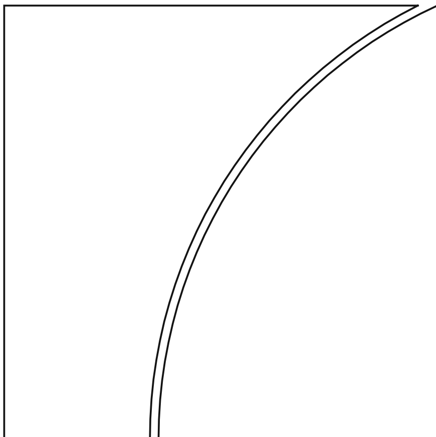
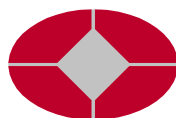
Basel Committee
on Banking Supervision



Frequently asked questions on Basel III monitoring

23 March 2017



BANK FOR INTERNATIONAL SETTLEMENTS

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Frequently asked questions on Basel III monitoring

1. Introduction

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

Paragraph numbers given in the remainder of this document usually refer to *Basel III: A global regulatory framework for more resilient banks and banking systems* ("the Basel III standards"), the *Basel III leverage ratio framework and disclosure requirements* ("the Basel III leverage ratio framework"), *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* ("the Basel III LCR standards"), *Basel III: The Net Stable Funding Ratio* ("the Basel III NSFR standards"), *Total Loss-Absorbing Capacity (TLAC): Principles and Term Sheet*, *Minimum capital requirements for market risk*, *Revisions to the securitisation framework, amended to include the alternative capital treatment for "simple, transparent and comparable" securitisations* as well as to the *TLAC holdings standard*.[1]

In addition to the guidance for completing the monitoring template contained in this document, the Committee has published frequently asked questions (FAQ) as its official response to questions of interpretation relating to certain aspects of the Basel III standards. **Therefore, banks should also take into account the frequently asked questions on capital, counterparty credit risk, the Basel III leverage ratio, the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) published by the Committee.**[2]

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

[1] Basel Committee on Banking Supervision, *Basel III: A global regulatory framework for more resilient banks and banking systems (revised June 2011)*, June 2011, www.bis.org/publ/bcbs189.htm; Basel Committee on Banking Supervision, *Basel III leverage ratio framework and disclosure requirements*, January 2014, www.bis.org/publ/bcbs270.htm; Basel Committee on Banking Supervision, *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools, January 2013,* www.bis.org/publ/bcbs238.htm; Basel Committee on Banking Supervision, *Basel III: The Net Stable Funding Ratio, October* 2014, www.bis.org/bcbs/publ/d295.htm.

[2] Basel Committee on Banking Supervision, *Basel III definition of capital – Frequently asked questions*, December 2011, www.bis.org/publ/bcbs211.htm; Basel Committee on Banking Supervision, *Basel III counterparty credit risk – Frequently asked questions*, December 2012, www.bis.org/publ/bcbs237.htm; Basel Committee on Banking Supervision, *Frequently asked questions on Basel III's January 2013 Liquidity Coverage Ratio*, April 2014, www.bis.org/publ/bcbs284.htm; Basel Committee on Banking Supervision, *Basel III: The standardised approach for measuring counterparty credit risk: frequently asked questions*, August 2015, www.bis.org/bcbs/publ/d333.htm; Basel Committee on Banking Supervision, *Frequently asked questions on the Basel III leverage ratio framework*, April 2016, www.bis.org/bcbs/publ/d364.htm; Basel Committee on Banking Supervision, *Basel III – The Net Stable Funding Ratio: frequently asked questions*, July 2016, www.bis.org/bcbs/publ/d375.htm; Basel Committee on Banking Supervision, *Frequently asked questions on market risk capital requirements*, January 2017, www.bis.org/bcbs/publ/d395.htm.

2. General

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

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

3. Definition of capital

3.1 General

1. Please clarify what data should be populated in panel E) Memo item: Investments in the capital or other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and below the threshold for deduction (D109:118, E109:118) in the "DefCap" worksheet.

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

2. Can banks choose whether or not to include the amounts related to defaulted assets in cells D8 and D9 of the "DefCap" worksheet?

   Answer: No. Banks in EU countries **must exclude** the amounts related to defaulted assets from cells D8 and D9 of the "DefCap" worksheet and report them separately in cells D10 and D11. Conversely, banks in non-EU countries **must include** these amounts in cells D8 and D9 and leave cells D10 and D11 empty.

3.2 TLAC

–

4. Leverage ratio

4.1 General

1. Items deducted from the capital measure that must symmetrically be deducted from the Basel III leverage ratio exposure measure are only those that are on the asset side of the balance sheet. There should not be any liability item deducted from the Basel III leverage ratio exposure measure.

   Answer: Yes.

2. How should the Basel III leverage ratio exposure be measured? Shall the accounting treatment be used?

Answer: The Basel III leverage ratio exposure measure for the leverage ratio should generally follow the accounting value, coupled with the following adjustments for non-derivative exposures and non-securities financing transactions (non-SFTs): (i) net of specific provisions and valuation adjustments; (ii) do not reduce on-balance sheet exposures for physical or financial collateral, guarantees or credit risk mitigation purchased; and (iii) no netting of loans and deposits. Moreover, for derivative exposures the effect of netting according to the Basel II framework should be considered, while for SFTs netting of cash receivables with cash payables may only be recognised subject to the strict criteria set out in paragraph 33(i) of the Basel III leverage ratio framework. Please also refer to the Basel III leverage ratio framework for more details on how to calculate the exposure measure.

3. It is not obvious whether the Basel III leverage ratio will be affected by insurance activities.

Answer: See paragraphs 8, 9 and 16 of the Basel III leverage ratio framework.

4. Can the Committee confirm that cross-product netting is not permitted under the Basel III leverage ratio exposure measure, and that the 40/60 rule embodied within paragraph 96 (iv) of Annex 4 of the Basel II framework applies to the allowable netting of the CEM add-on?

Answer: Yes.

5. Given that the restriction on counterparty credit risk due to hedging of financial institution investments has been removed in the definition of capital, does this also apply in the context of the Basel III leverage ratio even though in general it does not recognise credit risk mitigation?

Answer: In the context of the Basel III leverage ratio, the capital measure follows the criteria laid down in the Basel III standards for the definition of capital. This applies also to the hedging of investments in the capital of banking, financial and insurance entities.

In order to ensure that the capital and exposure measures are measured consistently, investments in the capital of banking, financial and insurance entities are excluded from the Basel III leverage ratio exposure measure for the same amount deducted from capital.

In any case, it must be noted that physical or financial collateral, guarantees or credit risk mitigation purchased are not allowed to reduce the on-balance sheet exposures. This implies that no effects other than those described above should occur from the hedging of exposures that are included in the Basel III leverage ratio.

6. 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.

Answer: This requirement asks for delivery of gross positions for on-balance sheet exposures, ie guarantees, financial collateral or other risk mitigants are not allowed to reduce the on-balance sheet exposures. However, cash variation margin associated with derivative transactions and fulfilling the criteria in paragraph 25 of the Basel III leverage ratio framework may be viewed as a form of pre-settlement and hence not considered as a credit risk mitigant for the purpose of the Basel III leverage ratio.

7. Should the "Off-balance sheet exposures: notional x regulatory CCF" area in panel C of the "Leverage Ratio" worksheet include the EAD amount resulting from the derivative transactions?

Answer: No, derivative transactions should only be included in columns D and J.

8. In cells D77 and J77 of the "Leverage Ratio" worksheet, should we only provide the amount resulting from the netting agreements or should we also include cash collateral?

   Answer: Cells D77 and J77 should only include (i) the amount resulting from the netting, with the effects of collateral to be included in cells D79 and J79; and (ii) the gross value of derivatives that are treated off-balance sheet and therefore included in column E (and K) of panel A where applicable; following the relevant accounting frameworks.

9. We assume row 12 also includes all other derivatives (ie all except credit derivatives). Is this correct?

   Answer: Yes.

10. We seek confirmation that the standards do not allow the netting of loans and deposits?

    Answer: This is correct.

11. Can banks subject to a national GAAP exclude fiduciary assets from the total exposures measure of the Basel III leverage ratio under any circumstance, and if so under what circumstances?

