Revisions to the Standardised Approach for credit risk

Basel Committee on Banking Supervision (BCBS)

www.managementsolutions.com

Research and Development

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Introduction

In December 2015, the BCBS published a second consultation on its proposal to revise the standardised approach (SA) for credit risk, in response of the issues raised with respect to the 2014 proposal

Introduction

- The Basel framework sets out a range of methods banks use to calculate regulatory capital. One alternative is to measure risk in a standardised manner and the other alternative is based on a bank's use of its internal model, which is subject to the explicit approval of the bank's supervisor.
- In this context, the BCBS published in December 2014 a consultation paper to revise the standardised approach (SA) for credit risk with the objective of improving the approach (i) by reducing reliance on external credit ratings, reducing national discretions, (ii) strengthening the link between SA and IRB approach and (iii) enhancing comparability of capital requirements across banks.

- Following the significant concerns expressed by respondents to the 2014 initial proposal, the BCBS has published a **second consultation paper on revisions to the standardised approach (SA) for credit risk**.
- This second consultation paper intends to address the issues raised with respect to the 2014 proposal. Therefore, the BCBS has decided to:
  - Reintroduce the **use of ratings**, in a non-mechanistic manner, for exposures to banks and corporates.
  - Include **alternative approaches** for jurisdictions that do not allow the use of external ratings for regulatory purposes.
  - Use **the loan-to-value ratio** as the principal risk driver for risk weighing of real estate loans.
  - To implement the assessment of a borrower´s ability to pay as a **key underwriting criterion**.
  - To categorise all exposures related to **real estate**, including specialised lending exposures, under the same asset class, and apply higher risk weights to real estate exposures where repayment is materially dependent on the cash flows generated by the property securing the exposure.
- This revision also includes a **proposal to the credit risk mitigation (CRM) framework** for exposures risk-weighed under the standardised approach.

This document analyses the main changes introduced by the 2015 revisions to the SA for the credit risk and the credit risk mitigation (CRM) framework, and determines the principal implications.

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Executive summary

The new proposal published by the BCBS incorporates significant changes compared to the previous one due to concerns expressed by respondents to the initial proposal. An important change is the reintroduction of the use of external ratings for banks and corporates, among other changes

Executive summary

Scope of application

- Banks using the **standardised approach (SA)** for credit risk.

Regulatory context

- The Basel II framework, published on **June 2006[1]**.
- First CP on revisions to the Standardised Approach for credit risk, published on **December 2014**.

Next steps

- The deadline for submitting comments on this document is on **11 March 2016**.
- The BCBS is conducting a comprehensive **QIS in 2016**, collecting data as of end-December 2015.

Main content

Second revision to the standardised approach for credit risk

- **Exposures to banks**: two different approaches shall be applied depending on the admission of external ratings.
- **Exposures to corporates**: two different approaches shall be applied depending on the admission of external ratings.
- **Equity and subordinated debt**: 250% RW for non-deducted equity holdings and 150% RW for subordinated debt.
- **Retail portfolio**: 75% RW for exposures that meet certain criterion and 100% RW for the remaining exposures.
- **Real estate exposures**: the RW is assigned based on the loan-to-value ratio and a more conservative treatment is introduced.
- **Exposures with currency mismatch**: 50% RW with a maximum of 150%.
- **Off-balance sheet exposures**: 10%-20% CCF for UCRR and 50%-75% CCF for GC, NIFs and RUFs[2].
- **Default exposures**: 150% RW for the unsecured portion of the exposure and 100% RW for residential real estate exposures where repayment does not materially depend on the cash flows generated by the property
- **Exposures to Multilateral Development Banks**: the AAA rating remains as the entry criterion for eligible MDBs.

Revisions to the credit risk mitigation (CRM) framework

- The proposal replaces the second element of the current formula for **repo-style transaction**, reintroducing of **external ratings** and reviewing other issues.

1. International Convergence of Capital Measurement and Capital Standards.
2. Credit conversion factors (CCF); unconditionally cancellable commitments (UCRR), general commitments (GC), note issuance facilities (NIFs) and revolving underwriting facilities (RUFs).

