the same as column C and at amortised cost. This is to make sure there are no netting differences.

2. *In column C "Accounting balance sheet value", we include items measured at amortised cost such as some bonds and parts of the banking book portfolio. Should items measured at amortised cost also be included in column D "Positive fair values"?*

Template, "Leverage ratio" worksheet, panel A, columns C and D.

Please refer to Question 1.

3. *Why should "securities borrowing", a liability, be included in the exposure of leverage ratio rather than "securities lending"?*

Template, "Leverage ratio" worksheet, panel A, row 24.

Securities borrowing is what appears on the asset side of the balance sheet.

4. *Data are available for 2008 and 2009, but data for 2007 and 2006 are more difficult to retrieve.*

If only some of the time series data are available (eg 2008 and 2009 data) please use it as a proxy for the remaining years for which no data are available. However, please make use of meaningful approximation and be transparent and explicit on the calculation behind the approximation.

5. *With respect to the proposal of the Committee to include the impact of expected accounting changes (see paragraph 222 of the Resilience document), how should banks take into account changes referring to 2010 for the years 2006 to 2009? Are they supposed to make restatements for past years? Are there any guidelines on this issue?*

Template, "Leverage ratio" worksheet, panel A, row 11.

While the rules in force in a particular year should apply to historical data in general, banks should describe qualitatively, and if possible, provide on a best effort basis a high level quantitative explanation of the impact a re-statement would have had.

6. *According to the check in cell C80 (and G80, K80, O80 respectively), cells C79 and D28 must be equal. This would make sense if D28 represented the new grossed up total assets. This is currently not the case since D28 does not include liquid assets and securitisation assets, as the respective cells (D8, D9 and D10) are locked and empty.*

Template, "Leverage ratio" worksheet, panel C, row 80.

Using the 2009 period as an example, the total in D28 should technically include C8, C9, C10 and C11 for the check in C80 to work as intended. However, for purposes

of providing data on the “Leverage ratio” worksheet, please ignore this check and do not include any data on liquid assets, securitisations, etc (ie rows 8 to 11) in the total in cell D28. Instead, only provide data on the sum of positive fair values for items listed in rows 12 to 27.

7. *What is the difference between the information requested in the two columns: accounting balance sheet value and sum of positive fair values? Do banks have to include the same data in both columns?*

Template, “Leverage ratio” worksheet, panel A, columns C and D.

Data under column C should be reported as per the bank’s relevant accounting standard. On the other hand, the gross exposure (ie the sum of positive accounting values assuming no accounting or regulatory netting and credit risk mitigation) should be reported under column D. Please also refer to question 2.

8. *What do you mean when you say that netting must not be taken into account in column D? Are you talking about the netting between the two legs of the repo (reverse repo) transaction? Or are you simply referring to repo (reverse repo) netting agreements like GMRA? (Similarly for row 24.)*

Template, “Leverage ratio” worksheet, panel A, row 23.

Since “physical or financial collateral is not allowed to reduce exposure” (see Resilience document, paragraph 212), netting between the two legs of a reverse repo transaction is not allowed in the template. Furthermore, in column D reverse repo exposures should be reported gross of any netting agreements.

9. *Is the leverage ratio to be applied at the group level? If yes, which accounting principle shall be applied?*

For QIS purposes, data should be reported at the group level based on regulatory consolidation in your jurisdiction.

10. *Should information on the leverage ratio only be submitted at the group level or also for group enterprises? The institution believes additionally applying the leverage ratio at the single-entity level would result in considerable extra restrictions.*

Please refer to question 9.

11. *Data refer both to commercial law and regulatory rules: which consolidation level needs to be applied (commercial law/regulatory rules)?*

The level of “consolidation” for the QIS should follow regulatory consolidation in your jurisdiction.

12. *Criteria for derecognition of own securitisations/reporting securitised portfolios: In the context of own securitisations, must derecognition always be assessed based on German GAAP and are there therefore no different approaches in the various columns/panels? Should row 51 include only figures for the securitised portfolio, ie without additional information for retained notes?*

In the baseline proposal, derecognition is based on the relevant accounting criteria applicable to the bank. In this context, for those securitisations that meet the criteria for derecognition of financial assets, rows 9 and 10 include the retained positions for such securitisations.

For the assessment of the alternative proposal (consideration of the total of all underlying securitised portfolios for the bank’s originated securitisations,

irrespective of the accounting derecognition), row 51 captures the underlying assets of derecognised securitisations (without considering the retained positions).

13. *Our assumption is that, in the context of originated securitisations, derecognition must always be assessed based on GAAP and that the various columns/panels therefore include no different approaches. Is that correct?*

Please refer to question 12.

14. *Disregarding what the consultative document has to say on the matter, we assume that the figures for securitisations that must be entered in row 51 refer exclusively to the securitised portfolio, ie not including retained notes. Is this correct?*

Template, "Leverage ratio" worksheet, panel B, row 51.

Please refer to question 12.

15. *Our understanding is that derivatives traded on an exchange or through a CCP must be reported as follows: (i) on-balance sheet assets – reported under column C at their value according to IFRS. Moreover, we are assuming that exchange-traded derivatives must be reported in column D at their margin value and that they are not listed under column E, as the Basel II CRSA assessment base is always zero for a derivative traded on an exchange or through a CCP; (ii) derivatives and off-balance sheet items are not listed in columns C and D as the Basel II CRSA assessment base for a derivative traded through a CCP is always zero. The derivative's notional amount should be reported in column E. Is our understanding correct?*

Template, "Leverage ratio" worksheet, panel A and panel B.

In the context of the leverage ratio, for derivatives traded on an exchange or through a CCP the current exposure method is always applied, also in case an exposure value of zero for counterparty credit risk is attributed according to the Basel II framework.

For panel A, derivatives traded on an exchange or cleared through a CCP should be reported as per the bank's relevant accounting standard under column C. On the other hand, the gross exposure (ie the sum of positive accounting values assuming no accounting or regulatory netting and credit risk mitigation) should be reported under column D. Lastly, the on-balance sheet positive fair values of such derivatives should be included in E12 assuming the netting requirements in the Basel II framework.

For panel B, derivatives' potential exposure (ie the "add-on" amount using the Basel II current exposure method) with no netting nor credit risk mitigation should be reported under column C. The same "add-on" amount based on Basel II netting rules should be reported under column D. The notional amount of the derivatives should be reported in column E.

16. *Columns C and D require data on regulatory potential exposure for derivatives with and without application of Basel II netting rules. For derivatives traded with central counterparties regulatory exposures equal zero. Is this valid for leverage ratio, too, or is a calculation of potential exposures required?*

Template, "Leverage ratio" worksheet, panel B1.

Please refer to question 15.

17. *Valuation approaches for derivatives where the counterparty is a CCP: (i) for on-balance sheet assets in column C (accounting balance sheet value), the valuation approach under IFRS? (ii) for on-balance sheet assets in column D (sum of positive*

fair values), value as per the margins that have to be posted? (iii) for on-balance sheet assets in column E (value with Basel II netting rules), valuation zero, as assessment base is zero? (iv) for derivatives and off-balance sheet items in columns C and D (regulatory potential exposure), valuation zero, as assessment base zero? (v) for derivatives and off-balance sheet items in column E ("notional amount") value given as notional amount?

Please refer to question 15.

18. *Under on-balance sheet items, three different valuations must be entered for the items listed in rows 8 to 27. Accounting balance sheet values must be entered in column C, ie the value reported for the relevant item in the IFRS balance sheet, which may well involve the netting of positions. In column D, by contrast, the respective items must be reported at their "balance sheet" positive (IFRS) market value, with neither netting nor any other credit risk mitigation techniques. It is not clear what valuation approach should be used for cell E12. We are currently assuming that the Basel II CRSA assessment base should be entered here, including any regulatory netting. For instance, the credit equivalent amount would be reported here for the item "derivatives"; this figure would therefore be the same as that in cell D37 (Derivatives & off-balance-sheet items – CEM; apply Basel II netting rules). Is this interpretation correct and, if not, what value should be entered here?*

Template, "Leverage ratio" worksheet, panel A.

Cell E12 must be filled in with the positive fair values of derivatives, assuming the netting requirements in the Basel II framework. In cell D37 the potential exposure (ie the "add-on" amount using the Basel II current exposure method) of derivatives must be reported, based on Basel II netting rules. Please also refer to question 15.

19. *What valuation approach should be used for cell E12? Should it be the Basel II CRSA assessment base with regulatory netting? Would the value in cell E12 then correspond to that in cell D37?*

Template, "Leverage ratio" worksheet, panel A and B.

Please refer to questions 15 and 18.

20. *According to the documentation, no netting rules have to be applied to columns E, I, M and Q. According to further documentations, netting is relevant for these columns. We ask for clarification.*

Template, "Leverage ratio" worksheet, panel A.

Data should be provided following the netting requirements in the Basel II framework for columns E, I, M and Q.

21. *For rows 23 and 24, we still see a difference between accounting and what is to be collected according to the documentation. We therefore ask for clarification which kind of business is meant here and if the bond or claim perspective is to be chosen.*

Template, "Leverage ratio" worksheet, panel A, rows 23 and 24.

Please refer to the QIS instruction for a description of "reverse repurchase agreements" and "securities borrowing". These should be reported as per the bank's relevant accounting standard under column C (ie no difference with accounting values). The on-balance sheet positive fair values of these items should be reported assuming no accounting or regulatory netting and credit risk mitigation under column D, and assuming the netting requirements in the Basel II framework under column E. Please also refer to question 8.

22. *Should the notionals of credit protection sold via CDS trading book (credit derivatives – protection sold) be reported without any prior netting (eg sold/bought)?*

Template, “Leverage ratio” worksheet, panel B, row 41.

Yes.

23. *According to IFRS securities obtained through reverse repo and securities lending transactions are not reported on the balance sheet. Is the assumption correct, that for reverse repo transactions loan principals should be reported?*

Template, “Leverage ratio” worksheet, panel A, row 23.

Yes. Please also refer to question 8.

24. *How shall “sums of positive fair values” (columns D, H, L, P) and “values with Basel II netting rules” (columns E, I, M, Q) be calculated for these items?*

Template, “Leverage ratio” worksheet, panel A, rows 25 to 27.

These items should be calculated based on the on-balance sheet accounting values, assuming no accounting or regulatory netting and credit risk mitigation for columns D, H, L and P, and assuming the netting requirements in the Basel II framework for columns E, I, M and Q.

25. *Is it right that the “Leverage ratio” section of the Basel consultative document lists the following three alternative scenarios for derivatives? (i) Measure the derivatives at their balance sheet value (cells C12 to C22 in the QIS template) with no regulatory netting; (ii) Measure the derivatives at their credit equivalent amount, calculated based on mark-to-market valuation, with no regulatory netting (cells C37 to C47 in the QIS template); and (iii) Measure the derivatives at their credit equivalent amount, calculated based on mark-to-market valuation, plus regulatory netting (cells D37 to D47 in the QIS template).*

Please refer to question 2 and question 15.

26. *Should cells E12 and D37 sum to exposure value (column 20) for 1.04 Derivatives in the CoRep?*

Template, “Leverage ratio” worksheet, panel A and B1.

In principle yes, provided that there is no impact from credit risk mitigation and that no derivatives traded through a CCP with an exposure value of zero for counterparty credit risk are in place. Please also refer to question 15.

27. *Are we supposed to report the positive fair values, the negative or the net amount of the derivatives in panel A “On-balance sheet items” lines 13 to 22 in column C (accounting balance sheet value)?*

Template, “Leverage ratio” worksheet, panel A, rows 13 to 22.

Please refer to question 7.

28. *Please advise if banks should report “total exposure” and not “total exposure less regulatory adjustments (eg for deconsolidated subsidiaries)” in the worksheet, and whether items that are risk-weighted at 1250% are to be included or excluded from the exposure measure.*

Data should be reported at the group level based on regulatory consolidation in your jurisdiction based on the various approaches set out in the Instructions and clarified in this document. While the Resilience document states that there should be

consistency between the capital and exposure measures in the design of a leverage ratio, any deductions from regulatory capital (as set out in Section II.1 of the Resilience document) will be made from the total exposure measure by the Committee during the QIS analysis phase. Banks should not include or exclude such deductions on their own in their data submissions.

29. *If the conditions for balance sheet derecognition are not met and the securitised positions consequently continue to be reported as balance sheet assets, do the securitisation exposures from retained tranches or parts of tranches also need to be reported as balance sheet assets? Are institutions reporting under IFRS doubly burdened as a result of retained securitisation exposures, in particular if a group enterprise retains securitisation exposures in securitisation transactions and the leverage ratio were to apply at the single-entity level?*

Reporting of securitised exposures that do not meet the criteria for balance sheet derecognition should be consistent with the bank's relevant accounting standard. This implies that the retained positions towards those securitisations are not to be included in panel A. Please also refer to question 12 and Annex 2 for more details.

For QIS purposes, data should be reported at the group level based on regulatory consolidation in your jurisdiction.

30. *We would like to understand the CCF interpretation of commitments “that effectively provide for automatic cancellation due to deterioration in a borrower’s creditworthiness” (Basel II Framework, paragraph 83). One interpretation could be that credit contracts with Material Adverse Clauses (MAC) are substituted under this formulation. However, our understanding is that this is not meant. The question is then what other circumstances describe conditions of creditworthiness of a borrower that lead to automatic cancellation of contracts.*

The question relates to the criteria for a 0% CCF and is not specific to the leverage ratio calculation. Under paragraph 83 of the Basel II framework, only a commitment that is “unconditionally cancellable at any time by the bank without prior notice, or that effectively provide for automatic cancellation due to deterioration in a borrower’s creditworthiness” will receive a 0% CCF. It is not clear that a “material adverse change” clause meets either of these tests.

31. *In panel B the banks have to fill in data in consideration to the current exposure method. What about banks which do not use the current exposure method?*

All banks should calculate the potential future value using the current exposure method of the Basel II framework for counterparty credit risk. Please refer to paragraphs 228 and 229 of the Resilience document.

4.2 Interpretive issues

1. *Should the data to be collected at four points in time be compiled according to the rules in force in the relevant periods (eg Basel I for prudential data referred to end-2006 and end-2007)?*

Even though the Instructions explicitly refer only to CCFs for off-balance sheet exposures (see paragraph 3.3.2 of the Instructions for the comprehensive quantitative impact study), the same principle should apply to all data needed for the leverage ratio. The rules in force in a particular year should apply to the historical data.

Notwithstanding, for instances whereby no historical rule was in place (eg definition of liquid assets), please report based on the proposed rule set out in the consultative paper.

2. *In the column “Regulatory potential exposure”, should we report current value plus add-on or add-on only?*

Template, “Leverage ratio” worksheet, panel B.

Please report add-on only.

3. *Please clarify what is meant by “interbank”.*

Template, “Leverage ratio” worksheet, panel A, row 27.

A loan between two banks.

4. *The Instructions on the “Leverage ratio” worksheet ask banks to report liquid assets as per the definition of eligible assets in the liquidity coverage ratio. However, it is not clear whether this is referring to the narrow buffer assets or to the broader definition of liquid assets (ie narrow buffer assets plus additional assets). Please clarify.*

Template, “Leverage ratio” worksheet, panel A, row 8.

Liquid assets should be reported in the Leverage ratio worksheet based on the definition of narrow buffer assets in the liquidity coverage ratio.

5. *What is meant by credit risk mitigation? Any collateral pledged to us should be available, however, any hedges with counterparty risk will be hard to identify.*

Template, “Leverage ratio” worksheet, panel A, column D.

This requirement asks for delivery of gross positions on the balance sheet only, ie any guarantees, financial collateral or other risk mitigants are to be extracted from net positions in order to be able to stipulate a balance sheet consisting of pure gross positions. Gross notional values should be available ie prior of hedging its counterparty credit risk.

6. *It is not obvious from the consultative documents whether the proposals on liquidity measures and leverage ratio will be affected by insurance activities. For now, our banks will fill out the data in the leverage ratio and liquidity worksheets excluding insurance activities. Is this the proper approach?*

For insurance subsidiaries that are not part of the regulatory consolidation, these would not be included in the leverage ratio (ie the investment is deducted from capital and the exposures should not contribute to the total exposure measure). Please also refer to paragraph 210 of the Resilience document for the treatment of investments in subsidiaries.

7. *In the worksheet “Leverage ratio”, in row 8 (“Liquid assets”) eligible assets as defined in the LCR shall be considered. What does this exactly mean?*

Template, “Leverage ratio” worksheet, panel A, row 8.

For QIS purposes, banks should report liquid assets based on the definition of narrow buffer assets in the liquidity coverage ratio as outlined in the Liquidity document.

8. *On which criteria shall liquid assets be determined (CRD or Basel framework)?*

Template, "Leverage ratio" worksheet, panel A, row 8.

Please refer to question 7.

9. *The identification of "central counterparties" is a matter of judgment (so it is likely that there will be inconsistencies from one firm to another): we think it would be helpful to have a list of institutions that can be considered "central counterparties" (or, even if an exhaustive list is not possible, it would be helpful to have a list of those institutions that, in the eyes of the Basel Committee, clearly do meet the criteria).*

Since there is no common standard whether a central counterparty (CCP) is eligible or not under the existing treatment, the central counterparty eligibility assumption should be clearly stated in the data submission please. In reporting the amount of exposures to counterparties that each bank currently deems as a CCP for QIS purposes, banks should consider the CPSS/IOSCO standards for risk management of a CCP and the CCP's observance of these standards as assessed by the relevant national authorities.

10. *Is there a detailed definition of "interbank" for the item in cell B27? Should we follow the national definition or the Basel II definition?*

Template, "Leverage ratio" worksheet, panel A, row 27.

The amount reported should be consistent with the relevant standards in each jurisdiction.

11. *How should we report derivatives on accounting value when a bank has cash collateral for derivatives? Note that, for a bank using US-GAAP, its balance sheet data on derivatives is a number after netting cash collateral.*

Template, "Leverage ratio" worksheet, panel A, row 15.

As the Resilience document says in paragraph 212 that "physical or financial collateral is not allowed to reduce exposure", please report data before netting cash collateral, even if such a data are different from those one on the balance sheet.

12. *If the proposal of column "Additional option for impact assessment" is applied, the total value of the securitised portfolio must be given alongside the retained tranches of own securitisations. This means the retained tranches are double counted. Is this really intended?*

The Committee's alternative proposal considers the total of all underlying securitised portfolios for the bank's originated securitisations. Under this proposal, there will be no double counting of the retained tranches of securitisations that meet the criteria for derecognition of financial assets under the relevant accounting standards.

13. *Must the full notional amount always be reported for the protection sellers' off-balance-sheet exposures from written credit derivatives if, in the event of the credit derivative having a positive market value, an additional balance-sheet exposure is created that would also have to be reported? Could this impose an undue additional burden on institutions reporting under IFRS?*

Template, "Leverage ratio" worksheet, panel B1, row 41.

Yes, the full notional amount should be reported for QIS purposes in view of the baseline proposal to include the notional value of written credit derivatives in the measure of exposure.

14. *Question 3 defines an interbank exposure as a loan between two banks. Please confirm that other (non-loan) exposures with banks such as (i) interest-bearing deposits (=nostro); (ii) brokerage receivables; and (iii) cash collateral provided to bank counterparties are not reportable. More generally, what is the idea of line 26 and 27. Line 27 looks like a subset of line 26.*

Template, “Leverage ratio” worksheet, panel B, row 26 and 27.

Banks should report in row 26 any other on-balance sheet assets that have not been specifically reported in any of the rows 8 to 25. Row 27 refers only to those on-balance sheet assets reported in row 26 that are deemed as loans between two banks under the bank’s relevant accounting standard.

5. Liquidity

5.1 Technical issues

1. **Correction alert**

Template, “Liquidity” worksheet, panel C, rows 190 to 193.

Line items 190 to 193 contain the wrong cell references. These cells should capture wholesale funding only, and not retail funding. As such, data should be entered for the respective time bands for instruments similar to the ones captured in lines 172, 173 and 182 to 188. Line 174 is **not** relevant for these line items.

2. *Should data submitted for the LCR be reported net of the stress factors? Should data submitted for the NSFR be reported net of ASF and RSF factors?*

No, all data should be submitted raw, before any factors are applied. The Committee will apply factors during analysis and require raw data in order to conduct calibration analysis.

3. *Can we interpret “net cash outflows over a 30-day time period” to be “net cash outflows over one month period”?*

Liquidity document, paragraph 20.

The 30-day time period means 30 calendar days. However, if the availability of data is limited, you may use monthly data for the purpose of the QIS.

4. *Which banks report data on legal entities?*

Supervisors will have contacted banks if they are expected to fill out the information on key legal entities, in addition to the data in column C. Otherwise, a bank only needs to fill in data related to consolidated level information.

5. *Should intragroup information cover (i) transactions with branches in other countries and (ii) transactions between branches in other countries and subsidiaries?*

Template, “Liquidity” worksheet, rows 163 to 166, memo item for banks submitting legal entity information.