    Answer: Yes. According to paragraph 15 and footnote 4 of the Basel III leverage ratio framework, where a national GAAP recognises on-balance sheet fiduciary assets, these assets can be excluded from the Basel III leverage ratio total exposures measure provided the assets meet the criteria in IAS 39 for de-recognition and, where applicable, IFRS 10 for de-consolidation. When disclosing the Basel III leverage ratio, banks should additionally disclose the extent of such de-recognised fiduciary items.

    An example is the accounting for promotional programs for housing modernisation and energy conservation under German GAAP, where a state-owned bank provides loans via the bank in question acting as fiduciary (where the funding is completely provided by the state-owned bank, the administered funds cause neither credit risk nor liquidity risk for the bank in question, and the liability of the bank in question is limited to duly performing its obligations as a provider of funds management services). These loans are recognised on the balance sheet under German GAAP whereas they are not under IFRS.

12. Should the shortfall of the stock of provisions to expected losses (note paragraph 73 of Basel III) be deducted from the exposure measure of the Basel III leverage ratio?

    Answer: See paragraph 16 of the Basel III leverage ratio framework.

13. A bank is applying national GAAP for their financial reporting, where certain derivative instruments are not recognised on the balance sheet. How should these derivatives be treated when calculating the exposure measure for the Basel III leverage ratio?

    Answer: See paragraph 19 and footnote 6 of the Basel III leverage ratio framework.

14. deleted.

15. deleted.

16. deleted.

17. Panel I: What is the definition of *segregated assets*?

    Answer: As set out in Section 5.2.9 of the Instructions, an asset (eg cash initial margin) is considered *segregated* if it is segregated from the *clearing member*'s other assets, ie if it may not be *used*, *pledged* or *re-hypothecated* by the clearing member for its own business purposes. However, such segregated margin may be used in accordance with the applicable customer protection rules, subject to the prior agreement with the clearing client.

18. deleted.

19. Panel I: Do rows 135 to 137 of the "Leverage ratio" worksheet refer to *all* initial margin included in the Basel III leverage ratio exposure measure, or only to the bank's centrally cleared client initial margin associated with derivative transactions?

    Answer: Rows 135 to 137 refer only to the bank's centrally cleared client initial margins associated with derivative transactions included in the Basel III leverage ratio exposure measure.

20. deleted.

    Answer: Although unusual, negative derivatives exposures are indeed possible.

21. Panel G: Does paragraph 187 of the SA-CCR document[3] apply to global netting agreements (GNA), which are legally-enforceable agreements that enable a bank to net and margin client positions across products and across the bank's legal entities?

    Answer: Paragraph 187 of the SA-CCR document states that where a single margin agreement applies to several netting setts, the PFE add-on must be calculated according to the unmargined methodology. Since the collateral exchanged on a net basis as a consequence of GNA may be insufficient to cover the exposures arising from derivative transactions, paragraph 187 should apply.

22. deleted.

23. deleted.

24. deleted.

25. deleted.

26. Panel G: Under the modified SA-CCR, setting the PFE multiplier at 1 would de-recognise (i) over-collateralisation within netting sets, and (ii) the effect of negative mark-to-market. Please confirm that for the purpose of the Basel III monitoring exercise, this was intended?

    Answer: Yes.

27. Panel K: Is panel K limited to the banking book or shall trading book exposures be included as well?

    Answer: Panel K refers to regular way sales or purchases of any securities that have not been settled yet at reporting date. There is no differentiation between banking and trading book.

28. Panel K: For banks that apply netting of cash receivables for securities sold against cash payables for securities purchased under trade date accounting, what form of netting should be reported on panel K?

    Answer: The only netting that should be reported for trade date accounting on panel K is the unconditional netting allowed for broker-dealers under US GAAP and Japanese GAAP. Other options for conditional netting (eg as provided by IAS 32) are not to be reported on panel K.

29. Panel A: Should the amount of the exposure measure that must be grossed up per paragraph 24 of the Basel III leverage ratio framework associated with collateral *provided* in derivative trades that is netted according to IAS 32.42 be reported in row 21 of the "Leverage Ratio" worksheet?

    Answer: Yes, the amount that was netted due to collateral provided is to be reported in row 21 so as to gross-up the exposure measure. Moreover, as the accounting value for derivatives is to be reflected in D8 and J8, the grossing-up in cells E8 and K8 refers to collateral received from

[3] Basel Committee on Banking Supervision, *The standardised approach for measuring counterparty credit risk exposures*, March 2014, www.bis.org/publ/bcbs279.htm.

derivative trades. The netted amount for other assets according to the relevant accounting standard is to be reported in cells D19 and J19.

30. deleted.

4.2 Leverage ratio additional

1. Are "bilateral derivatives" in panel H3 intended to include both OTC derivatives and CCP-cleared OTC derivatives?

   Answer: No. The client leg of CCP-cleared derivatives is captured in panel H1 (ETD) and panel H2 (OTC). Panel H3 (bilateral derivatives) captures trades with non-CCP counterparties.

2. The instructions for panel H indicate "in the case of bilateral trades, if the bank has fewer than five counterparties from which IM is received, remaining rows should be completed for top counterparties as determined by their associated Basel III leverage ratio exposure measure as calculated per the current Basel III leverage ratio framework." Does this mean that for the remaining rows banks should fill out only column D and columns I through T?

   Answer: Yes.

3. For reporting panel H, is there a specific approach that should be used to determine annualised net income associated with a particular counterparty?

   Answer: No. Annualised net income for derivatives exposures associated with a particular counterparty should be reported on a best efforts basis.

4. For reporting panel H, if a bank was not operating its client clearing business at full scale during the period for which data is to be reported, should the bank report net income associated with counterparties during the period based on the actual net income for the period or based on estimates for net income assuming the business had been operating at full scale?

   Answer: For purposes of this QIS, the bank should report its estimates for net income associated with each counterparty as if the business had been running at full scale.

5. For reporting panel H, should top counterparties be identified by initial margin received from each counterparty before or after any applicable haircuts?

   Answer: Top counterparties should be identified by initial margin received before any haircuts are applied.

6. For reporting panel H, in the case of counterparties which pledge their deposits of securities, should initial margin received be determined as the sum of all pledged cash and non-cash? If yes, in this case should the identification of top counterparties be determined by initial margin received despite these counterparties not necessarily being those from which the most initial margin is required?

   Answer: In the case cited, initial margin received should be the sum of all pledged cash and non-cash. Top counterparties should continue to be identified and sorted by initial margin received.

7. Given that CVA is calculated on a portfolio level, how should banks attribute amounts of CVA to individual counterparties in column M of panel H?

   Answer: For the purpose of reporting the CVA attributable to a particular counterparty in column M, banks should calculate CVA at the portfolio level (for all relevant counterparties) and allocate CVA to each counterparty on a best-efforts basis. Likewise, risk-weighted capital requirements for counterparty credit risk under the framework currently used by the bank in column L and using SA-CCR in column N should be allocated to each counterparty on a best-efforts basis.

8. What should be reported on panel B row 20 ("Off-balance sheet items with a 100% CCF in the LR CD including Option A for unsettled financial asset purchases") and row 22 ("Off-balance sheet items with a 100% CCF in the LR CD including Option B for unsettled financial asset purchases"), particularly if a bank does not have any unsettled financial asset purchases to report?

   Answer: Banks should report in rows 20 and 22 the notional amount of all off-balance sheet items with a 100% CCF per the consultative document on the Revisions to the Basel III leverage ratio. In row 20, banks should additionally reflect any amounts associated with unsettled financial asset purchases per the treatment specified in Option A in the consultative document. In row 22, banks should additionally reflect any amounts associated with unsettled financial asset purchases per the treatment specified in Option B in the consultative document. If a bank does not have any unsettled financial asset purchases to report in either rows 20 or 22, the values reported in rows 20 and 22 should be equal and reflect the notional amounts of any other types of exposures that receive a 100% CCF per the consultative document. The latter also applies to banks using *trade date accounting*.

9. If a bank reports zero values for unsettled financial asset purchases on panel F, what should be entered on row 21 ("Reported unsettled financial asset purchases as OBS items with a 100% CCF?")?

   Answer: A bank should select "No" on row 21 if it does not report any unsettled financial asset purchases on panel F.

