



# Frequently Asked Questions

## Quantitative impact study

1 April 2010



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# Introduction

This document provides answers to technical and interpretive questions raised by Australian authorised deposit-taking institutions (ADIs) during the Basel Committee on Banking Supervision's (BCBS') comprehensive Quantitative Impact Study (QIS).

This document is intended to facilitate the completion of the QIS workbook. The answers provided should not be construed as APRA's interpretation of the documents published by the BCBS in 2009<sup>1</sup>. This document should be used in conjunction with the frequently asked questions document available on the BCBS' website ([www.bis.org/bcbs/qis/index.htm](http://www.bis.org/bcbs/qis/index.htm)).

This document will be updated frequently during the QIS data collection exercise. Revised versions will be available on APRA's website ([www.apra.gov.au/ADI/Basel-II-implementation-in-Australia.cfm](http://www.apra.gov.au/ADI/Basel-II-implementation-in-Australia.cfm)).

<sup>1</sup> BCBS – *Revisions to the Basel II market risk framework*, July 2009.

BCBS – *Guidelines for computing capital for incremental risk in the trading book*, July 2009.

BCBS – *Enhancements to the Basel II Framework*, July 2009.

BCSB – *Strengthening the resilience of the banking sector*, consultative document, December 2009 (the Resilience document).

BCBS – *International framework for liquidity risk measurement, standards and monitoring*, consultative document, December 2009 (the Liquidity document).

# Chapter 1 – General information

All worksheets

## Reporting period

1. *The QIS requests banks to provide data as at end-December 2009. Can ADIs use reporting periods that are in line with their statutory reporting dates?*

Australian ADIs may provide data as at end-September 2009 or end-December 2009. The end-June 2009 data, however, is not acceptable as it will be heavily out of date by the time the analysis of the data is presented to the BCBS (likely to be in July 2010).

## Reporting entity

2. *Should data be reported based on regulatory consolidation or accounting consolidation?*

Data should be reported based on regulatory consolidation and not accounting consolidation (refer to Footnote 8 in the QIS instructions). That is, all data should be reported on a Level 2 basis. In addition, APRA has requested certain ADIs to provide liquidity-related data for key legal entities (on a Level 1 basis). This has been communicated to the relevant ADIs on a bilateral basis.

## Reporting currency

3. *Should data be reported in Australian dollars (AUD) or in the currency of the underlying exposures?*

All data should be reported in AUD, irrespective of the currency of the underlying exposures. Foreign currency amounts should be converted into equivalent AUD at the exchange rate applicable on the reporting date, with the exception of the operational risk data. For operational risk, the Basel FAQ document provides further guidance on the exchange rate to be used for converting thresholds into AUD, which should be used irrespective of whether the ADI is reporting data as at 31 December or 30 September 2009<sup>2</sup>.

## Conversion

4. *Should the limits/thresholds expressed in Euros be converted into AUD for QIS reporting purposes?*

The QIS includes limits/thresholds in Euros and American dollars (USD). These limits/thresholds should be converted into equivalent AUD at the exchange rate applicable on the reporting date.

## Submission dates

5. *By when are the QIS workbook and the qualitative document required to be submitted to APRA?*

The qualitative document and the following QIS worksheets must be submitted to APRA by 16 April (draft) and 30 April (final):

- General info
- DefCap
- DefCapTier1
- DefCapTier23
- DefCapCalc
- Leverage ratio
- Liquidity (Level 2)

The following worksheets are relevant to advanced ADIs only. These worksheets must be submitted to APRA by 21 May (final):

- CCR
- Securitisation
- OpRisk
- Smoothing MRC
- Liquidity (Level 1) (only applicable to the four major banks)
- Trading book (TB)
- TB securitisation
- TB correlation trading
- TB securitisation LSS
- TB securitisation wide
- TB correlation trading wide

<sup>2</sup> Based on additional guidance from the BIS, and to promote consistency across jurisdictions, the foreign currency conversions for the operational risk reporting thresholds provided at APRA's QIS Industry Workshop on 3 March should be disregarded in favour of those in the Basel FAQ.

The CCR memo and DefCapCalCOREP worksheets are not relevant in the Australian context, hence should be left blank.