When reporting data on a specific legal entity, intragroup transactions should include **all** transactions with other entities included in the consolidated banking group, as collected in column C. Transactions with other entities within the wider financial group which are not considered part of the “consolidated” group for purpose of this QIS should not be reported in these lines.

6. *Section 3.4.1 paragraph 2 requires that “banks should provide internal estimates of average observed market haircuts as of the latest calendar date of the year stated for which the bank’s own transaction secured by collateral [...]”. If the bank did not have any transactions secured by an instrument listed under the stock of assets in panel A, how should the bank provide the haircut?*

Template, “Liquidity” worksheet, rows 10 to 31, columns D and E.

A bank can leave a cell blank if it did not have any secured transactions with a certain instrument upon which it can base the haircut information. Secured transactions with central banks should not be considered here.

7. *Are the haircuts in columns D and E for price and currency fluctuations to be aggregated?*

Template, “Liquidity” worksheet, rows 10 to 31, columns D and E.

Only haircuts reflecting price fluctuations should be considered. There are no haircuts for currencies. Changes in foreign exchange rates are not to be considered in the QIS analysis.

8. *When reporting the haircuts in columns D and E, can a general holding period of 10 days and a daily revaluation be assumed?*

Template, “Liquidity” worksheet, rows 10 to 31, columns D and E.

Haircuts should be reported on a best-efforts basis for the indicated assets. Institutions should record average observed market haircuts for which their own transactions occurred that were secured by collateral of the corresponding asset-row line item. Ideally, this would reflect a 30-day haircut. However, if institutions do not have sufficient volumes at this tenor, please report haircuts based on a 10-day holding period and transform these haircuts into 30-day equivalents by scaling up by the square root of time.

When entering this information, internal estimation may be applied as long as it includes assumptions set out in the Basel II framework.

9. *How should the haircut data be entered? Ie if there was a 20% haircut on a bond, should this be entered as “20%” to represent the haircut value, or as “80%” to represent the amount of the bond after the haircut?*

Template, “Liquidity” worksheet, rows 10 to 31, columns D and E.

The haircut should be entered as the value of the haircut, ie 20% in the above example.

10. **Correction alert**

Template, “Liquidity” worksheet, row 66.

Row 66 (“Any other cash outflows not included in sections 1a, b, c, d, or e, including principal and interest due and derivative payables” in panel B1b and row 122 (“Any other cash outflows not included above, including principal and interest due and derivative payables”) in panel B1e are exactly the same – please record the same information in both lines. This was accidental.

11. **Correction alert:** *In which row should banks report facilities extended to fiduciaries (row 256 or 257)?*

As identified the Instructions and spreadsheet row title do not match. Please use line 256 report facilities to capture fiduciaries and beneficiaries (as defined in paragraph

55 of the Liquidity document) along with financial institutions as specified in the Instructions for this line.

On line 257 please report only data on facilities to sovereigns, central banks and non-central government PSEs.

12. *Regarding the definition of “conventional” mortgage loans in the NSFR, in rows 241 and 242, what are the requirements related to these “conventional” loans?*

Template, “Liquidity” worksheet, rows 241 and 242.

The term “conventional” is colloquial nomenclature used to define those mortgage loans that are underwritten with criteria that facilitate their ability to be readily monetised within a one-year period through the use of either covered bonds issued into a liquid covered bond market or through government sponsored or guaranteed securitisation programs. Such loans are to be reported in rows 241. Mortgages that do not qualify for covered bond securitisation or public sponsored securitisation programs or mortgages held by institutions that do not have access to (or cannot readily access) a covered bond market or have access to (or cannot readily access) government sponsored securitisation programs should be reported in line 242.

13. *Meaning of “instruments with explicit or embedded options that would reduce the expected maturity to less than one year”. Is this condition the same as that for retail and SME deposit in the LCR (ie term deposits which have a withdrawal penalty not greater than the loss of interest should be considered to fall within this 30-day horizon)?*

Template, “Liquidity” worksheet, rows 173 and 174.

Yes. The definition is the same, only the time horizon is different.

14. *Where should self-issued covered bonds held by the bank be listed? There will be a cash outflow when they mature.*

Securitised loans and ABS are to be consolidated in the standards in accordance with regulatory consolidation. Therefore (i) loans backing covered bonds should be reported in panel D in the appropriate category according to maturity and borrower; and (ii) liabilities arising from covered bonds held by third parties are to be recorded in line 173 if there is a short-term portion with a maturity of less than one year.

15. **Correction alert:** *How should repo and secured lending transactions be treated in the NSFR?*

Template, “Liquidity” worksheet, rows 209 and 211.

Row 209 that currently reads: “Securities borrowed or purchased under agreements to resell with remaining maturity < 1 year” **should read**

“Securities with maturities <1 year sold under agreement to repurchase or securities loaned”.

Row 211 that currently reads: “Unencumbered securities and securities currently used as collateral for reverse repo transactions and secured lending transactions, with maturities of the security \geq 1 year” **should read**

“Unencumbered securities with maturities \geq 1 year and securities with maturities \geq 1 year sold under agreement to repurchase or loaned”.

The off-setting liability balance sheet entries of “Securities sold under agreement to resell, securities loaned” and other related entries are to be reported in panel C, row 188 as additional liabilities.

For the NSFR standard all securities sold under repurchase agreements and securities loaned in securities lending transactions or “repo-like” transactions (paragraph 88 of the Liquidity document), regardless of the means of origination, should be reported on panel D in the row element according to their maturity, quality and other criteria identified in the Instructions. Their treatment is similar to securities that are financed by other means. Securities with maturities of less than one year are reported in row 209 and securities with maturities of greater than one year are reported in the appropriate lines under row 211.

16. *Are matching reverse repo and repo transactions (matched book) to be shown in line item 210?*

Template, “Liquidity” worksheet, row 210.

Yes, row 210 refers to debt securities that are received out of a reverse repo where an offsetting, ie correspondingly collateralised with the same CUSIP, repo transaction exists. Do **not** record these amounts in rows 209 or 211 as well – do not double count these amounts.

17. *Where should securities received out of a reverse repo or secured borrowing transaction be reported that are used to cover either a short or long position captured in the NSFR?*

Since reverse repos and securities borrowings economically reflect a secured loan, these holdings should be reported on line 233 as “Non-renewable loans to financial institutions (maturity < 1 year)”.

18. *Should securities that are used as collateral for derivatives transactions be shown in line item 251?*

Template, “Liquidity” worksheet, row 251.

Yes, securities that are used as collateral for derivatives transactions should be captured in line item 251.

19. *Should outright long positions that are neither used for repo nor as collateral for derivatives which have a remaining maturity of less than one year be shown in line item 208?*

Template, “Liquidity” worksheet, row 208.

Yes. Line item 208 comprises unencumbered debt securities < 1 year that are not used in repo-like transactions or as collateral for derivatives.

20. *In the LCR: Are ABS considered to be covered bonds?*

No, covered bonds are specifically defined in footnote 11 of the Liquidity document.

21. *“The portion of central bank reserves which can be drawn down in times of stress (ie any non-transferable reserves are excluded).” Are “non-transferable reserves” the minimum reserves? What other positions could be meant? Which amount of minimum reserves shall be used: Actual, Expected, ...?*

Template, “Liquidity” worksheet, row 10.

Any central bank receivables that are not at the bank's free disposal over the full time horizon of 30 day must be deducted. This might be primarily confined to minimum reserves, but there may be additional reasons for non-transferability in various jurisdictions which must also be taken into account.

22. *How to address the issue of free capacities with the central bank, ie the difference between submitted and used collateral at the central bank?*

Assets deposited at the central bank for potential use as collateral but not actually used, may be recorded in the stock of liquid assets (lines 9 to 31 as appropriate) if they meet the definition for liquid assets. In that case, they can be included in the stock of liquid assets as if they were held by the bank itself.

If the bank has deposited both liquid and non-liquid assets at the central bank and has drawn from this pool, the assigned assets are encumbered and cannot be included in the stock of liquid assets. If pledged collateral is held in a pool and no assets are specifically assigned as collateral for the secured transaction, the bank may assume for this QIS that the assets with the lowest liquidity gets assigned first.

23. *Are minority interests (equity long term investments) to be classified according to an assumed holding period or should a general holding period of < 1 year be applied?*

Minority interests are assumed to be held more than one year and should be assigned to line item 249.

24. *Is there a list of specific securities that meet the criteria of non-financial corporate bonds?*

Such a list is not available. Banks have to assess the eligibility of specific securities according to the criteria set out in panel A.

25. *Line item 130 (SMEs): In the instructions, at the beginning of section B2b) is stated that “all amounts should be net of planned outflows needed to refinance outstanding loans”. Could you specify and provide an example?*

Template, “Liquidity” worksheet, row 130.

This means that if a bank plans to refinance a loan and knows that the customer will not be paying off the loan in the next 30 days, it should not count that amount as an “inflow”. So for line 130, if a loan to an SME client matures in the next 30 days, but the bank will refinance that loan, or a portion of that loan, it would net out the amount to reflect the amount of cash that will flow into the bank.

26. *“Balances of loans to financial entities with effective maturities of less than one year that are not renewable and for which the lender has an irrevocable right to call. When the loan is secured, the underlying collateral must have a maturity of less than one year.” What does “non-renewable” mean in this context? Is it equivalent to “no contractual renewal option”?*

Template, “Liquidity” worksheet, row 233.

“Non-renewable” means that there is not already a contractual agreement written into the loan documentation that states that the loan is renewable, or that there is

any other contractual agreement between the bank and the financial entities where the renewal of the loan has been agreed upon.

27. *Should public country (ie regional government) notes be included in row 17?*

Template, "Liquidity" worksheet, row 17.

No, row 17 should only include debt issued by central governments or central banks in the country where liquidity risk is taken or when the debt is in the domestic currency of the bank's home country. This only applies to sovereigns and central banks that do not receive a 0% risk weight (as those securities would be captured in lines 12 to 14) or a 20% risk weight (as those securities would be captured in line 27).

28. *"Other contingent funding obligations including products and instruments, including: Structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes (VRDNs)": Is there any additional information on how to calculate the amount be reported for structured products?*

Template, "Liquidity" worksheet, row 261.

No. Please use external market prices or internal mark-to-market, if plausible, in terms of a best effort approach.

29. *Reserves with central banks and sale transactions of such funds. What exactly does "sale transactions of such funds" mean?*

This refers to "Fed Funds Sold" in the US and any other similar transactions in other jurisdictions.

30. *What is the difference between line items 58 ("Total non-financial corporates; of which: without an operational relationship") and 112 ("Undrawn committed credit and liquidity facilities to...sovereigns, central banks or any other entity not included in other drawdown categories (not including intra-group facilities)")?*

Template, "Liquidity" worksheet, rows 58 and 112.

Line item 58 refers to deposits and other unsecured funding provided by non-financial corporates. Line item 112 refers to contingent liabilities in the form of undrawn credit and liquidity facilities extended to the counterparties specified.

31. *Where should bonds issued by financial institutions and additional buffer assets (with lower ratings) go in the QIS template? We feel neither row 246, row 248, row 249 or row 250 is appropriate for this purpose.*

Line 246 should capture any asset which is not captured in the lines above (ie loans **and** bonds) and is kept on the books according to accrual pricing. Line 248 should capture assets which are not captured in the lines above and are reported by the bank on a fair value basis.

32. *How should accruals be treated in the NSFR? In the current text, it looks like accruals to receive and to pay cannot be netted and accruals to be received should be funded for the entire amount by LT funding.*

Please report accruals on a net basis with net accruals to be received on line 249 "other income generating assets (eg minority interests)". Net accruals to pay can be reported on line 188 "all other liabilities and equity not reported above."

33. *Should the methodology used in row 247 to calculate derivatives-related receivables in the NSFR be the same used in rows 66, 122 and 138 in the LCR?*

Yes. There is a slight difference in that lines 66 and 122 capture the derivatives-related payables and line 138 captures derivatives-related receivables for the 30 day horizon. Line 247 captures the net amount of payables and receivables (refer to earlier FAQ on this topic) for a year horizon, with a positive sign if the net number is a derivative receivable and a negative sign if the net is a derivative payable.

34. *If a bank does not use an internal model to calculate the counterparty risk, is possible to use, as a proxy of estimation of that amount for the following 30 days, the add-on on counterparty risk set by Basel II with reference to maturity “one year or less”?*

Template, “Liquidity” worksheet, row 96, potential liquidity exposure regarding estimated outflows due to valuation changes on derivatives.

No. If a bank does not use internal models to calculate this risk already, it should not fill in row 96. It should only fill in row 97.

35. *Our jurisdiction has minimum liquid asset requirements, whereby a statutory minimum amount should be placed in prescribed liquid assets. Should the amount reported in line 12 be equal to only the excess amount over and above the statutory limit? (The same principle would then be applied as in the reporting of cash reserves.)*

No, for the purpose of this QIS you do not have to exclude holdings that your jurisdiction requires to meet any local liquidity standards.

36. *How should cash-flows stemming from cross currency swaps and other foreign exchange transactions be included in the LCR and NSFR?*

In the LCR, this should be captured in lines 66/122 or 138, and in line 247 in the NSFR.

37. *Certificates of deposits are included in the cash inflow but are not included in the buffer. Is that correct?*

Template, “Liquidity” worksheet, row 137.

Yes. Certificates of deposits held are to be included in line 137 provided their term expires within the 30 day horizon.

38. *Line 96 “Potential liquidity exposure” under “B1d) Cash outflows” in LCR: The instructions state that “Firm’s estimation of the value of potential liquidity outflows...”. Our question is about the confidence interval, should it be decided by the institution itself? Or is it a specific interval that should be used in the estimation?*

Template, “Liquidity” worksheet, row 96.

This cell should reflect a bank’s own estimation, based on their internal models.

39. *Line 247 “Derivatives-related receivables” under D) Required stable funding in the NSFR: It says that “Balances should be gross of any collateral received or posted as part of such transactions.” Does gross mean that the institution should not take into account collateral received in derivatives transactions?*

Template, “Liquidity” worksheet, row 247.

Yes, that is correct.

40. *What is the difference between lines 66/122 and lines 107? Could you please clarify the difference between committed loans and committed credit facilities? Could you give an example?*

Line 107 is for committed credit facilities. This should capture the full amount of an undrawn line that is outstanding to a customer, which the customer could draw any amount during the 30 days. "Committed loans", in contrast, are meant to capture loans which the bank has contractually arranged with a customer, but the funds have not yet left the bank.

41. *In line 137, "Deposits held at other financial institutions", if the deposits are with embedded options that reduce the effective maturity to 30 days or less, then could we include the deposits in line 137?*

Template, "Liquidity" worksheet, row 137.

Yes.

42. *If deposits or the forms of unsecured wholesale funding have embedded option that reduce effective maturity to 30 days or less, then should we include them in line 59?*

Template, "Liquidity" worksheet, row 59.

Yes.

43. *In calculating LCR, government debt is treated as narrow buffer assets in panel A. If the government debt recorded in panel A is maturing within 30 days, should we also include the amount as cash inflow? If the answer is yes, then under which line should we record as inflow?*

No, these items will only be in the stock section in panel A.

44. *All encumbered assets not reported in other categories of illiquid assets. Should the securities and cash encumbered as reserve requirements be classified in this bucket?*

Template, "Liquidity" worksheet, panel D, row 251.

Yes. Line 205 should exclude reserves held to serve as minimum reserve requirements, the same as in the LCR.

45. *How should the leasing operations be treated in panel D (required stable funding) of the NSFR? Should they be classified in the same buckets used to the loans?*

Yes.

46. *Are the items reported in lines 70 and 71 and in lines 73 to 91 mutually exclusive? For instance, would a repo with a central bank be reported twice, or only in the lines 70 and 71?*

Transactions should be reported in only one of the rows 70 to 91.

47. *Can all credit card receivables maturing in the next 30 days be regarded as cash inflow? Do we need to take into account the option for minimum payment (normally 5%)?*

Credit card receivables maturing within 30 days should be reported net of expected roll over amounts in row 126 "contractual inflows from fully performing loans". The minimum payment percentage can be taken into account in the determination of the roll over amount.

48. *For a secured loan maturing in less than one year where the maturity of the underlying collateral is one year or more, where should the secured loan be reported?*

Template, “Liquidity” worksheet, row 233.

If there are reverse repos or secured borrowing transactions of “liquid assets”, they should be included in row 233 (see question 17 in Section 5.1). Otherwise, use row 246.

49. *Should non-performing loans be included in “required stable funding”? If yes, should they be regarded as maturing within one year or more than one year?*

Non-performing loans should be included as “other illiquid assets” in row 250.

50. *For the purpose of “required stable funding”, should the monthly instalments of mortgage loans receivable in one year be treated as maturing within one year and reported in row 236 while the residual balance of the mortgage loan be reported in row 241 or 242 (as the case may be)?*

Yes.

51. *How should banks report their investments in the equity of a subsidiary or associate companies (ie long-term investments) – should they be reported in row 229 if these companies are listed on a major index in a recognised exchange (presuming row 229 will attract a lower required factor) or should they be reported in row 230 given their long-term nature (ie higher required factor to be applied)?*

If they are not consolidated in the template, they should be treated as minority interests. Minority interests are assumed to be held more than one year and should be assigned to row 249.

52. *Could you please clarify which line should be used for repo and securities lending for the NSFR? Should we report Repos (< 1 year maturity) in “all other liabilities” (row 188) or in rows 177 to 185 based on the counterparty type? Similarly, should reverse repos be included in “all other assets” (rows 246 and 251) or should they be treated as loans and reported based on the counterparty type (rows 235 to 236)? How will this differ in case of a “material matched book”?*

Template, “Liquidity” worksheet, row 210.

See questions 15 and 16 in Section 5.1: For the NSFR standard all securities sold under repurchase agreements and securities loaned in securities lending transactions or “repo-like” transactions (paragraph 88 of the Liquidity document), regardless of the means of origination, should be reported in panel D in the row element according to their maturity, quality and other criteria identified in the Instructions. The off-setting liability for repos is to be reported in row 188. Reverse repos are to be treated as secured loans and reported in row 233. Matched books (same CUSIP) are to be included in row 210 only.

53. *How should we treat inflows/outflows for derivatives? Could you confirm that we are required to provide cash inflows/outflows for not margining derivatives only, and instead provide the following data for listed and margining derivatives: (i) MTM for the NSFR (row 247), (ii) in addition to the daily MTM change to be paid/received as collateral, a reserve for potential liquidity outflows over 30 days resulting from mark to market valuation changes on derivatives transactions (on top of the requirements in rows 94 and 97 to 100). Additionally, should we record in row 247 only listed and margining derivatives, excluding non margining derivatives?*

Template, "Liquidity" worksheet, row 247.

All derivative transactions should be netted and entered into row 247, with a positive sign if the net number is a derivative receivable and a negative sign if the net is a derivative payable. Balances should be gross of any collateral received or posted as part of such transactions. Banks are not requested to provide estimations on potential liquidity outflows for derivatives in the NSFR. However, when a bank, as part of its risk management, is holding assets as contingent collateral for potential future exposures, such assets are to be included in row 252.

54. *Do these categories capture also instruments issued by financial institutions? If not, how should they be categorised? Note the background for this question: Rows 212 to 228 exclude securities issued by banks. Is this also valid for rows 202 to 210?*

Template, "Liquidity" worksheet, panel D, rows 202 to 210.

Yes, short term instruments issued by financial institutions can be included in rows 202 to 210.

55. *Where should self-issued ABS held by the bank be listed in the LCR and in the NSFR?*

Securitised loans and ABS are to be consolidated in the standards in accordance with regulatory consolidation.

The treatment for the LCR is:

- All securitised loans maturing in 30 days or less should be reported in panels B2a and B2b according to counterparty.
- Liabilities arising from ABS that mature in 30 days or less should be reported in rows 102, 103 and 105 according to type and maturity.
- In row 104, the potential outflow of balances of ABS maturing in more than 30 days for which the bank is contractually obliged to provide liquidity through repurchase.

The treatment for the NSFR is:

- All securitised loans should be reported in panel D in the respective category according to maturity and borrower.
- Liabilities arising from ABS held by third parties are to be recorded as liabilities in row 173 (when the effective maturity is a year or more) or row 188 (if there is a short-term portion with a maturity of less than one year).
- Row 244 is meant to include ABS held or retained by the banking group of securitisations that are not consolidated in the standards (comply with regulatory de-recognition criteria).

5.2 Interpretive issues

1. *Will bonds issued by banks and other financial institutions be excluded from liquid assets, even if they are guaranteed by sovereigns/governments?*

Liquidity document, paragraph 34 lit c.

Yes, they are excluded. Instruments issued by banks and other financial institutions are not included in liquid assets.

2. *Please provide specific conditions for determining "active repo markets" and "a reliable source of liquidity in the markets even under stressed market conditions." How shall we apply the conditions, by issues or types of securities?*

Liquidity document, paragraph 89.

