

**Quantitative Impact Study 3  
Areas of National Discretion**

**For use by [NAME OF NATIONALITY]  
banks in completing the QIS 3  
Questionnaire**

**For banks providing data on the  
Standardised and Internal Ratings Based  
Approaches**

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## QIS 3 and Areas of National Discretion

The following pages outline items where national discretion is permissible and which will require national supervisors to provide preliminary direction to their banks in filling out the QIS 3 template. Such guidance will be needed so that the Committee could gain as close an approximation as possible of the impact on banks' capital. The following guidance on issues of national discretion should be viewed only in the context of QIS 3, along with the instructions that comprise this QIS 3 Information Package. It should be noted that the list may be updated during the exercise – there may be other areas of national or supervisory discretion not included below. **Furthermore, the Basel Committee also recognise 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. Scope of Application

National discretion exists for the treatment of significant investments in insurance subsidiaries (see paragraphs 11-15 of the QIS 3 Technical Guidance).<sup>1</sup> Possibilities include deduction, Joint Forum-type aggregation, risk weighting (100% for standardised approach and use of the IRB framework for IRB banks).

#### 1. *Please describe how your organisation expects to treat a bank's significant investments in insurance subsidiaries*

Deconsolidate assets of the subsidiary and deduct the parent's capital investment. (For U.S. participants, this exclusion will apply only where the investment in insurance underwriters is substantial. Notify your regulatory contact if you anticipate taking this approach

### 2. Standardised approach

#### (a) Claims on sovereigns

At national discretion, a lower risk weight may be applied to banks' exposures to the sovereign (or central bank) of incorporation denominated in domestic currency and funded in that currency. Where this discretion is exercised, other national supervisory authorities may also permit their banks to apply the same risk weight to domestic currency exposures to this sovereign (or central bank) funded in that currency (paragraph 28).

National authorities may extend this treatment to portions of claims guaranteed by the sovereign (or central bank), where the guarantee is denominated in the domestic currency and the exposure is funded in that currency (paragraph 165).

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<sup>1</sup> Paragraph references correspond to the QIS 3 Technical Guidance (October 2002) unless otherwise noted.

2. ***Will your organisation allow for the application of the discretionary lower risk weight to banks' exposures to the sovereign (or central bank)?***

Yes  No

3. ***Will this treatment be extended to portions of claims guaranteed by the sovereign (or central bank)?***

Yes  No

Supervisors may recognise the country risk scores assigned to sovereigns by Export Credit Agencies ("ECAs"). Banks may choose to use the risk scores published by those ECAs that are recognised by their supervisor (paragraph 29).

4. ***Will your organisation recognise sovereign country risk scores assigned by ECAs?***

Yes  (For QIS-3) No

Subject to national discretion, claims on domestic public sector entities (PSEs) may also be treated as claims on the sovereigns in whose jurisdictions the PSEs are established. Where this discretion is exercised, other national supervisors may allow their banks to risk weight claims on such PSEs in the same manner (paragraph 32).

5. ***Will your organisation allow for claims on domestic PSEs to be treated as claims on the sovereigns?***

Yes  No

#### **(b) Claims on banks**

There are two options for claims on banks. National supervisors will apply one option to all banks in their jurisdiction (paragraph 34-38).

- Under **Option 1**, all banks incorporated in a given country will be assigned a risk weight one category less favourable than that assigned to claims on the sovereign of incorporation. However, for claims to banks in sovereigns rated BB+ to B- and to banks in unrated countries the risk weight will be capped at 100% (paragraph 35).
- **Option 2** bases a banks' risk weighting on the external credit assessment of the bank itself. Under this option, a preferential risk weight that is one category more favourable than the risk weight shown in the table below may be applied to claims with an original maturity of three months or less, subject to a floor of 20%. This treatment will be available to both rated and unrated bank claims, but not to banks risk weighted at 150% (paragraph 36).

**6(i). Do you expect to instruct your banks to use Option 1 or Option 2 for claims on banks?**

Option 1  Option 2

**6(ii) Do you expect to instruct your banks to use Option 1 or Option 2 for claims on domestic PSEs?**

Option 1  Option 2

**7. If you have chosen Option 2 in question 6 above, will you allow for a preferential risk weight for claims on banks with an original maturity of three months or less?**

Yes  No

When the national supervisor has chosen to apply the preferential treatment for claims on the sovereign as above (question 2), it can also assign to banks – under both options 1 and 2 – a risk weight that is one category less favourable than that assigned to claims on the sovereign of incorporation. This risk weight is subject to a floor of 20%, to bank claims of an original maturity of 3 months or less denominated and funded in the domestic currency (paragraph 38).