10. For reporting panel B, what definition of "commitments" should be used for determining off-balance sheet items?

    Answer: For the purposes of reporting off-balance sheet items associated with commitments in panel B, banks should use the definition of "commitments" as specified in paragraph 8 of the Annex of the consultative document *Revisions to the Basel III leverage ratio framework*.

11. For reporting values for modified SA-CCR on panels C and E, should the bank include the 1.4 alpha factor in the values reported?

    Answer: No. Values of modified SA-CCR on panels C and E should be reported without having applied the 1.4 alpha factor. However, on panel H reporting of SA-CCR-based measures in columns J and K and SA-CCR-based capital requirements in column L should reflect the application of the 1.4 alpha factor.

12. For the calculation of the Basel III leverage ratio per the consultative document in panel I, what methodology has been applied?

    Answer: For purposes of panel I, the calculation of the exposure measure reflects proposals as included in the consultative document *Revisions to the Basel III leverage ratio framework* (April 2016), the impact of which is based on a combination of data reported on the "Leverage Ratio" and "Leverage Ratio additional" worksheets. In particular, the value for on-balance sheet exposures in panel I takes into account the deduction of eligible provisions (paragraph 10) and PVAs (paragraph 12) as well as the clarification on cash pooling transactions (paragraph 17) as specified in the consultative document. The exposure value for pending settlement transactions is based on the two options (ie options A and B as specified in paragraph 16) as proposed in the consultative document, including associated amounts treated as OBS items (Annex paragraph 9). The measurement of derivative exposures (including those associated with transactions cleared on behalf of a client) is based on a modified version of the SA-CCR (paragraphs 19 through 29) and clarifications for the treatment of written credit derivatives (paragraphs 30 through 35). Regarding OBS items, the upper bounds of CCFs as proposed in the consultative document (Annex paragraphs 8 through 13) are applied to notional amounts as reported in panel B. Consistent with the consultative document, as there have been no proposed revisions to the measurement of securities financing transactions (SFTs), the calculation in panel I utilises the

measurement of SFTs as reported on the "Leverage Ratio" worksheet according to the January 2014 Basel III leverage ratio framework.

13. deleted.

14. deleted.

15. deleted.

16. deleted.

17. The instructions for columns J and K of panel H refer to Annex paragraphs 1 through 3 of the Basel III leverage ratio framework consultative document. Should banks apply an FX haircut to cash variation margin received and provided (as referenced in Annex paragraph 2) for the purposes of reporting columns J and K?

    Answer: No. Banks should not apply an FX haircut for purposes of reporting columns J and K in panel H.

18. In column M of panels H1, H2 and H3, are banks to report "CVA under the current framework" based on the standardised approach or the advanced approach?

    Answer: In column M, banks are to report CVA based on the approach the bank uses for calculating its risk-based capital requirements. Further, in panel H4 column F, banks should indicate the approach by which they reported CVA in column M of panels H1, H2 and H3.

5. Liquidity

5.1 General

1. It is cumbersome and time consuming to obtain data for rows 103 to 107 and 132 to 136 of the "LCR" worksheet ("additional deposit categories with higher run-off rates as specified by supervisor"). Since the weight is set to 0%, what is the significance of collecting these data? How should these amounts be reported on the "NSFR" worksheet?

    Answer: The parameters (ie the run-off rates applied for the purpose of calculating the LCR) for additional retail and small business deposit categories with higher run-off rates are specified by national supervisors, who are required to provide the specifications for these items. If a national supervisor has not yet decided what parameters to apply to these deposit categories, a 0% factor is automatically used for the calculation of the LCR.

    Amounts reported in lines 103 to 107 and 132 to 136 of the "LCR" worksheet should be reflected in the amount reported in cell C11 on the "NSFR" worksheet.

2. Section 2.2 of the instructions states: "Where information is not available, the corresponding cell should be left empty. No text such as "na" should be entered in these cells. However, leaving a cell empty could trigger exclusion from some or all of the analyses if the respective item is required."

    We would like to know which information is considered absolutely necessary to be reported so as not to be excluded from the most relevant analysis. At the moment, and given the short time to fill in the templates, we find it difficult to provide some of the breakdowns (eg operational deposits, distinction between non-transactional accounts with and without established relations and credit lines/ liquidity lines).

    Answer: All relevant breakdowns on the templates should be filled in on a "best- efforts" basis. Leaving a relevant row blank may distort the end result and may trigger exclusion from the

analyses. Furthermore the LCR calculation may not produce a result in cell H443 (the LCR percentage) if any required cells are left blank. If cells are not applicable, then they are known to be zero and thus a zero value should be entered in such cells.

5.2 LCR

3. What is meant by "if the collateral received is re-used and tied up for 30 days or longer to cover short positions" in the treatment of reverse repos maturing within 30 days?

Answer: The LCR framework assumes that a reverse repo can only roll off if the collateral received on the reverse repo is available or will become available within 30 days to be returned to the counterparty on the reverse repo.

The bank may choose from the following options concerning the collateral received on reverse repos maturing within 30 days:

(a) The bank could retain the collateral which would thereby be available for return when the reverse repo matures. In this case, the collateral may be included in the stock of high-quality liquid assets (if it satisfies the qualifying criteria) and repo transactions may roll-off in which case an inflow may be taken into account. The reverse repos should then be reported in lines 276 to 289.

(b) The bank could sell the collateral to another party, in which case the bank would take a short position (it has sold assets it does not own outright). The collateral then cannot be included in the stock of high-quality liquid assets. In this case, per paragraph 147 of the Basel III LCR standards, there is no need to report an outflow for the bank's short position, but the reverse repo cannot roll-off either, so there will not be an inflow of the cash extended in the reverse repo (ie it is assumed that the reverse repo will be rolled over to cover the bank's short position). The reverse repos should then be reported in lines 291 to 296.

(c) The bank could rehypothecate the collateral in a repo transaction. The collateral cannot then be included in the stock of high-quality liquid assets.

- If the repo transaction matures within 30 days, resulting in an outflow, the collateral may return within 30 days and the reverse repo could unroll resulting in an inflow (unless the collateral consists of Level 1 assets, in which case the reverse repo is assumed to roll-over in full). The reverse repos should then be reported in lines 276 to 289.
- If the repo transaction matures beyond the 30-day horizon, the collateral will not return within 30 days and the reverse repo is assumed to continue to roll-over in full and not generate any inflows. The reverse repos should then be reported in lines 291 to 296.

5.2.1 Stock of highly liquid assets

4. Section 6.1.1 of the instructions states "All assets ... should be under the control of the function charged with managing the liquidity of the bank". Can unencumbered high-quality trading assets qualify for the stock of liquid assets if internal procedures exist such that these trading assets would be put under the control of the liquidity risk management function in times of stress?

Answer: Assets qualifying for the stock of liquid assets should meet all of the operational requirements noted in paragraphs 31 to 40 of the Basel III LCR standards at all times (not just in times of stress) including:

(a) The stock should be under the control of the function charged with managing the liquidity of the bank (eg the treasurer), meaning the function has the continuous authority, and legal and operational capability, to monetise any asset in the stock (paragraph 33 of the Basel III LCR standards);

(b) Control must be evidenced either by maintaining assets in a separate pool managed by the function with the sole intent for use as a source of contingent funds, or by demonstrating that the function can monetise the asset at any point in the 30 day stressed period and that the proceeds of doing so are available to the function throughout the 30 day stressed period without directly conflicting with a stated business or risk management strategy (paragraph 33 of the Basel III LCR standards).

5. Can assets that otherwise qualify for the stock of high-quality liquid assets but that are used to hedge structural interest rate risk be included as eligible high-quality liquid assets in the buffer?

Answer: Yes, so long as the assets meet the other operational requirements (eg within the control of the treasury function, etc).

6. Can rated loans be included in the stock of liquid assets?

Answer: No, only securities can be included.

7. How should assets be distinguished among lines 57 and 60?

Answer: First report any assets qualifying for line 57 in that line. Then, report any assets not yet reported in line 57 that qualify for line 60. The important consideration is that assets should not be double-counted in this section.

8. How should unencumbered assets that are held in a pool at a major electronic collateral management system be treated?

Answer: Assets available to fund gaps between inflows and outflow from day 1 and that meet all the other operational requirements are eligible for the stock of high-quality liquid assets. To decide which assets in the pool should be considered encumbered and unencumbered, please refer to the "definition of unencumbered" provided in Section 6.1.1 of the instructions.