You can refer to paragraphs 36 and 37 of the Liquidity document for the meaning of active repo market. For the purpose of the QIS, if there is an active repo market for the representative type of bonds, all bonds in that category will qualify. For instance, if there is a deep repo market for the government bonds of one jurisdiction, but not for specific bonds such as inflation indexed bonds issued by the same government, all bonds will qualify for the QIS.

3. *According to the Liquidity document, the proposed standards should be applied to all internationally active banks on a consolidated basis. In calculating LCR and NSFR, should all entities that are consolidated in accordance with accounting rules be included within the scope of application, when these entities have no practical significance in terms of liquidity risk management?*

The level of "consolidation" for the QIS should follow regulatory consolidation in your jurisdiction, rather than accounting-level consolidation.

4. *For banks reporting legal entity data, should the amount referred to for the 10 key legal entities (columns G to P in the reporting template) be reported net of intra-group deals? (Eg the row 59 "Financial institutions" should include only the cash outflows related to banks external to the group?)*

Template, "Liquidity" worksheet, columns G to P.

The cells should report gross amounts, not net of intra group deals. Memo items for banks submitting legal entity information (rows from 163 to 166) are intended to capture cash flows and undrawn committed facilities between each legal entity and any other legal entities included in the scope of application.

5. *For SMEs, it is clear that the meaning of "non-maturing" in row 50 is same as that for retail deposits (ie term deposits which have a withdrawal penalty not greater than the loss of interest should be considered to fall within this 30-day horizon). For non-financial corporates (row 55) and financial institutions (row 59), there is no similar reference. Does this mean that we do not need to include term deposit from non-financial corporates and financial institutions with maturity of more than 30-days to row 55 to 59, even a withdrawal penalty is not greater than the loss of interest?*

Template, "Liquidity" worksheet, panel A1, rows 50, 55, 59.

For the QIS, please simply base the figures related to non-financial corporates and financial institutions on the remaining maturity, and do not apply the reference to the loss of interest.

6. *How will US Agency bonds issued by GSEs, and Agency MBS and CMO guaranteed by GSEs be treated in calculating LCR and NSFR? And by similar national agencies in other countries?*

Unsecured debt (notes and bonds) and MBSs issued or guaranteed by Freddie Mac, Fannie Mae and FHLB (or other similar national agencies which receive a 20% risk weight under the standardised approach to credit risk of the Basel II framework), regardless of the maturity, should be reported in row 30 and 31 respectively in the LCR. When the instruments have a remaining maturity of more than one year, they should also be included in rows 227 or 228, respectively, in the NSFR.

Unsecured debt issued or MBSs guaranteed by GNMA (or other similar national agencies that receive a 0% risk weight under the standardised approach to credit risk of the Basel II framework) should be reported in row 15. When the instruments have a remaining maturity of more than one year, they should also be included in row 215 in the NSFR.

CMOs **directly issued** by the GSEs (or similar national agencies that receive a 20% risk weight under the standardised approach to credit risk of the Basel II framework) should be reported in row 29. When the instruments have a remaining maturity of more than one year, they should also be included in row 226 in the NSFR.

None of the assets in these line items can be issued by banks, insurance companies or financial institutions.

7. *Do “CP” and “ABCP” qualify for the “additional assets” category in panel A2 when they meet the criteria in paragraph 36 of the Liquidity document? These two financial instruments are shorter in maturity but may have high credit rating and market liquidity.*

Template, “Liquidity” worksheet, panel A2; Liquidity document, paragraph 36.

None of the assets in panel A can be issued by banks, insurance companies or financial institutions. CP that meet conditions in paragraph 36 of the Liquidity document may be classified (by using the equivalent short term credit ratings for the purposes of the QIS) into the appropriate category in “additional assets” in panel A2. ABCPs may not be included.

8. *How are repo and securities lending transactions treated in the LCR?*

Only outstanding transactions can be counted, not projected transactions.

The Committee will apply the relevant factors and treatment as outlined in the consultative document during the QIS analysis phase. To fill in the QIS spreadsheet, please enter all necessary information, as outlined below and in the Instructions.

- **Repos and securities lending (receive cash, security is out of the bank):** For transactions with a remaining maturity of over 30 days, the cash could be recorded in the stock if, and only if, the bank actually holds the cash on the day of reporting. The associated security would **not** be counted anywhere, as it is with the counterparty.

For transactions under 30 days: For QIS purposes, the cash received at the beginning of the transaction could be recorded in the stock in panel A if, and only if, the bank actually holds the cash on the day of reporting. The amount of the repo/secured lending transaction should also be included in the relevant outflow in panel B1c to record the potential unwind of the

transaction. This should be done for transactions backed by any type of asset, in the relevant line item. The associated security backing the transaction should **not** be recorded in panel A or elsewhere, regardless of the maturity of the underlying asset.

- **Reverse repos / securities borrowing (holding security, cash is out of bank):** For transactions with a remaining maturity of over 30 days, the security should be included in panel A, in the relevant line item, where applicable. There will be no cash inflow recorded.

For transactions with remaining maturity of less than 30 days: For QIS purposes, the amount of maturing transactions should be recorded in the relevant line item in panel B2c as “inflows” to reflect the unwind of the transaction at maturity. This information should be provided for transactions backed by the assets types in every line item that is listed in panel B2c. The associated security backing the transaction should be provided in panel A in the relevant line item, where applicable, regardless of the maturity of the underlying asset.

9. *Which category should liquid assets with maturity less than 30 days should be classified, as liquid assets or cash inflows?*

For the QIS, these assets should be counted in panel A wherever applicable regardless of maturity, **not** as inflows.

10. *In the NSFR, how shall we treat the transactions such as derivative transactions where both assets and liabilities increases?*

Derivative transactions should be netted and entered into line 247, with a positive sign if the net number is a derivative receivable and a negative sign if the net is a derivative payable. Balances should be gross of any collateral received or posted as part of such transactions.

11. *To what extent should minimum reserve requirements held at central banks be considered non transferable?*

The reserve requirements (or the portion of them) that are a “minimum” amount which must be maintained at a central bank and can not be removed from the central bank whenever the bank would like cannot be included in line 10. This line should capture amounts that a bank has at a central bank which they can transfer, ie which are not mandatory.

12. *What should be the treatment of retail (and SMEs) term deposits in countries where penalty clauses are rarely greater than the loss of interest?*

For the QIS, any time a term deposit does not have a withdrawal penalty which is greater than a loss of interest, it should be included in the bucket of deposits that are maturing in less than 30 days.

13. *What is the difference in the information requested in line 132 versus line 137?*

Line 132 captures inflows from loans made to financial institutions, which are maturing within the 30 day timeframe. Line 137 captures monies which the bank has placed at other financial institutions as deposits. Deposits with remaining maturities of 30 days or less should be included in this cell.

14. *Could you please clarify the wording in line 90?*

In row 90, there is a missing phrase in the description. The missing part is underlined below. It should read: "Amount of secured funding/repo transactions that mature within 30 days and are backed by debt securities guaranteed by non-central government public sector entities that receive a 20% risk weight under the standardised approach to credit risk of the Basel II framework (paragraph 57)."

15. *Some banks allow clients to go in debit on sight accounts (overdrafts) up to a certain limit. Should these amounts be included as cash inflows in panel B2 of the "Liquidity" worksheet for the LCR calculation?*

Template, "Liquidity" worksheet, panel B2.

Unused overdraft rights should be reported as undrawn commitments that could cause cash outflows. Such commitments should be reported in rows 107 to 112 and 254 to 261 as appropriate.

Outstanding overdrafts (whether authorised or not) should not be included in the inflows, unless they have to be returned within 30 days and no defaults or late payments have occurred with that client in the past. In the latter case, they should be reported in line 126 or lines 130 to 133 depending on the type of customer.

16. *Line 66/122 and line 138 include outflows and inflows from derivatives. Are options and embedded options supposed to be captured here? If yes, how?*

Template, "Liquidity" worksheet, rows 66/122 and row 138.

Embedded options should be reflected in the relevant category with the instrument which they apply to (for instance, embedded options that reduce the maturity of the instrument below 30 days) and not in these line items.

For outflows, capture any outflows which would arise from derivatives as explicit financial instruments (not from embedded options) and which are not captured elsewhere in both lines 66 and line 122 (as these line items are the same; see Section 5.1, question 10).

For inflows, line 138 should capture contractual inflows within the 30 days that would arise from explicit financial instruments, not from embedded options. Any contingent inflows should not be included in this worksheet.

17. *How is the criterion on "a maximum decline of price or increase in haircut over a 30-day period" in lines 21 and 24 to be interpreted? An increase from 10% to 11% would mean a 10% relative increase as well as a 1% absolute increase. Which is the relevant one? How about for the decline of price?*

Template, "Liquidity" worksheet, rows 21 and 24.

The haircut criterion refers to an absolute increase in terms of haircut as expressed as a percentage. In the above example, the change in haircuts from 10% to 11% would be considered to be a 1% increase.

The price criterion refers to a relative (percentage) decrease in the market price over any 30-day period in the last 10 years.

18. *Where should a bank's own certificates of deposits/commercial paper be captured in panel B1b?*

Template, "Liquidity" worksheet, panel B1b.

If the counterparty holding the debt is known to be a retail customer, a small business customer or a non-financial corporate customer, the CDs/CP should be included in the related categories in panel B1a or B1b.

If the counterparty is not known, or if the bank is holding its own debt, CDs/CP (and other debt issued by the bank which is maturing) should be reported in line item 65 "Own debt maturing in less than 30 days."

19. *Do options on the part of the bank that can reduce the residual maturity of an asset exclude the respective instrument from the stock of liquid assets?*

No. Assets are included in panel A regardless of remaining maturity.

20. *Outstanding loans that mature within 30 days should be included in full in the inflows of the LCR. Under which item should the portion that the bank can expect (or has decided) to roll over be reported in the outflows?*

Template, "Liquidity" worksheet, panel B2b.

As stated in the Instructions for line 129 in panel B2b, inflow amounts should be net of any planned outflows which are needed to refinance or roll over outstanding loans. This treatment applies to retail loans in line 126 as well.

21. *If a bank has committed loans that start (in part) in the future, but within the next 30 days, should the committed outflows be reported in lines 66/122: "Any other cash outflows not included above, including principal and interest due and derivative payables"?*

The outflows of such committed loans should be reported in both lines 66 and line 122, as the two are the same (by mistake; see Section 5.1, question 10).

22. *What concrete data need to be entered in line item 17 "government or central bank debt issued in domestic currency of bank's home country or in the country where the liquidity risk is taken"? Does the 0% risk weight criterion apply here? Is the dissociation of these assets from line items 12 to 16 only due to the (lacking) eligibility of the assets? If no, what is the difference to line item 27 "securities issued by sovereigns with a 20% risk weight"?*

Line item 17 refers to debt securities issued by governments or central banks which do not fit the criteria for line items 12 to 16 but can be included in the narrow buffer because they can be used to offset net cash flows in the country where the risk is taken. The criteria 0% risk weight and the existence of a repo market do apply to the items in lines 12 to 16, but not to the items in line 17.

The differences with regard to line item 27 are that line 27 (1) includes assets of multilateral development banks, (2) includes assets that are guaranteed by the respective public or supra-national institutions and (3) the assets can be assigned irrespective of the home country or the domestic currency of the bank where the liquidity risk is taken. Items already included in line 17 should not be included in line 27.

23. *Do potential additional margin calls (as referred to under paragraphs 60 to 62 of the Liquidity document) that can be satisfied by assets which are not considered liquid*

under the LCR definition (ABS/MBS for instance) have to be marked as cash outflows for the calculation of the LCR?

Potential margin calls as referred to in paragraphs 60 to 62 in the Liquidity document should be captured in the QIS template in lines 94 to 97, as relevant. There is no differentiation in the template between potential collateral which is considered liquid or not.

24. *How should collateral which has already been posted in the context of margin calls be included as in- or outflows in the LCR?*

Posted collateral amounts should be reported in lines 99 and 100, which differentiate between currently posted collateral which would be eligible for inclusion in panel A1 or not.

25. *The NSFR distinguishes between loans with a residual maturity of less than one year versus loans with a residual maturity of one year or more. Should the residual maturity of the loan be determined solely by the contractual maturity of the loan, to the extent that the loan has a contractual maturity? Or should any behavioural assumptions be included, such as extension/refinancing of the loan, which may imply that the effective maturity of the loan exceeds the contractual maturity?*

To the extent that extensions/refinancing are contractually in place, these transactions should definitely be taken into account when considering the remaining maturity of the loans. However, do not apply any behavioural assumptions to the outstanding amount of maturing loans that would extend the life of the loan beyond contractual terms in the QIS.

26. *“Total balances of outstanding sponsored transactions including own debt or debt issued by conduits, SIVs, money market mutual funds and other financing facilities, as the bank would potentially repurchase a portion to mitigate reputation risk.” How should we calculate the amount that is potentially repurchased in order to avoid reputational damage? Assumptions may range from zero over the full amount falling due to the overall amount of issued securities.*

Template, “Liquidity” worksheet, row 119.

This line item should include all amounts outstanding, without any behavioural assumptions about how much might have to be repurchased.

27. *Assets not yet encumbered but held as a contingent collateral for potential future exposure of derivatives? Is it the intention that the same value as for row 96 is filled in? What does this mean?*

Template, “Liquidity” worksheet, row 252.

Some institutions use estimates of potential future exposure and segregate securities to meet potential future collateral calls. If the institution practices this risk management technique, report the assets segregated in line 252. If not, do not report this amount.

28. *Row 248 “All other trading securities or other instruments that are fair-valued based on inferences from observed market prices or models”. According to paragraph 27 A of IFRS 7 “Financial Instruments: Disclosures”, which level of hierarchy should be adopted?*

Template, “Liquidity” worksheet, row 248.

Banks can use the IFRS hierarchy for fair-value valuation in the QIS – ie Level 2: (a) quoted prices in active markets for the same instrument (ie without modification or

repackaging) (Level 1); (b) quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2); and (c) valuation techniques for which any significant input is not based on observable market data (Level 3).

29. *Under panel A2, there is no row provided for securities issued or guaranteed by “other institutions” under “additional assets”. Should all these securities be presumed to have a 0% risk weight and covered under “narrow buffer assets” in panel A1?*

No. The only securities which should be included in panel A1 for line items that receive a 0% risk weight are those that actually receive a 0% risk weight under Basel II. Line 16 specifically captures a few “other institutions” such as multilateral development banks, the IMF, the ECB etc.

30. *“To the extent an institution uses a “matched book” financing strategy, ie transactions in which repurchase and reverse repurchase transactions exist, for such matched transactions in which i) the security on each transaction has the same unique identifier (eg ISIN number or CUSIP) and ii) the term of each transaction both fall within the 30-day time horizon, there will be no incremental net cash outflow requirement as these inflows and outflows are assumed to off-set each other.” We interpret a “matched book” as a more general concept, where offsetting transaction in one security occurs within the organisation and not strictly on a more narrow technical term such as a ring-fenced trading portfolio.*

Liquidity document, paragraph 58, footnote 18.

No, a matched book in this case only refers to securities that have an identical CUSIP or ISIN.

31. *Can the factor “for which an active repo-market exists” be ignored for banks holding securities with a zero risk weight if they cannot ascertain whether an active repo-market exist for such securities?*

Template, “Liquidity” worksheet, panel A, rows 12 to 16.

No, for application of the “repo market” requirement see Section 5.2, question 2.

32. *Row 17 introduces the concept of “domestic currency” for sovereign bonds, allowing banks to include in the liquidity buffer debt issued in domestic currency of bank’s home country or in the country where the liquidity risk is taken. If a subsidiary is holding sovereign debt rated < AA- that is buffer eligible (for the subsidiary) as per the “domestic currency” rule, are these bonds eligible for the group at the consolidated level as well?*

Template, “Liquidity” worksheet, panel A.

These bonds can be included in the buffer up to the net cash outflows occurring in that specific country. To this extent, they are eligible to the group-wide liquidity buffer. A possible surplus of these assets over domestic net cash outflow, however, cannot be used to cover liquidity risks outside the country.

33. *Regarding the treatment for repos and securities lending (the bank receives cash, and loans/sells the security), we need further clarification about the definition of security which has been loaned/sold. In some cases, the security is still physically at the bank, but the bank does not have the legal right to use it in any way until the bank unwinds the transaction, pays back the cash, and attains the legal right to the security again. How should we treat these securities in the LCR?*

Template, "Liquidity" worksheet, panel A, rows 9 to 31.

These assets should not be included in the buffer of liquid assets (rows 9 to 31), since they are not available to cover the net cash outflow. It does not matter if the security is physically at the bank if the bank does not have the right to use those securities.

34. *One of the essential requirements to include bonds in rows 12 to 16, is that a repo-market exists. However, repo markets are typically liquid for sovereign bonds only (rows 12 to 14). For the remaining categories, is it correct to apply instead the concept of "marketability", identifying assets that the bank can sell or repo without accepting large fire sale discounts?*

Template, "Liquidity" worksheet, panel A, rows 15 and 16.

No, for all assets included in rows 12 to 16 repo-markets must exist. For application of the "repo market" requirement see Section 5.2, question 2.

35. *Should the last sentence in the instructions (ie "The underlying assets would be included in the relevant categories in lines 12 to 31.") be amended to reflect the clarification made in question 8 under Section 5.2 (ie "The associated security backing the repo transaction should not be recorded in panel A or elsewhere, regardless of the maturity of the underlying asset.")?*

Template, "Liquidity" worksheet, row 72.

In rows 73 to 91 repo positions maturing within 30 days should be recorded. The type of underlying assets determines in which line the repo position should be recorded. The underlying assets themselves should not be recorded in the QIS template. The last sentence is intended to clarify that only repo transactions are meant where the underlying collateral is an asset which would be eligible to rows 12 to 31 if it was unencumbered.

36. *Can foreign currency deposits be reported as stable deposits if they meet the criteria of stable deposits? The requirement of treating foreign currency deposits as less stable deposits is mentioned in paragraph 41(b) of the Liquidity document but not in the instructions.*

Template, "Liquidity" worksheet, panel B1.

At least for the QIS, foreign currency deposits can be included in the stable deposit bucket, provided that they meet all the criteria for stable deposits and there are no jurisdiction-specific indications to proceed otherwise. As mentioned in the Liquidity document, once the standards are in place and jurisdictions establish additional buckets for the treatment of deposits, deposits held in foreign currency may be considered as a potential indicator for a less stress-resistant depositor behaviour (although this is jurisdiction-specific and may not be the case).

37. *A practical question relates to the rating. A number of European central government issuers have split ratings, eg Portugal, Italy and Greece. The option to take the highest or the lowest rating has for some issuers consequences on the inclusion under the narrow buffer or the additional assets or even inclusion in the stock.*

Template, “Liquidity” worksheet, panel A, rows 12, 13 and 27.

The same treatment should be used as in the standardised approach to credit risk in Basel II. That is, in case of two ratings assessments for a particular claim use the lower rating, and in case of three or more ratings assessments, the higher of the two lowest ratings is to be applied. In case of different ratings for different facilities the rating of the particular facility is to be applied.

38. *Should “effective residual maturity” take into account the explicit or embedded options that would reduce the expected maturity to less than one year?*

Template, “Liquidity” worksheet, row 176.

Yes.

39. *Should accrued interest receivables on securities be added to the market value of the respective securities which are eligible for liquid assets or should they be regarded as cash inflow if they will be received in the next 30 days? If it is the latter, where should they be reported?*

If accrued interest on assets in panel A is reflected in the market price of the liquid asset, it should not also be reported as inflows. If accrued interest on liquid assets is not (or no longer) reflected in the market price of assets in panel A, it should be reported as contractual inflow. Accrued interest on assets not in panel A could be reflected as contractual cash inflows, however, since they are not already reflected in the value of the liquidity buffer.

40. *How should banks report their holdings in trust funds – do they need to look through the trust funds and report the underlying portfolios of trust funds in the appropriate rows? If not, where should they report? If yes, will the reporting be affected by different accounting classifications of such investments (eg held-to-maturity, available for sale and fair value through P&L)?*

Trust funds normally have some limitations on withdrawals of funds. If there are no limitations, then the institution may use a look-through approach and report the holdings in the row item that comprises a majority of the trust assets. If there are limitations on withdrawals the trust funds can be reported in row 248 if fair-valued or row 246 if not fair valued.

6. Counterparty credit risk

6.1 Technical issues

1. *In the formula for VaR (CVA) for IMM banks, what is the rationale for adding 1.5% to the PD?*

Template, “CCR” worksheet, panel B1c).

This was done to allow banks to use their own internal estimates of PDs in the formula. Since the formula was constructed using risk neutral PDs (ie “natural” PDs + market price of risk), to facilitate the banks use of their own estimates of PDs, we must estimate the market price of risk. Empirical market data taken from Moody’s

indicates that 150bp is a reasonable and fair representation of the market price of risk in a stressed environment.