**8. Will your organisation allow for a preferential treatment for claims on banks based on the preferential treatment for claims on sovereigns? (NOTE: This is only applicable if you answered “Yes” to question 2)**

Yes  No

**(c) Claims on corporates, real estate and other options**

In countries where corporates have higher default rates, supervisory authorities should increase the standard risk weight for unrated claims where they judge that a higher risk weight is warranted by the overall default experience in their jurisdiction. As part of the supervisory review process, supervisors may also consider whether the credit quality of corporate claims held by individual banks should warrant a standard risk weight higher than 100% (paragraph 41).

**9. Do you intend to increase the standard risk weight for unrated claims?**

Yes  No

In discussing the treatment of commercial real estate, the Committee notes that a 50% risk weight of certain exposures is warranted only if strict conditions are met. Any exposure beyond the specified limits will receive a 100% risk weight (footnote 18 of paragraph 45).

**10. Will a 50% risk weight for certain commercial real estate exposures be applied in your country? (i.e. do you believe that the conditions necessary to apply a 50% have been met?)**

Yes  No

There will be a transitional period of three years during which a wider range of collateral for higher risk categories (past due assets) may be recognised, subject to national discretion (footnote 19 of paragraph 46). This expands the range of eligible collateral as described in paragraphs 108-109.

**11. Will your organisation allow for a wider range of collateral for higher risk categories?**

Yes  No

If "Yes", please describe below:

.....

National supervisors may decide to apply a 150% or higher risk weight reflecting the higher risks associated with some other assets, such as venture capital and private equity investments (paragraph 47).

**12. Will your organisation apply a 150% or higher risk weight for certain assets?**

Yes  No

National discretion will be allowed for risk weighting gold bullion at 0% (footnote 20 to paragraph 48).

**13. Will your organisation permit a 0% risk weighting for gold bullion?**

Yes  No

**(d) Implementation considerations**

Supervisors will have the option to use a borrower's domestic currency rating for exposure in foreign exchange transactions if the exposure is an MDB-loan (footnote 23 to paragraph 64).

**14. Does your organisation expect to use a borrower's domestic currency rating for exposure in foreign exchange transactions if the exposure is an MDB-loan?**

Yes

No

National supervisory authorities may allow banks to use unsolicited ratings in the same way as solicited ratings (paragraph 70).

**15. Will your organisation allow banks to use unsolicited ratings?**

Yes

No

### **3. Credit Risk Mitigation Techniques**

With regard to the carve-out from the comprehensive approach (i.e.  $H=0$ ), for transactions where the counterparty is a *core market participant*, supervisors may choose not to apply the haircuts specified in the comprehensive approach and may instead apply a zero  $H$ . (paragraph 133)

**16. Will your organisation allow banks to apply a zero  $H$  for transactions where the counterparty is a core market participant?**

Yes

No

Paragraph 134 notes that *core market participants* may include, at the discretion of the national supervisor, the following entities:

- sovereigns, central banks and PSEs;
- banks and securities firms;
- other financial companies (including insurance companies) eligible for a 20% risk weight;
- regulated mutual funds that are subject to capital or leverage requirements;
- regulated pension funds; and
- recognised clearing organisations.

**17. How does your organisation define core market participants?**

As above.....  
.....

Where a supervisor applies a specific carve-out to repo-style transactions in securities issued by its domestic government, then other supervisors may choose to allow banks incorporated in their jurisdiction to adopt the same approach to the same transactions (paragraph 135).

18. ***Will your organisation allow banks with foreign operations to apply a zero H to repo-style transactions in securities issued by the foreign government if such treatment is permitted by the host supervisor?***

Yes  No

#### 4. Internal Ratings Based Approach

Subject to national discretion, banks may be exempt from being required to adopt IRB for some exposures in non-significant business units that are immaterial in terms of size and perceived risk profile (paragraph 223).

19. ***Will your organisation allow such exemptions?***

Yes  No

At national discretion, supervisors may choose to employ a wider definition of subordination than that specified in paragraph 247. This might include economic subordination, such as cases where the facility is unsecured and the bulk of the borrower's assets are used to secure other loans.