### General info, Leverage ratio and Smoothing MRC worksheets

## Historical data

6. *Historical data requested by QIS will not be comparable due to the changes to accounting standards (2006) and move to Basel II (2008). Please clarify how this data should be reported.*

Historical data should be provided even if there are structural breaks (due to mergers and the introduction of the International Financial Reporting Standards (IFRS) and Basel II). For pre-IFRS years, ADIs should report data based on the old accounting standards. Similarly, for pre-Basel II years, ADIs should report data based on the Basel I rules. Such breaks in data should, however, be explained in a separate qualitative document.

### DefCap, DefCapCalc and Liquidity worksheets

## Definition of financial institutions

7. *The QIS uses different definitions of 'financial institutions' across the worksheets. Could APRA clarify whether ADIs can use a consistent definition across the workbook? If yes, could ADIs use the definition of financial institutions that is applied under the national implementation of the Basel II Framework?*

For capital purposes, ADIs can adopt the definition of 'financial institutions' as applied under the national implementation of the Basel II Framework. Basel II requires consolidation of all entities engaged in banking and other financial activities that are ancillary to the business of banking, including stockbroking, financial leasing, issuing credit cards, portfolio management, investment advisory, custodial and safekeeping services.

For liquidity purposes, please refer to the QIS instructions for specific guidance on what should be included in the various 'financial institutions' line items. According to paragraph 55 of the Liquidity document, financial institutions generally 'include banks, securities firms and insurance companies.'

### General info worksheet

## Eligible capital and regulatory adjustments (current rules)

### Panel B

8. *Please provide guidance on how items in Panel B are to be reported.*

The panel is to be completed based on the current APRA rules. Row 38 Amounts eligible to meet the predominance test should equal Fundamental Tier 1 capital. Current year earnings should be reported in accordance with paragraphs 20-22 of APS 111.

Amounts reported for Tier 1 capital, Tier 2 capital and total capital should match supervisory reports. For example, the totals in rows 46 and 54 should correspond to Net Tier 1 and Net Tier 2 reported in ARF110.0 Level 2 Capital Adequacy returns, respectively.

9. *Where should shareholder equity reserves (non-ordinary shares and retained earnings) be reported?*

Retained earnings and reserves that qualify as Fundamental Tier 1 capital in accordance with *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital* (APS 111) should be reported in the row for 'Amounts eligible to meet the predominance test; of which:'. Non-ordinary shares that qualify as Residual Tier 1 capital under APS 111 should be reported in the row for 'Other positive Tier 1 capital elements'.

10. *The spreadsheets are presented in a format requiring information under Basel II rules. No allowance is made for Basel I which includes a category for Total Capital Deductions. Please clarify the process that should be adopted for the years 1999 to 2007 (Basel I).*

An additional row has been added to the panel in the final QIS workbook (row 56) to allow for the reporting of deductions from total capital under the Basel I rules.

11. *Does the 'amount subscribed by governments' field represent government bailout/investment in ADI?*

Yes, this field includes government bailout/investment in the ADI.

## Capital distribution data

### Panel C

12. *Distributions: Ordinary share dividends – the instructions require input of the total ordinary share dividend payments (i.e. the amount paid in cash, not stock). The Tier 1 deduction under APRA's rules is based on the estimated dividend (net of any dividend reinvestment plan (DRP)) rather than the actual dividend paid, i.e. the final dividend will be lagged. Could APRA clarify the treatment of this item?*

Enter actual cash dividend payments made during the years from 1999 to 2009 as stipulated in the instructions, i.e., the declared amounts that were paid in cash over the years. This entry is not to be confused with APRA adjustments to Tier 1 capital.

13. *Discretionary staff compensation and bonus payment – Please provide a definition of discretionary payments (i.e. does this mean in excess of, or inclusive of, contractual amounts). Please clarify whether the amount is net of tax and whether it includes only share issuance. Is there a floor under which payments are excluded?*

Discretionary staff compensation and bonus payments include variable non-contractual payments made to staff.

Payments should be reported net of tax.

Stock-settled obligations where new share issues are involved should be excluded as there is no reduction in Tier 1 capital.

No floor is applied.

Refer to the Basel FAQ document for further details.