Executive summary
Main changes

The new SA approach introduces amendments in risk weights (RW) to the following exposures: to banks; to corporates; subordinated debt, equity and other capital instruments; retail portfolio; real state…

Main changes – Table with applicable RW on the basis of the type of exposure (1/2)

<table>
<tr><th></th><th>Current SA</th><th colspan="2">Revised SA</th></tr>
<tr><td rowspan="2">Banks</td><td rowspan="2">RW on the basis of external ratings (from 20% to 150%) for unrated exposures 100%</td><td>ECRA[1]</td><td>SCRA[2]</td></tr>
<tr><td>Minimum RW of the following:<table><tr><th></th><th>AAA/AA-</th><th>A+/A-</th><th>BBB+/BBB-</th><th>BB+/ B-</th><th>< B</th></tr><tr><td>RW gen.</td><td>20%</td><td>50%</td><td>50%</td><td>100%</td><td>150%</td></tr><tr><td>RW pref.</td><td>20%</td><td>20%</td><td>20%</td><td>50%</td><td>150%</td></tr></table></td><td>RW on the basis of 3 buckets:<table><tr><th></th><th>A</th><th>B</th><th>C</th></tr><tr><td>RW gen.</td><td>50%</td><td>100%</td><td>150%</td></tr><tr><td>RW pref.</td><td>20%</td><td>50%</td><td>150%</td></tr></table></td></tr>
<tr><td>Corporates</td><td>RW on the basis of external ratings (from 20% to 150%) for unrated exposures 100%</td><td>Minimum RW of the following:<table><tr><th></th><th>AAA/AA-</th><th>A+/A-</th><th>BBB+/BB-</th><th>BB+/ B-</th><th>< B</th><th>Unrated</th></tr><tr><td>RW</td><td>20%</td><td>50%</td><td>100%</td><td>100%</td><td>150%</td><td>100%</td></tr></table></td><td>• “Investment grade”: 75% RW
• SMEs: 85% RW
• For all other: 100% RW</td></tr>
<tr><td>Subordinated debt, equity and other capital instruments</td><td>• Non-significant instruments 100% RW and significant instruments below the threshold deduction or with capital deduction 250% RW
• Subordinated debt 100% RW</td><td colspan="2">• Equity: 250% RW
• Subordinated debt: 150% RW</td></tr>
<tr><td>Retail portfolio</td><td>• 75% RW, except for past due loans, if 4 criteria are met (orientation, product, concentration and limited value of individual positions)</td><td colspan="2">• Maintains the current 75% RW (in general terms). For other retail exposures, it applies a 100% RW, unless they are secured by real state exposures.</td></tr>
<tr><td>Real state</td><td>• Secured by residential real state exposures: 35% RW
• Secured by commercial real state exposures: 100% RW</td><td colspan="2">• Residential: according to the applicable LTV, and if the amortisation does not depend on the generated cash flows, receive a 25%-55% RW, if it depends a 70%-120% RW
• Commercial: according to the applicable LTV, and if the amortisation does not depend on the generated cash flows a Counterparty RW; whereas if it depends a 80%-130% RW</td></tr>
</table>

1. External Credit Assessment Approach (ECRA)
2. Standardised Credit Risk Assessment Approach (SCRA)

Executive summary
Main changes

…exposures with currency mismatch; off-balance sheet; in default, to BMD; sovereign and other assets

Main changes – Table with applicable RW on the basis of the type of exposure (2/2)

