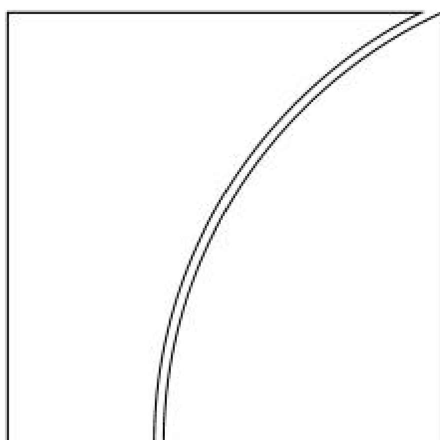
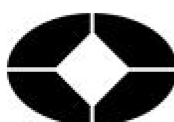
Basel Committee
on Banking Supervision



Quantitative Impact Study 3 Instructions

For banks providing data on the Current Accord and Standardised Approach only

October 2002



BANK FOR INTERNATIONAL SETTLEMENTS

Table of Contents

Guidance on completion of QIS 3 1
1. Introduction 1
(a) Changes to the package since July 1
(b) Objective 1
(c) Timetable 1
(d) Structure 2
(e) Dialogue with supervisors 2
2. General 2
(a) Options and national discretion 2
(b) Estimates 3
(c) Units 3
(d) Consolidated basis 3
(e) Consistent portfolio 3
(f) Reference date 3
(g) Structure of worksheets 3
(h) Worksheets for Standardised banks 4
3. Data Worksheet 4
(a) Purpose 4
(b) Portfolios - general 4
(c) Guarantees and credit derivatives - general 6
(d) On-balance sheet (panel A) 7
(e) Off-balance sheet items and commitments (panel B) 7
(f) Memo item 8
(g) Counterparty Exposures under repo-style and OTC derivatives (panel C) .. 8
(h) Other information 8
4. Summary Worksheet 8
(a) Purpose 8
5. Checks Worksheet 8
(a) Purpose 8
6. Capital Worksheet 9
(a) General 9
(b) Capital and deductions 9
(c) Banking book 9
(d) Trading book 9
(e) Current Accord reconciliation 10

7. Related Entities Worksheet 10
(a) Introduction 10
(b) Information required for QIS 3 10
(c) Inputs for QIS 3 11
(d) Memo item on surplus capital 11
8. Current Accord Worksheet 11
(a) Basis for calculations 11
(b) Structure of worksheet 11
(c) Drawn and off-balance sheet exposures 12
(d) Commitments (undrawn exposures) 12
(e) Inputs for drawn and off-balance sheet exposures and commitments 12
(f) Counterparty exposures (repo-style transactions and OTC derivatives) 12
(g) Trading book 12
(h) Netting arrangements 12
(i) Credit risk mitigation 13
9. Standardised Approach Worksheet 13
(a) General 13
(b) Drawn, off-balance sheet and counterparty exposures 13
(c) Commitments (undrawn exposures) 13
(d) Trading book 13
(f) Inputs – risk weights 14
(g) Corporate lending collateralised with commercial real estate 14
(h) Credit risk mitigation – collateral 14
(i) Eligible on-balance sheet netting agreements 15
10. Operational Risk Worksheet 15
(a) Introduction 15
(b) Basis for calculating capital charge 16
(c) Reference period 16
(d) Missing data 16
(e) Current Accord 16
(f) The Basic Indicator Approach 16
(g) The Standardised Approach 17
(h) Business line mapping 17
Annex 1: Mapping of ratings 19

Quantitative Impact Study 3 - Instructions

Guidance on completion of QIS 3

1. Introduction

(a) Changes to the package since July

1.1. A draft copy of the QIS 3 information package was circulated in July. Since then, the package has been developed and improved. Most of the package remains the same, however, banks will notice the following changes:

1. The portfolio definitions and technical guidance sections have been combined to form one document entitled "Quantitative Impact Study 3 Technical Guidance" (or "Technical Guidance" for referencing purposes in these instructions).

2. Two worksheets have been added to the QIS 3 workbook: a) Summary sheet and Checks sheet. These sheets are discussed in sections 4 and 5.

3. Further efforts have been made to streamline the package thus securitised assets are not included. Banks with significant involvement in securitisations should consult their supervisors. Banks completing the standardised approach which have investments in securitised assets should include these exposures in the "assets not included in QIS 3" (panel A4) in the data sheet. These exposures will not be included in capital calculations. Banks with originated securitisations should use the foundation IRB package which includes worksheets for securitisation (national supervisors will be able to provide this package.)

4. The standardised SME retail section has an additional memo item which asks banks to split SME retail exposures by size of exposure. This is to enable the Committee to analyse the impact of the €1m threshold for small business included in retail. National supervisors will indicate whether it is necessary for banks to fill in this table.

(b) Objective

1.2. The objective of QIS 3 is to gather data on the effects of the New Basel Capital Accord on banks' capital requirements. This information will be used to refine the calibration of the proposals for the new Accord. This package of information was designed for banks that expect to provide data on the current accord, the standardised approach to credit risk and operational risk (basic indicator or standardised approach) only. **Banks wishing to compile data on these approaches as well as on the internal ratings based (IRB) approach to credit risk may obtain from their national supervisor a separate package of instructions that includes IRB information.**

(c) Timetable

1.3. The questionnaire must be completed and returned to your supervisor by **20 December 2002** or as prescribed by your national supervisor.