14. *Should an existing Tier 1 instrument which converted into ordinary shares during the period be reported as:*
- (a) *'Other Tier 1 buyback or repayment (gross)' and 'Capital raised – Tier 1 common stock (gross)' or*
  - (b) *simply not reported in this section since Tier 1 is unaltered?*

Such a conversion should not be reported in this section as it does not result in a reduction in Tier 1 capital.

15. *For the purpose of reporting each line item in Panel C Capital distribution data (only), should the amounts (i.e. line items for income, distributions and capital raisings) be based on the regulatory consolidated banking group or the accounting consolidated group?*

Given dividends were distributed out of profits of the statutory consolidated group; Panel C should be based on the same consolidated group, i.e., accounting consolidated group.

16. *With respect to line items 71-75 (i.e. Distributions), should the amounts reported relate to payments made from profits of the relevant reporting periods (i.e. line items 68 and 69) rather than payments made during the reporting period? For example, if a payment is made after the close off of the relevant reporting period (e.g. financial year end of 31 December 2008 and a final dividend paid in February 2009), should that payment (in this case, the dividend) be disclosed in the end-2008 period or the end-2009 period?*

Consistent with the answer to question 12 above, the amounts reported should be the actual cash payments.

## Chapter 2 – Definition of capital

### DefCap worksheet

### Definition of capital

#### Paid in capital, reserves and AOCI

Panel B1

1. *Could you please confirm whether 'paid-up ordinary shares' can be classified as 'common stock' for the purposes of QIS reporting?*

Yes, 'paid-up ordinary shares' as defined under APRA's rules can be reported as 'common stock' for QIS purposes.

2. *Please clarify how should data items for rows 26 (Paid in capital), 27 (Retained earnings) and 36 (Dividends declared after the balance sheet date) be reported?*

Row 26 – common shares that meet the requirements of paragraphs 34 and 35 of APS 111 are included.

Row 27 – report retained earnings without adjusting for expected dividends and proceeds from dividend reinvestment plans. Other adjustments to current year earnings as per paragraphs 20-22 of APS 111 apply. Any post-acquisition earnings and reserves of non consolidated subsidiaries must be reversed.

Row 36 – report dividends declared net of any dividend reinvestment plan.

3. *Currently under APRA rules, asset revaluation reserve (ARR) and available for sale (AFS) reserve are part of Upper Tier 2 capital (as per paragraph 24(h) of APS 111). Also, only 45 per cent of the pre-tax revaluation reserve is eligible to be included in Upper Tier 2 capital. Where should we report ARR and AFS reserve in the DefCap worksheet? Should we report the discounted values as per APS 111?*

As the Baseline proposal allows reserves and accumulated other comprehensive income (AOCI) items to be included in the Common Equity portion of Tier 1 capital without any filters,

please report ARR and AFS reserve in Panel B1 – Paid in capital, reserves and AOCI rows 34 'Property revaluation reserve' and 29 'unrealised gains and losses on available for sale items', respectively. The full value of the ARR or AFS reserve should be reported i.e. the amount from the financial accounting balance sheet without any discount.

#### Minority interest

Panel B2

4. *There is no requirement to calculate RWAs for subsidiaries which give rise to minority interests under APRA's rules. Please clarify what should be reported in this panel?*

Refer to the QIS instructions for reporting these items – the instructions include detail on how these items should be calculated. Exclude 'ineligible' minority interest (for example, that related to non-consolidated subsidiaries).

#### Unrealised gains and losses for amounts measured at fair value for accounting purposes

Panel B3

5. *Table 1 requests data on unrealised net gain (loss) on financial assets measured at fair value for accounting purposes. It is not clear whether the data required is in respect of the current year unrealised gains and losses or is cumulative to date.*

The data requested is cumulative to date, consistent with the amount reported under the relevant accounting standards.

6. *Do Tables 1 and 2 include derivative assets? If derivatives are to be included, how should the net gains/losses on derivatives be reported?*

Yes, Tables 1 and 2 include derivatives. Only derivatives which appear on the balance sheet as an asset should be included.

As this section refers to financial assets only, there should be no netting with financial liabilities.

## Deferred tax assets

Panel B6

7. *Deferred tax assets which do not rely on the future profitability of the bank to be realised – the QIS instructions indicate that the deferred tax assets (DTA) should be reported net of the deferred tax liabilities (DTL). How should netting be done?*

Netting should be done in accordance with APRA's rules (refer to paragraph 2 of Attachment D to APS 111).