	Current SA	Revised SA
Currency mismatch	Not provided	50% RW with a maximum of 150%
Off-balance sheet exposures	CCF of 20%-50% on the basis of the type of exposure and CCF of 0% for unconditionally cancellable commitments (UCC)	CCF between 50%-75% on the basis of the type of exposure and between 20%-10% for UCC
Exposures in default	It applies RWs to past due loans on the basis of the accounting concept of specific provisions	• Unsecured portion of any defaulted exposure (other than residential real state, 150% RW • Residential real state exposures with no cash flows, 100% RW • Secured portions of defaulted exposures: the treatment applied depends on the CRM framework
Exposures to MDB	0% RW for exposures with high rating and that meet a set of requirements. For other exposures, is applied the pertinent treatment	• Maintains the current 0% RW and imposes the AAA rating as an entry criterion • The others will be risk weighted on the basis of external ratings: Counterparty: A+/A- / BBB+/BBB- / BB+/ B- / < B / Unrated RW: 20% / 50% / 50% / 100% / 150% / 50%
Sovereign exposures	RW on the basis of external ratings between 0%-150% and unrated 100%	It maintains the RWs of the current SA
Other assets	In general terms a 100% RW is applied and it allows, subject to the national discretion, a risk weight of 0% and 20% for gold bullion held in own vaults and for cash owned and held in vaults, respectively	• It maintains the current 100% RW • It removes the national discretion for gold bullion • Cash owned and held in own vaults receives a 0% RW • Cash items in process of collection receive a 20% RW • Cash owned and held at the bank or in transit; and gold bullion held at the bank receive a 0% RW

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Second revision to the standardised approach for credit risk

Exposures to banks

The BCBS has decided to reintroduce the use of external ratings, in a non-mechanistic manner, for exposures to banks

Exposures to banks

Current SA

- It assigns RWs based on external ratings (ECAIs[1]) that range between 20% and 150%, and it assigns a flat risk weight for unrated exposures (RWA 100%).

Reviewed SA

External credit risk assessment approach (ECRA)

	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-
Base APR	20%	50%	50%	100%	150%
Short-term exposures APR	20%	20%	20%	50%	150%

- These external ratings are applied to rated exposures of banks from **jurisdictions that allow the use of external ratings (ECAIs)**.
- Banks would perform **due diligence** of banks and if it reflects higher risk characteristics than that implied by the external rating of the exposure, the bank would apply a higher risk weight for the exposure.

Standardised credit risk assessment approach (SCRA)

Counterparty credit risk assessment	Grade A	Grade B	Grade C
Base APR	50%	100%	150%
Short term exposures APR	20%	50%	150%

- These external ratings are applied to **unrated exposures** of banks from jurisdictions that allow the use of external ratings and for all exposures of banks from **jurisdictions that do not allow the use of external ratings**.
  - **Grade A**[2]: includes exposures to bank counterparties that meet their financial commitments in a timely manner.
  - **Grade B**[2]: includes exposures to bank counterparties whose repayment capacity depends on certain factors.
  - **Grade C**[2]: includes higher credit risk exposures that have material default risks and limited margins of safety.

1. External credit assessment institutions (ECAIs).
2. In these three grades banks could assign a higher RWA.

Second revision to the standardised approach for credit risk

Exposures to corporates

The corporate exposures shall be risk weighted using two different methods, dependent on whether a jurisdiction allows the use of external ratings

Exposures to corporates

Current SA

- It assigns RWs based on external ratings (ECAIs[1]) that range between 20% and 150%, and it assigns a flat risk weight for unrated exposures (RWA 100%).

Reviewed SA

Use of external ratings

	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	Below BB-	Unrated
Base APR	20%	50%	100%	100%	150%	100%

- These external ratings are applied to exposures to corporates from **jurisdictions that allow the use of external ratings**. Due diligence may result in higher risk weight.
- **Unrated exposures** would be risk weighted at 100% (unless the exposure is in default).

It is not allow the use of external ratings

- For **investment grade**[1] **corporate exposures**, a 75% RW will be applied.
- For **all other corporate exposures**, a 100% RW will be applied (unless the exposure is in default).

- Regarding **specialised lending**, the unrated exposures or exposures within jurisdictions that do not allow the use of ratings shall be risk weighted based on the following:
  - For **object and commodity finance exposure**: a flat risk weight of 120% would apply.
  - For **project finance**: 150% risk weighted in the pre-operational, and a 100% in the operational.

All jurisdictions

- For **exposures to small and medium entities (SMEs)** a 85% RW will be applied.

1. They have adequate capacity to meet their financial commitments (including repayments of principal and interest) in a timely manner, irrespective of the economic cycle and business conditions.

