Basel Committee
on Banking Supervision

Frequently asked questions on Basel III monitoring

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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") and *Basel III: The Net Stable Funding Ratio* ("Basel III NSFR standards").[1]

In addition to the guidance for completing the monitoring template contained in this document, the Committee has published frequently asked questions 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 and counterparty credit risk 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.

2. General

1. In columns F and G of panel D1a of the "General Info" worksheet, should the RWA amounts be the incremental effect of Basel 2.5 and Basel III compared to the current framework?

   Answer: No. Banks should report the total RWA amount under Basel 2.5 and Basel III.

3. Definition of capital

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[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.pdf); 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.pdf); Basel Committee on Banking Supervision, *Basel III: The Net Stable Funding Ratio*, Consultative Document, January 2014 (www.bis.org/publ/bcbs271.pdf).

[2] Basel Committee on Banking Supervision, *Basel III definition of capital – Frequently asked questions*, December 2011 (www.bis.org/publ/bcbs211.pdf); Basel Committee on Banking Supervision, *Basel III counterparty credit risk – Frequently asked questions*, December 2012 (www.bis.org/publ/bcbs237.pdf).

4. Leverage ratio

1. Items deducted from the capital measure that must symmetrically be deducted from the 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 exposure measure.

   Answer: Yes.

2. How should the total exposure be measured? Shall the accounting treatment be used?

   Answer: The 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 limited netting of cash receivables with cash payables may be recognised subject to strict criteria. Please also refer to the Leverage ratio framework for more details on how to calculate the exposure measure.

3. It is not obvious whether the 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 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 leverage ratio even though in general it does not recognise credit risk mitigation?

   Answer: In the context of the 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 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 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 *received* 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 leverage ratio.

7. Should "Off-balance sheet exposures: notional x regulatory CCF" area in the 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 the cell D77 of the "Leverage Ratio" worksheet, should we provide only the amount resulting from the netting agreements or should we also include cash collaterals?

Answer: Cell D77 should include only the amount resulting from the netting, with the effects of collateral to be included in cell D79.

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 leverage ratio under any circumstance, and if so under what circumstances?

Answer: Yes. Where a national GAAP recognises on-balance sheet fiduciary assets, these assets can be excluded from the 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 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 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 leverage ratio?

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

14. Cells E20, K20, E76 to E79 and K76 to K79 can have negative numbers. However, in those cases the conditional formatting highlights these cells in red. Will the data nevertheless be eligible for submission and included in the analysis?

Answer: Yes indeed, the data remain eligible for submission and the red colour conditional formatting will not affect the outcome of the analysis.

5. Liquidity

5.1 General

1. It is cumbersome and time consuming to obtain data for rows 102 to 106 and 131 to 135 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 102 to 106 and 131 to 135 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 H442 (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 275 to 288.

   (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 290 to 295.

(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 275 to 288.
- 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 290 to 295.

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 56 and 59?

Answer: First report any assets qualifying for line 56 in that line. Then, report any assets not yet reported in line 56 that qualify for line 59. 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 59: 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 201 and 208, 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 201 and 208. 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 156, rather it should be reported in line 157 (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 194, 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 301 to 304, 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 323 regarding the cap on cash inflows compared to cash outflows?

Answer: Row 323 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 322 of the worksheet includes the amount of cash inflows before application of the cap, whereas row 324 of the worksheet includes the amount of cash inflows after application of the cap. In cases where the cap on inflows is binding, row 324 will be less than row 322 (and will equal row 323), whereas in cases where the cap on inflows is not binding, row 324 will be equal to row 322.

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 rows 72 and 76, 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 28 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 28 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: No distinction is made.

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

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

    - If the asset received in the reverse repo has been sold or re-hypothecated (thereby creating a short position), how should it be reported?

      Answer: The loan should be reported in the applicable RSF category according to its maturity, and then it should also be reported as encumbered for the period of encumbrance in the relevant sub-lines of that category. For more information refer to Section 6.2.2 of the Basel III monitoring instructions.