(d) Structure

1.4. The QIS 3 information package contains three main parts. The **instructions** (i.e., this document) provide guidance on the completion of the questionnaire. The **questionnaire** is contained in a **workbook** in which you input exposure amounts and other details (e.g. external rating). The worksheets have in-built formulae to calculate risk weighted assets based on the current draft proposals of the Basel Committee. The **Quantitative Impact Study 3 Technical Guidance** provides detailed guidance on the calculation of capital, portfolio definitions and information on boundaries between portfolios. For purposes of this streamlined package, the QIS 3 Technical Guidance included herein is a “stripped down” version of the Technical Guidance provided to banks completing the IRB approaches to credit risk (and securitisation worksheets). All paragraph numbers, however, remain consistent between both versions.

1.5. In addition to the main package, there is an **Areas of National Discretion Checklist** that contains a list of items where national discretion is permissible. Your national supervisor will provide you with this checklist setting out their decisions (for QIS 3 purposes) on the areas where national discretion is allowed. This checklist will provide guidance on which options you should use when completing the QIS 3 questionnaire and is provided so that the Committee could gain as close an approximation as possible of the impact on banks' capital. Please note that the list may be updated during the exercise – there may be other areas of national or supervisory discretion not included in the checklist, and minor modifications may be made to existing items. **Furthermore, the Basel Committee also recognises that the guidance provided by supervisors in response to this list may not reflect current or future discussions on implementation. As such, the use of this list should be regarded as part of the effort to facilitate completion of the QIS 3 survey, rather than as a first step in the work on implementation of the Accord.**

1.6. These documents – the instructions, technical guidance, workbook and national discretion checklist replace the documents given to banks in July.

(e) Dialogue with supervisors

1.7. Banks are strongly encouraged to maintain a continuous dialogue with their national supervisor throughout the QIS 3 process. This will enable banks to discuss solutions to problems as they occur and ensure proposals are interpreted accurately. Supervisors will be able to share insights and provide advice where necessary.

2. General

(a) Options and national discretion

2.1. Where options allowing banks to exercise discretion are set out in the National Discretion Checklist, banks should use the options they are likely to use when the New Accord is implemented. Where the New Accord will allow national supervisors to exercise discretion over certain options, banks should take guidance from their national supervisors. The National Discretion Checklist provided by your national supervisor will detail further these areas of national discretion. **NB: It should be noted that national discretion guidance is provided solely for the purpose of this exercise and is subject to change.**

2.2. Banks should apply the national discretions provided by their home supervisors across all their exposures.

(b) Estimates

2.3. It is recognised that banks may not have exact data on all the requested elements and, therefore, estimates are acceptable for the purpose of this exercise as long as they are representative of a bank's portfolio and can be justified. Estimates should be discussed with the national supervisor and identified in the "Notes" worksheet.

(c) Units

2.4. Banks should report data in the most convenient currency. Banks should record which currency has been used in the data worksheet. Supervisors will provide the relevant conversion rate for the reporting currency to Euros.

(d) Consolidated basis

2.5. Banks are asked to complete the worksheets for consolidated group exposures on a worldwide basis. All operating entities with material exposures should be included. As far as possible, all exposures within given portfolios (e.g. corporate, retail) should be included.

(e) Consistent portfolio

2.6. It is extremely important that banks use a consistent portfolio throughout the calculations of capital requirements under the current Accord and the new standardised approach. This is to enable the Committee to compare results across approaches and relative to the current capital requirements.

(f) Reference date

2.7. In completing the worksheets, banks should use data from March 2002 or later and should note the reporting date in the "Data" worksheet (different rules apply for operational risk, please refer to section 10(c) – Reference period). The use of data from a reporting date that is earlier than March 2002 should be discussed with your national supervisor.

(g) Structure of worksheets

2.8. **You need only enter data in the yellow shaded cells**. All other cells are either automatically calculated or are linked to cells in other parts of the worksheet. These unshaded cells should not be changed. There are separate sheets (generally more than one) for each approach. The worksheets calculate risk weighted assets using information linked to the Data worksheet and your own inputs that are entered in yellow cells.

2.9. In addition, some worksheets contain **green** shaded cells. These are for information only; they are designed to provide further information for the Committee in analysing the results. Banks should provide this information, although such information does not feed directly into the calculation of capital.

2.10. There are also pink cells which should be completed by supervisors. In general, these refer to areas where there is national discretion in the current Accord or in the proposed New Accord. Supervisors will complete these sections for the QIS 3 exercise. If there are pink cells that have not been completed, banks should contact their national supervisors.

2.11. Some cells within tables in worksheets have been “greyed out”. Banks should not fill any data in these cells.

2.12. The worksheets have in-built ”CHECKS” (in red). Underneath each check, cells indicate whether the inputs tally with the relevant data (“Yes” or “No”). Please look at these checks to ensure the data input is consistent. If they are not you need to understand why and make adjustment.

2.13. Where you have not been able to comply with any of the instructions, you must clearly set out these areas in the “Notes” worksheet. **NOTE**: it is better to use estimates than to leave cells empty. Please also include a discussion of these estimates in the “Notes” worksheet along with any comments that clarify or explain key areas where judgements had to be made. If necessary, you should consult with your national supervisor.

2.14. In some worksheets there are cells in red with blue backgrounds which act as menus for drop-down boxes. Banks should take care to ensure these cells are not altered.

(h) Worksheets for Standardised banks

2.15. These worksheets and instructions are for banks that intend only to complete the current accord and standardised approach for credit risk and operational risk for QIS 3. Banks aiming to submit data on the IRB approaches as well should use the worksheets for IRB banks – ask your national supervisors for these worksheets and instructions. In addition, this package does not include worksheets for securitisation. Banks with significant involvement in securitisation should also use the IRB package and complete the securitised assets sheets.