20. ***Will your organisation employ a wider definition of subordination?***

Yes  No

National supervisors may determine whether banks should use an explicit or implicit maturity adjustment if the bank is on the foundation IRB (paragraphs 279-280).

21. ***Will your organisation require that all banks operating under the foundation IRB approach use an explicit maturity adjustment rather than the implicit adjustment?***

Yes  No  (Institutions may use either the explicit maturity, as applied in the AIRB, or may use the implicit maturity of 2.5 years.)

22. ***If you answered "Yes" to question 21, will your organisation instruct banks to use an explicit or implicit maturity adjustment?***

Explicit  (for advanced IRB) Implicit

Within the explicit adjustment, supervisors need to determine which instruments will apply for the carve-out from the one-year maturity floor (paragraph 283).



**23. If you chose "Explicit" maturity adjustment for question 22, please detail the types of instruments for which the carve-out for the one-year maturity floor would apply:**

Very short-term loans and commitments with banks, securities firms, exchanges, and other high credit quality counterparties, typically with maturities under 2 weeks (e.g., Fed funds and term Fed funds), and repo-style transactions subject to master netting agreements. ....

**(a) Retail**

Elements of the definition of the exposure class: National supervisors may set a threshold for the minimum number of retail exposures in a portfolio (paragraph 193). In addition, for residential mortgages, supervisors may set a threshold for the number of housing units included as collateral (paragraph 192 second bullet).

**24. Has your organization set a threshold for size and the number of retail exposures in a portfolio?**

Yes  No

**25. If you answered "Yes" to question 24, please provide further detail below:**

.....

**26. With respect to residential mortgages, has your organisation set a threshold for the number of housing unites included as collateral?**

Yes  No

**27. If you answered "Yes" to question 26, please provide further detail below:**

.....

With regard to the definition of default, supervisors will set the number of past-due days to trigger default in retail between 90-180 days (footnote 74 to paragraph 399).

**28. Has your organisation set the number of past-due dates that trigger default in retail?**

Yes  No

**If you answered "Yes" to question 28, please provide further detail below:**

Use the U.S. FFIEC guidance on retail charge-off policies .....

**(b) Corporate, bank, sovereign**

With regard to other physical collateral, national supervisors will determine which collateral types in their market meet the broad criteria established by Committee (paragraph 469).

**29. Has your organisation determined the types of other physical collateral that meet the criteria established by the Committee?**

Yes  No

**30. If you answered “Yes” to question 29, please describe the types of other physical collateral:**

.....  
.....

**(c) Equity**

*Discretion to calculate RWA*

Supervisors will decide which approach or approaches (market-based or PD/LGD approach) will be used, and under what circumstances (paragraphs 301-302). In addition, supervisors may allow banks to employ different market-based approaches (the simple risk weight method or the internal models method) to different portfolios (paragraphs 303-308).

**31. Which approach or approaches to calculate risk weighted assets for equities was chosen by your organisation?**

For purposes of QIS-3, institutions should calculate RWA using only the market-based approach. In some cases, U.S. authorities may contact institutions individually to gain insights regarding the comparability of that approach with the PD/LGC approach.

**32. Not Applicable**

*Discretion to exclude equity holding from IRB treatment*

Supervisors may exclude equity holdings in entities whose debt obligations qualify for a zero risk weight under the standardised approach (paragraph 313).

**33. Has your organisation excluded such equity holdings?**

Yes  No

For purposes of QIS-3, institutions may exclude from the IRB approach equity holdings of Fannie Mae, Freddie Mac, FHLBs, and any other “equity interests” in government-sponsored agencies. Instead, treat these holdings for IRB purposes in the same manner as they are treated under the standardized approach.

Supervisors may exclude equity holdings made under legislated programmes. This exclusion is limited to an aggregate of 10% of Tier 1 plus Tier 2 capital (paragraph 314).

**34. Has your organisation excluded such equity holdings?**

Yes  No

In the United States, equity holdings of banks and holding companies arising from Small Business Investment Companies (SBICs) and Community Development Corporations (CDCs) would be eligible for the legislated programs exclusion. Such equity investments, which are below the 10 percent threshold when measured as a proportion of the total of tier 1 and tier 2, would be risk-weighted at 100 percent for QIS-3 purposes.