8. *What is the difference between gross and net amounts?*

Rows 122 and 125 – report the gross amount of the ADI's Level 2 DTA without any adjustments of tax effects associated with other deductible items (for example, provisions or defined benefit fund liabilities) or netting against DTL.

Rows 123 and 128 – netting against DTL (excluding amounts set off against deduction for goodwill and intangible assets) should be done in accordance with Attachment D to APS 111.

Row 131 – report gross value of DTL (excluding amounts set off against deduction for goodwill and intangible assets).

## Investments in own shares and investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation

Panel B7 and B8

9. *Panel B7 and version 1 of Panel B8 refer to 'short positions' that involve no counterparty risk for the purposes of netting. It is not clear whether short positions with no counterparty risk also refer to positions in which a central counterparty is used?*

For purposes of the QIS, short positions in which a central counterparty is used would be considered to have counterparty credit risk.

10. *Do indirect holdings include derivatives? If yes, how should these items be reported?*

Include all exposures held through derivatives (including those in the trading book). Value to be reported should represent the loss that the ADI would incur if the underlying investment becomes worthless. For example, where an ADI has written a put option for \$100 worth of shares in a financial institution, the exposure to be reported is \$100.

Panel B8

11. *Where should the deconsolidation of post-acquisition earnings and reserves be taken out of the reported Shareholders' Equity?*

Post-acquisition earnings and reserves of non-consolidated entities should not be included in Shareholders' Equity (refer to paragraph 7 of Attachment D to APS 111).

12. *It is unclear what happens to the current deduction for investment in deconsolidated subsidiaries (i.e. APS 120 subsidiaries, SPVs, Commercial Operations). It seems that those classified as Financial Institutions will get a deduction as per paragraph 101, and those that aren't will be subject to a risk-weight of 1250 per cent as per paragraph 108 of the Resilience document. Please clarify.*

Investments in deconsolidated subsidiaries conducting financial activities and insurance business should be reported under *Panel 8, Investments in the capital of banking, financial and insurance entities which are outside the scope of regulatory consolidation*. Deductions in respect of securitisation exposures (as per APS 120) and commercial entities should be reported under the respective categories in *Panel 13 Additional deductions from regulatory capital*.

## Provisions and expected losses

Panel B9

13. *As the tax effect of the difference between eligible provisions and expected losses is reported in row 168 'Adjustments applied to the difference between provisions and expected losses in respect of tax effects, prior to the inclusion or deduction from capital', do ADIs still have to report the associated DTA again in Panel 6 Deferred Tax Assets?*

No adjustment to Panel 6 *Deferred Tax Assets* is required. Refer to the FAQs on Deferred Tax Assets.

## Defined benefit pension fund assets and liabilities

Panel B12

14. *Should ADIs report defined benefit pension fund assets and liabilities gross or net of tax?*

Report the gross amounts of defined benefit pension fund assets and liabilities before any tax effects.

## Intangibles (excluding goodwill) and Investments in the capital of banking, financial and insurance entities which are outside the scope of regulatory consolidation

Panel B5 and B8

15. *For investments in life insurance subsidiaries that are outside the scope of regulatory consolidation, APRA currently requires the separation of the book value of the equity investment into two components: the net tangible assets component (deducted 50/50 from Tier 1/Tier 2 capital); and an intangible component (deducted from Tier 1 capital). How should these items be reported for QIS purposes?*

Report the intangible component of the investment in Panel B5 – Intangibles (excluding goodwill) and the net tangible assets component of the investment in Panel B8 – Investments in the capital of banking, financial and insurance entities which are outside the scope of regulatory consolidation.

## Capitalised expenses

16. *Where should capitalised expenses be reported within the DefCap worksheet?*

Report capitalised expenses (e.g. costs associated with debt raisings and issuing capital instruments, loan and lease origination fees and commissions paid to mortgage originators and brokers) as part of Panel B5 *Intangibles (excluding goodwill)*.

