Basel Committee
on Banking Supervision

Consultative Document

Frequently asked questions on Large Exposures QIS

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I. Introduction

This document provides answers to technical and interpretive questions raised by supervisors and banks during the Large Exposures QIS. **The document intends to facilitate the completion of the questionnaire and is not to be construed as an official interpretation of other documents published by the Committee.**

Paragraph numbers given in the remainder of this document usually refer to a *Supervisory framework for measuring and controlling large exposures* ("the Consultative Document").[1] Cell references refer to the questionnaire[2] and the accompanying instructions[3].

II. General

A. Scope

1. Consider a banking group with:

- *the parent bank has an insurance subsidiary, subject to deduction from the capital of the parent bank,*
- *the parent bank is exposed to company X ,*
- *an insurance subsidiary of the parent bank also has exposure to company X.*

Are the exposures of the parent bank and of the insurance subsidiary to company X aggregated for purposes of LE QIS (to be filled in on consolidated basis)?

Answer: Yes, the exposures of the parent bank and of other entities of the group should be aggregated. For the QIS, the paragraph 50 of the proposed large exposures framework is applicable only to the exposures directly deducted from capital.

2. What is the exact scope of the sovereign carve-out? Are all exposures risk-weighted 0% concerned?

Answer: Not all exposures risk-weighted 0% are carved-out. Only the exposures to sovereign entities, central banks and public sector entities assimilated to sovereigns. This corresponds to paragraphs 53, 54, 55 and 56 of the Basel II text.[4] Claims on non-central government public sector entities (PSEs) or to multilateral development banks MDBs, even when subject to a 0% risk-weight, should be considered for the large exposures QIS framework. For IRB banks, the paragraph 229 of the Basel II text is not to be

1 Accessible at http://www.bis.org/publ/bcbs246.pdf.

2 Accessible at http://www.bis.org/publ/bcbs246/lei2013qis_questionnaire.xls.

3 Accessible at http://www.bis.org/publ/bcbs246/instructions.pdf.

4 See http://www.bis.org/publ/bcbs128.pdf.

applied as such, the public sector entities identified as sovereigns and MDBs meeting criteria for a 0% risk weight are not part of the carve-out.

B. Capital

3. With respect to capital figures which have to be reported in rows 23, 24 and 25, should the reporting bank use exactly the same amounts as for the Basel 3 monitoring instructions or fill in the questionnaire with capital figures computed for the LEG QIS purposes?

Answer: The rows 23, 24 and 25 should be filled in with capital figures as they will be at the 1 January 2019, reflecting the final Basel III standards set out in paragraphs 49 to 90 of the Basel III framework.[5] Almost all the phasing-in arrangements set out in paragraph 94 to 96 will have come to an end at this date. The only exception relates to capital instruments subject the progressive phasing out set out in paragraph 94g. For the instruments satisfying the provisions set out in 94g, 95 and 96, banks should use the value of the capital instruments that will be allowed at this date (ie with a 30% cap).

III. Exposure values

4. If an option position is held against an equity composite index, how should be computed the relevant exposure values?

Answer: First the bank has to assess if the equity composite index satisfies the granularity threshold or not. If the index is sufficiently granular, the exposure value can be attributed to the index as such. If the share of some companies included in the index is higher than 1% of the index, the look-through approach should be applied. In that case, the exposure value would be calculated as indicated in the paragraph 83 and 84 of the Consultative Document and then allocated to underlying assets in the indices on a pro-rata basis (as indicated in paragraph 122 of the Consultative Document).

5. Regarding excel rows 66 and 67 of the questionnaire (Initial margin (if bankruptcy remote, if not bankruptcy remote)), please clarify the exposure value to be reported and the definition of bankruptcy remote collateral?

Answer: The value to be reported is the exposure at default. As to the second question, initial margin should be bankruptcy remote (not just segregated from a CCP's own accounts).Bankruptcy remoteness should already been determined by banks since this concept is already used in the definition of capital requirements for bank exposures to central counterparties (see paragraphs 117 to 119).[6]

6. Do direct exposures to securitisation entities (SPV or other similar forms) in the form of credit enhancement, like credit line or liquidity line, and investment in securities issued by the relevant SPV have to be reported similarly or differently? Should the LTA be applied regardless of exposure types?

Is there any recognition of credit enhancement provided by other bank?

5 Accessible at http://www.bis.org/publ/bcbs189.pdf.

6 Accessible at http://www.bis.org/publ/bcbs227.pdf.

Answer: All exposures to a securitisation vehicle should be treated as investments in the fund and there is no recognition of credit enhancement. See the example hereafter.

Consider:

- a SPV of which asset pool consists of 10 assets, C1 to C10, each with a value of €10 million;
- both bank A and B establish subordinated credit lines against the SPV with the amount equivalent to €5 million;
- bank C invests €5 million in the securitisation bonds issued by the SPV.

Given that credit enhancement is not recognised the treatment is the same regardless of the tranche where the bank invests (either credit lines or bonds).

How should bank A (which is providing a credit line to the SPV) report its exposure to the SPV)?

(1) report an exposure of €0.5 million in row 60 to each of C1 through C10 ;ie €5 million x 0.1 (the look through approach is required and exposures to assets in the pool are measured on a pro rata share basis – see paragraph 122 of the Consultative Document).

(2) report an exposure to Bank B of an amount of €5 million in the row 61 (bank B credit line is an additional risk factor).

Bank B would report exposures analogously.

How should bank C report exposures related to the securities?

(1) report an exposure of $0.5 million in row 60 to each of C1 through C10; ie €5 million x 0.1 (the look through approach is required and exposures to assets in the pool are measured on a pro rata share basis – see paragraph 122 of the Consultative Document).

(2) report an exposure to each of banks A and B of an amount of €5 million for each.

7. How covered bonds held should be reported?

Answer: Covered bonds should be treated as an unsecured debt security and reported (market value assuming 100% LGD) either in row 16 (if held in the banking book) or in row 31 (if held in the trading book).

8. Could you clarify which rows of the Exposure to a CRM provider section should be filled in by banks using the simple approach for financial collateral for risk-based requirements purposes?

Answer: A bank using the simple approach for financial collateral should fill in row 89, there is no need to fill in row 91 in that case (see diagram).