2. *Calculation of the EEPE with parameters as at 31 December 2007 is a difficult task for us to perform, and we will not be able to complete it in the required timeframe.*

The priority is that banks are consistent. If banks use implied parameters today, they should use implied parameters as of 31 December 2007. If banks use historical calibration today, they should attempt to calculate EEPE as of 31 December 2007 using historical data over the three-year period 2005–2007. **Only** if this is not possible, then historical calibration banks can use implied parameters as of 31 December 2007.

3. *Certain sections are meant for IMM banks only. Some banks operate from multiple entities, with only some having an IMM waiver. If the waiver covers material parts of the OTC derivative portfolio and the exposure for the rest of the portfolio is calculated using the mark-to-market method (CEM), given that the rule changes covered in these sections affect mainly trades under IMM, can we provide results for these sections based on the modelled portfolio under IMM only? Non-modelled OTC derivatives and SFT would not be included in these sections, as these products are not in scope of the waiver.*

Template, “CCR” worksheet, all IMM panels.

This is correct. Only IMM exposures should be included in the IMM panels.

4. *It is unclear whether EAD and RWA figures in rows 7 to 11, columns H and I, should include the new add-on and threshold calculations.*

Template, “CCR” worksheet, panel A1, rows 7 to 11, columns H and I.

The CVA add-on is not to be included in these calculations and the change to AVC is also excluded.

5. *Can you please confirm that only the volatilities and correlations as of 31 December 2007 are to be used and not the market data as of this date?*

Template, “CCR” worksheet, panel A1.

The calibration of all parameters within the IMM exposure model (such as, for example, volatilities, correlations and drifts) should be that applicable as of December 2007. The value of risk factors that are inputs to the IMM exposure model should be as of December 2009. All non-IMM parameters or risk factors should be taken as of December 2009.

6. *Can you please confirm that rows 25 and 26 refer to the CEM exposure of the portfolio that is subject to IMM? If yes, can netting and collateral be taken into account?*

Template, “CCR” worksheet, panel A1, rows 25 and 26.

This is correct. CEM only should be used for those exposures calculated under IMM. Netting and collateral can be taken into account in accordance with the CEM rules, ie add-ons can be netted using the NGR.

7. *The bank applies an internal VaR model only for general market risk, not for specific market risk. Therefore, how are we supposed to fill in column I (“VaR”)? Are we supposed to introduce only the general market risk component of the additional capital for CVA losses in column I?*

Template, “CCR” worksheet, panel B1.

If a bank does not have specific risk VaR approval, it should only calculate the bond-equivalent CVA capital charge using SMM for the purpose of the QIS. It is proposed that banks will be allowed to use their approved general market risk VaR model to calculate the general market risk component of the CVA capital charge, although such partial use is not tested in the QIS.

8. *“Additional capital for CVA losses” asks for both an evaluation under VaR and standardised approach for market risk. Many banks only have one option implemented and will thus only be able to deliver what their implementation can offer.*

Template, “CCR” worksheet, panel B1c).

All banks are asked to calculate the standardised bond-equivalent CVA charge. Banks with VaR approval (for both general and specific risk) should calculate both.

9. *Columns G and H (standardised) seem to be very difficult to fill in for banks that have switched from a standardised measurement method to an internal VaR model for the calculation of general market risk. Therefore, the calculation program for the standardised measurement method might not be available anymore (if the system, process or program have not been maintained).*

Template, “CCR” worksheet, panel B1.

All banks are asked to calculate the standardised bond-equivalent CVA charge.

10. *Should banks’ standard VaR multiplier be applied in panel B1c)?*

Template, “CCR” worksheet, panel B1c), rows 62 to 65, column I.

No, the specified multiplier of 3 should be used.

11. *Use of a 99th percentile 10-day VaR scaled to one year through a multiple of five appears to be a duplication of the existing three times VaR multiplier. Should both multipliers be used?*

Template, “CCR” worksheet, panel B1c).

Yes.

12. *Do the capital cells refer to the current counterparty risk capital or to the new capital charge for CVA?*

Template, “CCR” worksheet, panel B1, rows 41, 42, 47 and 48, column G.

Capital refers to the current capital charge (existing rules) attributable to the EAD given. Banks are not being asked (here) to calculate a CVA capital charge, nor provide any current CVA figures. The purpose of rows 41 and 42, columns G and H, is simply to understand how commonplace the use of credit spreads in the calculation of CVA is.

13. *Even when the bank is not applying the CDS spreads for computing the CVA, should it compute the risk of movements in the CDS spreads whenever the specific CDS spread of the counterparty is available?*

Template, "CCR" worksheet, panel B1, rows 41, 42, 47 and 48.

Yes, the CDS spread should be used when available, and proxies should be used when not, even if proxies would typically be used to calculate CVA for accounting purposes where CDS spreads are available.

14. *For a vehicle that uses standardised approach risk weights and not the internal ratings-based approach, do you still require EAD-weighted average effective maturity for OTC derivatives?*

Template, "CCR" worksheet, panel B1c).

Yes.

15. *We are not sure if the capital for CVA should be computed only for OTC derivatives (as it is established in the Resilience document) or if it should include securities financing transactions (SFTs).*

Template, "CCR" worksheet, panel B1c), rows 62 to 65, columns F, G, H and I.

Capital for CVA should only be calculated on OTC derivatives. However, we ask for current CVA on all exposures in the tables above.

16. *If a bank has many trading sites with the majority of exposures traded in some sites, can we provide data for the main sites only and scale up the results if the remaining exposures will be material? Given that this section is for Basel II banks only, are we meant to include sites that will become a Basel II bank later?*

Template, "CCR" worksheet, panel B.

Banks are asked to complete the QIS on a best-efforts basis. On the "CCR memo" worksheet banks that will become Basel II banks later should be included.

17. *Could you please confirm that rows 72 to 76 affect only exposures subject to the standardised approach to credit risk?*

Template, "CCR" worksheet, panel B2a), rows 72 to 76.

This is correct. Please also refer to Annex 1 for more details.

18. *We assume that SFTs under Repo VaR should not be included.*

Template, "CCR" worksheet, panel C.

This is correct.

19. *We assume that panel C is only isolating the impact on margin periods of risk (columns I and J), ie we will not include thresholds and add-on impacts.*

Template, "CCR" worksheet, panel C.

This is correct.

20. *The rules around the margin period of risk are based on the relation between netting set and margin call. This is not common industry practice, where master agreements are subjected to CSAs. Daily trade volumes are not stored by netting set.*

Template, “CCR” worksheet, panel C.

Banks can calculate the impact at the counterparty level if information is only available at this level. However, they should advise their supervisor if their calculation was on this basis. If information is available at netting set level this information must be used.

21. *The Instructions discuss “margin netting sets containing at least one illiquid trade or more than 5,000 trades at any time in Q4 2009”. A bank may not have this information.*

Template, “CCR” worksheet, panel C.

If a bank cannot do this for anytime over Q4 2009, then it could use the end of Q4 2009 as a proxy.

22. *Daily trade information on illiquid trades is not stored. Therefore, we cannot look for netting sets with illiquid trades in Q4 09.*

Template, “CCR” worksheet, panel C.

Banks need to complete this on a best-efforts basis. Level 3 assets and non-daily margined counterparty information should be available.

23. *On panel E, the QIS template provides 50 PD bands. Can the bank use a different number of PD bands?*

Template, “CCR” worksheet, panel E.

Yes, banks should use the number of PD bands they use for their IRB financial intermediaries portfolio. However, no more than 50 PDs can be used.

24. *Could you please clarify what you mean exactly by “PD lower bound” and “PD upper bound”?*

Template, “CCR” worksheet, panel E.

Lower and upper bounds are the minimum and maximum PDs (used for IRB purposes) of counterparties belonging to the rating grade for which the risk-weighted asset calculations on the right-hand side of the table are required. In other words, each row asks for the sum of risk-weighted assets (under various assumptions) of counterparties having an IRB PD between the lower and upper bounds specified for that row.

25. *Does panel E apply only to the IRB-approved sub-portfolios or to all financial institution exposures?*

Template, “CCR” worksheet, panel E.

This panel only applies to financial intermediary exposures subject to the IRB framework. Please also refer to Annex 1 for more details.

26. *For those financial firms for which we do not have information about their asset volume, how should we simulate the impact of the asset value correlation parameter?*

Template, “CCR” worksheet, panel E.

Proceed on a best-efforts basis.

27. *Apart from direct exposures to financial firms, in the calculation of the asset value correlation parameter should we analyse the impact of guarantors on financial firms? If yes, how should we report it?*

Template, "CCR" worksheet, panel E.

Yes, as it would be done in the current framework.

28. *We understand that question 12 above relates to column G (rows 41, 42, 47 and 48). However, it is not clear from the response whether banks are required to report any actual CVA figures in this panel. Our interpretation of the Instructions is that banks need to report the current CVA figures (actual CVA and not the CVA capital charge) in column H in rows 41 to 57. Please advise whether our interpretation is correct (ie banks need to report the actual CVA figures in column H for rows 41 to 57). If not, what needs to be reported in column H for these rows?*

Template, "CCR" worksheet, panel B1, rows 41 to 57.

In cells H41, H42, H47, H48, H53 and H54, banks are asked to report actual CVA amounts based on the criteria described in cells B41, B42, B47, B48, B53 and B54, respectively. In cells H52, H55, H56 and H57, banks are not asked to report CVA amounts. These cells are to be filled in based on the criteria in cells B52, B55, B56, and B57, respectively. Wherever CVA amounts are requested from rows 41 to 57, these refer to actual CVA figures, whilst the requested figures from rows 62 to 65 are estimates of CVA capital charges as per the relevant methods.

29. *The Instructions on rows 56 and 57 refer to the CVA reported in rows 44 and 45. Should the reference be to rows 53 and 54 instead?*

Template, "CCR" worksheet, panel B1, rows 56 and 57.

Yes, the reference should be to rows 53 and 54.

30. *There seems to be some discrepancy between the Instructions (Section 4.1.2) and the "CCR" worksheet (and within the latter): the Instructions state that panel A2 is for all non-IMM banks whereas the heading in the worksheet is restricted to non-IMM IRB banks; and the heading in cell I30 indicates that all banks (presumably non-IMM) should fill in I32 and I34. Could you please make clear whether (a) all non-IMM banks should fill in panel A2 with the increased estimates of R only applicable to banks applying IRB for the relevant exposures or (b) only non-IMM IRB banks should fill in panel A2?*

Template, "CCR" worksheet, panel A2.

The wording in the Instructions is correct and the wording in the template is incorrect. You should be following the Instructions. Cells I32 and I34 should be completed by **all banks**. For **non-IRB banks**, you do not need to take into account the increased AVC for financial institution as this only applies to IRB portfolios. For **IRB banks only**, cells J32 and J34 should also be completed. Please also refer to Annex 1 for more details.

31. *The Instructions on rows 56 and 57 refer to the CVA reported in rows 44 and 45. Should the reference be to rows 53 and 54 instead?*

Template, "CCR" worksheet, panel B1, rows 56 and 57.

Yes.

32. *Regarding the "CCR" and "CCR memo" worksheets, we have gone through all the sections and we understand that the required information is either related to banks*

following the IMM approach for CCR or IRB banks. Please note that our banks are currently using the standardised approach for credit risk and are not IRB-compliant banks at this moment. The only section we have noted that refers to the standardised approach is rows 72 to 76. We would therefore be grateful to receive your guidance on the appropriate sections within both the “CCR” and the “CCR memo” worksheets that are required to be completed by banks using the standardised approach for credit risk.

The following sections should be filled in by banks using the standardised approach to credit risk: A1, A2 (see question 30 for clarification), B1, B2.a, C, D, F and G. Within these, the template highlights sections that should only be filled by IMM or CEM firms. Firms that currently use the CEM should fill in the “CCR” worksheet as a CEM firm. Firms that currently use the IMM should fill in the CCR tab as an IMM firm. If a firm currently uses CEM but has an IMM model in place internally, it should fill the “CCR” worksheet as a CEM firm and the “CCR memo” worksheet as an IMM firm.

33. *There seem to be a confusion between the Instructions and the labels of these cells/columns: could you please confirm that it is capital charges amounts (and not RWA) that must be given here?*

Template, “CCR” worksheet, panel A, rows 15 to 21, columns I and J.

RWA are required for all relevant cells in panel A1.

34. *Is it correct that CCF in the formula for the Stylised VaR for CEM banks (page 64 of the Instructions) refers to the notional conversion factors in the table in Annex 4, paragraph 92(i) of the Basel II framework?*

Yes, it is.

35. *How are the thresholds (\$25 billion and \$100 billion, respectively) applied if the financial firm does not account in USD?*

Please use the exchange rate applicable as of 31 December 2009.

36. *With reference to the answer to FAQ no 12 could you please clarify what banks are expected to report regarding “Total CVA”?*

Template, “CCR” worksheet, panel B1, rows 41, 42, 47 and 48, column H.

The sum of the CVAs for all OTC counterparties covered by the criterion of the particular cell (ie whether there is a spread available for the counterparty, and whether there is a margin agreement in place). Please see the Instructions.

37. *On the worksheet “CCR”, panels B1 a-b, the bank should enter CVA, but not all banks record CVA into P&L for their counterparty exposures. Should every bank fill this in (on a best-efforts basis), or only banks that currently book CVA changes into their P&L?*

All banks should fill panel B.1.a-b on a best-efforts basis.

38. *Will we receive a more specific definition of financial institutions, ie SIC codes for those financial institutions which exceed the threshold?*

The Committee does not intend to produce a list of those financial institutions which would qualify for the 1.25 scalar in the QIS. This is for firms to determine.

39. *Is the bond-equivalent CVA scoped to that subset, or to all positions?*

The CVA charge should be calculated for all netting sets applicable to the particular cell, as labelled. So for example in panel A1 the CVA charge should be calculated for the IMM netting sets only (subject to the confirmation above) and in panel A2 for the CEM netting sets only (ditto). In B1c it should be calculated for all counterparties.

40. *Given a piece of our OTC portfolio uses CEM, do we fill in rows 64 and 65 by carving out those pieces?*

No, these cells should not be filled in.

41. *How should a bank that currently has no model in place to calculate CVA losses fill in this template?*

Template, "CCR" worksheet, panel B.

When there is a requirement to calculate CVA but currently there is no model in place and the institution cannot estimate it on a best-efforts basis, the cell should be left blank (in line with the general instructions, which state that "where information is not available or not applicable, the corresponding cell should be left empty. No text as 'na' should be entered in these cells.")

On the other hand, when the bank is not required to calculate the CVA or when it is actually zero, it should report '0'.

42. *On page 63 in the QIS instructions it is stated that "CEM banks should also provide the impact without hedges, with existing supervisory floors for the margin period of risk". How should the margin period of risk be incorporated in the CVA capital charge for CEM banks?*

Instructions, p 63.

Margin period of risk considerations do not apply to CEM firms for the time being. This comment in the instructions is intended to ask for impacts separately with and without hedges.

43. *Does row 42 (for margined exposures only) refer to exposures to OTC derivatives with netting agreements? Should the EAD be reduced by the collateral value?*

Template, "CCR" worksheet, panel B1, row 42.

The information when restricted to margined exposures is requested for the set of counterparties where a margin agreement is in place, ie typically when the netting agreement is supplemented by a Collateral Support Annex. Yes, the EAD should reflect the presence of collateral as permitted by the applicable approach.

44. *How are the parameters in the formula for the CEM CVA add-on to be interpreted, in particular "notional", "CCF" and "product types"? In what cases does the CCF play a role? Is a different approach for credit derivatives and other derivatives necessary?*

Instructions, Section 4.1.3, calculation of the additional capital charge using the stylised VaR rule – CEM banks (p 64).

Please see the details of the inputs to the CEM formula for EAD in paragraph 92 in Annex 4 of the Basel II framework. Note that the CCF is a function of both residual maturity, as well as product type, and you should sum each maturity bucket for each product type by the corresponding "unique" CCF.

45. *Application of the thresholds on non-USD- accounting. How are the thresholds (\$25 billion and \$100 billion, respectively) applied if the financial firm does not account in USD?*

Please use the exchange rate applicable as of 31 December 2009.

46. *Calculation of PFE. In order to calculate the PFE, shall the same add-on be used as for EPE, or shall the worst-case quartile be used for the calculation?*

Please see the details of the stylised VaR calculation in the Instructions. Effective PFEs should be based on the profile of potential exposures at the 99% level, ie the 99th upper percentile of possible future exposures at each time point, whereas effective EPEs should be based on the profile of expected positive exposures, ie the mean of each future exposure distribution after flooring negatives to zero.

47. *CVA calculations. The Instructions regarding the CVA calculations refer to general and specific interest rate risk. To what extent CVA calculations for OTC positions have to be calculated without considering interest?*

Please refer to the bond-equivalent walk-through in the Instructions. For the purpose of the QIS the CVA capital charge should be reported as the sum of the general and specific interest rate risk charges applied to the portfolio of bond-equivalents.

48. *CVA risk charge in standardised approach. In panel B, rows 62 and 63, columns G and H, the CVA risk charge has to be calculated according to the standardised approach to market risk. Page 68 of the Instructions gives a simple example to this approach. In this example, the specific risk charge as well as the general market risk charge are applied on the PV difference of the risk-bearing and risk-less zero-coupon bond. Can we assume that this procedure is correct, or is it necessary to differentiate between both opposite synthetic bonds?*

Template, "CCR" worksheet, panel B, rows 62 and 63, columns G and H; Instructions, p 68.

The procedure detailed in the instructions is correct, and the SMM risk weights for general and specific risks should apply to the difference between the PVs of the risky and risk-free bonds.

49. *Consolidated change of EaD and RWA figures. Rows 7 to 11 of the "CCR" worksheet refer to the consolidated change in EaD and RWA figures, respectively. However, the bank limits itself to the changes due to the supplementary capital charge for wrong-way risk. (Because the modified margin period of risk is not relevant for the bank as a "shortcut bank" and the modified shortcut method is not explicitly mentioned here.) Is this correct?*

Template, "CCR" worksheet, rows 7 to 11.

This is incorrect. Banks using the shortcut method should also report the impact of the longer margin periods of risk.

50. *Margin period of risk. The bank assumes, in case the shortcut method is applied, it is not necessary to perform calculations regarding the modified margin period of risk. Is this assumption correct?*

This is incorrect. Banks using the shortcut method should also report the impact of the longer margin periods of risk.

51. *Shortcut method, information regarding the disputes. The bank has decided to apply the shortcut method and therefore cannot produce the simulation of the collaterals*

as required in panel C. Is information regarding the disputes to be specified anyway?

Template, "CCR" worksheet, panel C.

The use of the shortcut method does not prevent answering any aspect of panel C. In particular if the bank has a "shortcut model" in place for margined trades then it needs to evaluate model outputs assuming the different lengths of the margin period of risk wherever appropriate.

52. *Wrong-way risk and the modified shortcut method. For wrong-way risk and the modified shortcut method, the bank calculates the impact of the changes without considering the remaining changes, ie each change is regarded separately/independently of the other change. Is this correct?*

In panel D, the impact of the proposed wrong-way risk treatment should be reported independently of any other change. In panel G, the same applies to the revised shortcut methods, in that the proposed approaches are applied without the application of all other changes.

53. *Our understanding is that an increase of the correlation needs to be done only for OTC derivatives and repo/reverse repo transactions. Is this assumption correct?*

Template, "CCR" worksheet, panel E, columns G, H and I.

No, this is incorrect. The impact of the change in AVC should be applied to all IRB credit exposures to target counterparties. For example if a counterparty is an insurance company with assets above \$150bn, RWAs to all exposures to this counterparty should reflect the 1.25 multiplier, including both CCR exposures (eg arising from OTC derivatives or SFTs) and credit exposures (eg arising from loans or committed facilities).

54. *Panel B1 refers to the latest regulations. Since there is no capital requirement for CVA at the moment, which value should be disclosed as a total?*

Template, "CCR" worksheet, panel B1.

Please refer to the Instructions. In panel B1, under "Total CVA" the bank should report the total CVA applicable as of 31 December 2009 for the relevant sub-portfolios. In this column it is CVA values that should be reported, not capital impact figures.

55. *Long settlement transactions are never mentioned in the QIS template and instructions. Should banks leave them out of the exercise, or should they include them under OTC derivatives?*

Please include long settlement transactions under OTC derivatives.

56. *If a bank uses the CEM for regulatory reporting, but is filling in the "CCR memo" worksheet (using a yet to be approved internal model), the cell references for G7, G8, G9, H18 and H21 in the "CCR memo" worksheet are incorrect. These references point to the "General Info" worksheet which only contains regulatory data for CCR. What should we do?*

Template, "CCR memo" worksheet.

In cases where a bank uses CEM for regulatory reporting (and is providing such CEM information on the CCR worksheet) but is also able to provide data on the CCR memo worksheet, cells G7, G8, G9, H18 and H21 on the "CCR memo" worksheet are incorrect and should not have embedded formulae, rather should be

input cells. As the required data cannot be entered in the relevant cells, banks should provide the relevant data that should have been entered into cells G7, G8, G9, H18 and H21 of the “CCR memo” worksheet directly to their supervisor.