34. How are assets excluded from Level 1 and Level 2 in the LCR because they do not meet the operational requirements (line 59 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 261 (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 177 to 186 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 net derivatives payables/receivables in lines 48 and 257, 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 (≤ 3 months, > 3 months and ≤ 6 months etc)?

Answer: The standard is measured at one year or greater, and the quarterly 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 template?

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. Where are "short" selling transactions (Level 1 asset) reported in the NSFR template?

Answer: If the counterparty is a financial institution, please fill in lines 88 to 96 or 98 to 106 according to the period of the reverse repo transaction (cash inflow and outflow will be offset).

42. 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 template, regardless of the settlement date (providing it is within the 30-day period).

43. How should the portion of amortising loans that comes due within one year be reported on the NSFR template?

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 four quarterly (three-month) time buckets on the NSFR worksheet.

6. Trading book hypothetical test portfolio exercise

The purpose of this section is twofold:

- First, the Trading Book Group answers some frequently asked questions with respect to the on-going hypothetical portfolio exercise.
- Second, the Trading Book Group would like to share with banks some additional instructions.

6.1 Questions and answers

Question number	Portfolio number	Questions and answers
0.1	General	**Q:** In general, trades are to be booked against an unspecified "counterparty". Can you please confirm whether counterparties are at the discretion of the participating banks or are there some further guidance? Particular choices might lead to the assignment of differing discounting curves. **A**: Trades are indeed to be booked against an unspecified counterparty. As neither counterparty credit risk, nor CVA, are to be computed, the choice of the counterparty should not affect market risks computations.
0.2	General	**Q:** Which liquidity horizons are non-ATM volatilities (eg if a volatility matrix is used, which depends on moneyness) to be mapped to? **A:** The liquidity horizons are specified on page 16 of our second consultative document. For non-ATM volatilities, please refer to the "(other)" categories (eg 60 days for FX non-ATM volatilities).
0.3	General	**Q**: The requirements for collateralisation are not specified. Are the derivatives collateralised, if yes in which currency? **A**: Derivatives are not to be collateralised. As neither counterparty credit risk, nor CVA, are to be computed, the choice of the counterparty should not affect market risks computations.
0.4	General	**Q:** Some expiration dates / maturities fall on holidays or weekends. According to the instructions the premium shall be paid at the date of execution. Our trading systems allow only cash flow payments at working days. How should we deal with this? **A:** Please refer the supplemental instructions below.

Question number	Portfolio number	Questions and answers
0.5	General	**Q:** Full revaluation models exist for 1 and 10 day holding periods currently. Re-developing full revaluation to support different holding periods is difficult to achieve in the timeframe specified. **A:** Criteria establishing which assumptions are acceptable, and which are not, are clearly established in the instructions document, please refer to point 7.4 on page 110 of the instructions.
0.6	General	**Q:** Banks today use data from external data providers (like Markit), this is not allowed any more unless a bank can prove that the data used are committed quotes? **A:** This is correct. In order to use Markit data, banks should ensure than in "real life conditions", they would be able to prove that those data are committed quotes. Otherwise, those prices should be regarded as non modellable risk factors. For the QIS, the approximation can be accepted.
0.7	General	**Q:** Will it still be acceptable to generate older missing data where the last few recent years exist, but prior to that the quality deteriorates? **A:** For the QIS, this will be accepted.
1	6	**Q:** Concerning portfolio #6 (Barrier option), the number of contracts is 20. During the last RWA benchmarking exercise, it was also originally 20, but was then increased up to 40, in order to make VaR on this portfolio more comparable to the VaR of the other portfolios. Which number of contracts should we consider? **A:** For portfolio #6, please consider a number of contracts of 40.
2	2–7	**Q:** The following specifications are missing: currency, type of option (American, European), settlement (3M, 2Y, next expiry), treatment of premium in VaR distribution. **A:** The currencies are given in the report template. As for the rest, please refer to the supplemental instructions below.
3	8	**Q:** The long €5 million 10-year German Treasury Bond actually matures in 5 years. Could you confirm which bond to use? **A:** Please use the 10-year German Treasury Bond (ISIN: DE0001102333, expiry 15 February 2014) instead of the DE0001135374.
4.1	10	**Q:** Two specifications contradict each other: (i) the swaption is ATM and (ii) the strike corresponds to the fixed rate of portfolio #9. Could you confirm the strike should indeed correspond to the fixed rate of portfolio #9? **A:** We confirm.
4.2	10	**Q:** Two specifications contradict each other: (i) the swaption ticker is the Bloomberg ticker eusv0210 and (ii) the underlying swap has the same characteristics as the swap described in portfolio #9. The portfolio #9 is a swap against Euribor 3M, while by convention eusv0210 corresponds to a swaption against Euribor 6M. Could you confirm the underlying swap? **A:** The underlying swap is the swap described in portfolio #9, which ticker is eusw10v3.
4.3	10	**Q:** Could you confirm the convention to be used for the underlying swap is a "modified following" convention, ie a T+2 convention? Taking into account the fact that 21 February 2016 is a Sunday would mean that we would have the expiry date (of swaption): 22 February 2016. In addition, should the swap start be delayed, as it was during the RWA benchmarking exercise? ie: – effective date of the swap: 24 February 2016 – maturity of the swap: 24 February 2026 **A:** We confirm that you should consider: – expiry date (of swaption): 22 February 2016 – effective date of the swap: 24 February 2016 – maturity of the swap: 24 February 2026