9. Do assets pledged with the central bank (eg for RTGS purposes) qualify as high-quality liquid assets?

Answer: The unused portion of the collateral that has been pre-positioned or deposited with, or pledged to, a central bank or a public sector entity (PSE) but that has not been used to generate liquidity can be counted as part of the stock of liquid assets in accordance with paragraph 31 of the Basel III LCR standards.

10. Assume a bank uses the GC pooling market as offered by Eurex in Germany and receives collateral consisting of a basket of fixed income securities where, for example, roughly 40% of these securities are highly rated government securities that would, on their own, qualify for the stock of liquid assets. The remaining part (60%) consists of securities (mainly covered bonds) issued by financials. The bank will receive this collateral as "full transfer of title" so these securities will initially be part of their liquid asset pool. How should this be treated in the LCR stock of high-quality liquid assets?

Answer: If the highly rated government securities cannot separately be sold or used in a repo transaction, the weight that should be applied in the LCR should correspond to the asset that receives the lowest weight within the framework. For example, if the basket of securities includes only government securities that would be Level 1 eligible and covered bonds that would be Level 2A eligible, the entire basket of securities would be considered as Level 2A assets. If any part of the basket of securities relates to assets that are ineligible for the stock of high-quality liquid assets, the entire basket should receive a 0% weight and thus be excluded from the stock.

11. Where the cap on Level 2 assets or the cap on Level 2B assets is binding for a bank (meaning that certain otherwise eligible assets are excluded from the stock of high-quality liquid assets), can the inflows on these excluded assets count in the denominator of the LCR as inflows (falling within the next 30 calendar days)?

Answer: No, Level 2A or Level 2B assets that are excluded from the stock of high-quality liquid assets because of the caps should remain reported in panel Ab (if Level 2A) or panel Ac (if Level 2B) and not be reported as inflows. However, assets that are excluded from the stock of high-quality liquid assets because they do not meet the operational requirements and are not reported in panel Ab (if Level 2A) or panel Ac (if Level 2B) can be included as inflows.

5.2.2 Cash outflows

12. Do "transactional accounts" in row 85 include "current accounts" from retail customers?

Answer: Yes, if the retail customers use these current accounts for regular transactions and they have, for instance, their salaries automatically deposited to these accounts.

13. Regarding a relationship account "where the customer has another relationship with the bank", does this include a situation where the customer has more than one product apart from a "non-transactional account" (eg more than just one savings account)?

Answer: Yes, the term "relationship" in this context refers to the customer having other products (ie loans, other deposit accounts) that makes it less likely that the customer will withdraw the deposits were the LCR stress scenario to unfold.

14. Row 60: The stock of high-quality liquid assets should not be designated to cover operational costs (such as rents and salaries): Does this effectively mean that 30-day expected operational costs are treated as an outflow?

Answer: No, the expected operational expenses are not included in outflows and the means held to pay them are not reflected in the stock of high-quality liquid assets.

15. Regarding "notes, bonds and other debt securities issued by the bank are included in this category regardless of the holder, unless the bond is sold exclusively in the retail market and held in retail accounts (including small business customers treated as retail)," can such bonds be treated as retail or small business customer deposits if they have been sold to a primary bank and from the primary bank then sold to retail customers or small business customers?

Answer: No, if such bonds are sold to a primary bank, they cannot exclusively be sold to retail and small business customers and would therefore not qualify for treatment as retail or small business customer deposits.

16. Given the short time frame provided to fill in the templates, the basic difficulty will be combining different databases (eg commercial and financial information) to determine the portion of the deposits that qualify for operational purposes.

Answer: Banks are requested to distinguish between operational and other deposits on a best-efforts basis.

17. In rows 202 and 209, are the counterparties BIS, IMF, ECB and European Community treated the same as domestic sovereigns, multilateral development banks or domestic PSEs with a 20% risk-weight, or do they fall into the category "other counterparties"?

Answer: Only transactions with specific domestic counterparties should be included in lines 202 and 209. The institutions listed in the question are not domestic but international counterparties.

18. Regarding unsecured wholesale funding run-offs, does "where the market expects certain liabilities to be redeemed before their legal final maturity date" (paragraph 86 of the Basel III LCR standards) mean that where the counterpart expects a liability to be redeemed with applying

established methods of financial mathematics, then this liability should be modelled with early termination in the LCR?

Answer: Yes, banks and supervisors should assume such behaviour for the purpose of the LCR and include these liabilities as outflows. Also, for funding with options exercisable at the bank's discretion, supervisors should take into account reputational factors that may limit a bank's ability to not exercise the option. This could reflect a case where a bank may imply that it is under liquidity stress if it did not exercise an option on its own funding.

19. Regarding Section 6.1.2 of the instructions on credit and liquidity lines: the definition of "general working capital facilities" suggests that facilities without an explicit function that can be used for various products (money market for short-term business, loans for longer-time business) should be defined as credit facilities. Is that correct?

    Answer: General working capital facilities for corporate entities (eg revolving credit facilities in place for general corporate and/or working capital purposes) will not be classified as liquidity facilities but as credit facilities.

20. Suppose a transactional retail deposit holds €90k. €40k is fully insured by an effective deposit insurance scheme, €20k is partly insured (eg for 95%) and €30k is not insured. Which amount may be treated as 'stable'?

    Answer: Only the amount that is fully insured can be treated as stable. So in the example, €40k may be treated as stable deposits. The other €50k are only partly insured or not insured and should therefore be reported as less stable.

21. Suppose a non-operational deposit provided by a non-financial corporate holds €125k. The deposit insurance scheme in the jurisdiction where the deposit is placed meets the requirements for an effective deposit insurance scheme, providing full insurance on deposit amounts up to and including €100k. How should this deposit be treated?

    Answer: The non-operational deposit does not meet the eligibility requirements for the 20% run-off factor as the entire amount of the deposit (ie €125k) is not fully covered by the effective deposit insurance scheme (given the deposit insurance limit is €100k). This deposit should not be reported in line 157, rather it should be reported in line 158 (and assigned a 40% run-off factor).

22. How should balances in savings accounts which can be withdrawn at any time be treated? Should we assume such accounts mature within 30 days?

    Answer: These should be treated similarly to demand deposits if the bank allows depositors to withdraw such balances without applying a significant penalty that is materially greater than the loss of interest.

23. In paragraph 114 of the Basel III LCR standards, it is assumed for secured funding transactions that involve Level 1 assets that no reduction in funding availability against these assets is assumed to occur due to their high-quality nature. For Level 2A assets, for example, a 15% reduction in funding availability will be assigned to maturing secured funding transactions backed by these assets and conducted with counterparties other than the bank's domestic central bank. Under this assumption, if a bank engaged in a \$100 repo transaction backed by a Level 2A asset with a counterparty other than the bank's domestic central bank, only \$85 would be assumed to roll over. Is the \$15 that is assumed not to roll over eligible for the stock of high-quality liquid assets, subject to the appropriate haircut?

    Answer: No. The \$15 represents a loss of funding and is taken into account as a cash outflow (the denominator of the ratio) as a result of the 15% weighting in line 195, rather than be incorporated in the stock of liquid assets.

24. The Basel III monitoring instructions state that "the amount of a commitment to be treated as a liquidity facility is the amount of the currently outstanding debt issued by the customer (or

proportionate share, if a syndicated facility) maturing within a 30 day period that is backstopped by the facility. The portion of a liquidity facility that is backing debt that does not mature within the 30-day window is excluded from the scope of the definition of a facility. Any additional capacity of the facility (ie the remaining commitment) would be treated as a committed credit facility and should be reported as such." Please clarify how the supporting lines are included in the LCR calculation.

Answer: When short-term debt, such as commercial paper, has a liquidity line as support, only the portions of the line that are supporting issued and outstanding debt that matures within 30 days and that which, in addition, could be used within the 30-day timeframe (ie the available, unused capacity) are to be included in the LCR calculation.

For example, assume $75 of debt is currently outstanding, of which $50 is due within 30 days and the remaining $25 balance is due beyond 30 days. This paper is backed by a $120 liquidity facility. The amount of the facility to be included in the LCR calculation as a liquidity facility is $50. The $45 in available, unused capacity (calculated as the total line of $120 less the $75 in outstanding debt) would be prescribed the credit facility draw rate associated with the counterparty type to which the facility is provided. The $25 of debt due outside the 30-day window would not be included in the LCR calculation (since that $25 is funded by debt that could not come due within the 30 days hence no resulting bank outflow could occur within the LCR horizon).