57. *Is it correct that for the totals across IMM OTC derivatives and SFTs, with parameters calculated as at 31 December 2007, a re-run of the internal credit engine has to be performed?*

Template, “CCR” worksheet, row 10.

This is correct. For the avoidance of doubt this is not simply reporting the measures as at 31 December 2007, as the calculation must be undertaken based on today’s portfolio.

58. *How should a bank provide data in panel B2a if exposures subject to the standardised approach to credit risk are immaterial for the institution?*

Template, “CCR” worksheet, panel B2a.

Panel B2a concerns exposures where a standardised credit risk weight is used. If there are no such exposures then zeros should be entered in this panel.

59. *Is it necessary to use all the new rules for the effective EPE calculation, ie total effective EPE and the five-year maturity cap? Is “total effective PFE” (column F) a new measure?*

Template, “CCR” worksheet, panel B2b.

No. Panel B2 should contain information based on the current rules, as the different panels aim at evaluating the marginal impacts of different rules. Yes, effective PFE is a new measure, described in the Instructions.

60. *How should a bank proceed if it cannot quantify large disputes by reference to notional (only by MtM size) as notional is not stored?*

Template, “CCR” worksheet, panel C.

Please provide the MtM size of the disputes in the relevant column.

61. *Is it correct that panel F refers to CCPs which currently receive EAD=0 treatment (ie central clearing houses).*

Template, “CCR” worksheet, panel F.

That is correct, although not all positions in CCPs attract a zero EAD (eg equity investments).

62. *Calculating CVA losses according to the bond-equivalent rule. The bank calculates the EADs for CCR capital requirements using the current exposures method (CEM). For the QIS, capital requirements for CVA losses should be calculated using the bond-equivalent rule. In particular, a VaR must be determined for the portfolio including all bond equivalents, with the bond equivalent to be discounted using the spreads that the bank uses to calculate the CVA. As our bank has not yet implemented a CVA calculation, the counterparties are not allocated to CDS spreads by direct matching or proxies. It is therefore not yet sufficiently evident to what extent the quality controlled CDS spreads listed in the bank’s market data system actually cover the bank’s counterparty universe. As this mapping and coverage problem is unlikely to be solved in the short term, we currently see no way of accurately estimating capital requirements for CVA losses. This raises the*

question of how banks that do not calculate a CVA should sensibly calculate CVA losses using the bond-equivalent method.

As per the instructions, in your QIS submission please use the spreads of the counterparties whenever available, and when not available please use proxies based on rating, region and industry. Please use the response to the consultative paper to highlight conceptual issues for the Committee's consideration.

63. *Calculating a CVA charge for exposures subject to the standardised approach to credit risk. Cells H18, H21, H32 and H34 refer to existing RWA from the entire derivatives portfolio. Should a CVA charge be calculated for exposures subject to the standardised approach to credit risk? Is a simulation of IRB requirements necessary for these exposures (regulated financial counterparties >\$25 billion/>\$100 billion; unregulated financial enterprises) using the changed correlation?*

The CVA charge should be calculated for all OTC derivatives, irrespective of the approach used (IRB or standardised) to determine credit risk weights for the counterparty. The modified asset value correlation only applies to exposures currently subject to the IRB approach.

64. *Measuring CCR exposures, applicable netting rules. What rules should be used to measure CCR exposures (fair value figures according to the commercial code or prudential credit equivalent amounts; which supervisory method should be used)? What type of netting should be applied?*

Resilience document, paragraph 164.

Banks should use the current Basel II netting rules depending on the method they use to compute EAD for CCR exposures (netting rules are different under the CEM and IMM approaches).

65. *Unregulated firms. Regulated and unregulated firms are mentioned. Is there a list of unregulated firms?*

No and there is no intention to provide any. The asset size threshold applies to banks, insurance companies and broker-dealers. All other financial counterparties are subject to the 1.25 correlation multiplier irrespective of their asset size.

66. *The CVA capital charge should be calculated as the standalone general and specific market risk charge calculated on the long risky and short risk-free bonds. Subject to the horizontal/vertical disallowances, this means that there is no general market risk charge under the standardised approach. In modelling the standardised calculations (eg columns G and H, rows 62 to 65) we intend to calculate the specific risk charge only. Please confirm that this is the correct approach.*

That is not correct. In arriving at the bond-equivalent CVA capital charge, you are asked to calculate both a specific and general market risk charge, under both the SMM and IMA approaches. The "PV" term already subtracts the short position in the risk-free bond. Please refer to page 89 of the Instructions for a worked example. Note in the case where EAD rather than PV is used, you should simply multiply the SMM risk weights by the notional of the bond (ie the EAD) rather than the PV (the short position in the risk-free bond is now ignored). For clarity, in the example provided on p 89 of the Instructions, in arriving at the CVA capital charge, you would just substitute \$200 for \$23 and multiply through by the same risk weights.

67. *Please confirm whether CVA should be deducted from EAD prior to generating the notional bonds.*

CVA should not be deducted from EAD prior to generating the notional of the bond.

68. *Does the CVA on panel B1a refer to bond-equivalent CVA or to standardised charge CVA?*

Template, “CCR” worksheet, panel B1a.

It applies to neither. Here banks should report current CVA taken against the subset of exposures described within lines 41, 42, 47 and 48.

69. *Panel A asks for RWA (CCR capital + additional CVA charge) using the proposed rules of the new supervisory floors for the margin period of risk and the new treatment of specific wrong-way risk. Does this mean that, for the bond-equivalent method, the notional of the bond should be the EAD for the counterparty reflecting the new supervisory floors for the margin period of risk and the new treatment of specific wrong-way risk? Or should it be the EAD calculated under current Basel II rules?*

Template, “CCR” worksheet, panel A.

Banks are asked to calculate the new CVA capital charges based on both the new EAD (panel A: overall impact) and the existing Basel II EAD (panel B).

70. *Panel A is split between banks using the IMM approach and IRB banks using the CEM or the standardised approach. For banks which use the IMM for part of its portfolio and either CEM or standardised approach for part of its portfolio, is it the intention that a CVA add-on is disclosed separately for the portfolio subject to IMM and the portfolio subject to CEM/standardised approach?*

Template, “CCR” worksheet, panel A; Instructions, p 55.

No. According to the Instructions, IMM banks with partial use should fill in panel A1 regardless of the approach to which their exposures are effectively subject to. So, banks should fill in either panel A1 or panel A2.

71. *For the CCR section as a whole, for banks using a repo VaR approach in calculating CCR for SFTs, do the panels relating to IMM apply, given that these are two distinct approaches? Question 18 in Section 6.1 suggests that this is not the case. It is not clear, therefore, where SFTs under a repo VaR approach should be captured, if at all, in the QIS? The Basel proposals for the margin period of risk do not distinguish between approaches to calculate EAD and it is unclear whether any impact to repo VaR is captured in the QIS.*

Template, “CCR” worksheet, panel A.

SFT exposures calculated under repo VaR are covered in certain IMM sections. Data of repo VaR should be collected in panel A1, rows 18 and 21. This question also relates to question 70.

72. *In panel D of the “CCR” worksheet (wrong way risk), for banks that use a variety of approaches, of which IMM is one, do the questions on the number of netting sets (rows 240, 243 and 246) refer to the entire portfolio or just those portfolios subject to the IMM approach? Additionally please can we get clarification that the impact relates only to portfolios subject to the IMM approach (rows 241, 244 and 247)?*

Template, “CCR” worksheet, panel D.

Just those subject to IMM.

73. *Row 11 of the “CCR” worksheet requires banks to provide data for IMM positions based on parameters applicable as at 31 December 2007. For banks that were granted approval to use IMM after this date, these data will not be available. In this case, please can you clarify whether this row should be completed – we are assuming that this row would not apply to such banks.*

Template, “CCR” worksheet, panel A, row 11.

That is incorrect. The Committee expects all IMM banks to be able to provide these data irrespective of when their IMM waiver was approved.

74. *In panel C of the “CCR” worksheet, the QIS requires the identification of netting sets/counterparties with margin disputes that are unresolved over a five-day period. For such netting sets/counterparties, please can you clarify whether margin disputes that may have remained unresolved for less than five days should be incorporated into the analysis? (For example in the case that a netting set had two disputes, one for £100m for seven days and one for £200m for two days, would the largest dispute be £100m or £200m?)*

Template, “CCR” worksheet, panel C.

The information being collected within the tables are designed to inform the Committee as to whether size and length conditions should be put in place to trigger the increased margin period of risk for disputes. All sections of the table capture disputes that have lasted longer than five business days. However, column J (Average length of dispute) for panels C1 and C2 should include disputes that have lasted less than five business days.

75. *Netting sets under a legally enforceable margin agreement. We have included all agreements for OTC which are margined with the legal agreement ISDA CSA. Should we remove netting sets from this list which are in jurisdictions where the CSA may not be legally enforceable?*

Banks should only include collateral agreements that are legally enforceable under the applicable law of the relevant jurisdiction.

76. *Total mark to market of all disputes with counterparty at the time of the largest dispute. We can only have one dispute per counterparty so the answer to this question will be the same as the mark-to-market value of the largest dispute. Can we have more clarification as to what this is asking?*

Template, “CCR” worksheet, panel C.

Panels C1 and C2 are intended to capture the dispute data at both a counterparty and netting set level. We expect banks to populate the information at a counterparty and netting set level where operationally feasible.

For the purposes of panel C for rows 137 (all margined netting sets), 140 (all netting sets containing disputes) and 141 (the combined effect of all proposals) the margin period of risk should be increased at a counterparty level.

77. *Which currency is to be used as a reference for the risk-free interest rate (as defined on page 67 of the Instructions for calculation of the CVA charge) if the portfolio of derivatives with a counterparty comprises of transactions denominated in different currencies?*

Instructions, p67.

The currency of the interest rate used to determine the CVA for accounting purposes should be used.

78. *In panels C1 and C2 (disputes data), does column E include disputes which lasted less than five days?*

Template, “CCR” worksheet, panels C1 and C2, column E.

No, column E is subject to the criteria on the left-hand side of the tables, and hence only refers to disputes longer than five days.

79. *In panels C1 and C2, when should we include only large disputes and when should we include non-large disputes?*

Template, “CCR” worksheet, panels C1 and C2.

Column E captures large disputes in rows 146 to 166 and 193 to 213; and all disputes (large and non-large) in rows 168 to 188 and 215 to 235. Columns H and J capture both large and non-large disputes. Please note that the Instructions were contradictory with regards to this issue. On page 73, it says that for rows 168 to 188, column E should only include large disputes, yet for rows 215 to 235, the Instructions on page 74 say that column E should include all disputes.

80. *In panel C, rows 140 and 141, should this read “more than 2 disputes” or “more than 2 large disputes”?*

Template, “CCR” worksheet, panel C, rows 140 and 141.

The template is correct and this should read “more than two disputes”. The netting sets for which the information is requested are those where disputes longer than five days have occurred.

81. *The Instructions (topic CCR) regarding the CVA calculations refer to general and specific interest rate risk. To what extent CVA calculations for OTC positions have to be calculated without considering interest?*

The CVA calculations need to be calculated in accordance with the relevant approaches to both general interest rate risk and specific interest rate risk. This is true for all exposures to which the CVA charges are relevant.

82. *Is it correct that “margined exposures” (panel B1a) not only comprises trades for which a bank has currently received collateral but also trades that are covered by a margin agreement with the respective counterparty (ie trades for which the bank has currently posted collateral are included, too)? Is it correct that “margined counterparties” (row 65) only comprises trades that are covered by a margin agreement whereas all other trades are to be included in “uncollateralised counterparties” (row 64)?*

Template, “CCR” worksheet, panel B1a.

Yes, that is correct.

83. *On page 69 in the instructions it is stated that banks with value-at-risk model approval using the IMA for both specific and general market risks shall calculate the CVA capital charge, for the purpose of the QIS, as three times the sum of the specific risk capital charge and the general market risk charge. This calculation should be done both under regular conditions and under stressed conditions (stressed VaR). Should the regular CVA VaR be determined based on the calculation as of end 2009 (as is the general principle stated on page 4 in the Instructions) or should this risk figure instead be based on calculations as of end 2006 (as is stated on page 51 in the Instructions for market risk)?*

The regular VaR component of the CVA capital charge should be based on 31 December 2009 data (for both risk factor values and calibration of parameters such as volatilities), whereas the stressed VaR component of the CVA capital charge should be based on 31 December 2009 for risk factor values but with parameters such as volatilities based on the stressed period used for credit assets in the trading book stressed VaR. The Instructions on page 51 refer to how the regular (non-stressed) VaR should be computed in the Trading Book (“TB”) worksheet.

84. *We have received a request from a participating bank for exemption from reporting of panel B1 in the “CCR” worksheet. The bank (which uses the standardised approaches to calculate credit risk and market risk) mentioned that it is unable to map internal credit ratings to eligible external credit ratings for the purposes of evaluating the expected loss of its customer portfolio in calculating the credit valuation adjustment (“CVA”). According to our understanding, mapping of internal credit ratings to external credit ratings is not required for the CVA calculation. Please confirm if this is correct. If the issue raised by the bank is, however, valid, please advise how the bank can deal with it for QIS reporting purposes.*

Template, “CCR” worksheet, panel B1.

There is no need to perform such a mapping to compute the CVA under both the bond equivalent or the stylised VaR approaches. The Instructions provide a walkthrough of how to compute the CVA for purposes of the QIS (starting on p 63). No exemption will be given for this panel. Please note that the QIS is to be filled in on a best efforts basis.

85. *My understanding has always been so far that the concept “margin period of risk” applies only to the IMM and not to the other methods for calculating the capital requirement for CCR (it is mentioned only in paragraphs 41 and 42 in the Basel II framework and these paragraphs are part of the section on the IMM). Therefore, it is not actually clear to how exactly non-IMM banks should treat rows 62 to 65. Should they leave these rows empty? It does not really seem so, given the guidance in the Instructions (p 63 and further pages).*

Template, “CCR” worksheet, rows 62 to 65.

Non-IMM banks should complete rows 62 to 65 (64 and 65 for CEM only) as per the instructions starting on p 63. There is no mention of the “margin period of risk” in this section of the Instructions. The heading in the template which reads “...using existing supervisory floors for the margin period of risk” is there to provide clarity for IMM banks.

86. *According to the Resilience document, the calculation of the capital requirement for CVA losses for each single counterparty should be based on a hypothetical long position in a risky bond the parameters of which are prescribed (p 32 of the document and further). However, according to the Instructions, the calculation of this capital requirement for each single counterparty should be based on a hypothetical position in two bonds (pp 63 to 69 of the Instructions) where the other bond is a risk-*

free bond, the position in this bond is short and the bond has otherwise equal characteristics as the risky bond.

Please follow the instructions on pp 63 to 70. The bond-equivalent analogy is based on the fact that the long risky bond offset by the short risk-free bond is a first-order approximation of CVA.

87. *When calculating the bond equivalent CVA capital charge, how do you determine the effective maturity of a netting set for a CEM bank? The instruction (p 67) state that the effective maturity for each instrument in a netting set is determined by the formula in paragraph 320 of the Basel II framework. Further on the Instructions state that “For the purpose of calculating the CVA capital charge the maturity M to use [...] is the longest effective maturity (as calculated above) across all netting sets with the counterparty.” Does that mean that the bank can use the last section of paragraph 320 regarding derivatives subject to a master netting agreement and then apply the resulting longest maturity of the netting sets to the CVA capital charge calculations? Alternatively, should the bank calculate maturity for each instrument and use the resulting longest effective maturity of the instruments in the CVA capital charge calculations?*

The former procedure is the correct one. The bank should use paragraph 320 to obtain the effective maturity of each netting set: the first two bullet points of paragraph 320 indicate how to determine the effective maturity for each instrument within the netting set and the third bullet point indicates how to obtain the resulting effective maturity for the netting set. Once the effective maturity of each netting set with the counterparty is obtained, the longest of these should be used as the maturity of the bond-equivalent in the CVA capital charge calculation.

88. *Is there a typo on page 66 of the Instructions, third paragraph from the top: “For this CVA capital charge the only eligible hedges that can be included in the general market risk charge calculation are single-name CDSs, single-name contingent CDSs or other equivalent hedging instruments referencing the counterparty directly.” In our understanding, the risk category that is to be hedged via CDSs or equivalent instruments is intended to be the specific market risk. Would you agree with this interpretation?*

The interpretation is correct. The word “general” should be ignored in the original sentence.

89. *Please could you explain the derivation of the stylised VaR formulae provided on page 59 of the QIS instructions?*

The starting point for the derivation is the simplified formula for the unilateral CVA calculated as the PD multiplied by the EPE multiplied by the LGD.

- The CVA VaR is calculated as the 99th percentile (2.33 standard deviation of a normal distribution) multiplied by the square root of the variance of the CVA.
- The variance of CVA is calculated according to the following key assumptions:
 - LGD is assumed to be a constant.
 - The correlation of exposure and probability of default is assumed to be 1 (most conservative wrong way assumption).
 - The volatility of the PD is assumed to be equal to the PD.
 - The volatility of the EPE calculated directly from the percentile needed for the calculation using the difference between EPFE (at 99th percentile) and EPE.

- To account for the diversification benefits a multiplier of one half of the supervisory alpha of 1.4 is introduced as used as an additional multiplier of the VaR.

6.2 Interpretive issues

1. *Can an index hedge be offset against specific name CVA when the CVA calculation for this specific name is based on the index value?*

For the purposes of the QIS an index hedge cannot be used even when it includes the name of the underlying. Also for the QIS, banks are not given the freedom to calculate their CVA as they do for internal purposes. Where needed for the IMA market risk VaR calculation under the bond-equivalent approach, an approximation based on the PV of the hypothetical bond has been provided in the Instructions.

2. *Should trading book credit hedges that are included in the CVA VaR also be included in the market risk VaR?*

Template, "CCR" worksheet, panel B1.

If the hedges are currently included in the market risk VaR, they should be left in for the QIS.

3. *Are we also expected to discount the notional fictive bond amount with the longest effective maturity of the counterparty, for the calculation of the standardised specific risk capital charge for CVA losses?*

Template, "CCR" worksheet, panel B1.

The longest effective maturity of all netting sets with the counterparty should be taken as the maturity of the bond to determine which risk weight is applicable. In Column G the PV of the bond equivalent approximation of CVA (see bond-equivalent walk-through) should be multiplying the risk weights. In Column H it is the EAD of the counterparty that should be multiplying the risk weights.

4. *We understand that we have to calculate this additional capital charge for CVA losses only for uncollateralised transactions/counterparties. Is this correct?*

Template, "CCR" worksheet, panel B1.

No. The calculation applies to all OTC derivatives.

5. *Is CVA only to be computed for exposures with financial counterparties? If not, is stylised VaR only computed for IRB exposures?*

Template, "CCR" worksheet, panel B1.

Current CVA should ideally be calculated for all exposures to all counterparties (margined, unmargined and SFT). However, for the QIS, the CVA capital charge should only be calculated on OTC derivative exposures. Stylised VaR requires IRB inputs and is only to be calculated for IRB exposures.

6. *Does the CVA capital charge cover the entire OTC derivative/EEPE scope or only items for which a CVA is currently applied?*

Template, "CCR" worksheet, panel B1.

Firms should calculate the CVA capital charge for all OTC derivatives counterparty exposures.

7. *Could you please indicate more precisely how the eventual hedges could impact the calculation of the additional capital charge for CVA losses for both stylised and bond-equivalent approaches? Must these eligible hedges be taken into account only for the general market risk, and not for specific market risk?*

Template, “CCR” worksheet, panel B1.

For the stylised VaR approach, the eligible hedges can be reflected using the substitution approach, ie transferring the notional of the hedge from the future exposure profile of the counterparty to that of the hedge provider.

CEM banks must not reflect hedges in the stylised VaR calculation.

For the bond-equivalent capital charge, all banks can reflect hedges: the PV of the eligible hedge instrument can be offset against that of the bond-equivalent at counterparty level, for both specific and general market risk components of the charge. Please refer to the Instructions.

8. *To what extent do eligible hedges impact the notional of the fictive bond (=sum of EADs of the counterpart)? Are we supposed to subtract the hedge amount from the notional of the bond equivalent? Are we supposed to discount the notional of the hedge as well? Are we talking about a substitution effect? Could you please clarify?*

Template, “CCR” worksheet, panel B1.

The eligible hedges cannot impact the notional of the fictive bond under the bond-equivalent approach. The notional of the fictive bond is always the EAD of the counterparty gross of hedges.

Under the stylised VaR approach banks using the IMM approach to CCR can use the substitution approach and transfer the notional of the hedge instrument from the EE profile of the counterparty to that of the hedge provider.

No hedge reflection is allowed under the stylised VaR approach for CEM banks.

9. *Should any CDS hedge notionals also be scaled by alpha?*

Template, “CCR” worksheet, panel B1c).

No, CDS hedge notionals are not to be scaled.