Question number	Portfolio number	Questions and answers
5	12	**Q:** For portfolio 12 (inflation swap) we have modified the index start and end date as follows: – Index end = November 2023 instead of February 2024 – Index start = November 2013 instead of February 2014, as the specified end date of the index will otherwise be unknown at the maturity of the swap. Can you please confirm this is correct? **A:** We confirm.
6	13	**Q:** Concerning portfolio #13 (Covered FX call), the notional of the forward is € 25 million. During the last RWA benchmarking exercise, it was also originally € 25 million, but was then decreased down to € 20 million, in order to make VaR on this portfolio more comparable to the VaR of the other portfolios. Which notional should we consider? **A:** for portfolio #13, please consider a notional of the forward of € 20 million.
7	15	**Q:** Concerning portfolio #15 (the knock-out option), the notional (as indicated in Annex 2.4) is € 1 million. During the last RWA benchmarking exercise, it was also originally € 1 million, but was then increased up to € 15 millions in order to make VaR on this portfolio more comparable to the VaR of the other portfolios. Which notional should we consider? **A:** for portfolio #15, please consider a notional of € 15 million.
8	18	**Q:** For portfolio 18 (oil put), two contracts could be used to determine the strike price (strike = 6-month end-of-day forward price on 21 February 2014). It would make sense to use the V4 Sep contract, because this one determines the forward price of 08/21. Please confirm this assumption, given the fact that the difference of one day can have a significant impact on the strike that is used. **A:** We confirm, the contract to be used is the V4.
9	23	**Q:** Can you please confirm the following interpretations of portfolio descriptions: The notional of each single name CDS in portfolio 23 should be EUR 1mn (ie EUR 5mn in total across the 5 names). **A:** We confirm.
10.1	27	**Q:** Two specifications contradict each other: (i) in page 139, it is stated that the index should be the iTraxx Europe Crossover series 20 (ii) in page 147, it is stated that the index should be the iTraxx Europe Crossover series 19. Could you confirm we should use the series 20? **A:** We confirm.
10.2	27	**Q:** The expiration date of this portfolio is 29 August 2014. This date is non-standard, whereas 16 July 2014, 20 August 2014, or 17 September 2014 are more standard. Do you confirm we should use 29 August 2014? **A:** We do not confirm. Instead, please use 20 August 2014.
11.1	28	**Q:** In Annex 2.7 (p 148), maturity dates of the CDS have not been updated since the RWA benchmarking exercise. In order to keep a 5Y maturity, the closest maturity date would be 20 March 2019. Could you please confirm us which date to use for those two CDS? **A:** The date should indeed be changed from the instructions. Please use 20 March 2019.
11.2	28	**Q:** Can you please confirm the following interpretations of portfolio descriptions: The “quanto CDS” in portfolio 28 is a EUR-denominated CDS on Spain, and the “delta hedge CDS” is a USD-denominated CDS on Spain **A:** We confirm.