2.16. Note that these worksheets are a “cut-down” version of a larger workbook designed for banks completing information on the IRB approaches. However, to help the Committee in aggregating the results and to allow for consistent analysis, the basic framework has been retained. **There are, therefore, some areas that do not apply to banks using the standardised approach**. For example, the worksheets refer to portfolios that are not applicable to the standardised approach. These include specialised lending, purchased receivables and non-mortgage retail (qualifying revolving exposures). These areas have been clearly marked in the “Data” worksheet (reference in blue as “IRB ONLY”). Within the current accord and standardised approach worksheets, several panels (numbers 6a, 6b, 8a, 8b and 10) have been left blank: they refer to portfolios that do not apply to the standardised approach – banks should ignore these cells.

3. Data Worksheet

(a) Purpose

3.1. The data worksheet is intended to capture broad information about the portfolio used in the exercise. These data are fed through to the other worksheets to calculate risk weighted assets. Therefore it is vital this information is as accurate as possible.

(b) Portfolios - general

3.2. There are eight broad categories of exposure. However, not all categories will be relevant for all banks. The eight categories are:

- Corporate (not including SMEs, specialised lending or purchased receivables)
- Sovereign
- Bank
- Retail (not including SMEs)
- SMEs
- Equity
- Trading book
- Investments in related entities

3.3. Definitions for all exposure classes are given in the QIS 3 Technical Guidance and some guidance is provided below. It is important that banks use consistent categories across the various approaches (i.e. exposures designated as sovereign under the standardised approach must also be designated as sovereign under the current Accord). The Committee intends to analyse the relative changes in capital requirements for each portfolio – the exposures included in each portfolio must, therefore, be consistent.

3.4. In general, a **corporate** exposure is defined as a debt obligation of a corporation, partnership, or proprietorship. These are characterised by the fact that the source of repayment is based primarily on the ongoing operations of the borrower, rather than the cash flow from a project or property.

3.5. **Sovereign** includes exposures to sovereigns (and their central banks) and certain domestic public sector entities (PSEs) – see item number 5 of the National Discretion Checklist for further guidance.

3.6. The **retail** portfolio will be subdivided into two portions:

- Residential mortgages
- Non-mortgage retail – for banks which can separate SMEs in the retail portfolio, this category will exclude small businesses

Capital requirements are calculated separately for each sub-section of the retail portfolio.

3.7. The **small and medium-sized enterprise ("SME") category** is used here specifically for the QIS 3 exercise to examine the effects of the new proposals on capital requirements on these exposures. This split is a feature of the IRB approach but for the purposes of QIS3 banks on the standardised only approach are requested to follow the treatment for SME exposures set out below. As the boundary for SME exposures lies between the retail and the corporate boundaries, careful attention must be given to these boundaries.

3.8. The SME portfolio will be subdivided into two portions: (1) those exposures that for capital purposes will be treated as corporate; and (2) those that (for capital purposes) will be treated as retail. SME exposures covered by the corporate risk weight curve are distinguished from corporate exposures based on the amount of the firm's annual sales. If turnover is less than €50 million, the exposure should be categorised as an SME within "SME treated as corporate". The proposals permit institutions to treat exposures to small businesses as retail exposures if the individual exposure is less than €1 million, and meets the criteria specified in paragraph 43 of the Technical Guidance. These exposures should be included within "SME treated as retail". Exposures of €1 million or above should be included in the "corporate" SME sub-category.

3.9. The Committee realises that for some banks it may not be possible to separately identify loans to SMEs. If this is the case, banks will be permitted to include SME loans either in the corporate or retail portfolios – observing the boundaries explained in the Technical Guidance. These banks should leave the sections on the SME portfolio in the data, current and standardised worksheets blank.

3.10. **Equity** exposures are defined on the basis of the economic substance of the instrument. They include both direct and indirect ownership interests,[1] whether voting or non-voting, in the assets and income of a commercial enterprise or of a financial institution that is **not** consolidated or deducted in the related entities/scope of application section.

3.11. The **trading book** is also defined as a separate portfolio. Capital requirements are calculated separately for the trading book for each approach. Total risk weighted assets are comprised of three elements that are discussed in more detail in section 6(d).

3.12. Banks only completing the standardised approach which have investments in securitised assets should report these exposures in the "assets not included in QIS 3" (panel A4) in the data sheet. These exposures will not be included in the capital calculations. Banks with originated securitisations should use the comprehensive package which includes worksheets for securitisation (national supervisors will be able to provide this package.)

(c) Guarantees and credit derivatives - general

3.13. In completing the QIS 3 worksheets, banks should assign exposures that are guaranteed by another counterparty, or where credit protection is provided by another counterparty, according to the characteristics of the guarantor or protection. Thus, if a bank has an exposure to a corporate guaranteed by another bank, this exposure must be treated as a bank exposure and included in the claims on banks portfolio. Under the current Accord and standardised approach, the substitution treatment (i.e. replacing the risk weight of the borrower with that of the protection provider) will apply.

3.14. Banks are requested to enter their exposures before and after the effects of credit protection. Thus, in the current and standardised worksheets, banks should first slot exposures with a guarantee or credit protection according to the risk weighting of the initial obligor in the column headed "pre-protection" and then slot exposures according to the risk weighting of the guarantor or credit protection provider in the column "post-protection".

