



Additional instructions to QIS 3-banks

Additional information on the standardised approach regulatory retail portfolio

The Technical Guidance to QIS 3 introduces the so-called 'regulatory retail portfolio'. Exposures in this portfolio will receive a 75% risk weighting, provided they meet the criteria in paragraphs 42–43 of the Technical Guidance. One of the criteria mentioned is the so-called granularity criterion, which states that no aggregate exposure to one counterpart¹ can exceed 0.2% of the overall regulatory retail portfolio.

The Committee would like to use QIS 3 to gather more information on the impact of the granularity criterion. In completing the standardised approach spreadsheets, banks are required to strictly follow the rules and apply the granularity criterion. In addition, banks should use the notes section of the templates to indicate whether the granularity criterion was binding, and if so what amount of additional exposures could have been included in the regulatory retail portfolio if the granularity criterion had not been applied. In other words, banks should indicate in the notes section how many exposures (i.e. amount of assets and off-balance sheet items converted into credit equivalent amounts) meet the orientation criterion, the product criterion and the low-value criterion, but do not satisfy the granularity criterion.

Guarantees reflected in LGD-estimates

When assigning guaranteed exposures to portfolios, banks should generally assign the guaranteed amount of an exposure to the portfolio of the **guarantor**, rather than the obligor. In recording the information the exposure must be allocated to the same portfolio 'before' and 'after' protection is taken into account - therefore a corporate loan fully guaranteed by a bank will be recorded in the bank portfolio throughout the spreadsheet and never appear in the corporate portfolio.

However, there is one exception to this general rule. It applies to banks completing the advanced IRB approach that choose to reflect the impact of guarantees by adjusting LGD-estimates. In this case the exposure remains in the **original** portfolio, i.e. in the portfolio of the **obligor**. To ensure consistency throughout the approaches in QIS 3, the exposure must

¹ Aggregated exposure means gross amount (i.e. not taking any credit risk mitigation into account) of all forms of debt exposures (e.g. loans or commitments) that individually satisfy the three other criteria. In addition, 'on one counterpart' means one or several entities that may be considered as a single beneficiary (e.g. in the case of a small business that is affiliated to another small business, the limit would apply to the bank's aggregated exposure on both businesses).

also remain in the obligor's portfolio under the foundation IRB, standardised, and current approaches. The effect of CRM will be incorporated in the usual way, but without moving the exposure to another portfolio. Banks that adopt this approach must indicate in the notes section what assets are involved. This exception is **not** relevant for banks that choose to reflect the impact of guarantees by adjusting PD in the advanced IRB approach. Banks using the PD adjustment should continue to assign exposures to the portfolio of the guarantor.