Oracle Financial Services Basel Regulatory Compliance for HKMA

User Guide

Release 8.1.2.1.0

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Document Control

Version Number	Revision Date	Change Log
1.0	May 2022	Created new user guide for Basel Regulatory Compliance for HKMA jurisdiction.
2.0	December 2022	Updated the document for CAP 8.1.2.1.0 version release.
3.0	February 2023	Updated the Seeded Data file link in the Seeded Values Used section.

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1 Getting Started

1.1 Intended Audience

Welcome to Release 8.1.2.0.0 of the Oracle Financial Services Hong Kong Monetary Authority User Guide.

This guide is intended for:

- Technical Analyst: This user ensures that the data is populated in the relevant tables as per the specifications, executes, schedules, and monitors the execution of Runs as batches.

- Business Analyst: This user reviews the functional requirements and information sources, like reports.

- Data Analyst: This user is involved with cleaning, validation, and importing of data into the OFSAA Download Specification Format.

- Administrator: The Administrator maintains user accounts and roles, archives data, loads data feeds, and so on. The administrator controls the access rights of users.

1.2 Conventions

The following text conventions are used in this document:

Table 1: Document Conventions

Convention	Meaning
boldface	Boldface type indicates graphical user interface elements associated with an action or terms defined in text or the glossary.
Italic	Italic type indicates book titles, emphasis, or placeholder variables for which you supply particular values.
`Monospace`	Monospace type indicates commands within a paragraph, URLs, code in examples, file names, text that appears on the screen, or text that you enter.
Hyperlink	Hyperlink type indicates the links to external websites and internal document links.

1.3 Installing this Major Release

For detailed instructions to install this Major Release, see the Oracle Financial Services Capital Adequacy Installation and Configuration Guide Release 8.1.2.0.0.

1.4   Related Information Sources

We strive to keep this and all other related documents updated regularly; visit the OHC Documentation Library to download the latest version available there. The list of related documents is provided here.

- OHC Documentation Library **for OFS Capital Adequacy (OFS CAP) Application Pack:**

  - Oracle Financial Services Capital Adequacy Pack Installation Guide

- OHC Documentation Library **for OFS AAAI Application Pack:**

  - *OFS Advanced Analytical Applications Infrastructure (OFS AAAI) Application Pack Installation and Configuration Guide*

  - *OFS Analytical Applications Infrastructure User Guide*

  - *OFS Analytical Applications Infrastructure Administration Guide*

  - *Oracle Financial Services Analytical Applications Infrastructure Environment Check Utility Guide*

- **Additional documents:**

  - OFSAA Licensing Information User Manual Release 8.1.2.0.0

  - OFS Analytical Applications Infrastructure Security Guide

  - OFSAAI FAQ Document

  - OFS Analytical Applications 8.1.2.0.0 Technology Matrix

  - Oracle Financial Services Analytical Applications Infrastructure Cloning Guide

2   What's New in this Release

In the OFS Basel Regulatory Capital Release 8.1.2.0.0, we are catering to the latest guidelines pertaining to Basel III: Finalizing Post Crisis Reforms compliance for Canada, Hong Kong, and Saudi Arabia, with respect to the Standardized Approach. This release also catered to Credit Risk – IRB changes for BIS, and Counterparty Credit Risk related changes for Australia. And this release also had the Process Modeling Framework related changes for Thailand regulatory compliance for Basel III.

This release also has additional features that help banks in complying with any changes to their data and re-execution of previous dates, based on the regulatory needs or strategic needs of the bank. It also caters to the incremental processing, which is the calculation of only specific data that has changed across different dates, and considering the remaining as is, and computing the total regulatory risk weighted assets and capital for the total. This has a significant benefit in terms of the reduced end to end processing time.

There has also been changes in terms of having a user interface that will help in viewing the reclassification rules that are currently available in the product, and also having a workflow associated with it, to control the editing and changes made to the existing reclassification rules. There has also been a user interface that helps in viewing the thresholds that are defined for complying with the operational risk loss calculations, and as specified by the regulator.

The OFS Base Regulatory Capital Analytics 8.1.2.0.0 has been enhanced to cater to Operational risk related dashboards, that are related to the Basel III: Finalizing Post Crisis Reforms compliance.

As part of this release, Hong Kong Compliance for Capital Adequacy based on the draft Basel III: Finalizing Post Crisis Reforms has been introduced. The key functionalities addressed in this release are as below:

- Credit Risk
    - o   Revised Standardized Approach

- Securitization Risk
    - o   Revised Standardized Approach

- Counterparty Credit Risk

- Standardized Approach (SA – CCR)

- Securities Financing Transactions Calculation using Simple and Comprehensive Approach

- Default Fund Contribution for QCCP

- Default Fund Contribution for Non - QCCP

- Credit Valuation Adjustment – Basic Approach – Reduced Version

- Operational Risk
    - o   Revised Standardized Approach

- Leverage Ratio
    - o   Revised Exposure Measure Calculation

Common Functionality Impacting Across Jurisdictions:

As part of this release, there have been newer functionalities introduced to cater across jurisdictions:

- User Interface for Specifying Derivatives EAD as a user input

    - Functionality allowing the user to specify whether the Derivatives EAD will be provided as an input, or will be computed by the product, using the specified method. This allows the flexibility to modularize the computations for counterparty credit risk.

- User Interface for Regulatory Capital Threshold

    - Functionality allowing the user to edit and view the thresholds specified by the regulator for the capital calculations.

- User Interface for Regulatory Capital Source

    - Functionality allowing the user to edit and view the capital data source required for the capital calculations.

- Regulatory Definition Options for Rating Assessment

    - Functionality allowing the user to select the Multiple Assessment Logic based on either the Risk Weight Rankings or the Rating Ranking.

- Regulatory Definition Options for Counterparty Credit Risk

    - Functionality allowing the user to select Counterparty Credit Risk related supervisory options based on approval and the bank's discretionary option based on the bank's internal processes as a separate option, instead of being part of the Credit Risk.

- Integration of the Reclassification User Interface for all Runs

    - The Reclassification user interface has been integrated in each of the out of box supported jurisdictional runs.

- Integration of the Portfolio for all Runs

    - Functionality allowing the user to select different portfolios that are applicable for each regulatory calculation, within a single jurisdictional calculation.

OFS Basel Regulatory Capital Analytics

The OFS Basel Regulatory Capital Analytics 8.1.2.0.0 has been enhanced with dashboards catering to the newer functionality of Operational Risk.

3 Introduction to Basel Regulatory Capital

In 1988, the Bank for International Settlements published the first guidelines on Capital Adequacy called the Basel I accord which primarily focused on credit risk. Assets of banks were classified and grouped into five categories of credit risk, with specific risk weights. On 4 July 2006, the BIS Committee issued a comprehensive version of the Basel II Framework. This document also consisted of the changes in the June 2004 Basel II Framework, the elements of the 1988 Accord that were not revised during the Basel II process, and the 1996 Amendment to the Capital Accord to incorporate Market Risks. The major outlines of the Basel II accord are to comply with the three pillars.

- The First Pillar: Minimum Requirements for:
    - Tier 1, Tier 2 and Tier 3 capital
    - Credit Risk
    - Market Risk
    - Operational Risk
- The Second Pillar: Supervisory Review Process and
- The Third Pillar: Market Discipline

In 2010, the regulatory body met and published the guidelines of Basel III. The main highlights of Basel III accord of December 2010 (rev June 2011) were:

- **Stricter Capital norms**: Basel III requires banks to hold 4.5% of common equity (up from 2% in Basel II) and 6% of Tier I capital (up from 4% in Basel II) of risk-weighted assets (RWA).
- **Capital Buffer**: Basel III also introduced additional capital buffers, (i) a mandatory capital conservation buffer of 2.5% and (ii) a discretionary countercyclical buffer, which allows national regulators to require up to another 2.5% of capital during periods of high credit growth and (iii) a discretionary G-SIB / D-SIB buffer as applicable.
- **Leverage Ratio**: Also, Basel III introduced a minimum leverage ratio and two required liquidity ratios. The leverage ratio is calculated by dividing Tier 1 capital by the bank's Total Exposure. Banks are expected to maintain the leverage ratio above 3%.
- **CVA Risk**: Basel III introduced CVA Risk Charge in addition to Counterparty Default Risk Charge for Over the Counter (OTC) derivative portfolio.

Post 2011, there were multiple revisions to the guidelines. The main highlights of the changes were:

- **Counterparty Credit Risk**: The changes were to the existing treatment of Exposure Measure Calculation, and the new calculations pertaining to the Standardized Approach of EAD Calculation (SA CCR) was published, along with changes to the Internal Model Method. As these exposures also impact the Central Counterparty, changes were published for the same.
- **Securitization:** The Securitization framework underwent complete change in the way the treatment happened for the exposures, with a new hierarchy of approaches. There was a significant new treatment for simple, transparent and comparable Securitization transactions.
- **Leverage Ratio:** There were changes to the Exposure Measure Calculation.

- **Total Loss Absorbing Capacity**: This was mostly the requirement to hold long term debt instruments to absorb the losses as a Tier 2 Capital instrument. And this also included specific buffer requirements to be met by G-SIBs.

- **Large Exposure**: There were significant calculation requirements to restrict the exposure measure to a group of related counterparties, and to ensure there are stricter capital requirements to be met, in case of them breaching the threshold.

Basel III – Finalizing Post Crisis Reforms was published in December 2017. There were changes published as part of the consolidated Basel framework that comes into effect from January 2023. The main highlights of these changes were:

- **Credit Risk:** Changes to the Standardized Approach of Capital Calculations by updating the risk weight across multiple asset classes. IRB had changes specifically on the modeling aspects and also for applying output floors as per the transition.

- **CVA**: The CVA Calculations were revamped, and new approaches were suggested for the calculations.

- **Operational Risk**: The Operational Risk Calculation was revamped, and new standardized approach was suggested.

- **Market Risk:** The Market Risk Calculations were completely revamped with the introduction of three new approaches namely:

    - FRTB- Standardized Approach

    - FRTB- Internal Model Approach

    - FRTB- Simplified Standardized Approach

The new Standardized approach incorporates sensitivity, liquidity horizon and correlation parameter and introduces new risk charge concepts such as Residual Risk Add on and Default Risk Charge.

The new Model Approach replaces the Value at Risk (VaR) based approach with Expected Shortfall (ES) based approach and introduced quantitative and qualitative criteria for Modellable and Non Modellable Risk factors. It also introduced the concept of Trading Desk Approval which requires the meeting of Profit and Loss Attribution Test (P&L) and Back Testing Requirement.

The Simplified Standardized Approach is applicable for less complex Trading Book Positions based on certain quantitative and qualitative criteria.

The Oracle Financial Services Basel Regulatory Capital Application consists of Capital Adequacy and Risk-Weighted Assets computations as prescribed in Basel I, Basel II, Basel III and Basel III: Finalizing Post Crisis Reforms Accord.

The Oracle Financial Services (OFS) Basel Regulatory Capital Application is categorized into two versions:

- OFS Basel Regulatory Capital Basic supports the Standardized Approach and its variant based on the BIS Guidelines, and also other jurisdictions by considering the national discretions – USA, Canada, European Union, Saudi Arabia, Thailand, Hong Kong, Australia, and India.

- OFS Basel Regulatory Capital Internal Rating Based Approach is based on the approaches supported by the OFS Basel Regulatory Capital Basic Application and the advanced approaches based on the BIS Guidelines, and also other jurisdictions by considering the national discretions – USA, Canada, European Union, Saudi Arabia, Thailand, Hong Kong, Australia, and India.