3.15. Where partial coverage exists, or where there is a currency mismatch between the underlying obligation and the credit protection, it is necessary to split the exposure into a covered and uncovered amount. In showing exposures "after" the effects of credit protection, banks should slot the portion of the exposures guaranteed/protected into the risk weighting of the guarantor/protection provider. The remaining uncovered portion of the exposure is assigned the risk weighting of the underlying counterparty. Further details of how to determine the portions of exposures that are covered are given in the Technical Guidance, beginning at paragraph 162 – Proportional cover. The amount of exposure deemed to be protected should take account of any currency mismatch – see the Technical Guidance, paragraph 164.

[1] Indirect equity interests include holdings of derivative instruments tied to equity interests, and holdings in corporations, partnerships, limited liability companies or other types of enterprises that issue ownership interests and are engaged principally in the business of investing in equity instruments.

3.16. It is possible that guarantees and credit derivatives will create difficult boundary issues. In allocating exposures to a portfolio in the data worksheet, banks should follow the guidance beginning at paragraph 154 of the Technical Guidance and assign an exposure **according to the characteristics of the guarantor**. Exposures should not be moved between portfolios – thus if a corporate exposure has been guaranteed by a bank, it should always be shown in the bank portfolio (in the data sheet and throughout the approaches). However, to illustrate the effects of the credit protection, in completing the requirements described for each approach, banks should continue to reflect the risk weight of the underlying obligor in the "pre-protection" columns and then assign the risk weight of the protection provider in the "post-protection" column. However, both the "pre-protection" and "post-protection" figures should be reported within the portfolio of the guarantor.

(d) On-balance sheet (panel A)

3.17. Exposures must be reported both gross and net of specific provisions and partial write-offs and included in the appropriate yellow cell. Defaulted assets that have not yet been fully written-off must be included in the gross exposures. The current and standardised approaches are calculated using exposures net of provisions.

3.18. Exposures must be included **before** application of a haircut on exposures (H_E) where relevant. H_E applies only in the comprehensive approach for collateral (i.e. it is not relevant for collateralised transactions in the current Accord and the simple approach provided in the standardised approach). See the Technical Guidance, beginning at paragraph 93 for further discussion.

3.19. Banks should report total trading book assets and assets for investments in related entities separately (panels A2 and A3) from assets held in the banking book.

3.20. In panel A4 banks should report assets that have not been included in QIS 3 that are included for current regulatory capital purposes (for example where a foreign subsidiary has been excluded from QIS 3). This will allow the Committee to evaluate the coverage the bank has achieved in the QIS 3 exercise.

3.21. Banks should also note any other assets not included elsewhere in the data sheets in the panel A5 (for example fixed assets which do not attract a regulatory capital charge). As far as possible, banks should aim to reconcile the total on-balance sheet assets in panel A6 to their balance sheet at the reference date.

3.22. Within panel A5 banks should also identify fixed assets. Fixed assets acquired through credit defaults should be identified separately from other fixed assets for the bank's own use. This is to enable the Committee to consider the risk weights applicable to these categories.

(e) Off-balance sheet items and commitments (panel B)

3.23. Commitments and other off-balance sheet items must be recorded **before** credit conversion for each portfolio in the data sheet. Commitments and off-balance sheet items must be recorded separately after credit conversion in the relevant worksheets for each approach using the applicable credit conversion factors.

3.24. In the worksheet banks should include any commitments that are either unconditionally cancellable or that effectively allow automatic cancellation by the bank, at any time and without prior notice, resulting from a deterioration in the obligor's creditworthiness.

However, a 0% conversion factor must be applied to these commitments in the standardised approach.

(f) Memo item

3.25. In panel B4, banks should split off-balance sheet exposures (including commitments) into those commitments that are of an original maturity of up to and including 1 year; commitments with an original maturity of more than 1 year; unconditionally cancellable commitments; and other off-balance sheet items (excluding exposures under repo-style and OTC derivatives).

(g) Counterparty Exposures under repo-style and OTC derivatives (panel C)

3.26. Enter banking book and trading book repo-style and OTC derivative exposures in panels C1 and C2 respectively. For OTC derivatives, the credit equivalent amounts (calculated using the current or original exposure method) should be recorded; this should be consistent with the bank's supervisory return and the 1988 Capital Accord.

3.27. Repo-style transaction exposures include off-balance sheet lending of securities that continue to be recorded on-balance sheet (including the posting of securities as collateral), as well as guarantees of securities lending transactions (e.g. guarantees issued by an agent lender). Cash posted as collateral in a repo-style transaction should be treated as a repo-style transaction exposure, rather than as a loan. In the data sheet, banks should record the **gross** exposure (i.e. the exposure amount (E) without any netting for collateral (C)).

3.28. Use panel C3 to record banking book and trading book repo-style and OTC derivative exposures not included in QIS 3.

(h) Other information

3.29. At the top of the "Data" sheet, banks are asked to provide the reporting date for this information – i.e. to which date the data relates. Banks are also asked to provide the reporting currency. Supervisors will input the relevant exchange rate.

4. Summary Worksheet

(a) Purpose

4.1. The summary worksheet collects data from the other worksheets by portfolio and approach and will be used to analyse the results for each bank. Banks do not need to enter any information on this sheet.

5. Checks Worksheet

(a) Purpose

5.1. The checks worksheet summarises the in-built checks (see section 2.12) contained throughout the workbook. The cells indicate whether inputs in each worksheet tally with the

relevant section in the data sheet. Banks should use this sheet to ensure that data input is consistent.

