CEBS Committee of European Banking Supervisors

CEBS QIS FAQs

22 April 2010

Frequently asked questions on the comprehensive quantitative impact study - EU specific annex

This document provides answers to technical and interpretive questions raised by supervisors and banks during the Committee's comprehensive Quantitative Impact Study (QIS). This document intends to facilitate the completion of the impact study questionnaire related to EU specific parts. EU specific parts included in the QIS cover following topics:

1. Definition of capital.
2. Additional information on liquidity.
3. Additional information on provisioning. A separate work sheet "TTC provisioning" is annexed to the Basel QIS package in order to allow for analyses of policy proposals which were published for consultation by the EU Commission on 26 February.
4. Additional information on exposures secured by real estate. A separate work sheet is annexed to the Basel QIS package in order to facilitate the Commission services' considerations in finalising their proposal regarding harmonising the preferential treatment of exposures secured by real estate property.

The answers provided are not to be construed as an official interpretation of the consultation documents mentioned above. The consultative documents, their interpretation and ultimate implementation by national supervisors remain subject to change from the on-going consultative process, of which the comprehensive quantitative impact study is an essential component.

This document shall be read in combination with the BCBS' FAQs on the QIS which is available on the Basel Committee's website (http://www.bis.org/bcbs/qis/).

This document will be updated frequently during the comprehensive QIS data collection exercise. Revised versions will be available on the CEBS's website (http://www.c-ebs.org/Publications/Quantitative-Impact-Study.aspx).

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

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General

1. *Investment firms are invited to participate in the QIS performed by CEBS. Which parts of the QIS questionnaire shall be completed by investment firms? Shall investment firms complete only templates related to general, capital, market risk, securitisation, and operational risk?*

   National supervisors are in charge of deciding the number of investment firms to be included in the sample and deciding which parts of the questionnaire shall be completed by participating institutions. CEBS policy groups regard it as relevant to require investment firms to complete the above mentioned templates plus the templates on "liquidity" and "leverage ratio".

Worksheet "DefCapCalcCOREP"

1. *There are some mistakes in the formulae of cells in the DefCapCalc worksheet.*

   The cell formulae have been included for information only and have no negative impact on data submission.

   The formula in cell D6 (1.1 ORIGINAL OWN FUNDS) is "=+D7+D14+D47+D52" and should be "=+D7+D14+D46+D47+D52" instead.

   The formula in cell D47 (1.1.4 Other country specific original own funds) is "=+D48+D49" and should be "=+D48+D49+D50+D51" instead.

   The formula in cell D74 should not include D80, D81 and D82.

   The formula in cell D83 regarding the 50/50 deductions from T1/T2 should be: "=+D86+D87+D88+D89+D90+D91+D93+D94+D95+D96+D97" (Sum 1.3.i, i=1...11)

   The formulae in cells D84 and D85 should be correct to allow for cases where the amount of Tier 2 capital is lower than 50% of the regulatory deductions:

   The formula in cell D84 (1.3.T1* Of which: (-) From Original Own Funds) is "=+D83/2" and should be "=+D83-D85".

   The formula in cell D85 (1.3.T2* Of which: (-) From Additional Own Funds) is "=+D84" and should be "=+MAX((0,5*D83);D59*-1)"

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2. *In the DefCapCalcCOREP cell D31 is set as minus D30 (COREP CA template rows 1.1.2.6.01 = minus 1.1.2.6.02). The sheet in the QIS template does not allow for entry in cell D31, which assumes that it is equal to D30. However, the Financial Regulator requires that 1.1.2.6.02 is not necessarily the negative of the amount in 1.1.2.6.01, but is the negative of the sum of positive fair value movements in AFS equity instruments. As the cell is locked in the QIS template so the banks can't amend it, what do CEBS believe the best course of action to be?*

   In case the current formula is not suitable following actions need to be taken:

   - Banks will be asked to provide the relevant numbers directly to their supervisor.

   - The Secretariat will provide national supervisors with the means to convert this cell to an input cell.

   - National supervisors should enter the numbers provided by their banks in the relevant cells of the Excel template before submitting them to the Secretariat.