DefCapTier1 worksheet

## Definition of capital Tier 1

### Current regulatory capital classification

17. *Could APRA clarify how the data requirement for 'Tier 1 – limited inclusion but with limit exceeding 15 per cent' and 'Tier 1 – inclusion limited to 15 per cent (or less)' links into APRA's categories of capital?*

These items should be reported as follows:

- 'limited inclusion but with limit exceeding 15 per cent' corresponds to the Non-Innovative Residual Tier 1 capital; and
- 'inclusion limited to 15 per cent or less' corresponds to Innovative Residual Tier 1 instruments that are limited to 15 per cent.

### Legal form

18. *Could APRA clarify what is to be reported in row 18 'is the instrument capital under national law' and how this differs from row 15 'is the instrument a common share under national law'?*

Row 18 'is the instrument capital under national law' is not relevant in the Australian context and hence should be left empty.

19. *For row 17 'is the instrument share capital under national law', what should be reported for preference shares?*

For preference shares, the answer should be 'yes' as these are considered members' interest under the Corporations Act.

## General characteristics

20. *Where an instrument's coupons paid to investors are not tax deductible, but the instrument's proceeds are lent to another group entity which can claim tax deduction for interest paid on the funding, should the answer to the question in row 21 – Are dividend/coupon payments tax deductible? – be 'yes' or 'no'?*

The answer should be 'no' if the coupon payments on the instrument are not tax deductible for the legal entity which has issued the instrument. However, in such situation, ADIs should consider carefully whether the instrument meets the requirements of criterion 14 of the Criteria for inclusion in Tier 1 Additional Going Concern Capital.

## Criteria for inclusion in the common equity component of Tier 1

21. *For an instrument currently classified as 'common equity', if the response to question 1 'Represents the most subordinated claim in liquidation of the bank' is 'no', is it necessary to answer the remaining questions 2 to 14?*

Yes, the remaining questions should be answered.

## Criteria for inclusion in Tier 1 Additional Going Concern Capital

22. *How should question 10 'can the instrument contribute to liabilities exceeding assets if such a balance sheet test forms part of national insolvency laws' be completed?*

This question is not relevant in the Australian context and hence the corresponding cell should be left empty.

23. *For the question in row 42 – Is the instrument callable at the initiative of the issuer only after a minimum of five years? – where an ADI has right to call after five years but would only exercise its right under certain circumstances, should the answer be 'yes' or 'no'?*

The answer should be 'yes'; include all call options at the initiative of the issuer, irrespective of the likelihood of the issuer exercising the option.

## DefCapTier23 worksheet

### Definition of capital Tier 23

24. *Is row 11 'Tier 2 – limited in inclusion in Tier 2' intended to cover Tier 2 capital in excess of current regulatory limits or is it intended to cover those instruments that are subject to a limited inclusion in Tier 2 capital?*

This row is intended to cover instruments that are eligible as Tier 2 capital but are subject to a sub-limit that total Lower Tier 2 capital (net of all specified deductions and amortisation) cannot exceed 50 per cent of an ADI's net Tier 1 capital. Hence, all instruments that are classified as Lower Tier 2 capital under APRA's rules (e.g. term subordinated debt) should be reported in row 11.

## Chapter 3 – Leverage ratio

### Leverage ratio worksheet

#### On-balance sheet items

Panel A

1. *Should the exposure amounts for securitised assets that are deconsolidated for regulatory purposes but consolidated under IFRS accounting requirements be reported under 'other assets' in panel A – On-balance sheet items? Panel B – Derivatives and off-balance sheet items – only seems to capture those securitised assets that are derecognised.*

Yes, these amounts should be reported under 'other assets' in panel A.

#### Regulatory consolidation

2. *Paragraph 210 of the Resilience Document states that the exposure measure needs to follow regulatory consolidation. Are the investments subject to the 1250 per cent risk-weight outside the regulatory scope of consolidation? Hence should these be deducted from capital and not included in the exposure measure for the leverage ratio?*

Where investments in subsidiaries are deducted from capital or risk-weighted at 1250 per cent, the assets of such subsidiaries should be excluded from the exposure measure.

# Chapter 4 – Liquidity

## Liquidity worksheet

### Cash outflows

Panels B1a and B1b

1. *Retail deposit and unsecured wholesale cash outflows – ADI systems are generally set up using product and customer segment differentiations. The QIS requires the split by ‘transactional or relationship’. Please confirm that the ‘transactional’ and ‘relationship’ split can be provided on an estimated basis.*

The QIS data is to be provided on a best-effort basis. Where data is not available, ADIs can provide estimates. Any assumptions used in making such estimates should be included in the qualitative document.