Second revision to the standardised approach for credit risk
Subordinated debt, equity and other capital instruments

A 250% risk weight is applied to equity holdings that are not deducted and a 150% risk weight would be applied to subordinated debt and capital instruments

Subordinated debt, equity and other capital instruments

Current SA

- Investments in equity or regulatory capital instruments issued by banks or securities firms are currently risk-weighted at 100% or 250%, unless deduction applies. Equity and subordinated debt instruments issued by corporates are risk-weighted at 100%.

Reviewed SA

Equity holdings that are not deducted

- A **250% risk weight** would be applied.
- Given that significant equity exposures to financial institutions below the deductions threshold are required to be risk weighted at 250%, insignificant equity exposures to financial institutions as well as equity exposures to non-financial institutions should not be subject to a higher risk weight.

Subordinated debt and capital instruments[1]

- A **150% risk weight** would be applied.
- Furthermore, the proposal eliminates the reference of subordinated debt and capital instruments from other assets category and therefore, all regulated capital instruments and subordinated should be included in this category.

Second revision to the standardised approach for credit risk
Retail portfolio

The revision implies the enhancement of the granular criteria, the maintenance of the 75% RW and the introduction of a 100% RW for other retail exposures

Retail portfolio

Current SA

- Exposures are risk-weighted at 75%, and are defined on the basis on four criteria: orientation, product (i.e. revolving credits and lines of credit) and granularity criterion (i.e. diversification of the regulatory retail portfolio) as well as on the low value of individual exposures[1] (maximum aggregated exposure to one counterparty less than €1 million).

Reviewed SA

Orientation criterion

- It is proposed to slightly modify the orientation criterion by considering "small business" as SMEs. Therefore the retail portfolio is defined as exposures to **individuals and to SMEs**.
- It is proposed to maintain that no aggregate exposure to any single counterparty can exceed the **0.2%** of the overall regulatory retail portfolio, unless national supervisors determine another alternative method.

Regulatory retail exposures

- The granularity criterion is enhanced. Based on the 2014 QIS, the only risk driver that had the potential of enhancing the risk sensitivity of the exposure class is secured to durable goods.
- Due to its complexity, it is proposed to maintain a **flat 75%** risk weight for retail exposures.

Other retail exposures

- It is proposed to maintain that exposures to an individual person or persons that do not meet all of the criteria mentioned above will be **risk-weighted at 100%**, unless secured by real estate.
- Moreover, those exposures to SMEs that do not meet all of these criteria will be treated as **corporate SMEs exposures**, unless secured by real estate properties and, therefore, will be risk weighted by a **85%**.

1. According to the document: International Convergence of Capital Measurement and Capital Standards (Basel II framework).

Second revision to the standardised approach for credit risk

Real estate exposure class

For exposures secured by real estate, the loan-to-valuation (LTV) ratio is proposed to be used as the main risk driver for risk weighting purposes, and to use a more conservative treatment for exposures where repayment is materially dependent on the rental or sale of the property

Real estate exposure class

Current SA

- Residential real estate exposures receive a risk weight of 35% where the loans are granted in accordance with strict prudential criteria (e.g. substantial margin of additional security) whilst commercial real estate exposures receive a 100% risk weight.

Reviewed SA

Residential real estate exposures

- Repayment is **not materially** dependent on cash flows generated by property:

	LTV≤40%	40%<LTV≤60%	60%<LTV≤ 80%	80%<LTV≤90%	90%<LTV≤100%	LTV>100%
RW	25%	30%	35%	45%	55%	RW counterp.

- Repayment is **materially** dependent on cash flows generated by property:

	LTV ≤ 60%	60% < LTV ≤ 80%	LTV > 80%
RW	70%	90%	120%

Commercial real estate exposures

- Repayment is **not materially** dependent on cash flows generated by property:

	LTV ≤ 60%	LTV > 60%
RW	Min (60%,RWcounterparty)	RW counterparty

- Repayment is **materially** dependent on cash flows generated by property:

	LTV ≤ 60%	60% < LTV ≤ 80%	LTV > 80%
RW	80%	100%	130%

ADC[1] exposures

- **150% RW**, including loans to companies or SPVs[2] where the source of repayment at origination is either the future uncertain sale of the property or cash where repayment is substantially uncertain.