3. *Credit institutions have the discretion to calculate regulatory standards (in particular their consolidated own funds) on the basis of International Accounting Standards. For credit institutions that did not make use of that option, the calculation of regulatory capital is solely based on local GAAP. For that purpose the Common Reporting (COREP) templates on group level have been expanded to incorporate consolidation effects arising from the application of local GAAP. The following items are to be allocated to core capital (but reported in separate positions that are not part of the QIS-COREP template) on consolidated level as liability items and must reduce core capital in cases where they are asset items:*

   - *Differences resulting from the consolidation of equity and participation interests (capital consolidation)*
   - *Differences resulting from equity valuation*
   - *Foreign currency translation differences resulting from consolidation when a subordinate institution's equity capital at the start of the financial year is translated*

   Institutions should add or subtract the consolidation effects resulting from the application of local GAAP to "other country specific original own funds" (worksheet "DefCapCalcCOREP", ID: 1.1.4.4) or "other country specific deductions to original own funds" (worksheet "DefCapCalcCOREP", ID: 1.1.5.4.2)

4. *Row "Includes any goodwill not already deducted (first consolidation difference) within 1.1.2.1 Reserves"(Row 53, Column D/ ID 1.1.5.1.) Which goodwill has to be filled into this position?*

   In line 1.1.5.1. credit institutions have to deduct all intangible assets from original own funds, including all goodwills (positive first consolidation differences). In the case they have deducted these goodwills elsewhere (another line than 1.1.5.1), they do not have to deduct them twice of course (to avoid double deduction).

Worksheet "Liquidity"

2. *According to paragraph 2.1 of the instructions manual, a subset of participants will be asked by their national supervisor to report liquidity-related data for up to 10 key legal entities as well (i.e. an exception to the general rule that data are reported on a consolidated basis).Is there a definition of this "subset" anywhere or is this issue just up to the judgement of each national supervisor?*

   The respective home supervisor is responsible to define the subset of subsidiaries/legal entities for which data will be collected. The consolidating group will be in charge of completing the relevant parts of the liquidity template both for the consolidated level and for the major subsidiaries/legal entities on solo level (5 – 10 units). Legal entities can also be outside Europe - the relevant jurisdiction (EU or non EU) of reported legal entities will be identified.

3. *Can self-issued bonds be included in the reporting? Can self-issued ABS MBS be included in the reporting? Can ABS MBS issued for other group entities be included in the reporting? If so, in which category?*

   Under regulatory consolidation, securitizations are reported in the balance sheet, therefore the inflows of the securitized loans and the outflows of the bonds held by third parties are taken into consideration. In this sense, inflows of self-issued bonds maturing within 30 days are included (by means of the difference between the inflow of securitized loans and the outflow of the bonds).

   As liquid assets, self-issued bonds shall not be included for QIS purposes as they might not be valuable as a liquid asset in a name-specific crisis.

4. *Liquidity Sheet, Other Assets Central Bank Eligible The "Instructions for the comprehensive quantitative impact study - EU specific annex" requires additional memo items (panel F) asking to complete row 275 with "Other assets not included in the previous categories but central bank eligible". Given that all the assets should be entirely allocated to one of the categories available above line 275, what does "previous categories" mean? Is it related to assets not*

eligible for the buffer, though central bank eligible (even if already recorded as cash inflows/outlfows, therefore implying double counting)?

In row 275 banks should include assets not eligible for the buffer, though central bank eligible. (e.g. eligible ABS which come from a self securitization and eligible credit). Double counting is not intended. Thus positions already recorded as cash inflows/outflows, should not be incorporated into the buffer if there are any overlaps.

Worksheet "Real Estate (EU only)"

1. *Are there any differences between yellow and green cells in the Real Estate worksheet, in terms of relevance of the requested data, or from any other point of view? (From the experience in the TFICF monitoring templates, I guess yellow cells ask for the minimum necessary information and green ones for optional/complementary data.)*

   The yellow cells are colored that way to distinguish the overall figures from the information per LTV bucket. In this case green cells do not mean that data input is optional – on the contrary this granular breakdown is necessary to perform analyses on the policy proposal.

2. *How should "home Member States" be interpreted for QIS purposes for cross-border banking groups with activities in several jurisdictions? According to the CEBS QIS instructions banks shall only include information on those exposures that are collateralized by real estate situated within their home Member State. If "home Member State" is interpreted as the Member State of the consolidated supervisor it could have inexpedient effects where important information is omitted. This could for example be the case for countries where foreign banks possess a large or even dominant market share and where losses on real estate related exposures are high. In addition the information would not reflect the risk profile of the reporting banking group if a material part of the portfolio (exposures and/or losses) concerns real estate financing abroad.*

   Generally QIS data is collected on consolidated level. The "home Member State" in this case would be the Member State of the consolidated supervisor and thus exposures (whether of the bank or of foreign subsidiaries it consolidates) that are secured by residential/commercial property situated in other countries will not be reported.

   In case QIS data is submitted by a subsidiary, reporting on solo level or on consolidated sub-group level, the "home Member State" shall be interpreted as the Member State where the reporting subsidiary is authorised and supervised. Therefore each institution belonging to a cross border banking group shall only report data on

real estate exposures that are collateralized by real estate situated within the Member State of the reporting entity.