The following approaches are supported in the application:

- Credit Risk

  - Credit Risk – Standardized Approach & IRB Approach

    - Basel III

    - Basel III: Finalizing Post Crisis Reforms

  - Securitization Risk – Standardized Approach, External Ratings Based Approach & IRB Approach

- Counterparty Credit Risk

  - Standardized Approach & IRB Approach for Risk Weighting

  - Standardized Approach of EAD (SA CCR), Current Exposure Method (CEM), Original Exposure Method (OEM), Adjusted Current Exposure Method (ACEM) Calculations for OTC Derivatives and Cleared Transactions

  - Capital Charge for QCCP and Non QCCP

  - Credit Value Adjustment Risk

    - Standardized and Advanced Approach as per Basel III

    - Basic Approach Reduced Version and Capital Charge Based on CCR RWA as per Basel III: Finalizing Post Crisis Reforms

- Market Risk

  - Market Risk – Standardized Approach & FRTB Standardized Approach

- Operational Risk

  - Basic Indicator Approach, Standardized Approach, Alternative Standardized Approach as per Basel III

  - Standardized Approach as per Basel III: finalizing Post Crisis Reforms

- Capital Structure & Buffers

- Large Exposure Calculations – Connected Parties, and Single Counterparty/ Group of Linked Counterparties

- Leverage Ratio – Leverage Exposure Measure, Leverage Ratio & Buffers

3.1   Key Features

The important features of the OFS Basel Regulatory Capital Application are as follows:

- One integrated application that allows for different approaches configured for various portfolios.

- Financial institutions can migrate to more advanced approaches as and when required.

- Comprehensive coverage of Credit Risk Mitigation techniques which ensures optimum allocation of Credit Risk Mitigants to exposures for maximum RWA reduction using the optimizer functionality in the application.

- Extensive, pre-built instrument coverage, built to meet Basel III Guidelines, which means Banks, can get 'up and running' quickly with minimal pre-processing.

- It is a fully transparent application where all Rules and Approaches are visible to business users, reviewers, or auditors.

- Audit Trail is present to maintain accountability of Rule changes, user activity, or system modifications.

4   Overview of OFSAA Infrastructure

Oracle Financial Services Analytical Applications Infrastructure is the complete end-to-end Business Intelligence solution that is easily accessible via your desktop. A single interface lets you tap your company's vast store of operational data to track and respond to business trends. It also facilitates the analysis of the processed data. Using OFSAAI you can query and analyze data that is complete, correct, and consistently stored in a single place. It has the prowess to filter data that you are viewing and using for analysis.

It allows you to personalize information access to the users based on their role within the organization. It also provides a complete view of your enterprise along with the following benefits:

- Track enterprise performance across information data store.

- Use one interface to access all Enterprise Databases.

- Create consistent business dimensions and measures across business applications.

- Automate the creation of coordinated Data Marts.

- Use your business language to get fast and accurate answers from all your databases.

- Deploy an open XML and web-based solution against all major relational or multi-dimensional databases on Microsoft Windows and UNIX Servers.

This chapter provides an overview of Infrastructure, its components, and explains how these components are organized in the Splash Window with the user login process.

4.1   Components of OFSAAI

The OFSAA Infrastructure consists of the following components/modules that are used to deploy an analytical solution.

- Data Model Management

- Data Management Tools

- Unified Analytical Metadata

- Rules Run Framework

- Metadata Browser

- Operations

- Questionnaire

- Process Modelling Framework

- System Configuration & Identity Management

- Object Administration

- Forms Framework

See OFS Analytical Applications Infrastructure User Guide for more information on all important components or modules of OFSAAI.

5 Application Processing

This section provides details on the application processing components.

5.1 Data Requirements

Data can be divided into the two categories - Setup Tables, and Slow Changing Dimensions (SCD), and can be set up by the Bank.

- **Setup Tables**

    - A setup table is a set of data that is static and does not change at regular intervals.

- **Dimension Tables**

    - A slowly changing dimension table is a set of data that is static and does not change at regular intervals. For more information on SCD, see the Section Slow Changing Dimensions.

5.2 Data Assumptions

This section aims to identify certain data related assumptions for specific tables that help in the smooth functioning of the Basel Regulatory Capital application.

Data Format

- In all the date columns, data is expected as per the **MIS_DATE_FORMAT** of the Atomic Schema.

- Country and Currency codes are expected as per the ISO Standard.

Dimension Table

DIM_CAPITAL_ACCT_HEAD: General Ledger items and Non-General Ledger items are differentiated in the column **F_GL_IDENTIFIER** by the flag Y that indicates the General Ledger items and the flag N that indicates non-General Ledger items.

Mapping Table

FSI_CAPITAL_STANDARD_MAPPING: For certain standard account headline items that are processed by the application, for example, Net Tier 1 Capital, Total eligible Capital, Tier 1 Capital Ratio, and Capital Ratio, you are expected to provide mapping for these items as Others in the column **V_CAPITAL_ACCOUNT_IDENTIFIER** in the **FSI_CAPITAL_STANDARD_MAPPING** table. These capital line items mapped as Others are used in the **T2T - CAPITAL_STD_ACCT_HEAD_POP** to insert records into **FCT_STANDARD_ACCT_HEAD** from **FCT_CAPITAL_ACCT_HEAD**.

Across the Basel product, in all the seeded data tables, the open-end date is mentioned as 31-DEC-9999. You must not modify this value.

FACT Table

FCT_CAPITAL_ACCT_HEAD: General Ledger items and non-General Ledger items are differentiated in the column **F_GL_IDENTIFIER** with the flag Y that indicates General Ledger items and the flag N that indicates non-General Ledger items. The T2T that populates data from the table **STG_GL_DATA** to the **FCT_CAPITAL_ACCT_HEAD** table populates the value Y in the column **F_GL_IDENTIFIER.** The T2T that populates data from the **STG_STANDARD_ACCT_HEAD** table to the table **FCT_CAPITAL_ACCT_HEAD** populates the value N in the column **F_GL_IDENTIFIER.** The reclassification of General Ledger and non-

General Ledger skeys to standard account head skey (**N_STD_ACCT_HEAD_SKEY**) happens in the **FCT_CAPITAL_ACCT_HEAD** table by either of the following tables:

- A Type 2 rule is used to reclassify by using the **DIM_CAPITAL_ACCT_HEAD** and **DIM_STANDARD_ACCT_HEAD tables.**

- The referencing the mapping table FSI**_CAPITAL_STANDARD_MAPPING**

From the **FCT_CAPITAL_ACCT_HEAD** table, General Ledger and Non-General Ledger data flows into the **FCT_STANDARD_ACCT_HEAD** table. Again, the distinction is based on the flag Y in the column **F_GL_IDENTIFIER**.

5.2.1 Data Loading

The OFSAAI Data Integrator Framework allows you to move data flexibly within the Oracle Financial Services Analytical Applications (OFSAA) Data Model at different levels of granularity and various stages of the process.

Data can be loaded into the required Stage or Setup Tables in the following ways:

- **Connecting to other Databases**: Relational Data Sources can be defined to connect to any of the Relational Database Management System (RDBMS) like Oracle, IBM DB2, MS SQL Server, and any RDBMS through native connectivity drivers or ODBC. RDBMS data source lets you define the RDBMS Engine present locally or remotely with FTP access to the remote server.

- **Flat-Files**: Flat File data source lets you define the flat-file present locally or remotely with FTP access to the remote server. Data files can be made available in the standard staging area configured in OFSAAI. A Flat-File Data Source is a local data source residing in the staging area of the Infrastructure Database Server.

For more information on the format of the flat file or RDBMS file, see the Download Specifications document.

Further, data can be loaded or maintained by using the following components available in the Data Integrator Framework:

- **Excel upload**: Choose this option when you have moderate quantities of data that are available in an excel file format.

- **Manual Data Entry – Forms**: The Data Entry Forms and Queries (DeFQ) module of the Data Integrator is designed to create user-friendly Data Entry windows with a choice of layouts, which enables data viewing and data manipulation easily. You can select tables based on which you can create forms that can be used in any application.

For more information on data loading activities like Flat File Source and Connecting to other databases, see the OFS Advanced Analytics Infrastructure User Guide.

5.2.2 Reclassification Rules

A sample list of products, customer types, issuer types, collateral types, credit ratings, and organization structure is pre-defined in the application. However, the list and naming convention of products, customer types, and so on, might differ from one bank to another. The application re-classifies the bank's data into standard data, which does not change for a given set of regulations, and then processes it based on

standard classifications. This restricts the level of modifications needed for each implementation for re-classifying the bank's data into the relevant standard classifications.

The list of reclassification rules required for the population is attached in the Annexure.

Setting up the Data

The respective Dimension Tables corresponding to products (**DIM_PRODUCT**), customer types, issuer types (**DIM_PARTY_ TYPE**), collateral type (**DIM_MITIGANT_TYPE**), credit ratings (**RATING_SRC_MASTER** and **DIM_CREDIT_RATING**), and organization structure (**DIM_ORG_STRUCTURE**) are populated with the list of product types, customer types, issuer types, collateral types, ratings, and organization structure as used in the respective bank.

As described in the Data Requirements Section, these tables can be populated by directly uploading data into the tables if they are not likely to change frequently or by using the SCD Component, if the data is likely to change over some time.

Also, data is expected in **STG_PRODUCT_MASTER**, **STG_PARTY_TYPE_MASTER,** and **STG_MITIGANT_TYPE_MASTER** for the product, party type, and mitigant types. SCDs populate data from these tables into **DIM_PRODUCT, DIM_PARTY_TYPE,** and **DIM_MITIGANT_TYPE**.

Modifying the Re-Classification Rules

You must only populate the SCD Tables through the SCD Batches. The hierarchies related to Product Types, Customer Types, and so on, must be re-saved if the data keeps on changing. This can be done individually for each hierarchy using the Unified Metadata Manager or in bulk using the Save Metadata link under Administration on the LHS Pane of the OFSAAI Window. A new node is created in the source hierarchy. This node is mapped to the node in the target to be added to the target hierarchy. The pre-configured reclassification rules are modified to map the Bank's data to the Standard data using the Rules Framework.

5.3   Processing

After data stores are created and Rules, Processes, and Runs are defined, the timing and frequency of the Execution can be established. For more information on the Runs pre-configured with the application, see the Run Charts. To execute Runs as batches, see the Operations section in the Oracle Financial Services Analytical Applications Infrastructure 8.1.2 User Guide.

The scheduling of Runs within OFSAAI can be managed on a real-time or batch basis. Batch processes can be executed daily, weekly, monthly, or to meet specific business needs. The Run Management facility also provides the ability to run jobs on a manual or real-time basis, as required. Existing investments in external schedulers can also be used to call web services within this infrastructure.

5.3.1 Batch Processing

A batch refers to a set of executable processes based on a specified rule. Batches relating to the application must be executed as specified below. These batches are executed from the Operations Menu of OFSAAI. For more information on the Operations section, see the OFSAAI 8.1.2 User Guide.

Slowly Changing Dimension batch: This must be executed when you are installing the application for the first time. Subsequently, this batch must be executed only when new data is added. The tasks processed and the order in which the tasks are processed, are specified in the Run Charts.

5.3.1.1 Basel Common Batch

The following tasks are mapped to the Basel Common batch:

- Date Population: This task populates the table DIM_DATES.

- Party Role Map Calculation: This task populates the party and the role mapping from STG_PARTY_ROLE_MAPPING to FSI_PARTY_ROLE_MAPPING.

- FSI IRCS Calculation: This task populates FSI_IRCS from STG_IRC_RATE_HIST.

5.3.1.2 PARTY_FIN_DATA_POP Batch

Populates the party financial data and executed as required when the party financial data is available.

5.3.1.3 BASEL_DAILY Batch

This batch is to be executed daily. This batch is used to populate the exchange rate between different currencies for each date.

5.3.1.4 BASEL_SETUP_TBL_POP Batch

This batch is used for Basel set up tables' population. This batch contains T2Ts to populate data from setup tables into the corresponding processing tables. It includes rules to mark the latest data indicators. You are required to provide data in setup tables whichever applicable. The tasks in this batch are adhoc and can be selected as applicable.