1. Land Acquisition, Development and Construction exposures.
2. Special Purpose Vehicles

See annex 1 for detail on the approach

Second revision to the standardised approach for credit risk
Exposures with currency mismatch

The proposal intends to extend the application of the risk weight add-on to the corporate portfolio

Exposures with currency mismatch

Current SA

- Not considered. The 2014 consultative document proposed to apply an add-on to the risk weight of the retail and residential real estate exposures where the currency of the loan is different from that of the borrower´s main source of income.

Reviewed SA

Exposures with currency mismatch

- It is proposed to extend the application of the risk weight add-on to the corporate portfolio.
- Banks would apply a **50% risk weight** add-on to unhedged exposures with currency mismatch (e.g. corporate, retail and real estate), subject to a **maximum risk weight of 150%.** This type of exposure is defined as an exposure to a borrower that has no natural or financial hedge against the foreign exchange risk arising from the currency mismatch.

Second revision to the standardised approach for credit risk

Off-balance sheet exposures

For unconditionally cancellable commitments (UCRR), it is proposed to apply a CCF between 10% and 20% whereas for general commitments, NIFs and RUFs a CCF between 50% and 75% should be applied

Off-balance sheet exposures

Current SA

- Off-balance sheet items under the simplified standardised approach will be converted into credit exposure equivalents through the use of credit conversion factors (CCF). In this regard, commitments with an original maturity up to one year and commitments with an original maturity over one year will receive a CCF of 20% and 50%, respectively. However, commitments that are unconditionally cancellable (UCC) at any time, will receive a 0% credit conversion factor[1].

Reviewed SA

- In the **UCCs**, it is proposed to apply a reduced **CCF between 10% and 20%** only to retail commitments (e.g. credit cards). All other non-retail commitments that are currently categorised as UCC would be treated as general commitments.

Off-balance sheet exposure types that receive CCF < 100%	Current SA	Foundation IRB	Proposal revised SA
Commitments that are unconditionally cancellable at any time without prior notice, or that effectively provide automatic cancellation due to deterioration in borrower's creditworthiness; retail only	0%	0%	**[10-20%]**
Commitments, except retail unconditionally cancellable	-	75%	**[50-75%]**
Commitments with maturity ≤ 1 year, except retail unconditionally cancellable	20%	-	**-**
Commitments with maturity > 1 year, except retail unconditionally cancellable	50%	-	**-**
Note issuance facilities (NIFs) and revolving underwriting facilities (RUFs)	50%	75%	**[50-75%]**
Certain transaction-related contingent items	50%	50%	**50%**
Short-term self-liquidating trade letters of credit arising from the movement of goods	20%	20%	**20%**

1. According to the document: International Convergence of Capital Measurement and Capital Standards – Annex 11.K (Basel II).

Second revision to the standardised approach for credit risk

Default exposures

The definition of default exposure is aligned to the IRB approach with a 150% RW to the unsecured portion of a defaulted exposure, net of specific provisions and partial write-offs

Default exposures

Current SA

- The treatment of past due or defaulted exposures relies on the accounting concept of specific provisions. However, this treatment cannot be applied uniformly across jurisdictions given differing accounting rules on provisioning.
  - The concept of past due is based on the simpler trigger of a loan being past due more than 90 days.
  - It also allows a lower risk weight of 100% where a past due loan is fully secured by forms of collateral that are not eligible under the CRM framework, provided that provisions reach a 15% of the outstanding amount of the loan.

Reviewed SA

Default exposure definition aligned with IRB

- A default exposure is considered to be the one that is past due **more than 90 days**, or is an exposure to a defaulted borrower (respect of whom some conditions have not occurred).

Risk weight treatment

- The unsecured portion of any defaulted exposure (other than residential real estate), net of specific provisions and partial write-offs, shall receive a **risk weight of 150%**.
- Therefore, defaulted residential real estate exposures where the repayment does not materially depend on the cash flows generated by the property securing the loan would receive a **risk weight of 100%**.