6. Capital Worksheet

(a) General

6.1. This sheet collects information on capital and deductions, provides a summary of risk weighted assets across all the approaches and calculates capital ratios for use in the QIS 3 analysis. Most of the cells in this sheet are unshaded (i.e. they are white) and they link to other areas of the workbook. You should not enter any data in these cells but must ensure the yellow cells are completed.

(b) Capital and deductions

6.2. Enter eligible Tier 1, Tier 2 and Tier 3 capital amounts in the relevant box. The capital numbers must relate to the **total banking group**, even if some exposures are not included in the QIS 3 exercise.

6.3. Supervisory deductions must be entered for the current Accord and proposed New Accord cells. Supervisory deductions should include goodwill, total capital from investments in unconsolidated banking and financial subsidiary companies and total capital for investments in the capital of other banks and financial institutions. The deductions for investments in unconsolidated banking and other financial subsidiary companies are calculated in the related entities sheet and will feed-through to the Capital worksheet automatically. Banks should record other supervisory deductions not captured by the related entities sheet in the cells provided.

6.4. The above information should be reported in the most convenient currency. The worksheet will calculate the equivalent amount in Euros.

(c) Banking book

6.5. Panel 1d applies only to IRB banks and has been left blank in the worksheets. Banks on the standardised approach need not complete this section.

(d) Trading book

6.6. Trading activities carry several types of risks: counterparty credit risk, market risk (consisting of both “general market” and “specific” risk), and concentration risk. The New Accord imposes charges for the first two, while EU institutions may incur a further charge for large exposures.

6.7. Capital requirements are calculated separately for the trading book for each approach. Risk weighted assets are calculated for three elements. The first component is risk weighted assets required for counterparty trading book exposures; these are calculated separately for the current and standardised approachs. The second element is the capital charge for specific risk. The specific risk charge should be calculated using either the standardised or the internal models methodology. If you use the internal models methodology (unchanged from the 1996 Market Risk Amendment) enter the specific risk charge in the

"Capital" worksheet (panel 2b), if not complete the relevant section in the current Accord and standardised approaches worksheets. The third element is the capital charge for market risk under the current Accord; enter this figure in the "Capital" worksheet (panel 2c). In addition, if banks in the EU have capital requirements for large exposures, they should record this capital requirement in the "Capital" worksheet in panel 2d (the worksheet will convert this to a risk weighted asset equivalent).

(e) Current Accord reconciliation

6.8. The purpose of this section is to ensure that the current accord risk weighted assets calculated in the QIS 3 workbook agree with supervisory returns. If your current accord figures do not agree with your supervisory returns then this should be discussed with your supervisor. Differences between the figures for the current accord and your supervisory return must be explained in the "Notes" worksheet.

6.9. In panel 3C fill in banking and trading book requirements for exposures not included in QIS 3 but that are included in the current Accord.

7. Related Entities Worksheet

(a) Introduction

7.1. The scope of application of the Accord will include, on a fully consolidated basis, any holding company that is the parent entity within a banking group to ensure that it captures the risk of the whole banking group. Investments relating to the scope of application (see the Technical Guidance, paragraphs 1-20) will receive either a risk weight or a deduction treatment (at the discretion of the national supervisor). The related entities worksheet is structured to collect data for capital deduction and/or risk weighted assets treatment under the current national regime and the New Accord.

(b) Information required for QIS 3

7.2. Banks must ensure that (i) only investments relating to the scope of application are reported in this sheet, and (ii) none of the investments reported in this sheet are included in other portfolios - especially in the "equity" portfolio, to avoid double-counting.

7.3. Banks should report the data by categories of investments relating to the scope of application as listed below in accordance with the Technical Guidance, paragraphs 5-17 – Scope of application and treatment of investments in related entities.

(a) Investments in unconsolidated majority-owned or controlled securities and other financial entities.

(b) Significant minority investments in banking, securities and other financial entities.

(c) Investments in insurance subsidiaries and significant minority investments in insurance entities,

(d) Significant minority and majority investments in commercial entities that exceed certain materiality levels.

(e) Other investments relating to Scope of Application (i.e. significant minority- and majority-owned commercial entities below materiality levels, and others if any).

(c) Inputs for QIS 3

7.4. Banks should fill in the amounts of investment for categories “a” through “e” in the column titled “Amount outstanding”.

7.5. Banks should report the data for the current national regime and the New Accord. In reporting these data, banks should first refer to item number 1 of the National Discretion Checklist prepared by national supervisors that indicate the treatment (i.e. deducting from capital or risk weighting) applicable for their country under the current regime and the New Accord. It is essential that banks use consistent portfolios under the current regime and the New Accord. Banks should also refer to the section where national supervisors describe the treatment for the categories “a” through “e” in panel C of the investment in related entities worksheet in the QIS 3 workbook, and follow the description provided by national supervisors in completing the data.

If national supervisors instruct banks to:

(a) deduct investments from capital, then banks should report the amount deducted from capital in the column labelled “Deductions” ;

(b) risk weight investments, then banks should report the risk weighted amounts under the column labelled “Risk weighting treatment”.

(d) Memo item on surplus capital

7.6. Banks should indicate the amount of surplus capital held in insurance subsidiaries that is included in consolidated capital under the current Accord and the New Accord.

8. Current Accord Worksheet

(a) Basis for calculations

8.1. Exposures should be assigned to the appropriate category in the worksheet based on the local implementation of the 1988 Basel Capital Accord by the national supervisor. In some countries supervisors may have additional rules beyond the 1988 Accord or may have made modifications to the Accord in their national implementation. Since these areas may also be impacted by the proposals for the New Accord, banks should carefully discuss with their supervisors about how the Current Accord Worksheet should be completed.