For more information on the setup tables for the batches, see the Setup Table Batch Details file.

For more information on the Post Crisis Operational Risk, see the **BASEL_SETUP_TBL_POP Batch** section in the BIS User Guide.

5.3.2 Basel Configurations

The Basel Configuration Framework is a unique feature of the Basel Regulatory Capital application which enables a business user - without assistance from a technical analyst - to easily define a Portfolio and a Run. This framework allows you to define a Run by selecting a combination of different Basel approaches for RWA computation. It also allows you to define a Run for a combination of portfolios.

The application Runs can be executed as RRF batch from the **Run Management** UI. The Run Management UI lists all Runs defined in Rule Run Framework. For more information on the Rule Run Framework, see the Rule Run Framework in the Oracle Financial Services Analytical Applications Infrastructure 8.1.2 User Guide.

For CBRC Jurisdiction, if Credit Risk is selected in Run Management, then the relevant questions are not displayed as Credit Risk is not a part of CBRC jurisdiction in Basel Regulatory Capital Basic and no approaches/options are mapped to the segment.

The Basel Configurations feature consists of the following 3 functionalities:

- Optimizer

- Portfolio Definition

- Run Management

5.3.2.1 Optimizer

A prerequisite for defining the Optimizer is to update the pool ID in the sub-exposures **FCT_SUB_EXPOSURES** table for the selected Run.

5.3.2.1.1 Viewing an Optimizer

To view the optimizer, perform the following steps:

1. Log on to the application and select **Financial Services Basel Regulatory Capital Basic**.

2. On the LHS menu, click **Basel Regulatory Capital Basic,** click **Basel Configurations**, and then click **Optimizer** to open the **Optimizer Models** Window.

Figure 1: The Optimizer Models Window

3. Select an optimizer to view it.

5.3.2.1.2 Executing an Optimizer

Prerequisites

You must ensure the following before executing the optimizer:

- Complete the pooling process and update the **N_POOL_ID** column in the **FCT_SUB_EXPOSURES** table.

Optimizer models are defined and accessible on the Optimizer Models page. These models are mandatory in order to execute the model for a particular exposure type.

5.3.2.1.3 Executing an Optimizer through an Independent Process

Follow these steps to execute an optimizer as an independent process:

1. Log in to the application as a System Administrator.

2. Click **Basel Regulatory Capital Internal Ratings Based Approach** or **Basel Regulatory Capital Basic** depending on the application for which you have the license.

3. Click **Process Modelling** and then click **Process Modeller**.

4. Click **Add** to open the **Process Details** Window.

Figure 2: The Process Details Window

5. Populate the fields in the **Process Details** form as detailed in the following table:

Table 2: The Process Details Form

Fields	Description
Process ID	Enter an ID for the Optimizer Process.
Process Name	Enter a name for the Optimizer Process.
Process Description	Enter a description for the Optimizer Process.
App Package ID	Select an application package ID from the drop-down list.
Type	Select the type from the drop-down list.
Spark DB	Do not enable this field if you want to keep the default settings.
Infodom	Select the Infodom from the drop-down list.
Tag	Enter the names of the tags to be used for the Optimizer Process.
Segment	Select a segment from the drop-down list.

6. Click **Save and Launch** to open the **Process Definition** Window.
7. Click **Start** and drag the **Start** process in to the canvas.

Figure 3: Start Process Added to the Canvas
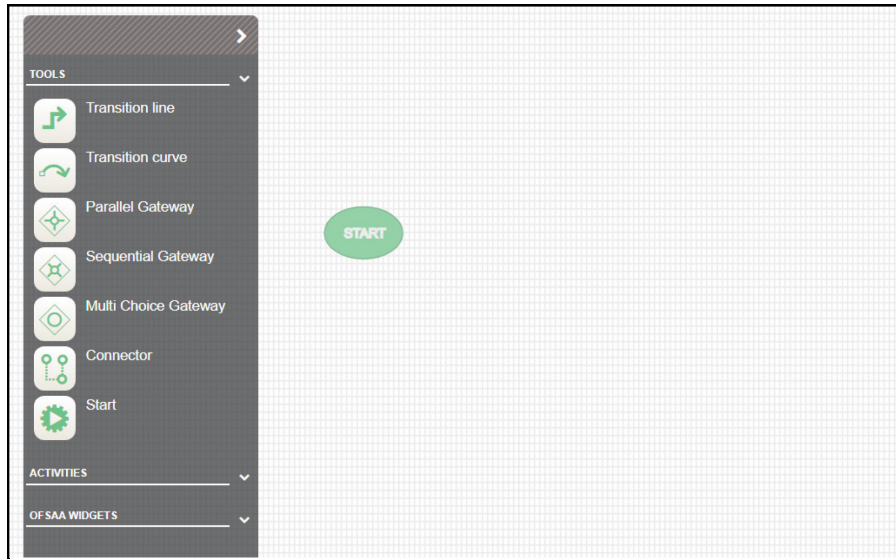
8. Click **ACTIVITIES** to expand it.

9. Click and drag **Service Task** Process Component into the canvas.

Figure 4: The Service Task Process has been added to the Canvas
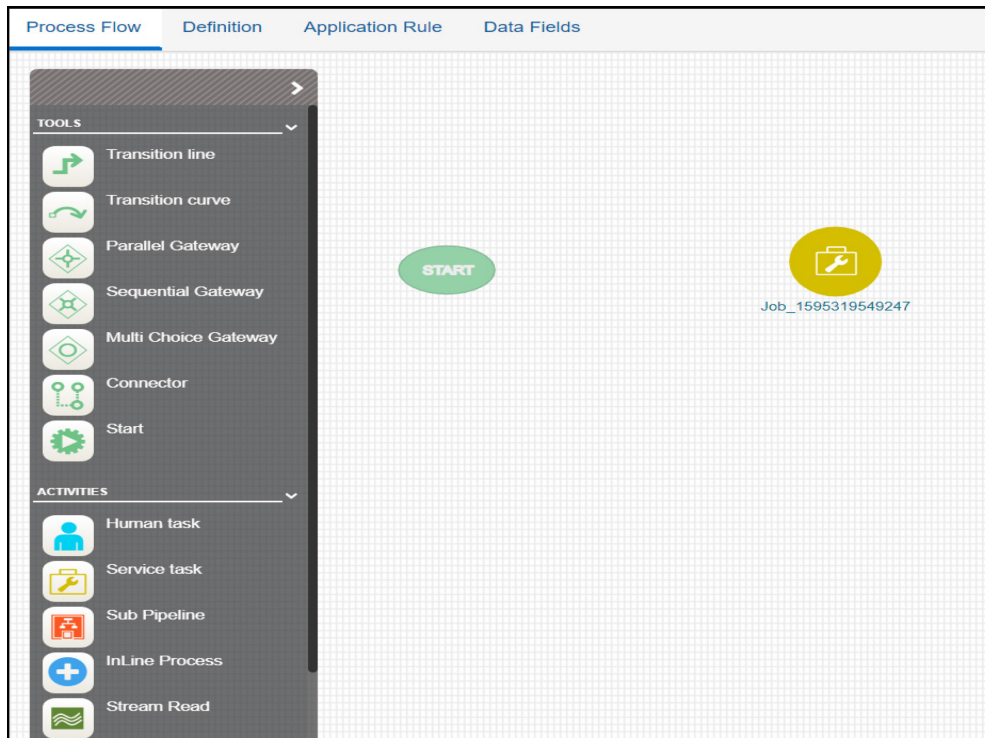
10. Join the **Start** component to the service task component by dragging the **Transition Line** Connector in to the canvas.

Figure 5: The Transition Line Connector added to the Canvas
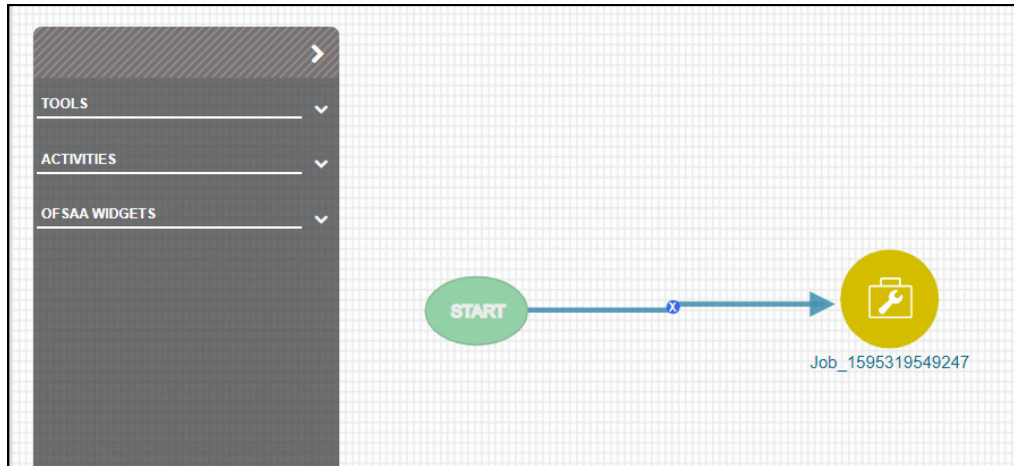
11. Double-click the service task component to open the Settings Window.

Figure 6: The Settings Window

12. Click **Settings** [icon] to open the **Settings** tab.

Figure 7: The Settings Tab

13. Click **Find** to open the **Participant Details** Screen.

Figure 8: The Participant Details Window

14. Click the rule **Basel Optimizer Solver for Covered Factor Estimation** and then click **OK**.

15. Click **Add** to open the **Binding Details** Window. The Data Field is automatically populated with the input value BASEL_OPTIMIZER_MODEL_CODE.

Figure 9: The Binding Details

16. Click **Ok**.

    If the model code is not available on the screen, you can retrieve it from the
    FSI_BASEL_OPTIMIZER_MODEL_TL table.

    A sample query for retrieving the model code is as follows:

    ```
    Select * from FSI_BASEL_OPTIMIZER_MODEL_TL where V_MODEL_DESC = 'Basel III
    Non Sec Optimization';
    ```

    The **Parameters** pane is populated with the values that you add in the **Binding Details** Window.

Figure 10: The Parameters Pane Populated with Values

17. Click **Save**.

The newly created Optimizer Run appears on the **Process Modeler** Page.

Figure 11: Newly Created Optimizer Run on the Process Modeler Page

18. Click **More** to view additional actions.

Figure 12: The Available Actions for a Run
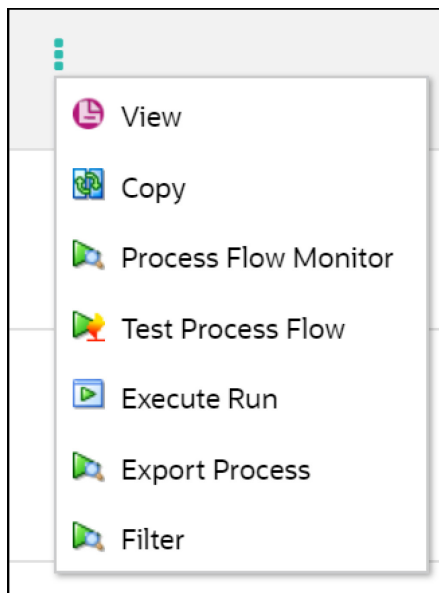
19. Click **Execute Run** to open the **Select Run Params** Window.

Figure 13: The Select Run Params Window

20. Populate the **Select Run Params Form** as detailed in the following table:

Table 3: The Select Run Params Pane

Field	Description
Execution Date	Select the Execution Date by clicking **Calendar** 🗓.
Legal Entity	Select a legal entity.
Consolidation type	Select the consolidation type from the drop-down list.
Reporting Currency	Select the reporting currency.
Significant Currency	Select the Significant Currency from the drop-down list.
Basel Configuration	Select the Basel Configuration from the drop-down list.