Second revision to the standardised approach for credit risk

Exposures to multilateral development banks (MDBs)

To avoid the constantly changing of the rating criteria to exposures of eligible MDBs, it is proposed to maintain the AAA rating as an entry criterion. For exposures of other MDBs, it is applied a risk weight based on external ratings

Exposures to multilateral development banks (MDBs)

Current SA

- In the Basel II framework, the claims on multilateral development banks (MDBs) receive a 0% risk weight and are treated as sovereigns. Furthermore, for other MDBs the risk weights applied to their exposures are based on external ratings as set out under option 2 for exposures to banks (which is based on the external rating of the bank itself).

Reviewed SA

Eligible MDBs for a 0% risk weight

- It is proposed to revise the current 0% treatment for eligible MDBs[1] as part of a broader and holistic review of sovereign-related risks. In this regard, the BCBS has observed that in some of the MDBs that currently receive a 0% risk weight, the credit risk assigned has been set in a very low risk level.
- Thus, to avoid this the BCBS intends to maintain the **AAA rating** as an **"entry criterion"**.

Other MDBs

- Due to the reintroduction of ratings for risk weighting, it is proposed to allow the use of external ratings also for exposures to MDBs, as in the current approach.

	Counterparty	A+/A-	BBB+/BBB-	BB+/ B-	< B	No rating
RW	20%	50%	50%	100%	150%	50%

- In banks incorporated in jurisdictions that do **not allow the use of external ratings**, exposures to other MDBs (not eligible MDBs) would be **risk weighted at 50%**.

1. The eligible MDBs are comprised by: the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), the European Investment Fund (EIF), the Nordic Investment Bank (NIB), the Caribbean Development Bank (CDB), the Islamic Development Bank (IDB), the Council of Europe Development Bank (CEDB), the International Finance Facility for Immunization (IFFIm) and the Multilateral Investment Guarantee Agency (MIGA)

Second revision to the standardised approach for credit risk
Other assets

This proposal explicitly allows cash owned and held in vaults to receive a 0% risk weight and cash items in the process of collection at 20%

Other assets

Current SA

- According to the Basel II framework, the standardised risk weight for all other assets will be 100%. However, at national discretion, (i) gold bullion held in own vaults can be treated as cash and therefore risk-weight at 0% and, (ii) cash items in the process of collection can be risk-weighted at 20%.

Reviewed SA

General treatment

- It is proposed to maintain the other assets as a residual category for exposures that might not fit in the other categories mentioned (e.g. securitisation exposures, equity investments in funds and OTC derivatives subject to counterparty credit risk).
- The standard risk weight for these other assets will be **100%**.

Exposures excluded

- It is removed the national discretion set in the current approach by explicitly allowing gold bullion held in own vaults and cash items in the process of collection to receive a lower risk weight. Therefore it is considered that:
  - **Cash owned and held at the bank or in transit**; and **gold bullion** held at the bank or held in another bank (backed by gold bullion liabilities) will be risk weighted at **0%**.
  - **Cash items in the process of collection** will be risk weighted at **20%**.

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Revisions to the credit risk mitigation (CRM) framework

Exposures risk-weighted under the standardised approach

The CRM revision consists of replacing the second element of the current formula for repo-style transactions, reintroducing external ratings and reviewing other issues

Revisions to the CRM

Methodology for repo-style transaction

- The current **formula under the comprehensive approach is reviewed** for these transactions to better account for diversification and correlation.
- However, the BCBS maintains the **removal of internal models and own estimates of haircuts** for calculating capital requirements under the standardised approach.
- The proposed formula is the following:

$$E^* = \max \{0, [(\Sigma(E) - \Sigma(C)) + \boxed{(0.4 \cdot \text{net exposure} + 0.6 \cdot \text{gross exposure} / \sqrt{N}} + \Sigma(Efx \times Hfx))\}^{1}$$

Where:

gross exposure = $\Sigma E_S|H_S$ — E_S = net current value of each security issuance

net exposure = $\Sigma E_S H_S$ — H_S = haircut appropriate to E_S

▢ Proposed amendment

Reintroduction of external ratings

- The proposal retains **external ratings** in the CRM framework in an effort to promote risk sensitivity and reduce complexity. In this regard, the proposal sets a supervisory haircut table.
- For **jurisdictions that do not reference external ratings**, the proposal introduces an alternative approach which aims to limit the eligibility of financial collateral and guarantees to what is usually referred as investment grade. In this case the proposal sets a supervisory haircut table.