The QIS instructions provide some guidance on transactional and relationship based accounts.

2. *Unsecured wholesale cash outflows – ADI systems are generally set up using product and customer segment differentiations. The QIS requires the split by ‘operational relationships’. Please confirm that the ‘operational relationships’ split can be provided on an estimated basis.*

The QIS data is to be provided on a best-effort basis. Where data is not available, ADIs can provide estimates. Any assumptions used in making such estimates should be included in the qualitative document.

The QIS instructions include some guidance on operational relationships.

### Haircuts

Panel A

3. *For columns D and E, the QIS instructions require institutions to provide internal estimates of average observed market haircuts as of the latest calendar date of the year stated for which the institution’s own transactions secured by collateral (including, for example, repurchase agreements, reverse repurchase agreements, securities lending and financing transactions, and other margining agreements that utilise collateral) of the corresponding asset-row line item occurred. Can central bank haircuts be used instead?*

Market haircuts should be used unless those assets listed in Panel A were only used by the institution as collateral for repo transactions with central banks, in which case no market haircuts data would be available and the applicable central bank haircuts should be used. Institutions should detail in the qualitative document whether the data provided in columns D and E are market haircuts or central bank haircuts.

In addition, in respect of ‘average observed market haircuts as of the latest calendar date of the year stated’, ‘end-2009’ and ‘end-2008’ under columns D and E should become ‘end-Sept 2009’ and ‘end-Sept 2008’ respectively, if the reporting period is end-September 2009.

## Required stable funding, net stable funding ratio (NSFR)

Panel 3D

4. *The instructions on rows 256 and 257 state:*

- *Row 256: financial institutions, fiduciaries etc – requires banks to provide data on facilities extended by the bank to financial institutions.*
- *Row 257: sovereigns, central banks and PSEs – requires banks to provide data on facilities extended to sovereigns, central banks, non-central government public sector entities, fiduciaries and beneficiaries.*

*In which row should ADIs report facilities extended to fiduciaries (row 256 or 257)?*

ADIs should report facilities extended to fiduciaries in row 256.

### Level 1 data

5. *Please clarify whether stand-alone data should be provided on a Level 1 extended licensed entity (ELE) basis, where an ELE has been approved.*

Data should be provided on a Level 1 basis, as defined in APS 110 (i.e. including the ELE).

# Chapter 5 – Trading book

## Trading book worksheet

### Equity exposures

1. *In Panel A of the Trading book worksheet, ADIs are requested to provide data for equity exposures currently subject to a standardised specific risk charge lower than 8 per cent. Should this also include index contracts (which are currently subject to a 2 per cent equity specific risk charge)?*

No, include only positions which are currently subject to a 4 per cent equity specific risk charge due to being classified as both liquid and well diversified.

# Chapter 6 – Counterparty credit risk

## CCR worksheet

### Credit valuation adjustment

Panel B1

1. *Are ADIs required to calculate an additional capital charge for credit valuation adjustments (CVA) risk using both the stylised value-at-risk (VaR) and standardised approach methods?*

Advanced banks are required to calculate the CVA capital charge using both the standard and stylised VaR methods.

2. *The instructions on rows 56 and 57 refer to rows 44 and 45. Should the reference be to rows 53 and 54 instead?*

Yes, the reference should be to rows 53 and 54.

3. *Please clarify how is CVA used to offset expected loss and EAD?*

ADIs should report in row 56 the amount of CVA, if any, that is included in eligible provisions for a particular exposure, not to exceed the amount of EL recognised for that exposure. If the exposure has no EL associated with it, then no CVA should be included. Row 57 should be left blank as APRA only allows CVA to offset EL.

### Asset value correlation

4. *For counterparty credit risk, do the asset value correlation (AVC) thresholds apply to individual counterparties or the consolidated group?*

Thresholds are applied at the highest aggregated level that is still a financial institution. Therefore, the small subsidiary of a large non-financial firm would be eligible for exclusion, but not the small subsidiary of a large financial institution.

Please note that the thresholds are expressed in USD. ADIs should convert these into equivalent AUD at the applicable exchange rate on the reporting date.