(b) Structure of worksheet

8.2. Risk weighted assets are calculated separately for each portfolio (numbered one to eleven). Within each portfolio, risk weighted assets are calculated for drawn and off-balance sheet items together (panel a) and separately for commitments (panel b), OTC derivatives and repo-style transactions (panel c).

8.3. The full range of risk weights allowed in the current Accord is included in the worksheet for each wholesale portfolio, so as to allow participating institutions to reflect

where national supervisors have exercised discretion over the risk weight to be applied to a given category of asset/counterparty. (This discretion may either have been made explicit in the current Accord, i.e. claims on public sector entities – PSEs, or applied locally by national supervisors.)

8.4. For the retail portfolio, where national discretion has been exercised (e.g. use of a risk weight other than 50% for residential mortgages) participating institutions should enter the appropriate values in the row provided and record this in the "Notes" worksheet.

(c) Drawn and off-balance sheet exposures

8.5. Drawn and off-balance sheet items must be reported, after applying the appropriate credit conversion factor, for all portfolios in the relevant yellow box.

(d) Commitments (undrawn exposures)

8.6. For all portfolios apply the appropriate credit conversion factor to commitments. Post conversion figures should be entered in the appropriate yellow box.

(e) Inputs for drawn and off-balance sheet exposures and commitments

8.7. Banks should assign the exposures to the appropriate risk weight bucket in the column headed "all exposures". These exposures should then be subdivided between three categories: (1) unsecured exposures; (2) collateralised exposures; and (3) exposures with credit protection. The treatment of credit risk mitigation and the inputs for categories (2) and (3) are explained below.

(f) Counterparty exposures (repo-style transactions and OTC derivatives)

8.8. Banks should assign repo-style and OTC derivative exposures to the appropriate risk weight bucket in the columns headed "repo" and "OTC derivatives". In the "pre-CRM" columns, OTC derivative counterparty exposures must be recorded as the credit equivalent amount (calculated using the current or original exposure method). In the "post-CRM" columns banks should assign exposures to the risk weight buckets appropriate to the credit risk mitigant – either the collateral or credit protection taken against the exposure.

(g) Trading book

8.9. Inputs for the counterparty exposures in the trading book should follow those for the banking book.

8.10. Trading book on-balance sheet exposures and OTC derivative exposures giving rise to specific risk should be entered in the correct yellow box in the specific risk section (panel 11b).

(h) Netting arrangements

8.11. Banks should take account of netting agreements which are eligible under the current Accord in assigning "post CRM" exposures to risk weight buckets. Banks should show the portion of gross exposures covered by the netting agreement in the 0% risk weight

bucket. The remaining unsecured portion after netting should be assigned to the risk weight bucket of the counterparty.

(i) Credit risk mitigation

8.12. The treatment of credit protection (guarantees and credit derivatives) is described in section 3(c). The treatment of collateralised exposures is described below.

8.13. "Pre-collateral" exposures should reflect the risk weight of the obligor. "Post-collateral" exposures must reflect the risk weight of the collateral taken against an exposure. Where a loan is fully or partially collateralised by cash and securities issued by certain bodies or others specified by the national supervisor, the part of the loan that is collateralised should be assigned the appropriate risk weight given to the cash or securities used as collateral or according to national regulations, where national regulations prevail. The remaining portion of the loan should be assigned to the risk weight appropriate to the underlying asset/counterparty.

8.14. Collateral should be calculated on a loan-by-loan basis. If collateral held against a particular loan exceeds the exposure amount banks are **not** permitted to use this collateral against loans for other counterparties.

9. Standardised Approach Worksheet

(a) General

9.1. Risk weighted assets are calculated separately for each portfolio (numbered one to eleven). Within each portfolio, risk weighted assets are calculated for drawn and off-balance sheet items together (panel a) and separately for commitments (panel b), OTC derivatives and repo-style transactions (panel c).

9.2. There are two methodologies for treatment of collateral in the standardised approach – comprehensive and simple (please refer to the Technical Guidance, beginning at paragraph 71). Banks **only** need to calculate capital requirements using one approach.

(b) Drawn, off-balance sheet and counterparty exposures

9.3. Off-balance sheet items must be reported, after applying the appropriate credit conversion factor, for all portfolios in the relevant yellow box.

(c) Commitments (undrawn exposures)

9.4. For all portfolios apply the appropriate credit conversion factor to commitments. Post conversion figures should be entered in the appropriate yellow box.

(d) Trading book

9.5. Trading book on-balance sheet exposures and OTC derivative exposures giving rise to specific risk should be entered in the correct yellow box in the specific risk section (panel 11b).

(e) SME retail

9.6. An extra memo item has been included for SME retail in panel 7(g) which splits SME retail exposures by size of exposure. Four size bands have been provided – banks should enter the percentage of total exposures (including drawn, commitments, repo-style transactions and OTC derivatives) in each size band. This is to enable the Committee to analyse the impact of the €1m threshold for small business included in retail. National supervisors will indicate whether it is necessary for banks to fill in this table.

(f) Inputs – risk weights

9.7. Banks should assign the exposures to the appropriate risk weight bucket in the column headed "all exposures". Guidance for this process is given in the Technical Guidance, beginning at paragraph 26.

9.8. In each portfolio, one risk bucket has been left blank (and coloured pink). This cell should be used where supervisors judge that a risk weight greater than 100% is warranted for unrated claims in their jurisdiction (see item number 9 of the National Discretion Checklist). Where supervisors invoke this option please enter the relevant risk weight and corresponding exposure amount. If supervisors decide to use several different risk weights for different exposures please input a weighted average risk weight.