Other issues

- The BCBS is reviewing: the core market participants exemption for continued relevance; whether and how a resolution regimes may affect the eligibility for CRM purposes of bilateral netting agreements covering repo-style transactions; and the credit events that a credit derivatives must cover to be fully recognised as a credit risk mitigant.

1. According to the paragraph 176 of the International Convergence of Capital Measurement and Capital Standards (Basel II).

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Next steps

This consultation paper was subject to comments until 11 March 2016 and the BCBS is conducting a comprehensive QIS in 2016

Next steps

- Comments to this consultation paper had to be submitted by **11 March 2016**.
- The BCBS is conducting a comprehensive **QIS in 2016** as part of the Basel III monitoring exercise collecting data as of end-December 2015.

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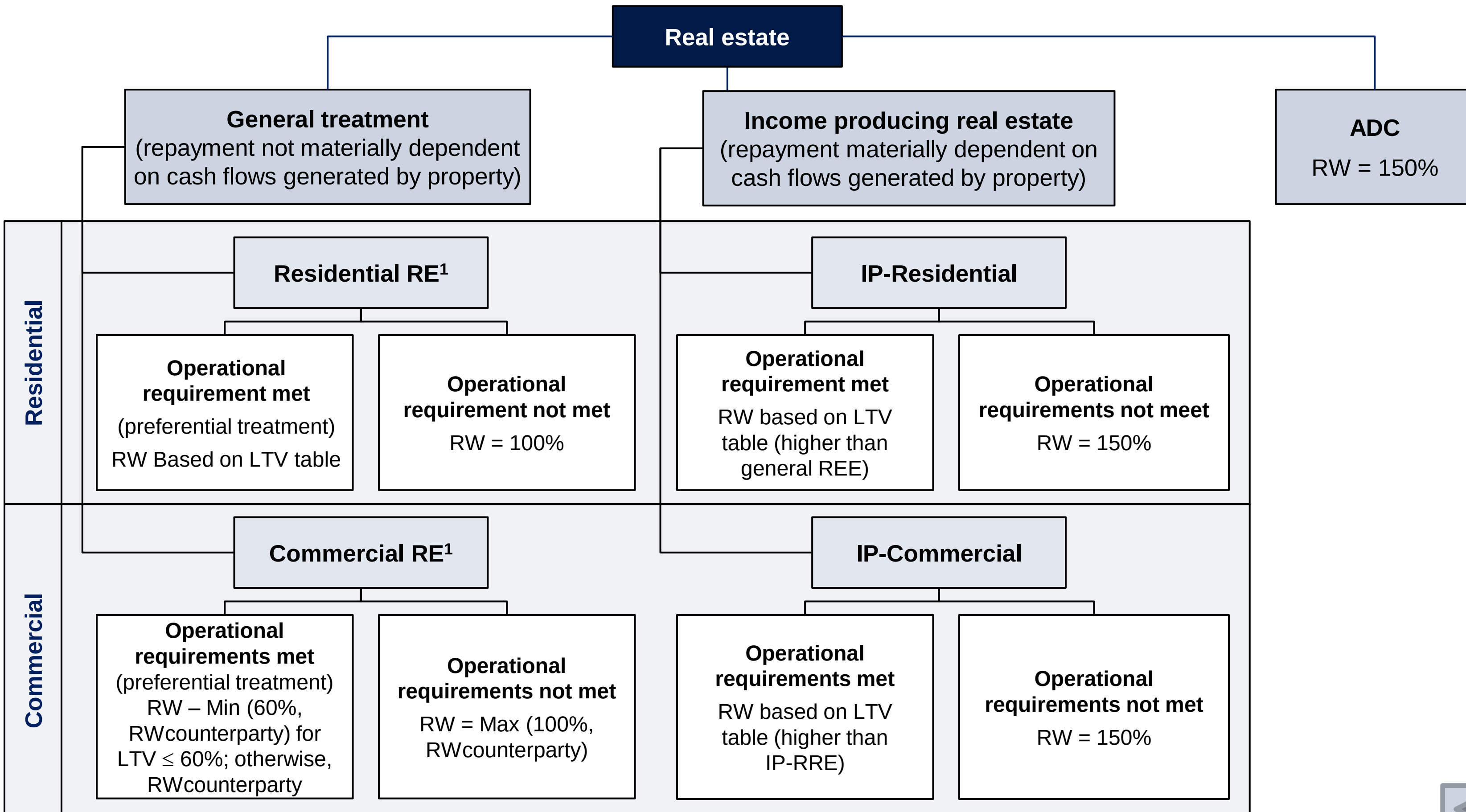
Annex 1 – Real estate exposures