10. *As per the Basel text, banks can use bought CDS protection to reduce EAD. For the purposes of this QIS, we do not intend to apply bought protection positions which arise as a result of market-making activity in CDS. Can you please confirm this is the proper interpretation?*

Template, “CCR” worksheet, panel B1c).

This is the proper interpretation.

11. *Does the removal of the five-year ceiling for the effective maturity calculation apply only to row 34 “EAD-weighted average effective maturity for OTC derivatives [in years]”?*

Template, “CCR” worksheet, panel B1.

M is uncapped only for the CVA capital charge calculations. In all other instances it is still subject to the current five-year cap.

12. *In the formula for the CEM CVA add-on for CEM banks, is the MtM for each counterparty max (0, MtM) or could we use even negative MtM?*

Template, "CCR" worksheet, panel B1c).

Only positive mark-to-market should be used.

13. *What is meant by "The one-year stress period to use for the purpose of the bond-equivalent calculation is the stress period chosen for credit assets for market risk purposes (for both the specific and general market risk stressed VaR)"?*

Instructions, p 69; template, "CCR" worksheet, panel B1c).

The market risk capital charge for bonds, which is used to determine the CVA capital charge under the bond-equivalent approach, is the sum of a current VaR and a stressed VaR charge, as per the Revisions document. This instruction is to say that for the purpose of calculating the stressed VaR component of the CVA capital charge for VaR banks, the stress period that the bank uses for credit assets for market risk purposes is the one that should be used for CVA purposes.

14. *Should intra-group counterparties be included?*

If an EAD for intra-group companies would normally be calculated and the exposure receives a non-zero risk weight, it should be included.

15. *When calculating the bond-equivalent CVA charge under standardised rules, is it permissible to use internal credit steps as a proxy for external ratings for calculating the specific risk charge?*

Template, "CCR" worksheet, panel B1c).

Yes, in the absence of an external rating, for the purposes of mapping the bond-equivalent to an SMM risk weight, a bank can use internal ratings as a proxy.

16. *Should CCPs be included in the MPOR rules, especially whether the 5,000 trade threshold applies?*

Template, "CCR" worksheet, panel C.

CCPs should be ignored for IMM calculations. The 0% capital charge means there is no risk-weighted assets effect of changing the margin period of risk.

17. *On panel E, there is a data request for "using a \$25 billion threshold" and "using a \$100 billion threshold". Based on the Instructions, it is unclear whether these thresholds are applied at legal entity or group level. For example, should a small subsidiary (with assets of say \$10 billion) of large international firms (with assets of say \$500 billion) be eligible for exclusion?*

Template, "CCR" worksheet, panel E.

Thresholds are applied at the highest aggregated level that is still a financial intermediary. Therefore, the small subsidiary of a large non-financial firm would be eligible for exclusion, but not the small subsidiary of a large financial intermediary.

18. *Could you please confirm that exposures to central counterparties relate to OTC derivatives only, not to exchange traded business?*

Template, "CCR" worksheet, panel F.

Exchange traded business is excluded. Only OTC derivatives and repos cleared by central counterparties should be included.

19. *Could you please clarify what you mean by “Contingent obligations to the default fund where known and limited”?*

Template, “CCR” worksheet, panel F.

Where the CCP membership agreement requires the clearing member to replenish the default fund up to a fixed amount, the bank should report this limit/contingent obligation.

20. *The Instructions (page 55) state that unregulated financial firms (regardless of size); including highly leveraged entities that generate the majority of their revenues from financial activities, such as hedge funds and financial guarantors are classified as financial counterparties for AVC calculation. Please clarify whether unregulated financial firms are limited to only ‘highly leveraged entities that generate the majority of their revenues from financial activities, such as hedge funds and financial guarantors’ or whether the reference to ‘highly leverage entities’ is included as one example of unregulated financial firms. Our interpretation is that it is the latter but would like to confirm it; and what criteria should be used in defining “highly leveraged entities”?*

Template, “CCR” worksheet, panel E; Instructions, p 55.

“Highly leveraged entities” are included as one example of unregulated financial firms. No prescriptive criteria on this will be provided for the QIS. As mentioned above this is only one example of firms to capture within the universe of unregulated financial entities.

21. *Under the internal models approach to market risk, banks are required to calculate the market risk capital charge by taking the higher of (i) its previous day’s value-at-risk number measured according to the parameters specified in this section and (ii) an average of the daily value-at-risk measures on each of the preceding sixty business days, multiplied by a multiplication factor. Is it sufficient to calculate only the previous day’s VaR number when calculating the amount of market risk capital charge of the bond-equivalent under the IMA to mitigate the burden to calculate these numbers on each of the preceding sixty business days?*

Yes. Banks may calculate only the previous day’s VaR number and multiply that by 15 (3 times for the market risk multiplier and 5 times to scale the 10-day VaR up to a one-year VaR) for QIS purposes. They do not need to calculate VaR for the previous 60 days.

22. *When calculating the effective maturity, is the one-year floor applied to that? It is mentioned that the five-year cap is not applied in the Instructions but there is no description about the treatment of the floor.*

Notwithstanding the removal of the five-year cap, M should otherwise be calculated in accordance with the current rules. In those instances in which a floor is inherent in the calculation it should be preserved. Similarly, there is no need to prescribe any additional floor where one does not currently exist.

23. *Under SMM, is it allowed to offset the bond-equivalent position by eligible CDS whose maturity is not exactly matched with the effective maturity of bond-equivalent? If so, to what extent is the offset can be accounted for?*

When the effective maturity of the bond-equivalent is not exactly matched with that of hedging position, paragraph 715 of the Basel II framework will apply. Accordingly, where a maturity mismatch exists, the hedge will not provide any capital relief.

24. *Response to question 18 (Section 6.2 – Interpretative issues) in the FAQs document states “exchange traded business is excluded. Only OTC derivatives and repos cleared by central counterparties should be included.” Where a bank does not face the central counterparty directly but instead goes through a clearing member that faces the clearing house, should these exposure amounts and collateral posted with the clearing member be included in this panel of the worksheet?*

Template, “CCR” worksheet, panel F.

No. Only direct exposures to CCPs should be included.

25. *It is stated that the information on total CVA shall only be related to the asset-side. Could you please clarify what is meant by asset-side only? One interpretation could be that the bank shall only consider SFTs and OTC derivatives where the bank has positive exposures to counterparties, ie netting shall not be used? Shall banks report current CVA, cf also the answer to question 15 in the FAQ?*

Template, “CCR” worksheet, panel B1c, rows 53 and 54.

Asset-side CVA refers to the amount that the bank must subtract from the mark-to-market value of its derivative transactions with a given counterparty in order to reflect into the fair value of these derivatives the risk that the counterparty may default. By opposition liability-side CVA, sometimes called DVA (Debit Valuation Adjustment), is the accounting adjustment that reflects the possibility that the bank itself may default into the fair value of these derivatives. To be very clear, DVA should be excluded from the QIS response. The proposed interpretation does not correspond to what is requested, as CVA, based on the market view of future expected losses, can be non-negative even when current exposures are negative. The CVA figures should be as of 31 December 2009.

26. *The formula for CEM CVA add-on on page 64 in the Instructions contains the term CCF. Is it a correct interpretation that the CCF refers to the add-on factors used to derive the amount for potential future exposure calculated according to paragraph 92(i) and 92(ii) of Annex 4 of the Basel II framework (ie the term that is referred to as Factor in the formula for EAD on page 66 in the Instructions)? The formula for EAD on page 66 in the Instructions contains the term Effective notional. Is this the same term as the one called “notional” in the formula for CEM CVA add-on on page 64 in the Instructions? Should 1.5% be added to the PDs in the formula for CEM CVA add-on on page 64 in the Instructions? 1.5% is added to the PD in the VaR (CVA) formula for IMM banks, according to the Instructions on page 63. According to Section 6.1, question 1, this add-on is introduced in order to allow banks to use their own internal estimates of PDs in the formula for IMM banks, since the IMM formula was constructed using risk neutral PDs (ie “natural” PDs + market price of risk).*

Yes, that is correct, CCF refers to the percentages of notional taken as potential future exposure as per paragraph 92(i). Yes, pages 64 and 66 in the Instructions refer to the same notional, ie the one referred to in paragraph 92(i). No, for the purpose of the QIS the 1.5% add-on should not be applied in the CEM CVA add-on formula on page 64 of the Instructions.

27. *The QIS guidance talks about thresholds for regulated financial counterparties, but the QIS template talks about the threshold for financial counterparties. Do we assume the thresholds apply to regulated financial counterparties and that the implicit assumption is that for all cuts, the unregulated financial counterparties will be subject to the increased AVC?*

That is correct. The threshold is only for regulated financial counterparties, and all unregulated financial counterparties are subject to the 1.25 AVC scalar.

28. *Are fund managers included in the definition of financial counterparties and therefore included in the asset value correlation calculation?*

Yes.

29. *(i) Can you confirm the exclusion of mutual funds (OPCVM, SICAV, FCP, FCPE, UCITS etc) from the scope? (ii) Should private equity funds be included in the scope? (iii) Should “holdings” of non-financial conglomerates be included in the scope? (iv) Can you clarify the concept of “regulated firms”? Does it include SEC/AMF type of regulations that apply to broker/dealers or fund management companies?*

Template, “CCR” worksheet, panel E, rows 255 and after.

Mutual and private equity funds should be included. Financial counterparties that are subsidiaries of non-financial conglomerates should be included unless parental support is explicit, or unless the PD of the parent can be substituted to that of the counterparty. There is no need to provide a definition for regulated firms, as any financial counterparty that is not either a bank, a broker-dealer or an insurance company should attract the 1.25 multiplier. Banks, broker-dealers or insurance companies with assets above \$25bn (or \$100bn) should attract the multiplier and those with assets below these thresholds should not.

30. *The calculations of the capital charge for CVA risk with the bond-equivalent method (cell I63 on the “CCR” worksheet) results in a very high figure. This is partly due to the many multipliers and we would therefore like to confirm that we have understood the methodology correctly. The calculation can, according to our interpretation, be summarised as follows: Step 1. A VaR figure for specific and general market risk of the bond-equivalent position is determined based on a 10-day holding period and a confidence level of 99%. Assume that this figure is 100. Step 2. The figure in step 1 is multiplied with 5 in order to convert to a one year holding period. The figure is now increased to 500. Step 3. The figure in step 2 is multiplied with 4 (3 for the small general market risk part). The figure is now increased to 2,000. Step 4. Stressed VaR is added. This is at least twice as high as the ordinary VaR. Hence, the figure in step 3 is multiplied with 2 (at least). The figure is now increased to 4,000. Is this a correct description?*

Template, “CCR” worksheet, cell I63.

The steps correspond to the correct procedure, with the exception of Step 3 where the VaR multiplier should be taken as 3 for both general and specific risk irrespective of the multiplier the bank is actually using for regulatory purposes. The QIS results will be used to work on the calibration of the proposal and the various steps are requested in order to obtain consistent QIS answers across banks, whilst the final formulation may not retain all of these steps.

31. *Where we have swaps with counterparties who are securitisations, for the purposes of calculating the bond equivalent CVA VaR capital charge we intend to treat these counterparties in the same way as any other. That is, we will not strip them out from VaR or apply special securitisation rules. Please confirm that is the appropriate treatment.*

That would seem to be the correct treatment. To be clear, you should treat these exposures no differently than you would for your current capital calculation; that is, if you do not apply any special securitisation rules currently, then you should not apply any special securitisation rules for the purposes of the QIS.

32. *In panel F, row 314 asks for exposure/RWA information for contingent obligations to default funds where they are known and unlimited. It is unclear how this can be answered if the contingent obligation might be unlimited. Additionally, can we get clarification of the difference between the guaranty fund referred to in row 310 and the default fund referred to in rows 313 and 314.*

Template, “CCR” worksheet, panel F.

If you have an unlimited obligation to a CCP, then you should provide the accounting valuation you use for this contingent liability (or in your accounting disclosures) as your EAD. If no such value exists, this should be left blank.

There is no difference between a guaranty fund and a default fund. These terms are used interchangeably. Row 310 refers to the entire contribution to the guarantee fund, whereas rows 313 and 314 have a limited/unlimited split.

7. Securitisation

1. *It is not overly apparent how banks are to report exposures that are rated but that, due to not meeting particular Basel II enhancements, must be treated as deductions from capital going forward. By way of example, say a standardised bank has a securitisation exposure rated AAA but cannot perform the specified level of due diligence required by the Basel II enhancements. The inability to perform such due diligence means that the bank will have to deduct this securitisation exposure under the revised requirements. Clearly, the securitisation exposure in question will be reported in row 6 column D in panel A of the securitisation worksheet. However, it is not clear whether or not this exposure is to be reported in column D (the “new” column) in panel A. The only spot that, at first glance, appears relevant to the above scenario is in row 18, but the wording of the description in the instructions for row 18 column D is not applicable to the above situation. That is, the exposure is technically not an “unrated position” and is not “currently” deducted from capital. Therefore, it appears that any rated exposure that is to be deducted in future by virtue of a bank not being able to perform the required due diligence, is not to be reported in any of the “new” columns. This seems somewhat incongruous, as we would presumably want to see explicitly on the worksheet the change in the volume of exposures subject to deduction. Can you please confirm if the above interpretation of the QIS instructions is correct? If it is not, please advise where rated assets not deducted “currently”, but subject to deduction under the revised rules, should be reported.*

Template, “Securitisation” worksheet, Rated assets subject to deduction under Basel II enhancement requirements.

All securitisation exposures that are not compliant with the due diligence requirements should be included in “unrated-deduction” section (row 18 column D in panel A). Whether exposures are compliant or not should be judged by assuming that the firm has developed its internal system to comply with those requirements. It is not expected that banks categorise all the existing securitisation exposures into “unrated-deduction”.

2. *Securitisation programmes regularly have investment mandates allowing for surplus cash collections to be invested in a mortgage-backed security or asset-backed commercial paper programme. One of our banks has posed a question about whether the investment of surplus cash in such instruments would alone trigger resecuritisation classification. For example, say a securitisation SPV solely holds housing loans as the underlying assets to the securities it issues to investors, but*

that it has a mandate to invest excess cash collections in a specified range of securities and one such investment is a residential mortgage-backed security. Would this investment be viewed as akin to there being a securitisation exposure in the pool of underlying assets thereby resulting in the securities issued by the SPV being classed as resecuritisation exposures? Alternatively, would such investments be viewed in isolation of the underlying pool of exposures?

Template, “Securitisation” worksheet, definition of resecuritisation.

If the programme allows surplus cash to be invested in MBS or ABCP, it should be classified as re-securitisation exposures. Banks should look-through the underlying assets outstanding as required by the due diligence requirement. When this is difficult, banks can refer to the mandate of the programme. If the mandate states that surplus cash can be invested in MBS and other securitisation exposures, such programme should be classified as re-securitisation exposures. However, in situations where the mandate does not explicitly excludes an investment in securitisation exposures but actually the asset manager never made such an investment, and therefore the securitised pool never contained securitisation exposures, the bank may treat its position as a securitisation exposure, and not re-securitisation exposure.

3. *On the “Securitisation” worksheet, the “current” columns refer to the current national implementation of the Basel II framework, excluding the changes introduced by the Enhancements document. The “new” columns refer to the national implementation of the Basel II framework including the changes introduced by the Enhancements document. The problem is: why should exposure amounts in a fixed rating grade be different under the “current” versus the “new” regime? It is the risk weights (and therefore the RWAs) that are different.*

The reason to have two different columns for exposure amounts (current and new) is that there have been some changes in the treatment of liquidity facilities (LFs), and in particular, changes in the applicable credit conversion factors (CCFs). Given that exposure must be reported after CCF, the new regime may make a difference in the exposure amount of LFs. On the other hand, the classification of a securitisation position as a resecuritisation (in columns J and K) will always follow the definition of the Enhancements document (for the purposes of the analysis, it is clear that all exposure reported in column J are treated as ordinary securitisation exposures under the old regime).

8. Operational risk

1. *Should AMA firms fill only the cells in the columns Y to AC, related to “Operational risk losses”? Should non-AMA firms fill only the cells in the columns I to X, related to “Exposure indicators”?*

No. Regardless of the method adopted for regulatory purposes, firms should fill all the cells they can at whole firm’s or business lines’ level on a best-efforts basis. This implies that AMA firms should also fill the cells related to “Exposure indicators” and non-AMA firms those related to “Operational risk losses”, where this information is available.

2. *Should the gross income value (column P) coincide with the algebraic sum of its components (columns Q to X)?*

Not necessarily. The gross income definition should be that used for regulatory purposes or as defined by the relevant national supervisor. The components depicted in the template imply an interpretation of the gross income that might not coincide with that used in some jurisdictions. Nevertheless it is crucial that these components be filled in order to appreciate differences/similarities with the gross income used at national level.

3. *For the relevant variables considered in panel B, should the sum of the figures at the business lines' level coincide with the figure at the whole bank's level? Where a partial use AMA/BIA or TSA(ASA)/BIA is used for regulatory purposes, how can the figures related to the BIA component be broken down by business lines? Where to report the operational risk losses that affect the whole institution and cannot be assigned to a particular business line?*

The figure at the whole bank's level should coincide with the sum of the figures at the business lines' level. Where the figures related to the BIA components are not available via accounting or management information systems, an approximation should be adopted on a best-efforts basis (eg following a criterion by which the BIA figures at the whole bank's level are apportioned across the business lines on the basis of the proportion suggested by the AMA or TSA/ASA components). Similar or alternative approximations should be used to apportion across the business lines the operational risk losses that cannot be assigned to a particular business line.

4. *Should the figures for payments and settlement breakdown be reported in this cell even where this business line is ancillary to others (eg retail banking or commercial banking)?*

The same criteria as those used to map gross income to the business lines should be used. In particular, if payment and settlement is fully ancillary to retail banking (or commercial banking), no figures should be reported for this business line.

5. *Should the loan commitments and guarantees in total provisions (column J) refer only to figures as provided at the example of IAS 37 appendix C.9?*

Yes. The loan commitments and guarantees should not include any provisions related to loans, as defined according to the IAS 39.

6. *When the official year of a firm ends in March of a given year, under which reference year of the "Op risk" worksheet the data should be reported?*

Section 4.3, first bullet point of the Instructions states: "For each reference year, year T refers to the fiscal years closed in the period from end-September T to end-June T+1. For example the reference year 2008 encompasses all the fiscal years closed between end-September 2008 and end-June 2009".

Therefore, if a firm ends its fiscal year in March of a given year, this is identified as the year T+1 in the "Op risk" worksheet. Accordingly the firm has to report the official figures (in this case from 1 April T to 30 March T+1) under the reference year T of the worksheet. The same criterion applies to a fiscal year that ends in June (eg official years ended in March or June 2009 have to be reported under the reference year 2008 of the worksheet).

Vice versa, if the fiscal year ends in September of a given year, this is identified as the year T in the "Op risk" worksheet. Accordingly the firm has to report the official figures (in this case from 1 October T-1 to 30 September T) under the reference

year T of the worksheet. The same criterion applies to a fiscal year that ends in December (eg official years ended in September or December 2009 have to be reported under the reference year 2009 of the QIS).

For data consistency and comparability, all banks have to follow these criteria.

7. *The Instructions ask to report the data in the most convenient currency. Supervisors will then provide the relevant exchange rate for converting the reporting currency to euro. However, for data in the “Op risk” worksheet (for example those requested in the “Operational risk losses” section, which are to be reported above given thresholds), the exchange rate should be common to all the countries and known before filling the cells in order to avoid inconsistencies across answers (for example, the €20,000 threshold can be ¥2.4 million to ¥3.4 million, depending on rates of the last two years; thus the number and amount of losses above such thresholds can change significantly).*

For the purpose of filling the cells of the “Op risk” worksheet, the following exchange rates – as to 31 December 2009 – should be referred to:

Code	Currency	Unit EUR per unit
AUD	Australian dollar	0.624687656
BGN	Bulgarian lev	0.511299724
BRL	Brazilian real	0.398200135
CAD	Canadian dollar	0.661025912
CHF	Swiss franc	0.674036128
CNY	Chinese yuan renminbi	0.101677682
CZK	Czech koruna	0.037774336
DKK	Danish krone	0.134376092
EEK	Estonian kroon	0.063911649
GBP	Pound sterling	1.125999324
HKD	Hong Kong dollar	0.089518302
HRK	Croatian kuna	0.136986301
HUF	Hungarian forino	0.003697951
IDR	Indonesian rupiah	7.33884E-05
INR	Indian rupee	0.014916468
JPY	Japanese yen	0.007509763
KRW	South Korean won	0.000599891
LTL	Lithuanian litas	0.289620019
LVL	Latvian lats	1.409840688
MXN	Mexican peso	0.052847698
MYR	Malaysian ringgit	0.202732839
NOK	Norwegian krone	0.120481928
NZD	New Zealand dollar	0.504973994

Code	Currency	Unit EUR per unit
PHP	Philippine peso	0.015036011
PLN	Polish zloty	0.243635035
RON	New Romanian leu	0.236055048
RUB	Russian rouble	0.023172823
SAR	Saudi riyal	0.186200000
SEK	Swedish krona	0.097541943
SGD	Singapore dollar	0.495196593
THB	Thai baht	0.020839411
TRY	New Turkish lira	0.464101731
USD	US dollar	0.694155213
ZAR	South African rand	0.093755859

8. *How should outsourced resources be included in the headcount of employees in the case of an activity that is outsourced to a firm as a whole, without any specific (number of) employees designated?*

In this case, either the number of employees that would be needed if the activity were not outsourced or an estimate of the man labour years the outsourcing firm designates to the bank.