9.9. For sovereign exposures, supervisors may recognise country risk scores assigned by Export Credit Agencies (ECAs) when risk weighting sovereigns. ECA scores should be mapped to risk weights in accordance with the Technical Guidance (see item number 4 of the National Discretion Checklist). At the discretion of national supervisors, banks may apply a lower risk-weight to exposures to their sovereign of incorporation denominated in domestic currency and funded in that currency (see Technical Guidance, paragraph 28).

9.10. There are two options for claims on banks. National supervisors will apply one option to all banks in their jurisdiction. No claim on an unrated bank may receive a risk weight less than that applied to claims on its sovereign of incorporation. The options are discussed in more detail in the Technical Guidance, beginning with paragraph 34.

9.11. SME exposures have a boundary between retail and corporate exposures. Banks should assign SME exposures based on these boundaries according to guidance in sections 3.7 to 3.9 of these instructions. For counterparty exposures, separate columns are provided for OTC derivatives and repo-style transactions.

(g) Corporate lending collateralised with commercial real estate

9.12. Corporate lending collateralised with commercial real estate must be separately identified and included in the relevant category.

(h) Credit risk mitigation – collateral

9.13. These exposures should then be subdivided between three categories: (1) exposures without CRM; (2) collateralised exposures; and (3) exposures with credit protection. Treatment of credit risk mitigation and the inputs for categories (2) and (3) is explained below.

9.14. Adjustments for guarantees and credit derivatives should be made in the columns "credit protection" as described in section 3(c) above. Treatment of collateral is described below.

9.15. **Simple approach** – Under this approach a bank may alter the risk weight applied to an exposure according to collateral held. Where collateral is eligible the collateralised portion of the exposure is assigned the risk weight of the collateral. Banks should record collateralised exposures before taking account of the collateral held in the "pre collateral" column. In the "post collateral" column, banks should slot the portion of exposures covered by collateral according to the risk weighting of the collateral. Further details of how to determine the portions of exposures that are covered are provided in the Technical Guidance, beginning at paragraph 92. The remaining portion of the exposure which is not covered by collateral should be assigned the risk weight of the obligor.

9.16. **Comprehensive approach** – In the "pre collateral" column, banks should record the gross exposure (E). In the "post collateral" column, banks should record the net exposures (E*) after deduction of collateral amounts. In calculating E*, banks should adjust the value for the collateral held against each loan for haircuts (H_C). Where collateral is denominated in a currency that differs from that of the underlying exposure (i.e. there is a currency mismatch), an additional haircut reflecting the currency volatility (H_{FX}) is taken on the collateral (see the discussion on haircuts in the Technical Guidance, beginning at paragraph 93). Banks should also reflect haircuts appropriate to the exposure (H_e).

9.17. The calculation of E* for repo-style transactions and OTC derivatives covered by master netting agreements should reflect the current exposure plus a measure for potential increases in that exposure. For repo-style transactions, the potential increase can be calculated using either haircuts or VaR-based models.

9.18. Collateral must be calculated on a loan-by-loan basis (except in the case of repo-style transactions covered by master netting agreements). If collateral held against a particular loan exceeds the exposure amount banks are **not** permitted to use this collateral against loans for other counterparties.

(i) Eligible on-balance sheet netting agreements

9.19. Banks should take account of eligible on-balance sheet netting agreements in assigning "post CRM" exposures to risk weight buckets (see Technical Guidance, paragraph 102 – On-balance sheet netting). Banks using the simple approach should show the portion of gross exposures covered by the netting agreement in the 0% risk weight bucket. The remaining unsecured portion (after netting) should be assigned to the risk weight bucket of the counterparty. Banks on the comprehensive approach should reflect any eligible netting agreements in calculating E*.

10. Operational Risk Worksheet

(a) Introduction

10.1. There are three methods for calculating operational risk capital charges: 1) the Basic Indicator Approach (BI); 2) the Standardised Approach (TSA); and 3) Advanced Measurement Approach (AMA) (IRB banks only).

10.2. For the purposes of this exercise, all banks are asked to provide data to calculate an operational risk charge under both the Basic Indicator and Standardised Approaches. Banks are **not** required to provide data on the AMA.

(b) Basis for calculating capital charge

10.3. Gross income is the basis for calculating a capital charge for both the Basic Indicator and Standardised Approaches. Gross income is defined as net interest income plus net non-interest income (comprising: fees and commissions receivable less fees and commissions payable; the net result on financial operations; and other income). It is intended that this measure (i) should be gross of any provisions (e.g. for unpaid interest); (ii) exclude realised and unrealised profits/losses from the sale of securities in the banking book;[2] and (iii) exclude extraordinary or irregular items as well as income derived from insurance.

10.4. Banks that would like further detail on how the definition of gross income relates to regulatory returns in their jurisdiction should contact their national supervisor.

(c) Reference period

10.5. For the purposes of the QIS 3 exercise, banks are asked to provide annual gross income data for 1999, 2000 and 2001. This reflects the fact that the operational risk charge for both the BIA and TSA is likely to be based on a three-year average in order to reduce volatility caused by possible short-term fluctuations in gross income. Banks are asked to provide data on a calendar year basis if possible. However, if a bank would prefer to use its financial year data then it may do so, provided it indicates which financial year has been used in Table A.

(d) Missing data

10.6. If your bank does not have activity in a given business line then please enter "NA" (i.e. not applicable) in the corresponding cell. If your bank does have activity in a given business line but you are unable to estimate it, enter "NI" (i.e. no information) in the corresponding cell.