3. *If Bank 1 has a first lien mortgage exposure of 40 and a collateral value of 100 (i.e LTV=40%) and Bank 2 has the second lien mortgage exposure of 5 to the same counterpart and pledged in the same real estate. Regarding the reporting of this mortgage exposure of 5 for Bank 2, to which bucket should this exposure be allocated? (in some countries it´s fairly common that several banks lend to the same collateral since there is a central system for keeping track of who has the first and second lien and so forth. Also the range of the liens are known to the banks)*

   Bank 2 should report this exposure in LTV-bucket 40-50%.

4. *Should an exposure be split into sub-exposures when allocated to the different LTV buckets, e.g. a mortgage deed of 0-55% LTV will be put into the "LTV-buckets" 0-40%, 40-50%, 50-60%?*

   No, the entire exposure should be allocated to LTV-bucket 50-60%.

   If so, shall LGD and RWA be recalculated for each sub-exposure? (LTV is an important factor in the LGD models? (This will result in a lot of extra calculations, it will be very burdensome for the banks and RWA for the sub-exposures will not always sum up to the RWA of the exposure)

   N/A

   If so, how shall losses and provisions be allocated to the sub-exposures?

   N/A

   Should losses and provisions be allocated top-down regarding LTV? If the loss for a loan exceeds the exposure to where shall the "extra-loss" be allocated?

   N/A

5. *Could you please clarify the concept of "Mortgage Lending Value"? is this the accounting value of the loan at the origination? Does it mean that the value of the collateral is supposed to be strictly equal to the loan amount at the origination?*

   Given that mortgage lending value is presented as an alternative to market value, it is not the accounting value of the loan at origination. It therefore does also not mean that the value of the collateral is supposed to be strictly equal to the loan amount at origination.

The mortgage lending value is defined as "the value of the property as determined by a prudent assessment of the future marketability of the property taking into account long term sustainable aspects of the property, the normal and local market conditions, and the current use and alternative appropriate uses of the property. Speculative elements shall not be taken into account in the assessment of the mortgage lending value." [Point 64 of Annex VIII, Part 3 of Directive 2006/48/EC] The mortgage lending value should only be used in those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions [cf. point 55(b) of Annex VI, Part I of Directive 2006/48/EC]

6. *How is "flow" defined?*

   Flow is defined as the sum of all exposures defaulting within a given year, which were on the books at the beginning of the year.

7. *Are the cumulative loan provisions supposed only to be related to the exposures at the beginning of the year, or should they include provisions related to inflow and outflow of loans in the portfolio within the year in question?*

   "Cumulative loan provisions" are supposed to be related to the exposures at the beginning of the year. "Cumulative loan provisions" regarding defaulted exposures are supposed to be reported on a flow basis related to exposures that defaulted in the year, which were on the books at the beginning of the year.

8. *The instructions use the term "cumulative loan provision/allowances" as a nominal amount whereas the term "cumulative loan provisions rate" is used in the tables. Shall the cumulative loan provisions be reported as an amount or a rate?*

   "Cumulative loan provisions" are supposed to be reported as nominal amount. As the format of the cells was mistakenly set to percent style instead of numeric, institutions are requested to report, for example, 1000 % instead of 10.

9. *The format of column AR "RWA" is set to percent style. How shall institutions report this column?*

   "RWA" are supposed to be reported as nominal amount as in the case of columns H, N, T, Z, AF and AL which have numeric format. As the format of the column AR was mistakenly set to percent style instead of numeric, institutions are requested to report, for example, 1000 % instead of 10.

10. *Usually we provide exposure amounts for the year-end reporting date of each year (ex: 2009 year-end), but in the real estate instructions document you say "Exposure (columns C, I, O, U, AA, AG (for residential real estate exposures only), AM): gross outstanding balance of mortgages at the beginning of the year", which seems to be surprising. Could you please precise/clarify?*

In order to track the evolution of the exposures throughout the year, the European commission wishes to know the exact positions in the beginning of the year. This excludes new exposures granted during the year.

11. *Should RWA, and under the IRB approach, PD and LGD be related to the exposures at the beginning or the end of the year? If the latter, should they include inflow and outflow of exposures in the portfolio within the year in question?*

    RWA, PD and LGD are supposed to be related to the exposures at the beginning of the year except for defaulted exposures which are supposed to be reported on a flow basis related to exposures that defaulted in the year.

12. *Which exposure should be used for loans that default in a given year? Exposure at the beginning of the year? Exposure at default?*

    Exposure at default.

13. *If a loan is originated and defaulted in a given year should it be included in "Defaulted commercial real estate exposures (flow)"?*

    No.

    If so, which exposure should be given for this loan? Exposure at origination? Exposure at default?

    N/A

14. *Should loans that are both originated and closed during a given year be included?*

    No. Only loans that were outstanding at the beginning of the year should be included (please see page 4 second paragraph in the instructions for the EU-specific parts of the QIS).