21. Click **OK** to go back to the **Process Modeler** Page.

    The Optimizer Run is in progress.

22. Click **More** ⋮ and then select **Process Flow Monitor**.

    The Run status is either Running or Completed.

Figure 14: The Status of the Run
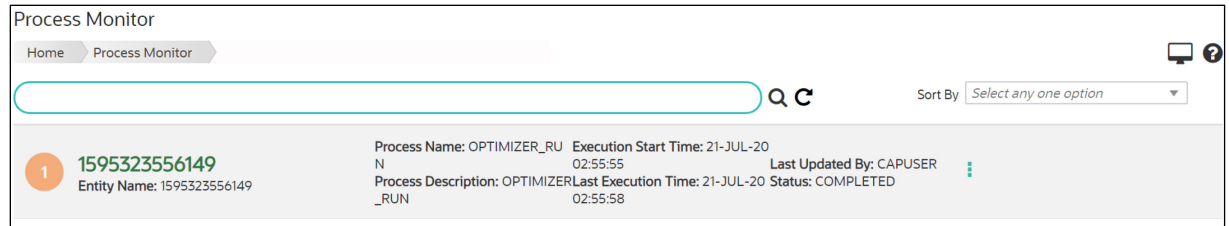
5.3.2.1.4 Executing an Optimizer via the Sub-process of a Different Run

The steps to execute an optimizer run via the sub-process of a different run is similar to the steps in the Executing an Optimizer through an Independent Process section. The only difference is that the optimizer run that you want to execute is connected to a different run in the canvas of the Process Details window.

5.3.2.1.5 View the optimizer log

View the Optimizer Log on via the Process Monitor Page

Follow these steps to view the log from the Process Monitor Screen:

1. On the **Process Monitor** Pane, click the required optimizer for which you want to view the log to open the **Process Definition** Window.

2. Double-click the service task process in the canvas to open the setting window.

   Figure 15: The Setting Window
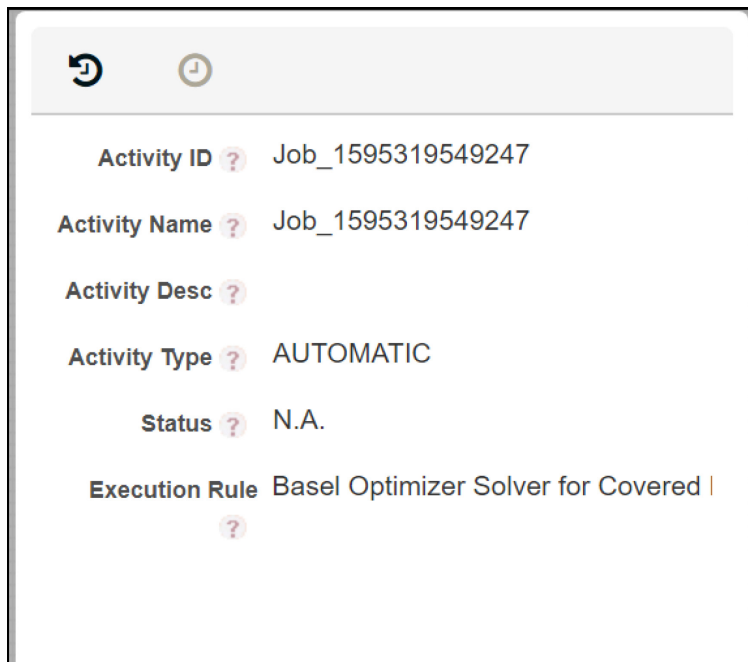
3. Click **Log** [⟳] to view the log of the Optimizer Run.

5.3.2.1.6   View the Optimizer Log on the Database Table

You can view the log by referring to the **CL_LOG_MESSAGE** column in the
FSI_BASEL_OPT_SOLVER_BATCH_MASTER table.

5.3.2.1.7   View the Optimizer Log on the Server

The optimizer **BaselSolver.log** file is available in the server machine in the path:
`<web_container_location>/webapps/OFSCAP/logs`

5.3.2.2   Portfolio

You can define a combination of portfolios to participate in a Run. For example: If an institution wants to
process only On Balance Sheet data and not all the product types, then the institution has the choice of
selecting a subtype of an entire portfolio for processing.

5.3.2.2.1   Adding a New Hierarchy for Portfolio Creation

To add a new hierarchy for portfolio creation, the Hierarchy Code must be added in
PORTFOLIO_HIERARCHY_MASTER table as detailed in the following table:

Table 4: The PORTFOLIO_HIERARCHY_MASTER table

Column	Indicative values
V_HIERARCHY_CODE	Contains hierarchy code of the hierarchy to be added
F_LATEST_RECORD_INDICATOR	To be set to 'Y' for the hierarchies which have to be displayed
D_RECORD_START_DATE	Start Date of the hierarchy.
D_RECORD_END_DATE	The End Date of the hierarchy.

5.3.2.2.2   Access Portfolio Definition

To access a portfolio definition, follow these steps:

1. Log in to the application and select **Financial Services Basel Regulatory Capital Basic**.

2. On the LHS menu, click **Basel Regulatory Capital Basic**, click **Basel Configurations**, and then click
    Portfolio to open the **Portfolio Definition** Window.

Figure 16: The Portfolio Definition Window
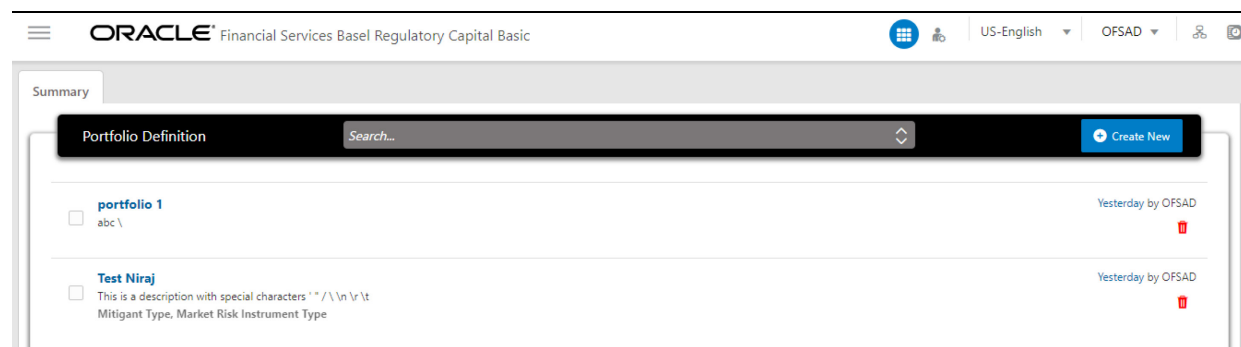
5.3.2.2.3 Create a Portfolio Definition

To create a portfolio definition, follow these steps:

1. In the **Portfolio Definition** Window, click **Create New** [⊕ Create New] to open the **New Portfolio Model** Window.

Figure 17: The New Portfolio Model Window
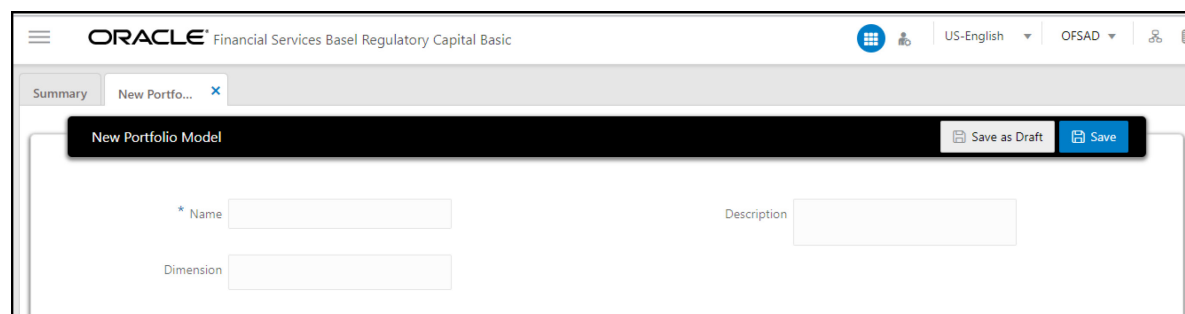
2. Enter the details as per the following table:

Table 5: The New Portfolio Model Pane

Field	Description
Name	Enter a name for the Portfolio Definition.
Dimension	Select a dimension(s) from the drop-down list. Available options are: • Counterparty Type • Market Risk Counter Party • Mitigant Type • Product • Market Risk Instrument Type
Description	Enter a description of the Portfolio Definition.
Add Dimension	This pane only appears after you select a dimension(s) in the Dimension Field. Click Add [+] to open the window for the selected dimension and select the required options.

3. Click **Save as Draft** if you want to save a draft of the portfolio.

4. Click **Save**.

5.3.2.2.4 Delete a Portfolio

To delete a portfolio, follow these steps:

1. In the **Portfolio Definition** Window, for the portfolio that you want to delete, click **Delete** [🗑].

    A confirmation message appears, asking you if you are sure that you want to delete the portfolio.

2. Click **Yes**.

The portfolio is deleted, and the Portfolio page is refreshed to display the updated list of portfolios.

5.3.2.3 Run Management

The Run feature in the Rules Run Framework helps you to combine various components and/or processes together and execute them with different underlying approaches. For more information on the Run Management feature, see the Run Section in the Oracle Financial Services Analytical Applications Infrastructure 8.1.2 User Guide.

See BIS Basel II Configuration, EU CRR Configurations, and EU CRR II Configurations for more details.

5.3.2.3.1 Access the Run Management Page

To access the **Run Management** Window, perform the following steps:

1. Log in to the application and select **Financial Services Basel Regulatory Capital Basic**.

2. On the LHS menu, click **Basel Regulatory Capital Basic**, click **Basel Configurations**, and then click **Run Management** to open the **Run Management** Window.
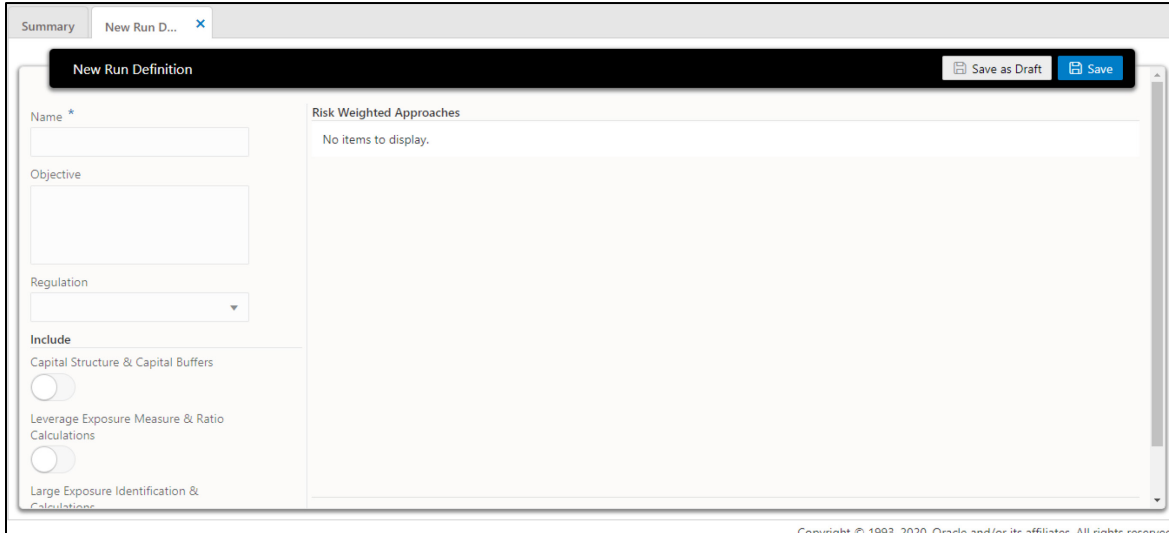
5.3.2.3.2 Create a Run Definition