9. *How to deal with relevant mergers and acquisitions or disposal of assets, especially if the resulting bank has serious limitations to get data from the previous years.*

The criteria to be considered for the purpose of filling the cells of the “Op risk” worksheet for the different years are the same as those used in the other QIS worksheets for those individual years (ie “point on time” data). However, in order to allow the sterilisation of the data and their dynamics from not idiosyncratic factors and drivers, banks should specify in an accompanying document the extent to (or the percentage by) which the variation of the exposure indicators at whole bank’s level is due to changes occurred in the perimeter/business of the group in specific years. For example, if the consolidated gross income reported in the “Op risk worksheet” is 150 in 2005, 200 in 2006, 300 in 2007, 310 in 2008 and 320 in 2009, but the variation in 2007 is due for 50 to the merger with an other bank, in the accompanying document the bank should clarify that in the year 2007 the gross income raised by 50 (or by 25%) due to changes occurred in the perimeter/business of the group.

10. *Where a bank adopts at group (or business lines) level a partial use for regulatory purposes (eg AMA/TSA) should it report the operational risk losses for the AMA part of the group only?*

As said in question 1, regardless of the method adopted for regulatory purposes, the banks should fill all the cells they can (including those related to “Operational risk losses”), where this information is available. However, for the type of analysis to perform on the gathered data, it is crucial to know which part of the group the reported losses refer to. This information should be provided by the banks in the accompanying document. If, for example, a bank adopts for regulatory purposes a partial use with all the three envisaged approaches (AMA/TSA/BIA) and it is able to

fill the “Operational risk losses” section with the data of the AMA and TSA parts, it should clarify in the accompanying document that the reported losses refer to the AMA and TSA parts (and not to the BIA part) of the group. Similar criteria should be followed for different types of partial use.

9. Smoothing minimum required capital

1. *How long is a “sufficiently long time span”?*

It is impossible to provide an answer that fits all institutions. This is left to the discretion of the national supervisor. It is clear that the results are meaningful only if there is sufficient time-dynamics. What would be acceptable for designing scenario stress tests can provide some guidance. Some use of external and firm-level data can be acceptable in order to rely on longer time-series.

2. *Why are portfolio grade-PDs weighted by the number of counterparties (rather than by exposure)?*

This reduces the impact of idiosyncratic migrations of larger borrowers. Should this cause major computational problems, banks can use EAD-weighted PDs, but this is clearly a second best.

3. *In the bank’s point in time model for the SME segment a procyclicality adjustment was introduced in the calibration, suggested by the national supervisors. Should the bank make this adjustment in the survey?*

Yes. If banks have already in place a validated through-the-cycle rating system or other countercyclical adjustments **for regulatory purposes**, they will be expected to use such an approach.

4. *Where should specialised lending exposures subject to the IRB slotting approach be captured on the template?*

Specialised lending exposures (both HVCRE and other) that do not qualify under the PD/LGD approach should be excluded from exposures, risk-weighted assets, etc for the reporting lines labelled “Other SL” and “SL HVCRE”. Such specialised lending exposures should, however, be included in the line items labelled “total IRB perimeter”, “total banking book” and “total expected losses”.

5. *Where should home equity lines of credit (HELOCs) be reported?*

HELOCs should be included in the row labelled “residential mortgages”.

6. *Should credit exposures under IRB trading book be reported in the “total IRB perimeter” lines?*

No. The template should be read as follows: “Total banking book”, of which “total IRB perimeter”. Therefore, no trading book item should be included.

7. *Should other exposures not subject to the standardised or IRB approaches to credit risk that are included in credit risk-weighted assets (eg deferred tax assets that are risk-weighted at 100%, failed DvP trades, etc) be reported in the “total banking book” exposures line items?*

Yes.

8. *Should we perform IRB calculations only for the asset classes/portfolios with supervisory approved models or should we perform the IRB calculations also with non-validated and internal, and externally not approved models?*

IRB calculations should only be carried out for the models/portfolios validated by the supervisor. Capital requirements for other portfolios should be calculated according to the standardised approach.

9. *Historical information is asked for year-end 2006 onwards. We started calculating IRB capital requirements from the beginning of 2008 onwards. How should data for 2006 and 2007 be provided?*

For 2006 and 2007, IRB capital requirements can be reported on a best-efforts basis; please indicate this.

10. *We calculate IRB with a LGD floor of 10%. We assume that we have to use this floor also in the requested templates. Is that correct?*

Yes, the 10% floor should be used.

11. *We calculate the minimum capital requirement with the appropriate transitional floor (90% in 2008 and 80% in 2009 and 2010). We assume that we have to use this transitional floor in the requested templates. Is that correct?*

No, the transitional floors should not be used in this template. The floor is calculated only at the end of the process, not for the individual portfolios.

12. *The Instructions state that the long-term average and downturn PDs should be capped at 30%. They do not say that the current PDs should also be capped at this level – should the cap apply to current PDs also?*

Yes, the 30% cap should be applied to current PDs.

13. **Template error:** *The conditional formatting in columns K to M of the “Smoothing MRC” workbook indicates an error when a risk-weighted asset amount larger than 1 is entered.*

Template, “Smoothing MRC” worksheet, columns K to M.

The conditional formatting is wrong and should be ignored since it has no negative impact on data submission.

14. *Why are columns L and M for 2006 to 2008 not shaded grey? Is this to capture the minor effect of our application of the scalar on PDs rather than on risk weights directly?*

Template, “Smoothing MRC” worksheet, columns L and M.

Columns L and M may change (i) since the application of a time varying scaling factor (as the result of time varying portfolio level current PDs) to grade PDs; and (ii) if the rating-grade PDs change (so the scaling factor is applied to different grade PDs in different years).

15. Our interpretation of the instructions is that having calculated the long-term and downturn scalars using “current PDs” (based on number-weighted averages), RWAs are to be calculated using constant 2009 parameters with the exception of scaled PDs. What happens in our worked example is that all “current RWAs” end up being the same in each year while “long-term RWA” and “downturn RWA” for 2006 to 2008 turn out to be higher than in 2009, the latter being the downturn year in this

example. This is contrary to our expectations. As an aside, non-scaled PDs are assumed to be constant as most banks here operate a master scale which generally will not change from year to year; rather, obligors migrate up/down grades to reflect better/worse circumstances. Our question then is whether columns L and M in the QIS workbook (“Long Term RWA” and “Downturn RWA”) are supposed to be constant across all years rather than column K (current RWA).

Template, “Smoothing MRC” worksheet, columns K to M.

First of all, it is worth clarifying that the worksheet cannot reproduce exactly the functioning of the scaling factor mechanism: crude assumptions, as constant EAD and other risk parameters, were necessary as long as data requests are referred to years (like 2006 and in most case 2007) in which Basel I was still in force. Moreover, further simplifications have been introduced in order to reduce the burden for respondent banks. The analysis of the data collected will thus require further assumptions and computations. The scaling factors are the only variables that can be interpreted as they are. Against this background, according to the question, current RWA tend to be constant over time, while “Long Term RWA” and “Downturn RWA” for 2006 to 2008 turn out to be higher than in 2009. Having requested banks to use 2009 EADs (and other risk parameters), this is the outcome we expected for banks using more point in time ratings, whose master scale is not updated frequently. Current RWA remain constant and downturn and long-term RWA are higher the higher the distance to recession. As a consequence, buffers are higher in good times and lower in bad times. This is precisely the purpose of this smoothing mechanism.

10. Trading book

10.1 Technical issues

1. *How should a bank provide data on the incremental or comprehensive risk capital charge if it does not calculate the capital charge for a three-month liquidity horizon?*

Template, “TB” worksheet, panel C1; “TB correlation trading” worksheets, panel 2.

If a bank does not calculate the incremental or comprehensive risk capital charge for a three-month liquidity horizon, the capital charge it does calculate should nevertheless be reported in the “3 months” column. If the calculation corresponds to a one-month or six-month liquidity horizon, it should be reported in that column as well.

2. *How should a bank proceed if it is unable to compute a comprehensive risk capital charge for the correlation trading portfolio as defined for the “TB correlation trading LSS” or the “TB correlation trading wide” worksheets?*

Template, “TB correlation trading LSS” and “TB correlation trading wide” worksheets.

If a bank uses a comprehensive risk model for its correlation trading portfolio under the definition included in the Revisions document but is unable to apply the model to the wider definitions of the correlation trading portfolio as referred to in the “TB correlation trading LSS” or the “TB correlation trading wide” worksheets, it should leave both the securitisation worksheet and the correlation trading worksheet provided for that definition of the correlation trading portfolio empty. In such cases,

banks should neither enter zeroes nor report all exposures as “not included in the comprehensive risk model”.

However, if a bank does **not** use a comprehensive risk model for its correlation trading portfolio even under the definition as set out in the Revisions document, it should if possible report its correlation trading exposures as “not included in the comprehensive risk model” according to all three definitions of the correlation trading portfolio.

10.2 Interpretive issues regarding stressed value-at-risk

1. *Does the stressed VaR apply to all risks included in the VaR model, or only to the general market risk component of that model?*

The stressed VaR applies to all risks (eg general interest rate risk; specific interest rate risk; commodity risk) that the bank in question has approval from its supervisor to use an internal VaR model.

2. *Should the stressed VaR period be fixed (or stable) and the stressed VaR only respond to changes in the composition of the portfolio, or may the stressed-VaR also adjust to changes in risk factors (and if so, how much)?*

The intention of the stressed VaR requirement is to deliver the charge that the bank’s current VaR model would generate if the bank was experiencing a period of financial stress relevant to its portfolio. Therefore, the time-series data upon which the stressed VaR is calculated should be stable. However, the period used must be regularly reviewed by the bank and approved by the supervisor to ensure that it still represents a period of significant financial stress relevant to the bank’s portfolio.

Also, to the extent that time series’ data are used in the factor assessments, then these will also be fixed as a result of fixing the time series’ data. However, to the extent that a bank changes its VaR engine, or risk factor approach, then these changes should be reflected in changes to the model used to calculate the stressed VaR measure.

3. *The text requires “a continuous 12-month period of significant financial stress”. Would this mean that supervisors exclude any period that would be less than 12 months even if particularly relevant to the portfolios and extremely stressful? Or are supervisors targeting a continuous 12-month period that includes a significant financial stress event (the latter lasting possibly less than 12 months)?*

The latter – supervisors are targeting a 12-month period that includes an appropriate financial stress.

4. *What exactly is meant by “anti-thetic” and “applying absolute rather than relative volatilities”? In the last case, what is the reference period for determining whether the data is absolute or relative?*

Anti-thetic in this context means that price movements are considered relevant irrespective of their direction. For example, if a time series included a significant upward spike in equity prices, the model could apply significant movements in equity prices both upwards and downwards. This might be particularly relevant if a bank’s portfolio is the “right way” to a period of financial stress (ie is long equities in a period of stock market surge) and should reflect that open risk positions (in either direction) are vulnerable to stressed variables.

5. *For the scenarios requiring no simulation from banks, the existing paragraph 718(Lxxxii) specifies that the loss information could be compared to the level of capital that results from a bank's internal measurement system. It should be specified whether this is only valid for the VaR component of the capital charge or for all components of the capital charge (VaR, stressed VaR, IRC and comprehensive risk capital charge).*

This is for supervisory use and could be used in a number of different ways, depending upon the data requested by the relevant supervisor. Supervisors would expect that the most relevant use would be a comparison of losses to the overall capital charge, but that does not preclude individual supervisors asking for information in different forms.

6. *If a bank should decide to use anti-thetic data to deliver the stressed value-at-risk, should it also use it to select the stressed period? That might make selecting the stressed period considerably more difficult because of the many possible combinations of the risk factors.*

No.

7. *Does "using a weighting scheme that is not fully consistent with (d)" (footnote 12 of paragraph 718(Lxxvi)) include various methods to render the VaR model more reactive to market changes like, for example, models with time-dependent volatilities which use a period of less than a year to calibrate current volatility?*

Yes.

8. *If a bank opts for such a scheme, should it then use the same reactive scheme also for stressed VaR?*

No. The weighting scheme should not be used for stressed VaR.

9. *Regarding question 4 above, does this mean that banks in calculating stressed VaR, given the time period of one year (250 observations), have to consider additional 250 observations by changing the sign of the risk factor movements?*

The stressed VaR charge is intended to deliver a capital charge based on a measure of VaR that would be applicable to the bank's current portfolio in a period of stress relevant to that portfolio. In principle, the easiest way to do this is to run the current VaR model based on historical data from a period of financial stress. However, there are two particular cases where this might be inappropriate:

- If a period of financial stress (which may be indicated by significantly higher volatilities) corresponds to directional moves which would lead to the bank making money, based on the current portfolio. In these circumstances, it might be appropriate to apply the risk factor movements in both the direction which is indicated by the historical data, and the opposite direction (anti-thetic) to ensure that the period of high volatility becomes more relevant to the bank's portfolio.
- In stressed periods, there are some price factors (eg credit spreads) which tend to have higher absolute values. Therefore, an increase in absolute volatility in these factors (ie large movements) might not correspond to significant increases in relative volatility (ie because the absolute level of the parameter is also higher). If the bank's current VaR model tracks relative shifts in these price factors, then the relevant period of stress applied in benign periods (ie when the absolute values of credit spreads are smaller) might not deliver a VaR measure which accurately reflects what

the VaR would be in a period of stress. The bank should therefore consider modifying its VaR model to account for large absolute factor moves that can occur in times of stress.

This does not mean that the bank needs to look at a different 250-day period, but that it needs to think intelligently about how it translates the data from a 250-day period of stress into a stressed VaR measure.

10. *Question 1 under section 10.2 of the FAQs confirms that the stressed VaR applies to all risks (including general market risk and specific risk) that the bank in question has approval from its supervisor to use an internal VaR model. If so, is a bank required to report the sum of stressed VaR for both of the specific risk and general market risk in cells D11, D13 and D146? Does this requirement also apply to reporting of non-stressed VaR in cells E11, E13 and E14?*

Yes, data in panel B of the TB worksheet should include both general and specific risk VaR if a bank has model approval for both.

10.3 Interpretive issues regarding the incremental and comprehensive risk capital charges

(a) Definition and scope

1. *What exactly is meant by “[...] that do not provide a pro-rata share in the proceeds of a securitisation tranche [...]”?*

This provision is intended to capture any complex “double leverage” position, but which might not be captured by the definition of re-securitisation and therefore automatically excluded.

2. *The text specifies that “positions which reference a claim on a special purpose entity are not included either”. However, in the context of a securitisation operation, notes issued by an SPV are claims on this SPV/SPE (collateralised by asset portfolios). This may probably need further clarification. What was the exact purpose of the sentence? Certainly not to exclude all kind of structures using SPVs/SPEs.*

The important consideration here is the definition of “reference” in terms of a securitisation position. Where a derivative references a cash CDO position that is issued by an SPV, then this would be all right for inclusion provided that the underlying assets in that SPV meet the relevant criteria (ie if they are liquid corporate positions then this will be all right). In effect the derivative which references the CDO position is treated as referencing the positions that back the CDO.

The intention is to exclude all structures which reference risk issued from an SPV, this is to ensure that an SPV structure cannot be used to evade the criteria for inclusion. The specific language “a claim on an SPE” was used because some corporate debt instruments are **issued** by an SPE but are actually claims on the corporate in question.

3. *The reference to mortgage-backed securities in paragraph 718(Lxxv) suggests they can remain within an internal models based approach and in VaR (the internal models approach), however, paragraph 9 of the Revisions indicates that the standardised measurement method should be used for all securitised products except for certain correlation trading activities for which a comprehensive risk capital*

charge can be calculated. Can non-correlation trading securitisations be incorporated in an internal models based approach?

Securitisations which are not part of the correlation trading portfolio are subject to a general market risk charge and the standardised charge for specific risk. These positions must be included in the bank's VaR model for general market risk or be subject to the standardised measurement charge for general market risk. While the positions may be included in the bank's internal specific risk model, the specific risk capital charge for securitisations according to the standardised measurement method will apply as well.

4. *Should sovereigns be included in the IRC charge?*

Yes.

(b) Incremental and comprehensive risk models

1. *It would be important for banks to be allowed to enhance the IRC model to leave the correlation book inside (ie, try to comply with the comprehensive risk measure but within the IRC model). Would it be acceptable to extend the IRC framework to comply with the comprehensive risk measure and perform a single calculation?*

Banks are allowed to enhance the IRC model to comply with the requirements for the comprehensive risk measure. However, they are not allowed to perform a single calculation for exposures subject to the IRC charge and exposures subject to the comprehensive risk capital charge. This has the effect of not allowing any diversification between the portfolios.

2. *Do all of the correlation trading risks listed in paragraph 718(xcv) need to be included in a single model, or could a bank treat them outside the main modelling framework with supervisory approval? Can the bank use separate models for different products, or separate models for different risk factors?*

While in principle an integrated modelling approach is desirable, supervisors need to be realistic, and there are practical issues that banks will face to deliver an integrated model. Supervisors may permit approaches that capitalise different risks differently (eg via an add-on approach), provided that this can be undertaken conservatively and it does not undermine the strength of risk management. However, the capital charges calculated with the different models would have to be added using a simple sum and banks should be strongly encouraged to develop an integrated approach over time.

3. *What is the link between the liquidity horizon and issuer concentration? Would it be better to address issuer concentration through the correlation assumptions?*

Guidelines, paragraph 23.

No. Where a bank has concentrated positions in terms of the market this should be reflected in a longer liquidity horizon – consistent with the view that it takes longer to liquidate concentrated positions. Concentrated positions in terms of the bank's portfolio would be reflected in the correlations inherent in the model.

4. *Would it be possible for an institution to use for purposes of the comprehensive risk capital charge a model substantially different from the IRC model? For example, a VaR (99.9%, 1 year).*

In principle, the model could be substantially different from that used for IRC. However, a 99.9% one-year VaR would have serious shortcomings as a measure to

capture the set of comprehensive risks required by this charge. These would need to be addressed if any bank were thinking of applying a VaR-type approach for the comprehensive risk measure. Just extending the current VaR measure to a 99.9% one-year VaR is not sufficient.

5. *To what extent can hedges be included in the IRC and the comprehensive risk measure? For the comprehensive risk measure, excluding them could lead to unhedged portfolios in the comprehensive risk measure especially in cases where leveraged positions in tranches are hedged using the tranche itself or single names which are part of the correlation trading portfolio.*

Hedges may be included in the correlation trading portfolio subject to the requirements set out in paragraph 689(iv).

6. *Paragraph 718(xcv) requires to capture “the cumulative risk arising from multiple defaults, including the ordering of defaults, in tranching products”. Is it really necessary to model the ordering of defaults? The value of a tranche at a predetermined date (eg at the liquidity horizon) should only depend on the number of defaults in this period but not on the order. Do we have any examples where the order of default determines the price (risk) of a tranche?*

If there is no indication that the order of defaults has a price impact, this can be neglected in the CRM simulation.

7. *The revised market risk framework mentions only tranches and n-th-to-default products explicitly, but not n-th to n+m-th-to-default products (eg the value depends on the default of the 5th, 6th, 7th and 8th default in a pool; only in specific cases (same nominal for all underlyings) this product can be represented by, for example, a 5% to 8% tranche). Are n-th to n+m-th-to-default products covered in the framework?*

N-th to n+m-th-to-default products should be treated using the rules for n-th-to-default products. Specifically, in the example cited above, the capital charge for a basket default swap covering defaults 5 through 8 would be calculated as the sum of the capital charges for a 5th-to-default swap, a 6th-to-default swap, a 7th-to-default swap and an 8th-to-default swap.

(c) Qualitative requirements and Guidelines

1. *Do the IRC Guidelines apply to the comprehensive risk modelling approach? There seems to be only a requirement to meet a standard comparable to IRB under the constant level of risk assumption.*

Where relevant, yes.

2. *In the revisions to the market risk framework, the text on the internal model approach for correlation trading (comprehensive risk capital charge) refers to the principles applicable to IRC (detailed in the IRC guidelines). However, in the IRC guidelines, section 6 (starting on page 5) is limiting the offsetting opportunities (see paragraph 27) and is considering strict conditions to dynamic hedging. How is this consistent with the fact that correlation trading is based on a delta hedging between CDOs and CDSs (with possibly macro-hedging on indices)? Is it consistent with the approach that has been allowed in the standardised treatment (max of net long or net short)?*

The question above makes reference to restrictions on the recognition of offsetting as well as dynamic hedging strategies. Each of these are discussed in turn. Before

discussing “offsetting” the cited paragraph, paragraph 27, is repeated for clarity and context.