This chart summarises the treatment given in this proposal to residential and commercial real estate exposures

Summary chart



Annex 2 – Supervisory haircuts for the comprehensive approach

In jurisdictions that allow the use of external ratings, the following percentages must be used to determine the haircuts appropriate to the collateral (Hc) and to the exposure (He)

Jurisdictions that allow the use of external ratings

<table>
<tr><th>Issue rating for debt securities</th><th>Residential maturity</th><th>Sovereigns</th><th>Other issuers</th><th>Securitisation exposures</th></tr>
<tr><td rowspan="5">AAA to AA–/A-1</td><td>≤ 1 year</td><td>0.5</td><td>1</td><td>2</td></tr>
<tr><td>> 1 year, ≤ 3 years</td><td rowspan="2">2</td><td>3</td><td rowspan="2">8</td></tr>
<tr><td>> 3 years, ≤ 5 years</td><td>4</td></tr>
<tr><td>> 5 years, ≤ 10 years</td><td rowspan="2">4</td><td>6</td><td rowspan="2">16</td></tr>
<tr><td>> 10 years</td><td>12</td></tr>
<tr><td rowspan="5">A+ to BBB–/ A-2/A-3/P-3 and unrated bank securities</td><td>≤ 1 years</td><td>1</td><td>2</td><td>4</td></tr>
<tr><td>> 1 years, ≤ 3 years</td><td rowspan="2">3</td><td>4</td><td rowspan="2">12</td></tr>
<tr><td>> 3 years, ≤ 5 years</td><td>6</td></tr>
<tr><td>> 5 years, ≤ 10 years</td><td rowspan="2">6</td><td>12</td><td rowspan="2">24</td></tr>
<tr><td>> 10 years</td><td>20</td></tr>
<tr><td>BB+ to BB–</td><td>All</td><td>15</td><td>Not eligible</td><td>Not eligible</td></tr>
<tr><td>Main index equities (including convertible bonds) and gold</td><td colspan="4">20</td></tr>
<tr><td>Other equities and convertible bonds listed on a recognised exchange</td><td colspan="4">30</td></tr>
<tr><td>UCITS/mutual funds</td><td colspan="4">Highest haircut applicable to any security in which the fund can invest, unless the bank can apply the look-through approach (LTA) for equity investments in funds, in which case the bank may use a weighted average of haircuts applicable to instruments held by the fund.</td></tr>
<tr><td>Cash in the same currency</td><td colspan="4">0</td></tr>
</table>

Annex

Annex 2 – Supervisory haircuts for the comprehensive approach

In jurisdictions that do not allow the use of external ratings, the following percentages must be used to determine the haircuts appropriate to the collateral (Hc) and to the exposure (He)

Jurisdictions that do not allow the use of external ratings

	Residual maturity	Issuer´s risk weight (only for securities issued by sovereigns)			Other investment-grade securities	
		0%	20% or 50%	100%	Non-securitisation exposures	Senior securitisation exposures with risk weight < 100%
Debt securities	≤ 1 year	0.5	1	15	2	4
	> 1 year, ≤ 3 years	2	3	15	4	12
	> 3 years, ≤ 5 years				6	
	> 5 years	4	6	15	12	24
	> 10 years				20	
Main index equities (including convertible bonds) and gold	20					
Other equities and convertible bonds listed on a recognised exchange	30					
UCITS/mutual funds	Highest haircut applicable to any security in which the fund can invest, unless the bank can apply the look-through approach (LTA) for equity investments in funds, in which case the bank may use a weighted average of haircuts applicable to instruments held by the fund.					
Cash in the same currency	0					
Other exposure types	30					