Follow these steps to create a Run Definition:

To create a run definition, perform the following steps:

1. In the **Run Management** Window, Click **Create New** [+ Create New] to open the **New Run Definition** Window.

Figure 18: The New Run Definition Window
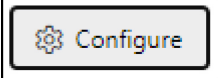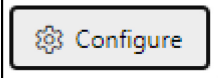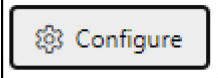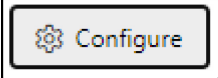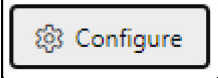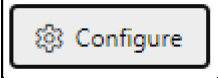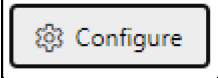
2. Enter the details as per the following table:

Table 6: The New Run Definition Form

Field	Description
Name	Enter a name for the Run Definition.
Objective	Select an objective for the Run Definition.
Regulation	Select a regulation from the drop-down list. The available options are: • BASEL III • BASEL IV Depending on the value that you select in this field, the Risk-weighted Approaches pane is automatically updated.
Include pane	
Capital Structure & Capital Buffers	Click the [toggle icon] icon to enable this field.
Leverage Exposure Measure & Ratio Calculations	Click the [toggle icon] icon to enable this field
Large Exposure Identification & Calculations	Click the [toggle icon] icon to enable this field
Risk-weighted Approaches pane	
	NOTE: The risk-weighted approaches that appear in this field depend on if you have the license for the Oracle Financial Services Basel Regulatory Capital Basic or Oracle Financial Services Basel Regulatory Capital IRB application pack and if you selected either BASEL III or BASEL IV in the Regulation field.
Credit Risk and Counterparty Credit Risk for Non Securitization Exposures – Standardized Approach	Click **Configure** [⚙ Configure] to open the configurations window for this risk-weighted approach. See step 7 to view and populate the fields available in this window.
Credit Risk and Counterparty Credit Risk for Non Securitization Exposures – Foundation IRB Approach	Click **Configure** [⚙ Configure] to open the configurations window for this risk-weighted approach. See step 7 to view and populate the fields available in this window.
Credit Risk and Counterparty Credit Risk for Non Securitization Exposures – Advanced IRB Approach	Click **Configure** [⚙ Configure] to open the configurations window for this risk-weighted approach. See step 7 to view and populate the fields available in this window.

Field	Description
Credit Risk for Securitization Exposures – Standardized Approach	Click **Configure** [⚙ Configure] to open the configurations window for this risk-weighted approach. See step 7 to view and populate the fields available in this window.
Credit Risk for Securitization Exposures – IRB Approach	Click **Configure** [⚙ Configure] to open the configurations window for this risk-weighted approach. See step 7 to view and populate the fields available in this window.
Market Risk – Standardized Approach	Click **Configure** [⚙ Configure] to open the configurations window for this risk-weighted approach. See step 7 to view and populate the fields available in this window.
Market Risk – Internal Models Approach	Click **Configure** [⚙ Configure] to open the configurations window for this risk-weighted approach. See step 7 to view and populate the fields available in this window.
Operational Risk – Basic Indicator Approach	Click **Configure** [⚙ Configure] to open the configurations window for this risk-weighted approach. See step 7 to view and populate the fields available in this window.
Operational Risk – Standardized Approach	Click **Configure** [⚙ Configure] to open the configurations window for this risk-weighted approach. See step 7 to view and populate the fields available in this window.
Operational Risk – Alternative Standardized Approach	Click **Configure** [⚙ Configure] to open the configurations window for this risk-weighted approach. See step 7 to view and populate the fields available in this window.

3. If you have enabled the **Risk-weighted** Approaches Field, then in the required risk-weighted approaches pane, click **Configure** [⚙ Configure] to open the configuration window and populate the form as per the following table:

Table 7: The Configuration Form for a Selected Risk-Weighted Approach

Field	Description
Risk Type Pane	
Credit Risk	If the risk-weighted approach requires this risk type, then select the checkbox.
Counterparty Credit Risk	If the risk-weighted approach requires this risk type, then select the checkbox.
Capital Calculation Methods Pane	
The Capital Calculation Methods that appear in this field depend on if you have the license for the Oracle Financial Services Basel Regulatory Capital Basic or Oracle Financial Services Basel Regulatory Capital IRB application pack and if you selected either BASEL III or BASEL IV in the Regulation field. You must select a value from the drop-down lists.	
Calculation Parameters Pane	
The Capital Calculation Methods that appear in this field depend on if you have the license for the Oracle Financial Services Basel Regulatory Capital Basic or Oracle Financial Services Basel Regulatory Capital IRB application pack and if you selected either BASEL III or BASEL IV in the Regulation field. You must select a value from the drop-down lists.	
Portfolio Pane	
Select Applicable Portfolios	Select a portfolio from the drop-down list. The portfolios that you created in the Create a Portfolio Definition section appear in this field.

4. Select **Save as Draft** if you want to save a draft of this form.

5. Select **Save**.

5.3.2.3.3   Delete a Run Definition

To delete a Run Definition, perform the following steps:

1. In the **Run Management** Window, for the run definition that you want to delete, click **Delete** 🗑 .

    A confirmation message appears, asking you if you are sure that you want to delete the Run Definition.

2. Click **Yes**.

    The portfolio is deleted. The **Run Management** Page is refreshed and displays the list of updated run definitions.

5.3.3 Reporting

Oracle Financial Services Basel Regulatory Capital Analytics provides the customer with a reporting as well as Information Framework that can be used for generating reports and viewing information relevant to the capital computations and other aspects of the Basel Framework. Basel Analytics provides pre-configured Basel dashboards for all the functionalities supported in the application, Pillar II reports covering most of the aspects related to stress testing and other supervisory review and Pillar III reports covering all market disclosure requirements of the Basel Accord.

For more information on Basel Regulatory Capital Analytics, see the Oracle Financial Services Basel Regulatory Capital Analytics User Guide.

The Oracle Financial Services Basel Regulatory Capital Analytics must be licensed by the Bank separately.

6 Hong Kong Monetary Authority (HKMA)

6.1 Introduction of OFSAA Portfolio Definitions

Every bank has different LOBs and they have different functions. To aid the bank in its efficient management of regulatory calculations, the application has inbuilt portfolio definitions, concerning the banking book and trading book respectively. The different portfolio definitions help in the ease of calculations for the bank, and the parallel processing of the risk-weighted asset calculations. In many of the banks, the ownership of every portfolio might be different, and hence it becomes easier for the maintenance of the ownership for every data point and calculations. The data points concerning every portfolio are different.

The various portfolios concerning Credit Risk are

- Credit Risk Non-Securitization
  - Banking Related Exposures
  - Investment Related Exposure (only belonging to Banking Book)
- Counterparty Credit Risk – Non-Securitization
  - Derivative Related Exposures (both Banking and Trading Book Exposures)
  - Securities and Financing Transaction Related Exposures (Both Banking and Trading Book Exposures)
- Credit Risk Securitization
  - Securitization Related Exposures (only belonging to banking book)

The portfolio of Trading Book Exposures is the portfolio for Market Risk.

The following chart shows the hierarchy of the OFSAA Portfolios:

Figure 19: OFSAA Portfolio Hierarchy
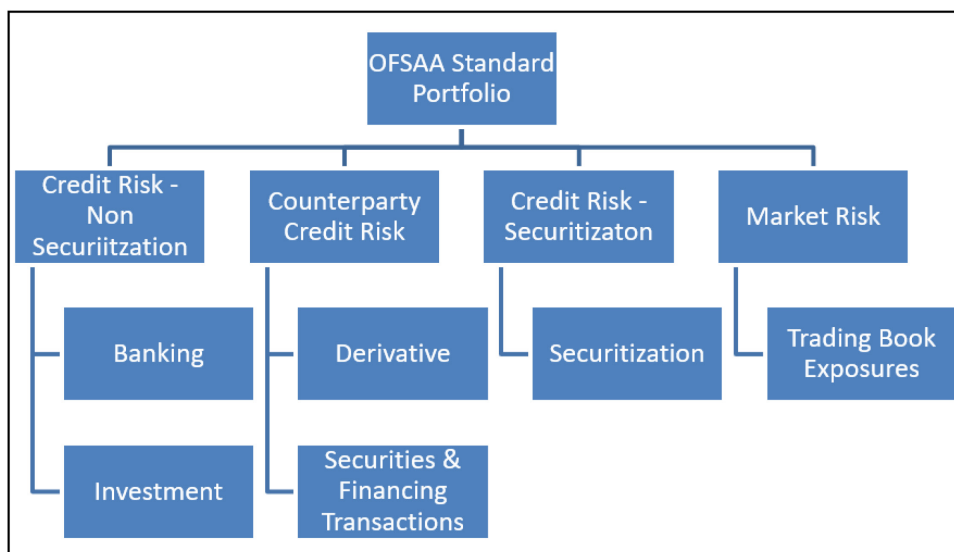
The following illustration displays the high level flow of the processing:

Figure 20: High Level Flow of Processing
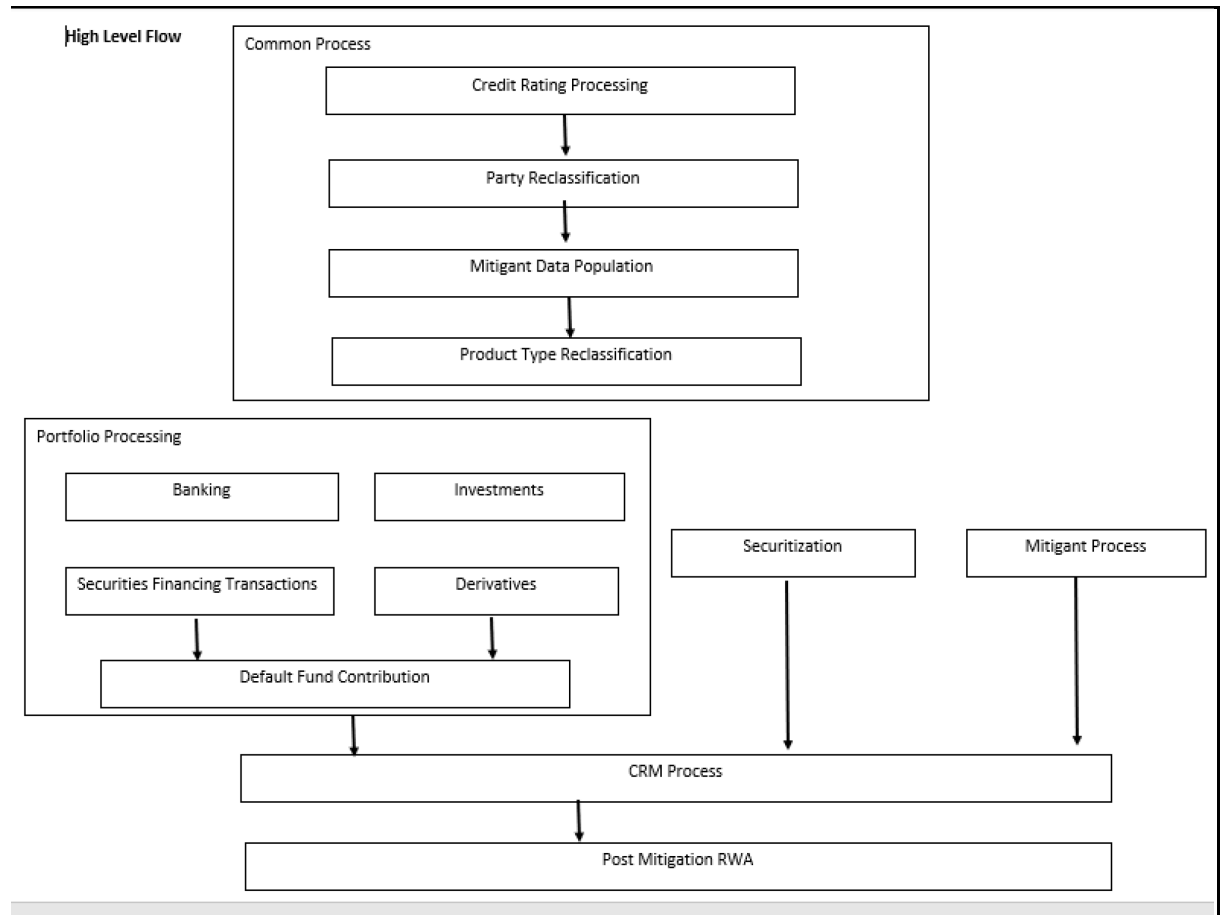
6.1.1 Banking

The Banking Portfolio caters to the core banking activities of the bank – be it corporate banking or retail banking. This includes all the various banking activities in the form of loans provided by the bank, cards issued by the bank, commitments issued by the bank, overdraft provided by the bank, and other such core banking specific activities. Since this is a mandatory portfolio for all the banks, this portfolio has its own RWA Calculations.