5.2.3 Cash inflows

25. According to the instructions to rows 302 to 305, interest payments should be reported as part of contractual inflows. However, interest payments are an element that is currently not observed in this kind of reporting, and retrieving data on this will be challenging given the timeframe and current IT set-up.

    Answer: We recognise that there are many complications facing institutions in this early monitoring stage, particularly related to IT changes to collect and populate the Basel III monitoring template. For purposes of the exercise, institutions are requested to provide data on a best-efforts basis.

26. What is the purpose for row 324 regarding the cap on cash inflows compared to cash outflows?

    Answer: Row 324 calculates the maximum amount of cash inflows – ie 75% of cash outflows – to be taken into account in the quantification of net cash outflows, in line with paragraph 144 of the Basel III LCR standards. A cap on total inflows is introduced to prevent banks from relying solely on anticipated inflows to meet their outflows and also to ensure that a minimum amount of liquid assets is held by the bank (ie a minimum of 25% of cash outflows). Row 323 of the worksheet includes the amount of cash inflows before application of the cap, whereas row 325 of the worksheet includes the amount of cash inflows after application of the cap. In cases where the cap on inflows is binding, row 325 will be less than row 323 (and will equal row 324), whereas in cases where the cap on inflows is not binding, row 325 will be equal to row 323.

27. According to paragraphs 171 and 172 of the Basel III LCR standards, when consolidating the LCR, the excess of buffer on an entity can be counted on consolidated LCR only when assets are transferable. Does the liquidity transfer depend on the type of asset (cash, sovereign bonds, corporate bonds, …) or does it depend only on characteristics related to the reporting entities (incorporation country, …) and in that case the whole excess is treated in the same way (and no different restrictions are applied according to the product type)?

    Answer: When considering whether excess liquidity on a legal entity basis can be included in a firm's consolidated LCR, the firm should consider the provisions outlined in paragraphs 36 to 37 and 171 to 172 of the Basel III LCR standards. In particular it should demonstrate that:

- these excess liquidity buffers are freely available in times of stress for the consolidated firm to use;
- the firm has all liquidity transfer restriction to the extent applicable, captured and accounted for in their assessment of available excess liquidity;
- the convertibility of currency, from the local jurisdiction in which the excess liquidity buffer resides, exists to meet the liquidity needs at the consolidated level and that this convertibility is available during a time of crisis;
- an asset, not in the form of cash, can be converted and transferred to the consolidated firm during a time of crisis.

5.3 NSFR

28. Where the template provides encumbrance terms greater than one year for assets with maturities less than one year, such as in row 150, is it simultaneously possible to have securities with maturities less than one year that are encumbered for greater than one year?

    Answer: It is technically possible to encumber assets for longer than their maturity. For example, a bank may transact a one-year repo against a basket of securities and pledge a security that matures in six months. The bank would therefore be required to replace matured covered assets. The same effect could occur in securitisations of revolving assets, such as credit card receivables. If a bank does not undertake this type of activity then it has nothing to report.

29. Regarding secured borrowing in lines 43 through 47, are repos, collateral lending and covered bonds included in this field?

    Answer: Yes, the definition of secured borrowing is the same as that used in the LCR: it defines secured funding as "those liabilities and general obligations that are collateralised by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution".

30. Regarding Section 6.2 and in particular Section 6.2.2, of the instructions, please provide additional guidance on how we should treat encumbrances that result from reasons other than pledging or secured funding transactions (ie tied positions).

    Answer: Encumbrance should be treated in the same manner regardless of the reason.

31. Where should data for insurance companies, investment companies, etc be reported?

    Answer: Data for these entities should be reported in rows 32 and 47 as they are funding from "other legal entities".

32. In what row should the market value of financial instruments be reported? Are the reported figures supposed to be net figures?

    Answer: Assuming that "financial instruments" means derivatives, they should be reported as outlined in Section 6.2.2 of the instructions.

33. Concerning reverse repos, the instructions say they should be treated as secured cash loans.

    - In which line(s) should they be reported? As loans depending on the counterparty? If so, this treatment does not seem to agree with paragraph 32 of the Basel III NSFR standards (if the bank will receive cash, then the RSF of the transaction would be 0%).

      Answer: Reverse repos should be reported as cash loans according to counterparty. Paragraph 32 is only applicable to assets on balance sheet. Most accounting standards do not result in such assets being recorded on a bank's balance sheet.

- What distinction is made for the different underlying assets (Level 1, Level 2A, Level 2B, others)?

  Answer: Secured loans to financial institutions where such loans are secured against Level 1 assets (and where the bank has the ability to freely rehypothecate the received collateral for the life of the loan) are reported separately from such loans secured by other collateral. See reporting instructions for additional detail.

- What maturity should be considered for assigning the RSF factor, the maturity corresponding to the reverse repo or that of the underlying security?

  Answer: The maturity of the reverse repo (secured loan).

- How should reverse repo balances be reported if the collateral received in connection to the reverse repo has been re-hypothecated in a repo or similar transaction?

  Answer: If the collateral received in connection to a reverse repo has been re-hypothecated in a repo or similar transaction in which the firm intends to repurchase the collateral, the resulting cash inflows and outflows are assumed to offset and therefore should not be reported. In such cases the balances of the associated reverse repo should be reported as encumbered for the period of re-hypothecation or for the maturity of those balances, whichever is longer. For more information refer to Section 6.2.2 of the Basel III monitoring instructions.

- How should reverse repo balances be reported if collateral received in connection to the reverse repo has been sold outright rather than re-hypothecated in a repo or similar transaction?

  Answer: If the collateral received as a result of a reverse repo has been sold, the balances of the reverse repo should be reported as encumbered for a period equal to the entire maturity of the associated reverse repo.

34. How are assets excluded from Level 1 and Level 2 in the LCR because they do not meet the operational requirements (line 60 of the "LCR" worksheet) treated in the NSFR?

    Answer: The operational requirements which apply to the LCR are not relevant in the NSFR.

35. The current definition of line 251 (all other assets not included in the above categories) could potentially generate misleading results. A more granular approach would be beneficial for a better understanding and a more accurate reporting of balances.

    Answer: Firms can provide to their national supervisors explanatory notes detailing significant exposures in this category upon request.

36. Rows 163 to 168 refer to "residential mortgages of any maturity that would qualify for the 35% or lower risk weight under the Basel II standardised approach for credit risk". Among the "encumbered" classification, it would be useful for analysis purposes to insert a specific sub-category ("of which") with the self-securitisations.

    Answer: As this type of encumbrance is not treated differently from other types, no distinction is made in the template. Assets encumbered in self-issued or synthetic (own-name) securitisations should only be reported as encumbered if the securities have been encumbered outside of the reporting entity. For example, if the securities being held by the institution have not been pledged and are still available to raise funding, then the underlying assets can be reported as unencumbered.

37. Concerning derivatives liabilities/assets in lines 49 and 213, is there a reporting distinction for differences in maturity?

    Answer: No distinction is made for maturity.

38. Should the time buckets fit the generally binding accounting standards and include the upper bound (≤ 6 months, > 6 months and ≤ 12 months etc)?

Answer: The standard is measured at one year or greater, and the semi-annual buckets were calibrated accordingly.

39. What is the applicable RSF for a plain vanilla reverse repo on a Level 1 asset? Is it 100% as we have to look at the long-term claim which is on the balance sheet or 5% for the collateral held unencumbered? In the first case, is there any liquidity value considered in the NSFR for the Level 1 asset?

Answer: For the purpose of the Basel III monitoring exercise, a reverse repo of any asset for longer than one year is 100%. Therefore, no liquidity value is assigned to the borrowed asset.

40. Some mortgages and loans are only partially secured and are therefore separated into secured and unsecured portions with different risk weights under Basel II. How should these portions be treated in the "NSFR" worksheet?

Answer: Only the portion of the loan with the appropriate risk weight should be reported. The separate portion at a different risk weight should be reported in the row to which it relates. For purposes of Basel III monitoring reporting, institutions can assume that the secured portion of the loan applies to the longest dated (> one year) part of the loan, so long as it remains encumbered for that entire period.