(e) Current Accord

10.7. In Table B, Banks should report their minimum required capital according to the 1988 Basel Accord[3], including the minimum required credit risk capital and required market risk pursuant to the 1996 market risk amendment. Banks should also show their eligible Tier 1, Tier 2 and Tier 3 capital, and supervisory deductions under the current Accord.

(f) The Basic Indicator Approach

10.8. Under the Basic hdicator Approach, banks must hold capital for operational risk equal to a fixed percentage of average annual gross income over the past three years.

10.9. In Table C a bank should report its total gross income for 1999, 2000 and 2001.

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[2] Realised and unrealised profit/losses from securities classified as "held to maturity" and "available for sale", which typically constitute items of the banking book (e.g. under US or IASB accounting standards), are also excluded from the definition of gross income.

[3] Based on the local implementation of 1988 Basel Capital Accord by the national supervisor.

10.10. In Table D, the worksheet will automatically calculate a simple three-year average of its total gross income as recorded in Table C. If a bank is unable to provide gross income data for all of the three previous years then, for the purposes of QIS 3, the capital charge will be based on an average of the latest years for which data are available.

(g) The Standardised Approach

10.11. Under the Standardised Approach, banks' activities are divided into eight business lines: corporate finance, trading and sales, retail banking, commercial banking, payment and settlement, agency services, asset management, and retail brokerage. A methodology for attributing business lines, as well as greater detail on the definition of the business lines is given in 10(h) below.

10.12. A capital charge for each business line is calculated by multiplying the gross income generated by that business line by a factor (denoted beta) assigned to that business line. Beta is set by the Committee and serves as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregate level of gross income for that business line.

10.13. The total capital charge is the summation of the regulatory capital charges across each of the eight business lines, averaged over the previous three years. A bank should record its total gross income for 1999, 2000 and 2001 for each of the eight business lines in Table E.

10.14. The sum of gross income for the eight business lines under the Standardised Approach should equal total gross income under the Basic Indicator Approach.

10.15. In Table F, the worksheet automatically calculates a simple three-year average of gross income for each of the eight business lines. If a bank is unable to provide gross income data for all of the three previous years then, for the purposes of QIS 3, the capital charge will be based on an average of the latest years for which data are available.

(h) Business line mapping

10.16. When mapping business lines under the Standardised approach, all banking and banking-related activities must be mapped into the eight level 1 business lines in a mutually exclusive and jointly exhaustive manner. Level 1 business lines dominate level 2 business lines.

10.17. Any banking or banking-related activity which cannot be readily mapped into the proposed business line framework, but which represents an ancillary function to an activity included in the framework, must be allocated to the business line it supports. If more than one business line is supported through the ancillary activity, an objective mapping criteria must be used (e.g. proportional allocation of the indicators).

10.18. If an activity cannot be mapped into a particular business line then the business line yielding the highest charge must be used. The same beta equally applies to any associated ancillary activity.

10.19. The mapping of activities into business lines for operational risk capital purposes should be consistent with the definitions of business lines used for regulatory capital calculations in other risk categories, i.e. credit and market risk.

Mapping of Business Lines

Level 1	Level 2	Activity Groups
Corporate Finance	Corporate Finance	Mergers and Acquisitions, Underwriting, Privatisations, Securitisation, Research, Debt (Government, High Yield), Equity, Syndications, IPO, Secondary Private Placements
	Municipal/Government Finance	
	Merchant Banking	
	Advisory Services	
Trading & Sales	Sales	Fixed Income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage, debt, prime brokerage
	Market Making	
	Proprietary Positions	
	Treasury	
Retail Banking	Retail Banking	Retail lending and deposits, banking services, trust and estates
	Private Banking	Private lending and deposits, banking services, trust and estates, investment advice
	Card Services	Merchant/Commercial/Corporate cards, private labels and retail
Commercial Banking	Commercial Banking	Project finance, real estate, export finance, trade finance, factoring, leasing, lends, guarantees, bills of exchange
Payment and Settlement[4]	External Clients	Payments and collections, funds transfer, clearing and settlement
Agency Services	Custody	Escrow, Depository Receipts, Securities lending (Customers) Corporate actions
	Corporate Agency	Issuer and paying agents
	Corporate Trust	
Asset Management	Discretionary Fund Management	Pooled, segregated, retail, institutional, closed, open, private equity
	Non-Discretionary Fund Management	Pooled, segregated, retail, institutional, closed, open
Retail Brokerage	Retail Brokerage	Execution and full service

[4] Payment and settlement losses related to a bank's own activities would be incorporated in the loss experience of the affected business line.

Annex 1: Mapping of ratings

To assist banks participating in the Committee's Quantitative Impact Study, the following tables match credit ratings of Standard & Poor's with comparable ratings of Moody's and Fitch IBCA. For further information regarding the mapping of external credit ratings to risk weightings, please see the Technical Guidance, beginning at paragraph 24.

Agency	**R A T I N G S**						
Standard & Poor's	AAA	AA+	AA	AA-	A+	A	A-
Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3
Fitch IBCA	AAA	AA+	AA	AA-	A+	A	A-

Agency	**R A T I N G S**								
Standard & Poor's	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-
Moody's	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3
Fitch IBCA	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-

Agency	**R A T I N G S**					
Standard & Poor's	CCC+	CCC	CCC-	CC	C	D
Moody's	Caa1	Caa2	Caa3	Ca	C	
Fitch IBCA	CCC+	CCC	CCC-	CC	C	D