Supervisors may exclude the equity exposures based on materiality. Equity exposures, including holdings subject to exclusions and transitional provisions, are material if their aggregate value exceeds, on average over the prior year, 10% of bank's Tier 1 plus Tier 2 capital. This materiality threshold is lowered to 5% of a bank's Tier 1 plus Tier 2 capital if the equity portfolio consists of less than 10 individual holdings. National supervisors may use lower materiality thresholds (paragraph 315).

**35. Has your organisation excluded equity holdings based on materiality?**

Yes  No

**36. If you answered "Yes" to question 34, did you use the materiality thresholds as described above or lower thresholds?**

As in 34  Lower

**37. If lower thresholds were used, please describe below:**

.....  
.....

*Discretion on the transitional provisions*

For a maximum of ten years, supervisors may exempt from the IRB treatment particular equity investments held at the time of the publication of the New Accord (paragraphs 230-232).

**38. Do you expect your organisation to exempt any certain equity investments?**

Yes  No  (No exemption for purposes of QIS-3)

**39. Please describe below the nature of these investments:**

Not applicable

**(d) Public sector entities**

With regard to the definition of default, supervisors will set the number of past-due days to trigger default in exposures to PSEs between 90–180 days (footnote 74 to paragraph 399).

**40. Has your organisation set the number of past-due days that trigger default in exposures to PSEs?**

Yes  No

Use the same definition of default for as used for corporate exposures (e.g., 90 days past due).

**(e) Purchased receivables - corporate exposures**

National supervisors must establish concentration limits above which capital charges must be calculated using the minimum requirements for the “bottom-up” approach for corporate exposures (paragraph 204, fifth bullet).

**41. What is the concentration limit established for purchased corporate exposures?**

U.S. banks should apply the bottom-up approach whenever possible and practical. However, for QIS purposes and where PD and LGD information is not available for individual exposures (whether or not in connection with pools of purchased corporate receivables) respondents should slot the exposures using the best information available. Where pools are evaluated on a “top down” approach, please note whether they meet the criteria contained in paragraph 204 and also whether they contain individual exposures that exceed **either** 3.0 percent of the value of the pool or 0.10 percent of the institution’s Tier 1 capital.

(Institutions should also note proposed requirements of paragraph 321 that indicate they would need supervisory approval before using the top down approach. That individual review would allow supervisors to tailor size and concentration parameters to the institution’s specific circumstances.)

**(f) Specialised lending**

At national discretion, supervisors may allow banks to assign a preferential risk weight of 50% to “strong” SL exposures, and a 75% risk weight to “good” SL exposures, provided the exposures have an original maturity of less than 2.5 years (paragraph 239).

**42. Will your organisation apply the preferential risk weights allowed to SL exposures with an original maturity of less than 2.5 years?**

Yes  No

**(g) High-volatility commercial real estate**

Where supervisors categorise certain types of commercial real estate as high-volatility CRE in their jurisdictions, they will be required to make public determinations (paragraph 189).

**43. Has your organisation decided to categorise certain types of commercial real estate exposures as high-volatility CRE?**

Yes  No

***If you answered “Yes” to question 43, please provide further detail below (i.e. definitions or examples) of how the determination of high volatility will be made:***

High volatility CRE will be office, hotel, and single-use properties in addition to exposures related to the acquisition, development, and construction (ADC) of commercial properties. In contrast, low volatility CRE will be industrial and retail properties, multifamily residential properties and ADC loans where one of the two exceptions applies. Note the separate document provided to you (which relates to U.S. views) that defines categories of CRE.

**(h) Small and medium-sized enterprises**

Banks using the advanced IRB framework for corporate lending, as well as banks using the foundation IRB approach in a jurisdiction where the supervisor so decides, will be required to incorporate maturity adjustments calculated using a mark-to-market methodology. However, supervisors will have the option of exempting smaller domestic firms (defined as those with consolidated sales and consolidated assets of less than €500 million) from the maturity framework. If the exemption is applied, all exposures to qualifying smaller domestic firms will be assumed to have an average maturity of 2.5 years, as under the foundation IRB approach (paragraph 280).

**44. Will your organisation exempt smaller domestic firms (defined as those with consolidated sales and consolidated assets of less than €500 million) from the maturity framework?**

Yes  No

**45.(i) Will your organisation allow servicers to advance cash to ensure uninterrupted flow of payments to investors?**

Yes  No

**45.(ii) If you answered “Yes” to question 45(i), what credit conversion factor (CCF) will such servicer cash advances that are unconditionally cancellable without prior notice receive?**

0%  X

Higher  (If higher, please specify CCF \_\_\_\_\_)