41. Net known derivatives (payable or receivables) should be reported in the LCR as well as the NSFR. It is clear that any known (ie non-contingent) cash flow that will take place within 30 days on derivative positions should be included on a net basis (different lines if payable or receivable). However, should FX spot transactions (spot outright (an exchange between two currencies) and not forward contracts) be taken into account? If they should be included in "net know derivatives", are they treated the same if they have same day settlement or if settled with two-day lag (T+2)?

Answer: Known cash flows related to FX spot transactions should be included in the net known derivatives payable/receivable lines of the "LCR" worksheet, regardless of the settlement date (providing it is within the 30-day period).

42. How should the portion of amortising loans that comes due within one year be reported on the "NSFR" worksheet?

Answer: Per paragraph 26 of the Basel III NSFR standards, "for amortising loans, the portion that comes due within the one-year horizon can be treated in the 'less than a year' residual maturity category". Where possible, banks should allocate the amortising portion across the maturity time buckets on the "NSFR" worksheet.

43. When reporting assets posted as initial margin for derivative contracts or provided to contribute to the default fund of a CCP, should the term for which these assets are to be posted be considered when determining the appropriate line items to report balances?

Answer: All assets posted as initial margin for derivative contracts or provided to contribute to the default fund of a CCP should be reported without regard to the term they are to be posted, with the exception of balances reported in line 239. Initial margin balances reported in line 239 should be reported according to the residual maturity of associated derivative contract(s). Banks should not report assets posted as initial margin or provided as default fund contributions in their relevant asset categories as encumbered assets according to their remaining term of encumbrance. A Level 1 asset posted as initial margin for a period greater than one year, for example, should be included in balances reported in lines 232, 235 and 239 (as well as lines 237, 242 and 243, if applicable) but should not be reported in line 126. An asset posted as initial margin for a derivative contract or provided to contribute to the default fund of a CCP should

continue to be reported in its relevant asset category and not with margin balances only if it is subject to a RSF factor greater than 85% when held unencumbered.

5.4 NSFR additional

1. According to which date are numbers in panels A and B to be reported?

   Answer: All numbers reported in panels A and B of the "NSFR additional" worksheet should be reported using data as of **end-December 2016**. To clarify this, the third bullet of Section 6.3.1 of the Instructions is amended as follows:

   "The sum of all "modified" potential future exposure add-ons **calculated using data as of end-December 2016. The add-ons should be calculated following the same methodology used** ~~**reported**~~ during the Basel III monitoring exercise for the end-June 2016 reporting date[66] **to calculate the items reported** in ~~**panel G of the "Leverage Ratio" worksheet (**~~cells E115 (margined netting sets) and E116 (unmargined netting sets)~~)~~ ~~**calculated in the same way as when they are reported**~~ in panel G **of the "Leverage ratio" worksheet**:"

2. In panel A, how should netting sets with a one-way collateral agreement be reported?

   Answer: The table below provides guidance on how to report netting sets in panel A of the NSFR additional template:

Collateral arrangement	Margin agreement		Threshold	Report netting set in panel A as…
Credit support annex (or similar arrangement)	Two way margin agreement		Zero threshold CSA	Margined
			CSA includes a threshold of unsecured exposure or a minimum transfer amount to be met before any collateral call is made	Margined (or partially margined)
	One way margin agreement in which	the counterparty has to post collateral, but not the bank	Zero threshold CSA	Unmargined
			Threshold of unsecured exposure or minimum transfer amount to be met	Unmargined
		the bank has to post collateral, but not the counterparty	Zero threshold CSA	Margined
			Threshold of unsecured exposure or minimum transfer amount to be met	Margined (or partially margined)
	No margin agreement under normal circumstances. Contractual triggers (rating etc) may lead to collateral call in some events		N/A	Unmargined
No credit support annex	N/A		N/A	Unmargined

6. Operational risk

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7. Sovereign exposures

1. Panel D of the "Sovereign exposures" worksheet requires banks to provide the weighted to short ratio for their sovereign exposures in the trading book (column T). However, this column is greyed out. Should banks fill in this column?

   Answer: Yes, banks with sovereign exposures in the trading book should complete the relevant cells in column T of panel D. A revised version of the Basel III monitoring template (version 3.5.2) has been circulated which fixes this error. Banks with no sovereign exposures in the trading book are unaffected by the change made to the template and can continue to use one of the previous versions.

2. Panels D and E of the "Sovereign exposures" worksheet require banks to report their trading book "exposures". How should the latter be calculated?

   Answer: "Exposure amounts" and "trading book exposures" refer to the exposure at default.

3. Given net short positions should be reported as negative numbers in panel D of the "Sovereign exposures" worksheet, some of the checks in this panel may fail even though the data are correct. Should banks report zero instead of negative numbers?

   Answer: No. In case of net short positions any resulting error messages in panel D should be ignored.

4. How should the exposure value be calculated for sovereign exposures held in the trading book?

   Answer: "Exposure amounts" and "Trading book exposures" for panels D and E refer to exposures at default.

5. Panel C requires banks to report indirect exposures through collateral currently subject to a zero haircut – what does this refer to?

   Answer: This refers to instances where national supervisors have exercised the national discretion set out in paragraph 170 of the Basel II framework to apply a haircut of zero for repo-style transactions where the counterparty is a core market participant.

8. Trading book

8.1 TB

1. Paragraph 161 of the revised market risk standard states that "the SA capital charge for an individual cash securitisation position can be capped at the fair value of the transaction." However, instructions for the "TB" worksheet do not address this issue. Panels B2 and B5 have cells for SBM, residual risk add-on and DRC, but the instructions do not specify how to report any capped capital charge for these positions. In which cell(s) should this capped capital charge be reported?

   Answer: Capital for securitisation positions which trigger the max loss provision should be prorated under the relevant components of the SA capital charge, limiting the total capital contribution of these positions to their fair value. Specifically, individual components of the SA capital charge should equal the component's share of actual capital multiplied by the fair value of the position. Any deviations from the proposed treatment should be explicitly noted in an explanatory document accompanying the submission.

2. What is the scope of exposures reported in panel B3, sections (a) and (b), respectively?

Answer: The scope of exposures in section (a) of panel B3 is the same as section (b) of panel B2. In section (a) of panel B3, banks should report FRTB IMA capital charges for those trading desks for which the bank currently has internal model approval from its national supervisor. In turn, in section (b) of panel B3, banks should report FRTB SA capital charges for those same trading desks (ie those trading desks for which the bank has internal model approval status from its national supervisor). If the bank is unable to provide this information at the regulatory trading desk-level, current product-level model approval status may be used as a proxy. In such a case, for both sections (a) and (b), banks should report FRTB capital, IMA and SA, respectively, for the sub-portfolio of all products which currently have model approval from the bank's national supervisor. If the bank chooses this approach (ie categorisation based on product-level model approval) this choice should be noted in an explanatory document accompanying the submission.

3. In panel B2(b), please clarify the RRAO risk weights that should be applied per the revised market risk standard for each risk.

Answer: Values for RRAO must be reported in Section (a) of panel B2 without application of the associated RRAO risk weight. RRAO risk weights will be applied in the automatic calculations conducted in rows 42 and 63.

4. In Section (a) of panel B2, should a bank report values based on all desks (ie modelled and non-modelled) or only on the non-modelled desks?

Answer: Section (a) of panel B2 should be populated based only on the desks for which the capital charges may not be calculated using internal models (ie desks for which the bank currently does not have internal model permission from its national supervisor). As noted above, if the bank is unable to provide this information at the regulatory trading desk level, current product-level model approval status may be used as a proxy. In such a case, in Section (a) of panel B2 banks should report capital under the revised market risk standard for the sub-portfolio of all products which currently do not have model approval from the bank's national supervisor. If the bank chooses this approach (ie categorisation based on product-level model approval), the bank should indicate it has done so in an explanatory document accompanying the submission.

8.2 Backtesting – P&L

1. For purposes of reporting, what source should be referenced for definitions of the terminology used in the worksheets "TB" and "TB IMA Backtesting-P&L"?

Answer: For purposes of reporting, definitions of terminology used in the worksheets "TB" and "TB IMA Backtesting-P&L are intended to be consistent with definitions specified in the final market risk standard *Minimum capital requirements for market risk*.[4]

2. Which P&L (actual, hypothetical or risk-theoretical) must be applied in calculating the "p-values" as defined under the final market risk standard?