Within the IRC model, exposure amounts may be netted only when long and short positions refer to the same financial instrument. Otherwise, exposure amounts must be captured on a gross (ie non-netted) basis. Thus, hedging or diversification effects associated with long and short positions involving different instruments or different securities of the same obligor (“intra-obligor hedges”), as well as long and short positions in different issuers (“inter-obligor hedges”), may not be recognised through netting of exposure amounts. Rather, such effects may only be recognised by capturing and modelling separately the gross long and short positions in the different instruments or securities.

As the paragraph states exposure amounts may only be netted (or “offset”) when the specific criteria mentioned above are met. Netting or “offsetting” of exposures should not however be confused with “hedging”. There may well be cases in which one exposure hedges another even when they are not similar enough to be netted against each other. As an example, a short credit position in auto company X may not be netted against a long credit position in auto company Y as long as the two companies are distinct. To the extent, however, that the credit behaviour of these two companies is driven by similar sector-specific factors losses (or gains) on the exposure to company X may be hedged by gains (or losses) in company Y. The extent of the hedging benefit depends on the precise characteristics of these investments as well as the maintained modelling assumptions (eg correlation). In order to capture the hedging benefit between company X and Y both exposures would have to be included in the IRC (or comprehensive risk) model and the joint behaviour of these exposures would need to be explicitly modelled.

The question makes further reference to limitations on dynamic hedging. Again for clarity and context the relevant text from the IRC guidelines are repeated below.

For trading book risk positions that are typically hedged via dynamic hedging strategies, a rebalancing of the hedge within the liquidity horizon of the hedged position may also be recognised. Such recognition is only admissible if the bank (i) chooses to model rebalancing of the hedge consistently over the relevant set of trading book risk positions, (ii) demonstrates that the inclusion of rebalancing results in a better risk measurement, and (iii) demonstrates that the markets for the instruments serving as hedge are liquid enough to allow for this kind of rebalancing even during periods of stress. Any residual risks resulting from dynamic hedging strategies must be reflected in the capital charge. A bank should validate its approach to capture such residual risks to the satisfaction of its supervisor.

Dynamic hedging that relies on frequently rebalancing of positions becomes problematic when the liquidity horizon of the underlying instrument, or its hedge, is not short. Consider an example, in which the liquidity horizon of the instrument and its hedge is three months. In this case the “dynamic hedging” strategy may require daily (or even more frequent) rebalancing to maintain the hedge. The significant liquidity horizon of three months explicitly recognises that these positions can not be rebalanced so frequently with ease. Accordingly, the effect of dynamic hedging in the IRC (comprehensive) risk model should recognise the liquidity horizon by assuming that the hedge can only be rebalanced once each liquidity period during the capital horizon (one year). During the liquidity horizon both the instrument and

the hedge are subject to any and all price movements that occur and are captured by the model. In the case of the IRC this includes price changes driven by defaults and migrations. In the case of the comprehensive risk model this includes a much wider range of price movements.

10.4 Interpretive issues regarding the standardised measurement method

(a) General

1. *Is it allowed to net cash and synthetic securitisations for the purpose of the capital calculation for structured products under the standardised approach for correlation trading?*

Paragraph 709(ii).

Netting is only allowed under limited circumstances for interest rate specific risk as explained in paragraph 709(iii):

“offsetting will be restricted to matched positions in the identical issue (including positions in derivatives). Even if the issuer is the same, no offsetting will be permitted between different issues since differences in coupon rates, liquidity, call features, etc. means that prices may diverge in the short run.”

In addition, partial offsetting is allowed in two other sets of circumstances:

1. One set of circumstances is described in paragraph 718 and concerns n-th-to-default basket products.
2. The other set of circumstance described in paragraphs 713 to 715 pertains to offsetting between a credit derivative (whether total return swap or credit default swap) and the underlying exposure (ie cash position). That treatment is intended to apply to credit derivative instruments that reference a single obligor, not synthetic securitisations.

2. *Paragraph 718 lit (b) does not allow any offsetting with the use of second- or more-to-default credit derivatives. However as for banking book, paragraph 209 allows offsetting by a second-to-default credit derivative if a bank has first-to-default-protection or one of the assets within the basket has already defaulted. This would be an inconsistency between trading book and banking book.*

Paragraphs 209, 718 lit (b).

This is factually correct, but the Committee has specifically removed this previous treatment of second- or more-to-default credit derivatives because it over-states the hedging benefits of these products.

3. *What could be the conditions under which correlation trading positions could be netted in order to derive either the net long position or the net short position? Are the rules considering a perfect hedge only?*

The criteria should be based on the existing standard rules criteria, which would suggest an offset with a perfect hedge only. Supervisors should recognise that this will be extremely difficult to meet, in practice, for correlation trading positions.

4. *The banking book regime recognises the effects of guarantees (eg, through substitution), but the trading book does not. If supervisors are applying the banking book charges for securitisation positions in the trading book, does that imply that guarantees of such positions would be recognised in the trading book the way they are in the banking book?*

While the banking book rules for the recognition of guarantees in theory apply, it is expected that these instances will be rather limited in practice given the requirements outlined in the banking book rules.

5. *For the unrated positions, how would these alternative approaches apply to a re-securitisation position where underlying lines are already securitisation positions for which the bank may not have information on the underlying assets? Would it be authorised to use the supervisory formula approach with inputs for Kirb based on the ratings-based approach of the securitisation framework? Do supervisors consider that the calibration of the supervisory formula approach is appropriate for re-securitisation exposures?*

Yes. The supervisory formula approach can be applied based on inputs from the ratings-based approach and can be applied to re-securitisations, subject to the application of an LGD parameter of 100% and the new floor.

6. *In the Revisions, the text is envisaging the possibility, for securitisation positions, to use the supervisory formula approach with inputs for Kirb consistent with the IRC principles, notably in terms of PD and LGD. However, the Guidelines are silent on these aspects (even if mentioning broadly that the soundness of the approach should be comparable to IRB). In addition, securitisation positions are specifically excluded from the IRC guidelines, producing a sort of inconsistency. How in practice IRC could be used as a basis for the supervisory formula approach without further specifications?*

Under the IRC the banks may have estimates, say, for PDs with a forecasting horizon for less than a year, eg when the liquidity horizon is three months banks may also estimate PDs over a horizon of three months in the first instance. The internal ratings-based approach, however, requires PD estimates over a one-year horizon. Applied to this example the rules permit the bank to map its PD from a three-months horizon to a one-year horizon, if this is done in a reasonable way. The rules deliberately refrain from giving any detail to avoid that banks are unduly restricted as to what approach they use for this mapping.

7. *Can the approach of taking the larger of the specific risk capital charges for net long positions and the specific risk capital charge for net short positions as per paragraph 709(ii) be applied to leverage or option products on tranches?*

No. The normal rules of the standard measurement method apply.

8. *Should the capital charge for securitisations under the standardised measurement method be capped at the maximum possible loss?*

Yes. Thus, for a short risk position this limit could be calculated as a change in value due to the underlying names immediately becoming default risk-free. For a long risk position, the maximum possible loss could be calculated as the change in value in the event that all the underlying names were to default with zero recoveries. (Note, however, that while the capital charge may be capped at the maximum possible loss, the exposure amount against which risk weights are applied should be calculated as described in question 9 below.)

9. *What exposure values should be used for the standardised specific risk capital charge for correlation trading positions?*
- For cash positions (eg investments in tangible securities), the exposure base should be the current balance-sheet value – expect this to be fair value for trading book products.
 - For “synthetic cash positions” (eg forwards or futures which reference a cash security), the exposure base should be the current market value of the underlying security.
 - For all other positions, including credit derivatives (eg credit default swaps and total return swaps), the exposure basis should be the notional amount. This notional should not be affected by valuation changes. However, where the remaining notional has been permanently reduced (eg through a credit default payment), then this reduction can be reflected in a reduction to the exposure basis.
10. *What methodologies should be applied for calculating the standardised specific risk capital charge for correlation trading positions?*
- For tranching positions with external ratings, the specific risk capital charges outlined in the tables in paragraphs 712(iv) and 712(v) should be used.
 - For unrated positions, the supervisory formula approach according to paragraph 712(vi) should be used. The internal rating for all the underlying names could be used where available.
 - Where no internal rating for an underlying name is available, banks should estimate the internal rating for the purposes of this study.

(b) Application of market value

The guidance in this section supersedes question 9 in Section (a) above for the purposes of the update of the comprehensive quantitative impact study.

Transaction type 1: *The bank holds externally rated, net long securitisation positions that have already incurred large MTM write-downs and that have been severely downgraded by the rating agency. It is argued that these positions incur excessive capital charges under the RBA because external ratings focus either on the probability of losses relative to contractual terms (S&P and Fitch), or on expected losses relative to contractual terms (Moody’s), rather than on the likelihood or expected level of future losses beyond those already recognised.*

- *Suppose a bank holds a long position in an ABS that initially was rated AAA, but subsequently has been downgraded. Suppose the ABS has been written down from (\$100=par value) to \$65. If the ABS currently is C-rated, the bank applies the RBA and determines that it must deduct \$65 from capital. Alternatively, if the current rating is BB-flat (425% RW), the bank calculates its capital charge to be \$22.10 (=4.25x0.08x\$65) → RWA of \$276.25.*

The agreed treatment is that the market value of cash positions is used as the basis of the “position” to which the standard measurement method (SMM) capital charges apply. The correct treatment is, therefore, applied in the above example.

- *Suppose in the above example that the bank holds a net short securitisation position rather than a net long position. The bank calculates the capital charge for this position based on (the absolute value of) the market value. If the ABS has fallen in value from \$100=par value to \$65, this implies unrealised gains on the short position of \$35. If the ABS currently is C-rated, the bank applies the RBA and determines*

that it must deduct \$65 from capital. Alternatively, if the current rating is BB-flat (425% RW), the bank calculates its capital charge to be \$22.10 ($=4.25 \times 0.08 \times \65) → RWA of \$276.25. The capital charge for a short position in an ABS therefore equals the capital charge of a long position.

The agreed treatment is that the market value is used as the basis of the “position” to which the standard measurement method (SMM) capital charges apply. The correct treatment is, therefore, applied in the above example.

In some jurisdictions, the exposure amount for a credit derivative is measured as the notional amount and, therefore, some banks have extrapolated this treatment into the trading book regime. Suppose a bank provides credit protection by writing a CDS that references an externally-rated ABS having a notional of \$100 and a current MTM value of \$65. Also, suppose the MTM value of the CDS currently is -\$35, implying that the bank has already recognised losses of \$35.

- If the underlying ABS is C-rated, the bank calculates its capital charge for the CDS under the RBA as \$65 (equal to the lesser of the \$100 exposure amount or the \$65 max potential loss).

There has been some uncertainty as to whether the notional value or the market value should apply in these circumstances. **As a result, banks must analyse the impact of applying the market value of the underlying security as the basis of the “position” for the SMM.**

The correct answer to the above example would be, therefore, to take the MTM value of the underlying ABS (ie \$65 in the above example). The RBA would be used to determine the risk weight or capital deduction. In this particular example, the max potential loss and the RBA deduction are identical.

- Suppose, in the above example, that the ABS were rated BB (425% RW). Using its methodology, the bank calculates its capital charge to be \$34 ($=4.25 \times 0.08 \times \100) → RWA = \$425.

The bank’s treatment is incorrect. The correct answer is to apply the market value principle. The exposure value to be risk weighted would, therefore, be \$65 instead of \$100, implying a capital charge of \$22.10 ($=4.25 \times 0.08 \times \65) → RWA=\$276.25.

Banks note that for a long, unrated ABS position, the SFA calculation is based on notional amounts. As a result, subject to the cap =max potential loss, the same capital charge prevails regardless of whether the ABS has been written down to a MTM value that is less than its notional.

The agreement is that the SFA should only be used to calculate the risk weight. To be consistent with the market value principle the SFA should, therefore, be used for the purpose of calculating the risk weight for a given tranche, then applying this risk weight to the market value of the position.

(c) Application of maximum possible loss principle (“Max Loss”); and off-setting provisions of paragraphs 713 to 715 of the Basel II framework

Transaction type 2: When a bank buys credit protection for an ABS tranche and (due to netting rules) the bank is treated as having a net short position, QIS respondents note that the standardised capital charge for the net short position is often determined by the max potential loss. This is particularly true when the underlying ABS tranche has been severely downgraded and written down. In particular, banks note that if the underlying ABS continues

to deteriorate, the overall capital charge progressively increases and is dominated by the charge against the short side of the hedged position.

For QIS purposes, all banks must apply the maximum loss principle (FAQ 8 in Section 10.4). Some examples (without and with off-set) illustrate how the Max Loss principle should apply:

Max Loss without offset

Suppose the bank has net long and net short positions that reference similar, but not the same, underlying assets. In other words the bank hedges an A-rated mezzanine RMBS tranche (notional=\$100) with a CDS on a similar but different A-rated mezzanine RMBS (also having notional=\$100).

Suppose the RMBS tranche owned by the bank is now rated C, and has value \$15. Also assume that the value of the CDS on the different RMBS has a current value of \$80. Further, suppose that the current value of the RMBS underlying this CDS is \$20 and is also rated C. Finally, suppose that the CDS would be valued at -\$2 if the underlying RMBS tranche were to recover unexpectedly and become risk free.

The correct treatment is as follows:

$$\min(\$15, \$15) + \min(\$20, \$82) = \$35.$$

(Long Leg) (Short Leg)

No off-set would be permissible in this example, because the same underlying asset has not been hedged. The capital charge should, therefore, be calculated by summing the charges against the long and short legs. The maximum loss principle would apply to each individual position.

Please note that the market value of the underlying has been applied in determining the exposure value of the CDS.

Max Loss with offset

Suppose the bank hedges an A-rated mezzanine RMBS tranche with a CDS referencing the same RMBS having notional of \$100. Suppose the RMBS tranche is now rated C, and has value \$15, while the current value of the CDS is \$85. Suppose that the value of the CDS would equal -\$2 if the RMBS tranche were to recover unexpectedly and become risk free.

In this example, if the CDS exactly matched the RMBS in tenor, then off-setting could potentially apply. In that instance, the capital charge should equal 20% of $\max\{\min(\$15, \$15), \min(\$15, \$87)\} = \$3$.

If the tenors were not matched (ie maturity mismatch), then the capital charge should equal $\max\{\min(\$15, \$15), \min(\$15, \$87)\} = \$15$.

Please note that you cannot apply the maximum loss principle on a portfolio basis.

10.5 Other interpretive issues

1. *Should valuation adjustments be performed on a portfolio level (ie adjustments to be made in the form of a reserve for a portfolio of exposures and not to be reflected in*

the valuation of the individual transactions) or on a transaction level (ie adjustments to be reflected in the valuation of the individual transactions)?

Paragraphs 718(cviii) to (cxii).

Supervisors expect that the valuation adjustment will be considered for positions individually.

2. *In panel A of the “TB” worksheet, banks are requested to fill in equity exposures currently subject to a standardised specific risk capital charge lower than 8%. Should this also include index contracts as set out in set out in paragraph 718(xxv)?*

Template, worksheet “TB”, panel A.

Only positions subject to the national implementation of paragraph 718(xxi) which are currently subject to a standardised specific risk capital charge lower than 8% should be reported. Index contracts should not be included in these amounts.

Annex 1: Cells to fill in by Section, CCR worksheet

Credit	Market	CCR	A1)	A2)	B1a)	B1b)	B1c)	B2a)	B2b)	C)	C1)	C2)	D)	E)	F)	G)
Standardised	Standardised	Standardised	None	I32,34	F41-42; G41-42; H41-42	F47-48; G47-48; H47-48	G62-63; H53-57, 62-63	None	None	None	None	None	None	None	F310-315; G310-315	None
Standardised	Standardised	CEM	None	I32,34	F41-42; G41-42; H41-42	F47-48; G47-48; H47-48	G62-65; H53-57, 62-65	None	None	None	None	None	None	None	F310-315; G310-315	None
Standardised	Standardised	IMM	F7-9,11,25-26; G11,25-26; H7-9,11; I7-9,11,15	None	F41-42; G41-42; H41-42	F47-48; G47-48; H47-48	G62-63; H53-57, 62-63	F72-76; G72-76	None	For columns C,F,G,H,I,J,K,N,O,P,Q,R,S,V,W,X,Y,Z, rows: 136-141 For columns D,E,L,M,T,U, rows: 136-137	For columns E,FG,H,I,J, rows: 146-155; 157-166; 168-177; 179-188	For columns E,FG,H,I,J, rows: 193-202; 204-213; 215-224; 226-235	J240-241; J243-244; J246-247	None	F310-315; G310-315	F320-322*; G320-322*
Standardised	VaR	Standardised	None	I32,34	F41-42; G41-42; H41-42	F47-48; G47-48; H47-48	G62-63; H53-57, 62-63; I62-63	None	None	None	None	None	None	None	F310-315; G310-315	None
Standardised	VaR	CEM	None	I32,34	F41-42; G41-42; H41-42	F47-48; G47-48; H47-48	G62-65; H53-57, 62-65; I62-65	None	None	None	None	None	None	None	F310-315; G310-315	None
Standardised	VaR	IMM	F7-9,11,25-26; G11,25-26; H7-9,11; I7-9,11,15	None	F41-42; G41-42; H41-42	F47-48; G47-48; H47-48	G62-63; H53-57, 62-63; I62-63	F72-76; G72-76	None	For columns C,F,G,H,I,J,K,N,O,P,Q,R,S,V,W,X,Y,Z, rows: 136-141 For columns D,E,L,M,T,U, rows: 136-137	For columns E,FG,H,I,J, rows: 146-155; 157-166; 168-177; 179-188	For columns E,FG,H,I,J, rows: 193-202; 204-213; 215-224; 226-235	J240-241; J243-244; J246-247	None	F310-315; G310-315	F320-322*; G320-322*
IRB	Standardised	Standardised	None	I32,34; J32,34	F41-42; G41-42; H41-42	F47-48; G47-48; H47-48	F62-63; G62-63; H53-57, 62-63	None	None	None	None	None	None	D256-305; E256-305; F255-305; G255-305; H255-305; I255-305	F310-315; G310-315	None
IRB	Standardised	CEM	None	I32,34; J32,34	F41-42; G41-42; H41-42	F47-48; G47-48; H47-48	F62-65; G62-65; H53-57, 62-65	None	None	None	None	None	None	D256-305; E256-305; F255-305; G255-305; H255-305; I255-305	F310-315; G310-315	None
IRB	Standardised	IMM	F7-9,11,25-26; G11,25-26; H7-9,11; I7-9,11,15,17-18,20-21; J15,17-18,20-21	None	F41-42; G41-42; H41-42	F47-48; G47-48; H47-48	F62-63; G62-63; H53-57, 62-63	None	For columns C,D,F,G, rows: 80-129	For columns C,F,G,H,I,J,K,N,O,P,Q,R,S,V,W,X,Y,Z, rows: 136-141 For columns D,E,L,M,T,U, rows: 136-137	For columns E,FG,H,I,J, rows: 146-155; 157-166; 168-177; 179-188	For columns E,FG,H,I,J, rows: 193-202; 204-213; 215-224; 226-235	J240-241; J243-244; J246-247	D256-305; E256-305; F255-305; G255-305; H255-305; I255-305	F310-315; G310-315	F320-322*; G320-322*
IRB	VaR	Standardised	None	I32,34; J32,34	F41-42; G41-42; H41-42	F47-48; G47-48; H47-48	F62-63; G62-63; H53-57, 62-63; I62-63	None	None	None	None	None	None	D256-305; E256-305; F255-305; G255-305; H255-305; I255-305	F310-315; G310-315	None
IRB	VaR	CEM	None	I32,34; J32,34	F41-42; G41-42; H41-42	F47-48; G47-48; H47-48	F62-65; G62-65; H53-57, 62-65; I62-65	None	None	None	None	None	None	D256-305; E256-305; F255-305; G255-305; H255-305; I255-305	F310-315; G310-315	None
IRB	VaR	IMM	F7-9,11,25-26; G11,25-26; H7-9,11; I7-9,11,15,17-18,20-21; J15,17-18,20-21	None	F41-42; G41-42; H41-42	F47-48; G47-48; H47-48	F62-63; G62-63; H53-57, 62-63; I62-63	None	For columns C,D,F,G, rows: 80-129	For columns C,F,G,H,I,J,K,N,O,P,Q,R,S,V,W,X,Y,Z, rows: 136-141 For columns D,E,L,M,T,U, rows: 136-137	For columns E,FG,H,I,J, rows: 146-155; 157-166; 168-177; 179-188	For columns E,FG,H,I,J, rows: 193-202; 204-213; 215-224; 226-235	J240-241; J243-244; J246-247	D256-305; E256-305; F255-305; G255-305; H255-305; I255-305	F310-315; G310-315	F320-322*; G320-322*

* For banks using the shortcut method only.

Annex 2: Treatment of securitisation, "Leverage ratio" worksheet