The following illustration shows the high level flow of banking portfolio:

Figure 21: High Level Flow of Banking Portfolio
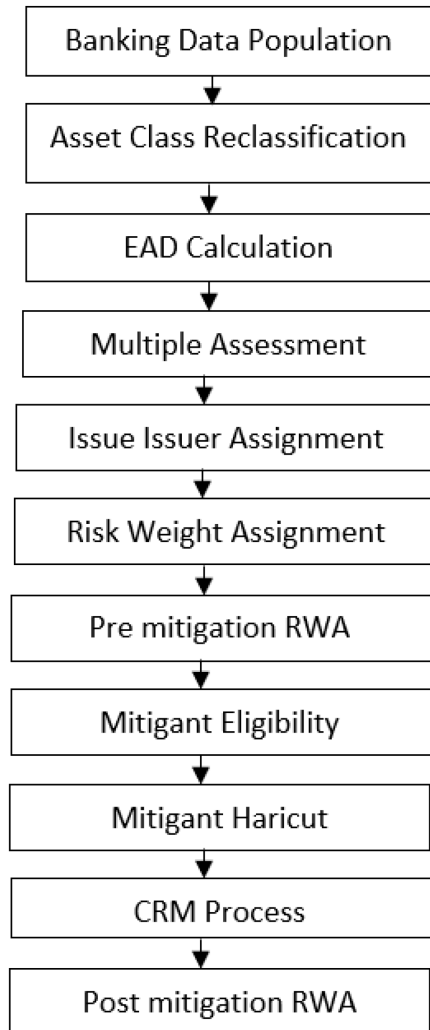
6.1.2 Investment

The Investment Portfolio caters to any of the investment activities of the bank, for which the bank holds the assets till maturity. These are the exposures that the bank will portray in the banking book. This includes all the investment in the form of any money market instruments or spot instruments or debt securities, held by the bank till maturity, and hence considered to be in the Banking Book. This also includes the bank's investment in the form of fixed assets as well. This will be applicable only if the Bank holds exposures in the form of investment related to the Banking Book. The following illustration displays the flow for Investments:

Figure 22: Process Flow for Investment Portfolio
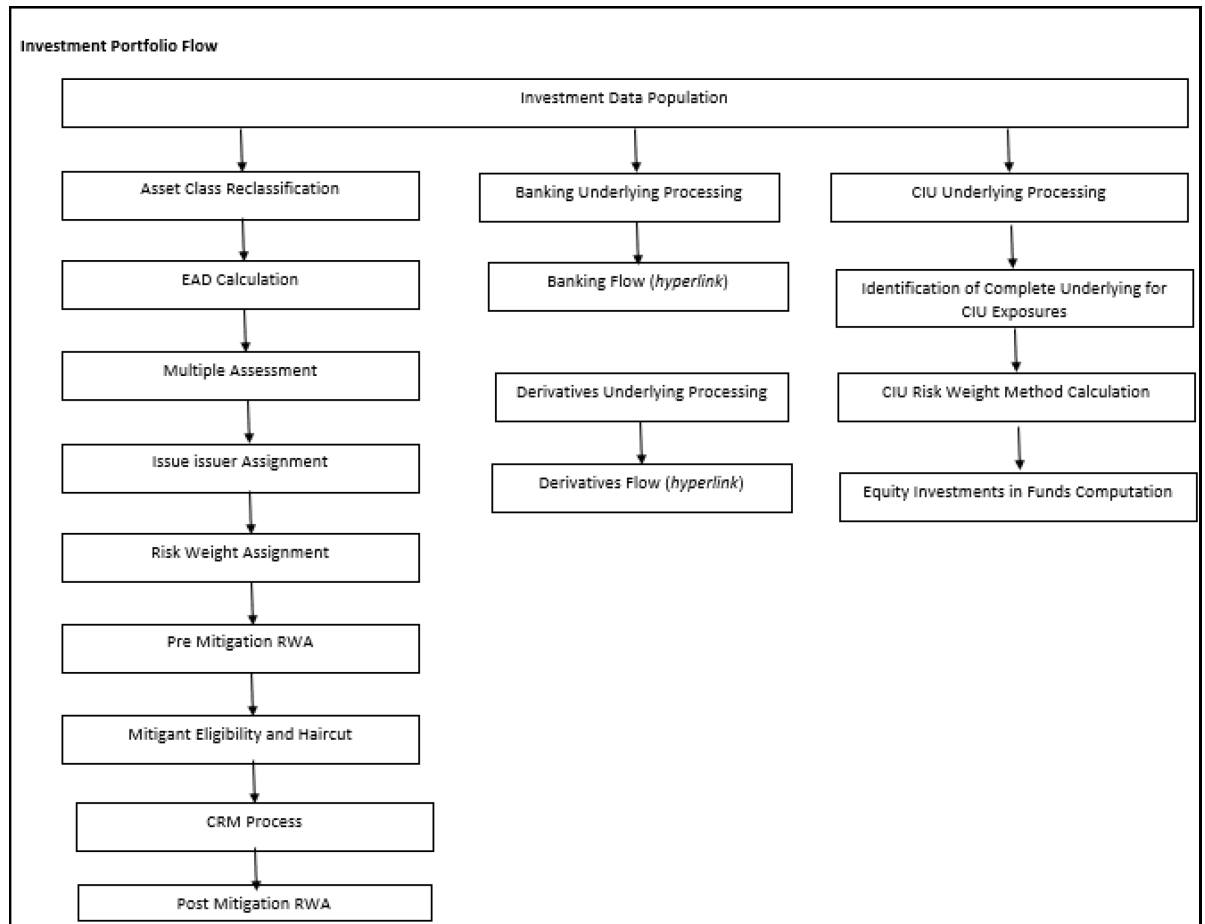
6.1.3 Derivative

The Derivative Portfolio caters to any of the derivative activities of the bank. These are the derivatives for which the bank is one of the counterparties or the bank acts as a clearing member or clearing member client. This includes derivatives in the form of credit derivatives, forwards, futures, options contracts, and swap contracts. This includes both banking and trading book-related derivative exposures. The following illustration displays the flow for derivatives:

Figure 23: Process Flow for Derivatives
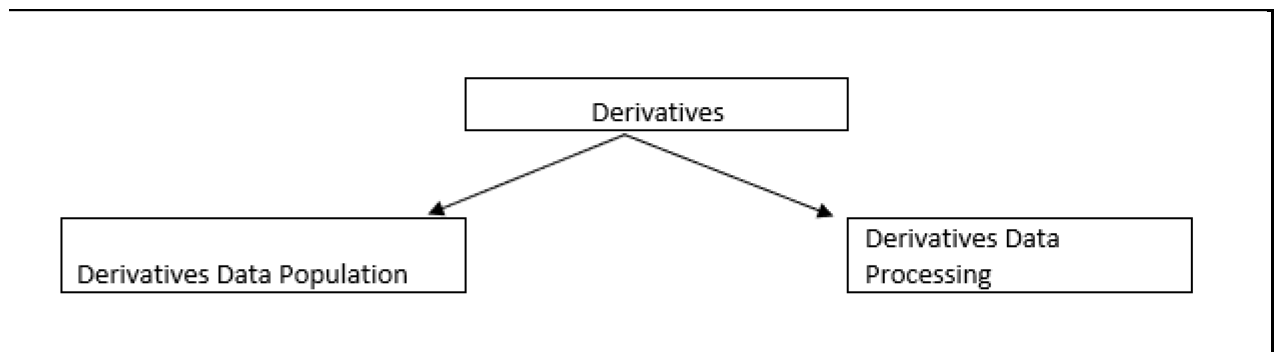
6.1.4 Securities and Financing Transactions

The Securities and Financing Transactions (SFT) Portfolio caters to any of the securities financing activities of the bank. These are the SFT which the Bank enters into, or the Bank acts as a clearing member or clearing member client. This includes SFT in the form of repurchase agreements, reverse repurchase agreements, margin lending transactions, securities lending, and borrowing transactions. This will include both the Banking and Trading Book-related exposures. The following illustration displays the flow for SFTs:

Figure 24: Process Flow for SFT
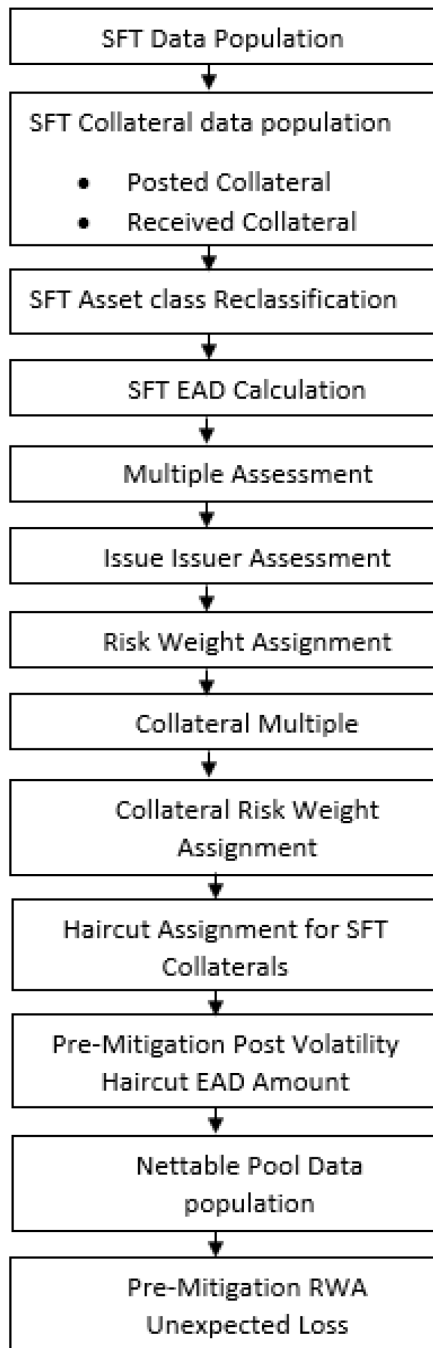
6.1.5 Securitization

The Securitization Portfolio caters to the Securitization activities of the Bank, wherein the Bank either acts as an investor/ originator/ sponsor, or in the form of any other party wherein the Bank provides some credit enhancement or commitment to the Securitization Transaction. This includes banking book-related exposures. The following illustration shows the flow for Securitization:

Figure 25: Process Flow for Securitization
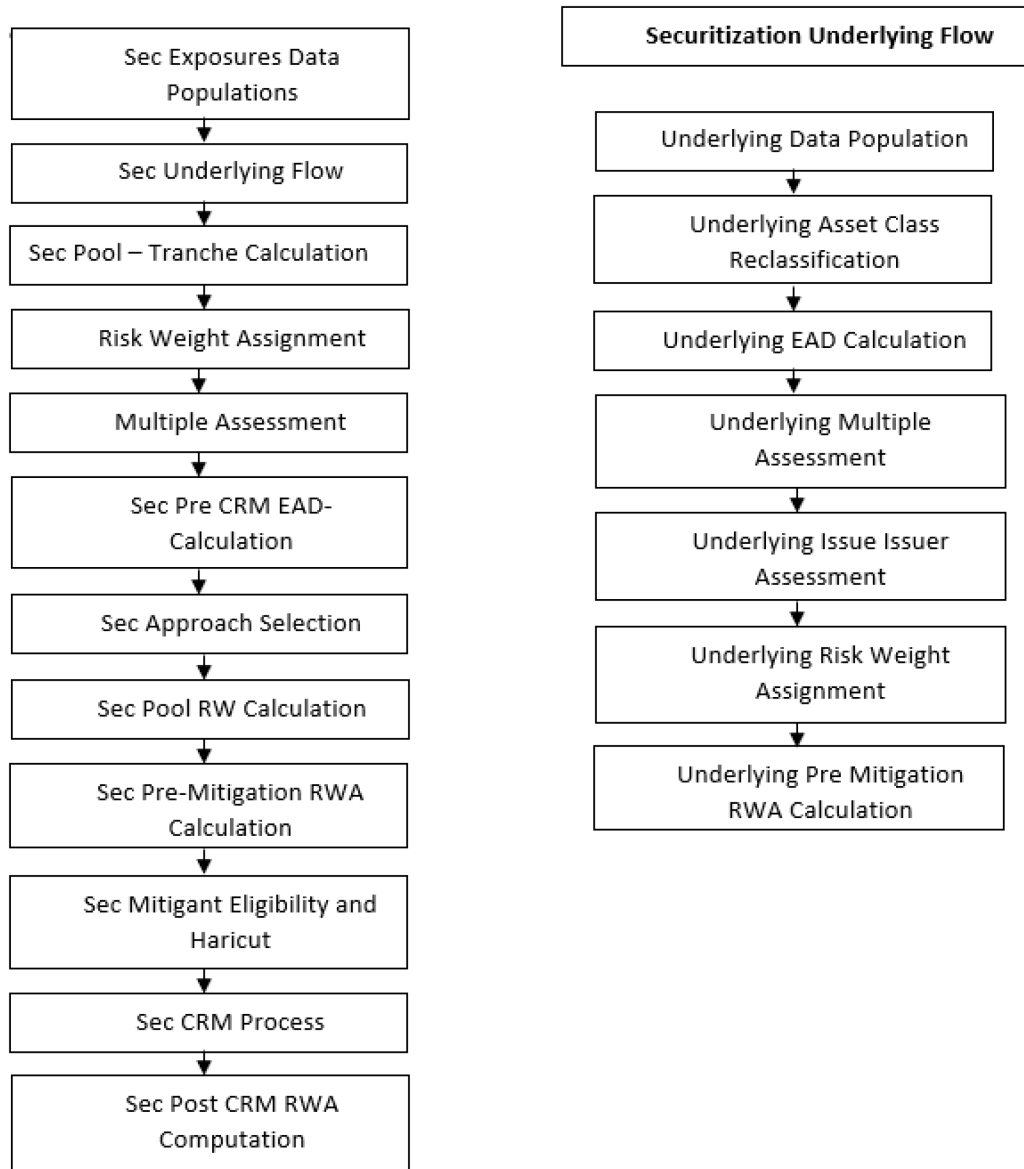
6.1.6 Credit Valuation Adjustment

Credit Valuation Adjustment is calculated at a counterparty level. CVA reflects the adjustment of default free risk prices of derivatives and SFT, due to potential default of the counterparty. Regulatory CVA can differ from Accounting CVA due to following reasons:

Regulatory CVA excludes the default due to bank's own default

Best practices of accounting CVA are imposed in Regulatory CVA.

Figure 26: Process Flow for CVA
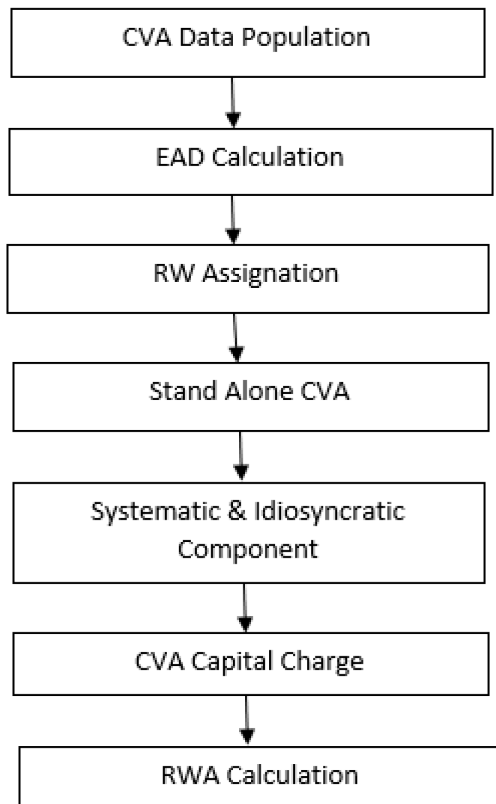
7 Basel III: Finalizing Post Crisis Reforms - Standardized Approach

Capital Adequacy Guidelines as issued by HongKong Monetary Authority (HKMA) which are inline with the following regulations as published by BIS, are incorporated in OFS Financial Services Basel Regulatory Capital:

- Basel III: Finalising post-crisis reforms – December 2017

- Minimum capital requirements for Market Risk – January 2019

7.1 Credit RWA

Credit RWA is the calculation of Non-Securitization RWA.

This includes the portfolio of Banking and Investment for the Non-Securitized Exposures and the Securitization Portfolio for the Securitization positions. The application complies with the Standardized Approach and IRB Approach of the Credit Risk Calculations.

A few processes such as Credit Rating, Party Type Reclassification, and Mitigant Data Population are common between Credit RWA and Counterparty Credit RWA. This also includes the Settlement Risk Calculation about the unsettled transactions depending on the number of days they are unsettled.

7.1.1 Banking Portfolio

Banking Portfolio include loan, credit card, commitment and other banking book related products

The basic flow chart of Banking Portfolio is given below:

Figure 27: Flow chart of Banking Portfolio

```
┌─────────────────────────────────────────┐
│         Banking Data Population          │
└─────────────────────────────────────────┘
                    │
                    ▼
┌─────────────────────────────────────────┐
│    Banking Mitigant & collateral Population │
└─────────────────────────────────────────┘
                    │
                    ▼
┌─────────────────────────────────────────┐
│     Banking Asset Class Reclassifcation  │
└─────────────────────────────────────────┘
                    │
                    ▼
┌─────────────────────────────────────────┐
│              EAD Calculation             │
└─────────────────────────────────────────┘
                    │
                    ▼
┌─────────────────────────────────────────┐
│        Multiple Rating Assignment        │
└─────────────────────────────────────────┘
                    │
                    ▼
┌─────────────────────────────────────────┐
│                ECRA Flow                 │
└─────────────────────────────────────────┘
                    │
                    ▼
┌─────────────────────────────────────────┐
│  RW Assignment for Non Retail & Retail Exposures │
└─────────────────────────────────────────┘
                    │
                    ▼
┌─────────────────────────────────────────┐
│          Issue Issuer Assessment         │
└─────────────────────────────────────────┘
                    │
                    ▼
┌─────────────────────────────────────────┐
│       Past Due Exposure Treatment        │
└─────────────────────────────────────────┘
                    │
                    ▼
┌─────────────────────────────────────────┐
│              RWA Calculation             │
└─────────────────────────────────────────┘
```
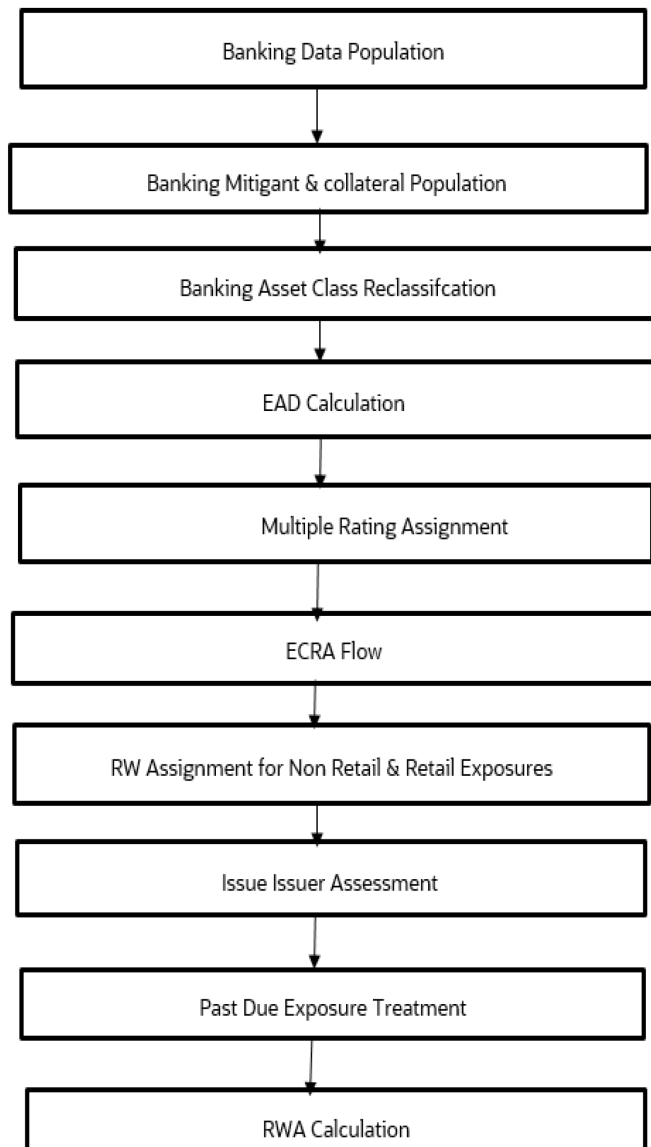
7.1.1.1   Rating Population

The data on ratings is captured in the following rating specific tables:

- Account Rating Table (STG_ACCOUNT_RATING_DETAILS)
  - Ratings of all Credit Risk Banking Exposures are captured in this table.
- Party Rating Table (STG_PARTY_RATING_DETAILS)
  - Credit Rating for all customers and issuers are captured in this table.
- Sovereign Rating Table (STG_SOVEREIGN_RATING_DETAILS)
  - Credit Rating for all countries is captured in this table.

7.1.1.1.1 Processing Steps

Banks obtain credit ratings from different sources, and these are provided as input in the application through the rating tables mentioned in the preceding list.

This is handled in the sub-process RATING_RECLASSIFICATION_POPULATION in the Post Crisis Banking Reclassifications process.

The application re-classifies the rating information to BIS Specific standard ratings. The out-of-box application supports the Fitch / Moodys / S&P and DBRS credit rating reclassification for Long Term and Short Term ratings.

This is handled in the sub-process Credit Rating Reclassification in Post Crisis Banking Reclassifications process.

The rating reclassification lookup table FSI Rating Classification (FSI_RATING_CLASSIFICATION) is used to lookup reclassified standard ratings so that the reclassification rule is not repeated for each of the rating processing tables.