Answer: Hypothetical P&L should be used in this instance.

3. CVA hedges currently are captured in the market risk capital framework. Given that CVA hedges are expected to move to the CVA framework of the revised market risk standard, should CVA

[4] Basel Committee on Banking Supervision, *Minimum capital requirements for market risk*, January 2016, www.bis.org/bcbs/publ/d352.pdf.

hedges be excluded from the trading book worksheets (both for current and new capital requirements)?

Answer: Eligible credit valuation adjustment (CVA) hedges must be removed from the bank's market risk charge calculations in the trading book for purposes of the trading book worksheets.

4. Please clarify the format by which dates are to be reported in row 6.

   Answer: Dates must be reported as yyyy-mm-dd in Excel date format. Furthermore, dates reported on row 6 must be reported in ascending order from left to right (eg corresponding with the increasing values in row 5 of T in column G, T+1 in column H, T+2 in column I, etc).

   Banks are strongly encouraged to ensure the format for dates reported in row 6 meets the above-listed standards so as to ensure that the data reported can be appropriately analysed.

5. Please clarify the format by which banks are to report the "unique desk ID" in column C.

   Answer: For a given trading desk, a bank must use an identical, numeric "unique desk ID" that is consistent over time in order to ensure that a usable time series for each desk can be constructed across all submissions of the Basel III monitoring template. If, for any reason, capital charges are not provided for a given trading desk at a reporting date, this desk's unique ID should **not** be used for a different trading desk in this or any subsequent exercise (ie each trading desk should be associated with a "unique ID" regardless of the exercise).

   Any newly introduced desk (ie a desk not reported in previous data collection exercises) should receive a new ID (ie IDs from closed trading desks should not be reused to identify newly formed trading desks) and any desk which has been closed should no longer be reported (implicitly resulting in a zero position desk from a technical perspective).

   Note, in order to conduct meaningful analysis on the desk level data reported in all panels of the "IMA Backtesting-P&L" worksheet of the Basel III monitoring template, there must be intertemporal consistency in trading desk IDs across reporting periods. Specifically, the unique desk IDs (as well as regulatory trading desk names) submitted for each trading desk should be consistent across submissions for the same trading desk.

8.3 TB SA current

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8.4 TB SA FRTB

6. In the summary table and panels A through G, please confirm the calculations of total SBA and the total capital charges for each risk class are consistent with the FRTB.

   Answer: The formulas used in the template to generate the total SBA (row 16) and total capital charges per risk class (rows 20, 36, 52, 68, 84, 100, 116) have been corrected in a new version of the template. Banks have the option of using the revised version of the template to reflect these corrections. For banks that utilise an older version of the template, corrections to the calculations in those cells will be made upon receipt of the submission.

9. Survey on the interaction of regulatory instruments

1. Question 23 of the "Survey" worksheet refers to "target management Tier 1 capital surplus or shortfall" at the consolidated level while question 22 refers to "target management liquidity buffer". Could you please confirm this?

   Answer: The reference in both questions should be "target management liquidity buffer". Banks are hence kindly requested to indicate whether they have a shortfall or a surplus with respect to their "target management liquidity buffer" in question 23.

2. In version 3.5.0 of the reporting template, the introductory text in cell A19 of the "Survey" worksheet refers to questions 5 to 19, but only questions 5 to 12 seem to deal with the leverage ratio. Could you please confirm this?

   Answer: Indeed, this is an oversight; the introductory text should refer to questions 5 to 12.

3. Which institutions should fill in the questions 5 to 12 of the "Survey" worksheet? Should only institutions with a Tier 1 capital shortfall fill in these questions or all the institutions?

   Answer: All institutions should fill in these questions, independently of their target Tier 1 management buffer (surplus or shortfall).

4. Question 9 and question 10 look the same but have different sets of proposed alternative closed form answers. Is one of the two questions redundant?

   Answer: No, question 9 and question 10 are not redundant, rather they provide a multiplicity of answers to gain a better understanding of whether banks manage their activities with respect to the constraints set by the two ratios (ie risk-based capital and leverage ratios) on a portfolio by portfolio basis, rather than on an aggregate basis. In this respect, the two questions are complementary to one another and should both be answered accordingly.

Annex 1

Expectations for reporting of market risk-related data elements

The items below provide additional guidance on the manner in which a number of market risk-related data elements are to be reported on the "TB" and "TB IMA Backtesting – P&L" worksheets. This guidance is intended only for the purposes of the Basel III Monitoring exercise.

1. "TB" worksheet, panel A (minimum capital requirements)

- The SA capital charge reported in cell G7 of panel A must be calculated based on the global portfolio (ie all positions subject to market risk), exclusive of eligible CVA hedges.

2. "TB" worksheet, panel B (overall minimum capital requirements (8% of RWA))

- Generally, the scope of **this Basel III monitoring exercise covers all trading desks regardless of materiality and current model approval status**. However, when calculating capital charge in panels B1 through B3, eligible CVA hedges must be excluded from the regulatory capital calculation. The CVA market risk capital charge is addressed separately, in panel B4.
- In calculating the capital charge in panel B1, the global portfolio must be segmented into two distinct sub-portfolios: (i) products that are currently approved for modelling by the firm's national supervisor, and (ii) products currently not modelled. Relevant capital charges must be calculated for each sub-portfolio separately and as prescribed by each section in panel B1.
- In calculating the capital charge in panels B2 and B3, the global portfolio must be segmented into two distinct, non-overlapping sub-portfolios: (i) those eligible for the IMA treatment; and (ii) those treated under the SMM/SA. If the bank is unable to provide this information at the regulatory trading desk-level, current product-level model approval status may be used as a proxy. In such a case, product-level model approval status must be used to partition the global portfolio into two distinct, non-overlapping sub-portfolios: (i) sub-portfolio of all products which currently have model approval from the bank's national supervisor; and (ii) sub-portfolio of all products which currently do not have model approval. Relevant capital charges must be calculated for each sub-portfolio separately.
- **Only positive numbers should be reported in panel B.**

3. "TB" worksheet, panel B1 (current market risk capital charge – assuming current model approval status)

- Capital charge components reported in panel B1 should be calculated based on the **current model approval status of traded products in the firm's global portfolio**. That is, **only the products for which the bank currently has internal model permission may be modelled for capital purposes**. Capital charge for products which currently do not have internal model approval must be calculated according to the standardised measurement method.
- The IMA actual capital charge in section (a) of panel B1 (cell G29 of the "TB" worksheet) refers to the total modellable charge, inclusive of modellable general, stressed and modellable specific risks. When calculating the IMA actual capital charge, the current effective multiplier should be used.
- A value for "Risks not in VaR" (RNiV) capital charge in section (b) of panel B1 (cell G36 of the "TB" worksheet) should only be provided if the reporting institution's national supervisor directly requires that any risks not captured in the bank's VaR model be included as part of the bank's

regulatory capital calculation. Otherwise, if the bank merely monitors materiality of its RNiV but does not include RNiV capital in its regulatory capital calculation, this cell should be left blank.

- Any market risk capital amount reported in section (c) of panel B1 (cell G36 of the "TB" worksheet) must be described in an explanatory document accompanying the submission.
- **The sum of capital charges calculated in sections (a), (b) and (c) of panel B1 (cell G38 of the "TB" worksheet) should equal to the total current market risk capital charge**.

4. "TB" worksheet, panel B2 (FRTB market risk capital charge – assuming current model approval status)

- The standardised approach capital charge reported in section (a) of panel B2 must be calculated based on the sub-portfolio of desks which currently do not have internal model approval. **If the bank is unable to provide this information at the regulatory trading desk-level, current product-level model approval status may be used as a proxy**. In such a case, the standardised approach capital charge reported must be calculated based on the sub-portfolio of products which currently do not have internal model approval, inclusive of securitisation exposure, both non-CTP and CTP.
- The standardised approach capital charge should be the calculated based on the methodology (ie correlation scenario assumption) which yields the greatest capital charge at the portfolio-level (ie across the global trading book). **The bank must consistently apply this single scenario to relevant calculations within the entire section.**
- The IMA capital charge reported in section (b) of panel B2 must be calculated based only on the sub-portfolio of desks currently eligible for IMA treatment (ie desks which currently have model approval status from the bank's national supervisor). **If the bank is unable to provide this information at the regulatory trading desk-level, current product-level model approval status may be used as a proxy.** In such a case, the IMA capital charge reported must be calculated based on the sub-portfolio of products for which the bank currently has internal model permission.
- The risk factor class level IMCC capital charge in section (b) of panel B2 (cells G73 to G77 of the "TB" worksheet) must exclude the multiplication factor $\boldsymbol{m_c}$. That is, for purposes of this QIS, the multiplier should not be applied to the risk factor level ES values reported.
- **The sum of capital charges calculated in sections (a), (b) and (c) of panel B2 (cell G85 of the "TB" worksheet) should equal to the total revised market risk capital charge (FRTB capital charge)**.