# Chapter 7 – Securitisation

## Securitisation worksheet (banking book)

### Securitisation in the banking book

1. *Where should assets that are subject to paragraph 37 of Attachment D to APS 120 (i.e. unrated assets without an inferred rating and not treated under the internal assessment approach or the supervisory formula) be reported? Should these exposures be placed under the look-through approach for Standardised?*

Such assets are to be reported in row 74 of the securitisation worksheet.

2. *Could APRA provide the definitions of 'current' and 'new' exposure amounts?*

These terms are defined in the first paragraph under section 4.2 on page 80 of the QIS instructions. For example, 'new' exposures would capture the application of consistent credit conversion factors to all eligible liquidity facilities.

## Chapter 8 – Operational risk

### OpRisk worksheet

#### Information on exposure indicators and operational risk losses

1. *Business lines in the 'Op risk' worksheet do not align with reportable segments of Australian banks at which Profit and loss and operational risk data is internally managed and reported.*

The QIS instructions state, 'information should be reported on a 'best effort basis', per the whole bank, and where requested, per business lines break down. If the information is not available or applicable, please leave the corresponding cell empty.' APRA appreciates that all banks are not managed according to the Basel business lines, but to the extent that it is possible, it would be useful to report at least one item from each of the other categories, i.e. size and complexity, on- and off-balance sheet, income statement and information on gross income and components.

2. *The worksheet requires ADIs to provide data on the number of employees. The instructions define number of employees as 'headcount of employees. The number should include temps and outsourced resources but not consultants'. Could APRA advice whether it is appropriate to include 'outsourced resources' only where the outsourced activity falls within the scope of APS 231 Outsourcing (APS 231).*

Yes, ADIs should include outsourced resources where the outsourced activity falls within the scope of APS 231.

3. *Where an ADI has adopted a partial use of the Advanced Measurement Approaches (AMA) to operational risk, should it report data for both AMA and the standardised approach within the workbook?*

Yes, the ADI should report data for both the AMA and the standardised approach. There are separate cells in both the *General info* (Panel D) and *DefCapCalc* (Section B2) worksheets for reporting these figures. The ADI should report AMA as its approach in the *Operational risk* worksheet, in accordance with the QIS instructions.

4. *Where should ADIs report the data relating to centralised functions?*

The 'whole firm' category should capture all of the data, including that for centralised functions. Then, as appropriate, data should also be mapped to the business line level. Consequently, the sum of the business lines will in general not equal the 'whole firm' numbers. ADIs should not pro-rata any data.

## Chapter 9 – Smoothing minimum required capital

### Smoothing MCR worksheet

#### Probability of default

1. *It will be difficult to recalculate risk-weighted assets (RWA) using different probability of default (PD) scenarios particularly for the pre-Basel II time periods (2006, 2007) as these predate current processes and data is not readily available. Could APRA confirm that the worksheet can be completed on a 'best effort basis' given the data constraints faced.*

The worksheet may be completed on a best effort basis, however, leaving out 2006 and 2007 completely from the exercise would be unlikely to provide any useful information. APRA notes that in calculating RWAs, the QIS instructions ask ADIs to use 2009 data for all other years except in relation to current PDs. This should reduce the data gathering/computational burden.

2. *The last paragraph of section 4.4 of the QIS instructions states 'the calculation of the PD long-term average and PD downturn should be based on a time-span ending at the date for which the buffer is being reported'. This seems to contradict the rest of the paragraph, that is, 'if a bank does have time-series over the period 2000-2009, PD long-term average and PD downturn should be computed over this period for all the reference dates'. Could APRA clarify this?*

This has been clarified in the final version of the QIS instructions (page 92, also refer to example in section 4.4.2 on page 99). That is, for all years, use the same average PD calculated over the entire historic reference period.

#### Scaling factor

3. *Could APRA confirm that the scaling factor in this worksheet is not required to be applied for specialised lending portfolios given these are subject to the APRA prescribed risk-weights under the supervisory slotting approach?*

That is correct – the QIS instructions indicate that specialised lending (SL) exposures that do not qualify under the PD/LGD approach should be excluded from exposures, RWAs. Such SL exposures should, however, be included in the line items labelled 'total IRB perimeter', 'total banking book' and 'total expected losses' (refer to the Basel FAQs document).



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