Question number	Portfolio number	Questions and answers
12	21 and 26	**Q:** Regarding the CDS on Prudential, we think there is a confusion between – Prudential PLC (UK firm) which Redcode is 7B878P, and – Prudential Financial INC (US firm) which Redcode is 7B8752. The Redcode in the instructions is the one of Prudential PLC. Yet, given that: – the currency for this CDS is USD – the Doc clause is MR for this CDS, which is standard in the US – The related bond is issued by Prudential Financial INC, We think the Redcode that the Committee meant is the one of Prudential Financial INC (Redcode 7B8752). Could you therefore confirm that for those two portfolios the Redcode 7B878P should be replaced by the Redcode 7B8752? **A:** We confirm.

6.2 Supplemental instructions

In order to ensure the accurate and consistent execution of the exercise across all participating institutions, banks are asked to familiarise themselves with the following supplemental instructions and assumptions:

(a) For the exercise itself (but not for the pre-exercise validation), banks should assume they enter all positions on 17 March 2014, and once positions have been entered, each portfolio ages for the duration of the exercise. Furthermore, banks should assume it does not take any action to manage the portfolio in any way during the entire exercise period. Unless explicitly stated otherwise in the specifications for a particular portfolio, strike prices for options positions should be determined relative to prices for the underlying as observed at market close on 17 March 2014.

(b) For the purpose of pre-exercise validation banks should provide to their local supervisor on 28 February 2014 the valuation of each portfolio and the 10-day VaR based upon end of day prices observed on 21 February using the pre-exercise validation data template provided. Where possible, the exact timing of the valuation should be as per the table below:

Portfolio number	Valuation time
1 and 4	4.30pm London
2, 3 and 6	4.00pm London
5 and 7	4.30pm London
8–12 and 14	5.00pm London
13 and 15	4.30pm New York
16	4.30pm New York
17	1.30pm New York
18	2.30pm New York
19–28	5.00pm London

(c) Banks should calculate the risks of the positions without taking into account the funding costs associated to the portfolios (ie no assumptions are admitted as per the funding means of the portfolios).

(d) Banks should exclude to the extent possible counterparty credit risk when valuing the risks of the portfolios.

(e) For transactions that include long positions in CDS, assume an immediate up-front fee is paid to enter the position as per the market conventions as indicated by Markit Partners (25, 50, 100bps for investment grade, 500bps for high yield).

(f) Assume that the maturity date for all CDS in the exercise follow conventional quarterly termination dates, often referred to as "IMM dates".

(g) Additional specifications required in order to compute pricing calculations required for CDS positions should be done in a way that is consistent with commonly used market standards.

(h) Use the maturity date (ie some options expire on third Saturday of the month, etc) that ensures the deal is closest to the term-to-maturity specified. For any material details of the product specification that are not explicitly stated in this document, please provide the assumptions you have used along with the results (ie day count convention, etc).

(i) The acronyms ATM, OTM and ITM refer to an option's moneyness: ATM stands for "at the money", OTM stands for "out of the money", and ITM means "in the money".

(j) Assume that all options are traded over-the-counter unless explicitly specified in the portfolios

(k) Follow the standard timing conventions for OTC options (ie expiry dates are the business day following a holiday)

(l) Assume that the timing convention for options is as follows: The time to maturity for a n-month option entered on 17 March is in n months. For example, a 3-month OTC option entered on 17 March 2014 expires on 17 June 2014. If options expire on a non-trading day, adjust the expiration date as per business day conventions consistent with common practices. Also provide explicit details on the nature of the adjustment made.

(m) Assume that the exercise style for all OTC options specified is as follows:

- **American** for single name equities and commodities; and
- **European** for equity indices, foreign exchange and Swaptions.

(n) For all options exclude the premium from the initial market value calculations (ie options are to be considered as "naked").

(o) In the case that a bank is required to make additional assumptions beyond those specified above that it believes are relevant to the interpretation of its exercise results (eg close of business timing, coupon rolls, mapping against indices, etc), it should submit a description of those specifications in a separate document accompanying its return template.

7. Interest rate risk in the banking book

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8. Partial use and roll out

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