5. "TB" worksheet, panel B3 (FRTB – modelled desks analysis)

- The scope of sections (a) and (b) in panel B3 covers the **sub-portfolio of desks for which the bank currently has internal model permission** (ie the scope must be identical to the scope of positions used in calculating IMA capital charge in section (b) of panel B2). As in section (b) of panel B2, **if the bank is unable to provide this information at the regulatory trading desk-level, current product-level model approval status may be used as a proxy**. In such a case, the IMA capital charge reported must be calculated based on the sub-portfolio of products for which the bank currently has internal model permission.
- The SA capital charge reported in section (b) of panel B3 must be calculated based on the same set of positions used to calculate capital reported in section (a) of this panel. For these modellable positions, the reporting institution must calculate all components of the SA capital charge including: SBM, DRC and RRAO at the granularity outlined in this section.

6. “TB” worksheet, panel B5 (securitisations)

- The capital charge reported in sections (a) through (c) of panel B5 must be calculated based only on the sub-portfolio of securitisation products and must exclude securitisation hedges which themselves are not securitisations.
- For the purposes of panel B5, the reporting institution is asked to segment the sub-portfolio of securitisation exposures into three distinct segments: (a) securitisation positions which are **not correlation trading positions and are ineligible to attain the STC designation**; (b) securitisation positions which are **non-CTP and are eligible to attain the STC designation**; and (c) portfolio of correlation trading products.
- In the case of CTP, the total current market risk capital charge (cell G121 of the “TB” worksheet) must be inclusive of the comprehensive risk measure surcharge.
- Capital charge for securitisation (non-CTP) positions which trigger the max loss provision (cf paragraph 161) should be prorated under the relevant components of the SA capital charge, limiting the total capital contribution of these positions to their fair value. Specifically, for each exposure that triggers max loss provision, individual components of the SA capital charge should equal the component’s share of actual capital multiplied by the fair value of the position. Any deviations from the proposed treatment should be explicitly noted in a qualitative document accompanying the submission.

7. “TB” worksheet, panel C (trading desks)

- In order to conduct meaningful analysis on the desk level data reported in all panels of the “IMA Backtesting-P&L” worksheet of the Basel III monitoring template, there must be intertemporal consistency in trading desk IDs across reporting periods. Specifically, the unique desk IDs (as well as regulatory trading desk names) submitted for each trading desk should be consistent across Basel III monitoring submissions for the same trading desk.
- For a given trading desk, a bank must use identical, numeric “Unique desk ID” that is consistent over time in order to ensure that a usable time series for each desk can be constructed across all submissions of the Basel III monitoring template. If, for any reason, capital charges are not provided for a given trading desk in a QIS exercise, this desk’s unique ID should not be used for a different trading desk in this or any subsequent exercise (ie each trading desk should be associated with a unique ID regardless of the exercise).
- Any newly introduced desk (ie desk not reported in previous QIS data collection exercises) should receive a new ID (ie IDs from closed trading desks should not be reused to identify newly formed trading desks) and any desk which has been closed should no longer be reported (implicitly resulting in a zero position desk from a technical perspective).
- Note, for a given desk, the response provided in column F must be based on **current model approval status** of that desk. We acknowledge that some institutions may not be in a position to provide information about desk-level model approval at this time. As such, we ask that you provide the general reasoning underlying a response selection in an explanatory document accompanying the submission (eg desk modellability determined according to market/notional value-based threshold for products with current model approval on a given desk).

8. “TB IMA Backtesting – P&L” worksheet, all panels

- This worksheet collects data on risk measures and P&L related to the revised internal models-based approach in the trading book. This worksheet is relevant only for any bank with internal model approval under the current framework.
- Data should be reported for desks in the global trading book where the bank has indicated current model approval status in column F of “TB” worksheet, panel C “Trading desks”.

- Row 6 of the worksheet collects the reporting date for each data point recorded in the worksheet. Banks are requested to report the longest time series available within the six month period before the reporting date (ie 31 December 2016). **Dates must be reported in the format yyyy-mm-dd**.

9. “TB IMA Backtesting - P&L” worksheet, panel A (risk measures)

- The calculation of P values reported in panel A4 must be based on a comparison of hypothetical P&L and 99% VaR. **Please do not report data that do not conform to this requirement** (eg comparing hypothetical P&L with 97.5% ES).

10. “TB IMA Backtesting - P&L” worksheet, panel B (P&L)

- For the purposes of calculating actual P&L in panel B1, all valuation adjustments relevant to the pricing of a security should be included in actual P&L.
- For the purposes of calculating hypothetical P&L in panel B2, valuation adjustments which cannot be calculated on a daily basis should be excluded. Valuation adjustments which are calculated daily should be included in hypothetical P&L.
- For the purposes of calculating risk-theoretical P&L in panel B3, banks should only report risk-theoretical P&L data if the data are based on the definition of risk-theoretical P&L as provided in the FRTB. Approximations derived from hypothetical P&L or some other input are not acceptable and should not be reported. **Please do not report data that do not conform to this requirement.**

Annex 2

Worksheet “Leverage ratio additional” – qualitative questions (panel J)

Banks that provide derivatives clearing services to their clients are asked to provide qualitative responses to the following questions. Responses are to be provided in the corresponding cells in panel J of the “Leverage ratio additional” worksheet.

Row	Column	Question number	Question
285	C	Q-1	Has your bank observed any changes in the composition of the client base to which you provide derivatives clearing services? If so, please describe those changes and the drivers for them.
286	C	Q-2	Has your bank observed a change in the demand for client derivatives clearing, and if so, what factors are contributing to this change in demand?
287	C	Q-3	Does your bank provide derivatives clearing services as an ancillary activity to other core and non-core services to the same client? If so, please describe these core and non-core services.
288	C	Q-4	If your bank responded yes to Q-3, please describe your bank’s pricing strategy. Please comment on whether your bank provides and prices these activities as a package.
289	C	Q-5	Does your bank require clients to provide a minimum volume of business (whether clearing-related or otherwise) in order to provide derivatives clearing services to clients? If so, please describe. Have these minimums changed over recent years? If so, what were the drivers of these changes?
290	C	Q-6	Has your bank adjusted (or are you planning to adjust) the pricing for client derivatives clearing services in recent years? If so, approximately what is the magnitude of these changes? What are the drivers for these actual/planned changes?
291	C	Q-7	Please describe profitability trends in your bank’s client derivatives clearing business and how they relate to your bank’s internal profit targets (ie are they materially above, approximately meet, or materially below your internal targets).
292	C	Q-8	Is your bank seeking to increase the amount of client clearing it will offer in the next year? Is your firm planning to change the mix of client cleared OTC derivatives versus client cleared exchange traded derivatives?
293	C	Q-9	Please describe any obstacles your bank faces to providing clients with derivatives clearing services.
294	C	Q-10	During recent years, has your bank considered exiting or curtailing the client derivatives clearing business? If yes, what are the key drivers supporting such a decision?
295	C	Q-11	In the event of a large bank or intermediary exiting the client derivatives clearing business, how much capacity does your bank have to absorb additional clearing?
296	C	Q-12	What does your bank view as the main economic or regulatory drivers that would encourage the bank to provide (more) client derivatives clearing services? Please rank these drivers according to the impact they would have on your bank’s strategy regarding client clearing.
297	C	Q-13	What developments do you expect for the pricing for client derivatives clearing in the next 12 to 18 months? Do you expect different trends in pricing for client cleared OTC derivatives versus client cleared exchange traded derivatives?
298	C	Q-14	Please describe any changes your bank has observed in the derivatives clearing market that you attribute to the Basel III leverage ratio.