15. *Should all exposures that are defaulted in the beginning of the year and that default during the year be excluded from "Non defaulted commercial real estate exposures (stock)"?*

    Both examples of defaulted exposures described above should be excluded from "Non defaulted commercial real estate exposures (stock).

16. *Specialised Lending exposures in the Slotting Approach are part of the IRB portfolio, but they do not carry with them an PD or LGD estimate for the purpose of RWA calculation. This contradicts the logics of the IRB-part of the template. How should Specialised Lending exposures be treated?*

All Specialized Lending exposures should be excluded from the scope of the 'Real Estate' worksheet. Any attempt to fit them either into IRB or SA templates would lead to a distortion of the results.

17. *What should be included in commercial real estate under the IRB approach? Do we stick to a narrow definition of property investment & development, or should it be wider?*

    The CRD already contains a definition of what is to be considered as real estate collateral in Annex VIII, Part 1, points 13 to 15. No narrow definition should be adopted for QIS purposes.

18. *In some jurisdictions some real estate exposures which are considered especially risky are assigned an augmented risk weight, usually 150%, and may be reported (or not) under the regulatory high risk category instead of under the secured by real estate category. Must these exposures be included in the EU Real Estate template?*

    Yes. All 'exposures secured by real estate property' that satisfy the criteria as set out in Annex VI, Part 1, points 44-60, should be reported in the EU Real Estate Property, despite the fact that a competent authority exercises its discretion to assign a different risk weight, e.g. 150%.

19. *What does the term "loss estimation" refer to, are the figures registered under "Realised loss or loss estimation" supposed to not only include realised loss in the given year, but also provisions in the given year (i.e. the part of the figure registered for "realised loss or loss estimation" that is due to provisions in the given year will be the "flow" figure for "Cumulative loan provisions/allowances")?*

    'Loss estimates' should include the total gross loss that the bank considers it may be caused by the exposures. That total should include incurred losses and their best estimate of future losses; provisions should be included also as part of this total (in fact, provisions should reflect incurred losses), but double counting should be avoided. In summary, for those defaulted exposures in the year whose recuperation cycle is still not finished, the 'loss estimate' should be the best estimate the bank can calculate of the total loss that a default has caused and/or may cause in the future.

Worksheet "TTC provisioning (EU only)"

1. *The headings mention 'specific/general provisions…', an accounting classification of provisions, while the instructions refer to '…net provisions for defaulted/non-defaulted exposures…', a CRD (solvency) classification. As both classification do not math exactly (there may be general provisions for defaulted exposures and specific provisions for non-defaulted exposures), doubts arise about what to report exactly.*

Which of the three options must be reported in row 29?

- *Specific provisions related to all exposures (defaulted and non-defaulted) treated under the IRB approach.*
- *Specific provisions related to defaulted exposures treated under the IRB approach.*
- *All provisions (specific and general) related to defaulted exposures treated under the IRB approach.*

The second option shall be reported: "Specific provisions related to defaulted exposures treated under the IRB approach". Please note that the flow figures based on accounting provisions are requested'.

Which of the three options must be reported in row 31?

- *General provisions related to all exposures (defaulted and non-defaulted) treated under the IRB approach.*
- *General provisions related to non-defaulted exposures treated under the IRB approach.*
- *All provisions (specific and general)related to non-defaulted exposures treated under the IRB approach.*

The second option shall be reported: "General provisions related to non-defaulted exposures treated under the IRB approach". Please note that the flow figures based on accounting provisions are requested'.

2. *What should be reported in rows 28 "Expected loss for defaulted exposures" and 30 "Expected loss for non-defaulted exposures" – Expected loss at the beginning of the year or expected loss at the end of the year?*

   The aim is to compare IRB EL amounts at the beginning of the year with net specific provisions charged during the year. Expected losses to be reported in rows 28 and 30 must be those at the beginning of every reference year.

3. *Non-performing loans: In the technical instructions for EU-specific items, reference is made to IFRS 7.37 (a) in the definition of non-performing loans. According to this, NPL include impaired, and past due but not impaired assets. Can the Basel II definition of past due (90 days) be used? Can the past-due criterion be omitted, particularly for years in which the Solvency Regulation was not yet applied and/or only data pursuant to the Commercial Code are available?*

Banks should use their own criterion. If for the purposes of this item which is in accounting they use the Basel II definition this should also be used for the data collection. If they used a different definition they should resort to that one. This also holds true for pre-Solvency years.

4. *Risk provisioning: Should only specific and general provisions on loans and receivables (category LAR) be given as risk provisioning for the purposes of the QIS as stated on the survey form or should this include impairments on long-term securities (categories LAR and AFS)?*

   The QIS should also include impairments on long-term securities (categories LAR and AFS)