Ratings are populated from the stage tables (for example, STG_PARTY_RATING_DETAILS) to FSI tables (for example, FSI_PARTY_RATING_DETAILS) using the lookup table (FSI_RATING_CLASSIFICATION) to obtain a reclassified rating.

Ensure that all the columns as indicated in the DL Specs are mandatorily populated with data. For example, in the Stage Party Rating Details (STG_PARTY_RATING_DETAILS) table: Rating source code (V_RATING_SRC_CODE), Party Code (V_PARTY_CD), Purpose (V_PURPOSE) are required to be populated. The purpose code is to indicate whether the rating is a domestic rating or a foreign rating. If any other rating is provided, then the exposure is considered unrated.

7.1.1.2 Data Population

Credit Risk Exposures are updated in the application for all the product types through their respective input tables known as Product Processors. Main categories of Credit Risk Banking Exposures, along with their respective table names that are used as an input, are as follows:

Table 8: Data Population for Credit Risk Banking Exposures

Product	Source Product Processor
Assets Sold	STG_ASSETS_SOLD
Bills	STG_BILLS_CONTRACTS
Credit Cards	STG_CARDS
Guarantees	STG_GUARANTEES
Lease Contracts	STG_LEASE_CONTRACTS
Letters of Credit	STG_LC_CONTRACTS
Line of Credit	STG_CREDIT_LINE_DETAILS
Commitment Contracts	STG_COMMITMENT_CONTRACTS
Loans	STG_LOAN_CONTRACTS
Overdraft	STG_OD_ACCOUNTS

There is a Data Population for the mitigants that cater to all the types of mitigants like collateral, guarantee, and credit derivatives. There is a data population also for counter-guarantee provided for a mitigant.

Table 9: Data Population for Mitigants

Product	Source Product Processor
Mitigants – Financial Collateral, Non-Financial Collateral. Pledged Instruments, Guarantee, Credit Derivatives	STG_MITIGANTS
Counter Guarantee	STG_MITIGANT_COUNTER_GUARANTEE

There is a Data Population for the mapping between the exposures and the mitigants, as well as a mitigant to counter-guarantee mapping

Table 10: Data Population for Mapping between Exposures and Mitigants

Product	Source Table
Mapping for Exposures and Mitigants	STG_ACCOUNT_MITIGANT_MAP
Mapping for Guarantee and Counter Guarantee	STG_MITIGANT_CNTR_GUAR_MAPPING

Processing table details

All Credit Risk Banking Exposures are loaded into the table, FSI Cap Banking Exposures (FSI_CAP_BANKING_EXPOSURES) where further processing happens for this portfolio of exposures till the computation for Pre-Credit Risk Mitigation Process. This is handled in the process Banking Data Population.

Banking Retail Data Population

There is a Data Population for Retail Exposures which picks up relevant exposures from the Product Tables and populates the same into FSI Cap Retail Exposures Table FSI_CAP_BANK_RETAIL_EXP table. This is handled in the Banking Retail Related Data Population sub-process within the Banking Post Crisis for Data Population. Based on the run definition the user can choose to Allow Residential Property under construction to be treated under a completed property or not.

Unhedged Exposure Data Population

The Unhedged Foreign Currency Exposures are affected by the volatility in Exchange Rate Movements. These impact the capacity of the holders to fulfill their credit obligations towards the banks and hence result in default losses and thereby affects the complete financial system.

The Unhedged Fund Data Population picks up relevant exposures based on the Unhedged Indicator Assignment. The Unhedged Fund split is handled in BANKING_EXPOSURE_SPLIT_RW_POP and BANKING_ADDITIONAL_SPLIT_RW_POP.

Unhedged Fund Data is input in Stage Hedge Portfolio Master Table (STG_HEDGE_PORTFOLIO_SET_MASTER) which is populated to dim hedge portfolio table (DIM_HEDGE_PORTFOLIO_SET). The Stage Hedge Portfolio Master Table (STG_HEDGE_PORTFL_SET_ACCT_MAP) maps the exposures with the Hedging Sets.

This is handled in the Additional Banking Exposure Population sub-process within the Banking Post Crisis for Data Population.

7.1.1.3   Shareholding Percent Multiplication

Shareholding Percent Multiplication for common entity-level data is a part of the BIS Common Data Processing (PMFCOM020) process. In this, the application updates the shareholding percentage against each entity is updated with the value of 1 as the shareholding percent and for each child entity, the percentage is based on the parent's holding percentage as specified for each child in Fact Entity Shareholding Percent table (FCT_ENTITY_SHR_HLD_PERCENT).

Shareholding Percent Multiplication for exposure level is part of each portfolio as well. In this process, the application multiplies the entity shareholding percentage for that entity for Parent Entity against Exposure Amount, Undrawn Amount, Provision Amount, and any other amount relevant for calculation related to that exposure and updates the same.

This is handled in the sub-process BNK_SHAREHOLDING_CALCULATION_STD in the process Banking Data Processing – STD.

7.1.1.4   Common Reclassification Rules

The application reclassifies the bank's product types and party types to standard product and party types. Based on the standard product and party type, the asset class for each exposure is arrived at. Similarly, the application does reclassification for mitigant based on its mitigant types and reclassifies it to standard mitigant types.

Ensure that all products and party type and mitigants which are bank-specific are reclassified, as part of the setup activity. If they are not reclassified, the treatment might not happen as expected by the regulator.

Product Type Reclassification

Product types used by the reporting bank as input data are reclassified to standard product types as recommended in the Accord. The product types after reclassification are stored as Basel Product Types. For Example, Housing Loan is reclassified as Residential Mortgage Exposure.

This is handled in the Basel Product Type Reclassification which is part of the COMMON_RECLASSIFICATION process.

Party Type Reclassification

Similar to the product type, the customer type (which is stored as counterparty type) is also reclassified as the Standard Counterparty Type. The customer information is expected in the Stage Party Master (STG_PARTY_MASTER), and this also includes the Party Type based on the Stage Party Type Master (STG_PARTY_TYPE_MASTER).

Party Type Reclassification Rules handle reclassification for customer types. For Example, an Individual is reclassified as Retail.

This is handled in the Party Type Reclassification which is part of the PARTY_TYPE_RECLASSIFICATION_POPULATION_STD process.

Other Reclassification

As part of the Reclassification Rules, any other data which is being brought inside the application like seniority, transaction type, and so on also get reclassified into OFSAA Specific Values. This is also

mandatory to be done, as otherwise, data is not available for processing as required by the regulator. This happens as part of the process COMMON_RECLASSIFICATION.

7.1.1.5 Asset Reclassification Rules

Based on Basel Product type and Standard Counterparty Type, an Asset Class is formed by the application. This Asset Class is used for data processing. The Asset Class is the same as specified in the accord.

For example, Standard Counterparty is Corporate non-SME and Corporate SME, the Asset Class is corporate. For Basel Product Type Residential Mortgage Exposure, the Asset Class is Claims Secured by Residential Real Estate.

The Asset Class for all mitigants is reclassified based on their Standard Mitigant Types and Standard Issuer Type. This happens in the BNK_RECLASSIFICATION_STD sub-process of the process Post Crisis Banking Data Processing.

7.1.1.6 Pre-mitigation Calculations

Based on the Asset Class, the application calculates the Pre-Credit Risk Mitigation (CRM) Exposure at Default (EAD) for each exposure. This value signifies the maximum loss that the bank can suffer, in case of default on this exposure, before considering any mitigation effects.

Some exposures can be hedged against credit risk through various mitigants such as guarantees, collaterals, credit derivatives, and so on. These provide mitigation to credit risk and must be considered while computing Credit RWA, as per the Accord. Therefore, the application calculates the pre-mitigation Exposure Amount and Post-Mitigation Exposure Amount.

The application also computes pre-mitigation risk-weighted assets (Pre CRM RWA) and Post-Mitigation Risk-Weighted Assets (Post CRM RWA) by multiplying the respective EAD by risk weight. The risk weight is arrived at, by considering the credit rating of the exposures and mitigants as per the guidelines.

7.1.1.6.1 Exposure at Default Amount Calculation

Credit Conversion Factor (CCF Assignment)

This is an input required for converting the off-balance sheet component of the exposure (undrawn portion associated with an on-balance sheet or off-balance sheet product, or the exposure amount of an off-balance sheet product). This is based on the supervisory provided values and is determined based on the product type and the maturity associated with the exposure.

This populates the Drawn CCF (for the CCF to be assigned to the exposure amount of the off-balance sheet product) and the Undrawn CCF (for the CCF to be assigned to the undrawn portion of the on balance sheet and off-balance sheet exposures).

This happens in the process PCR CCF Assignment in Banking Data Processing – STD process.

Pre CRM EAD

Exposure at Default (EAD) is calculated for all the products. This is being computed using the Exposure Amount (EOP Balance of the Exposure), Undrawn Amount of the Exposure (Undrawn Amount), and the Credit Conversion Factor for the Off-Balance sheet Amount (CCF). This is computed for the on-balance sheet products separately, and the off-balance sheet products separately.

This happens in the sub-process BNK_PRE_CRM_EAD_COMPUTATION_STD in Banking Data Processing – STD process.

Post CRM EAD

Through the CRM Process, the Bank considers the effect of the mitigation and calculates the post-mitigation exposure at the default amount. This signifies the maximum loss that the Bank can suffer in case of default on this exposure, after considering the effects of the mitigation. This will be the EAD of the Exposure Pre-Mitigation less the covered portion of the mitigant.

7.1.1.6.2   Multiple Assessment

For exposures with multiple ratings, Risk Weight Assignment is based on multiple assessment processes. For each exposure, the final rating is the worst of the best two ratings assigned to the exposure. In case of exposure having multiple ratings associated with the same risk weight and belonging to an equivalent rating, the same will be assigned to the exposure. In the case of exposure having only a single rating, the single rating and corresponding risk weight will be considered for the exposure.

The risk weight corresponding to this rating is then assigned to the exposure.

Exposures for multiple rating assessments are first moved into the table FSI Multiple Rating Processing (FSI_MULTIPLE_RATING_PROCESSING) wherein the ranking and final selection of which rating to use takes place.

This happens in the sub-process of BNK_MULTIPLE_RATING_ASSESSMENT_DATA_POPULATION, wherein the data for the Multiple Assessment Processing gets populated into the FSI Table.

In the task BNK_MULTIPLE_RATING_ASSESSMENT, the identification of the multiple rating for the exposure happens, and the BNK_ RISK_WEIGHT_METHODOLOGY_ASSIGNMENT assigns the actual risk weight, and the final rating assignment happens for the exposures.

All the above fall is a part of the Banking Data Processing – STD Process.

7.1.1.6.3   Issue Issuer Assessment

For all the exposures that remain unrated after the Multiple Assessment Processes, the Issue Issuer Process is performed. This happens in the Issue Issuer Assessment sub-process (BNK_BNK_ISSUE_ISSUER_ASSESSMENT)) in the ECRA Flow of the Run. In the ECRA flow the unrated exposures are assigned a reference rating based on the reference issue available or the rating of the party, whichever is applicable. These Unrated Exposures are assigned a risk weight based on the reference rating.

The reference rating is expected to be provided by the bank for the corresponding counterparty that is unrated in the Stage Issue Details (STG_ISSUE_DETAILS). The reference issue must have the seniority also provided as that will be used for identifying whether the reference is an eligible issue for this assessment. For unrated Banking exposures, the application does an issue-issuer assessment to infer a rating of the unrated exposures, based on the rating of a similar instrument (referred to as reference issue hereafter) issued by the same issuer. The reference issue is used only when it is of the same currency as the exposure and the exposure is senior or equivalent to the same. For the unavailable reference issue, the party rating is used. In the case of the party also being unrated, the exposure remains unrated. The application also considers the Domestic and Foreign Ratings and Long term and short-term ratings to be used for the sake of issue issuer assessment.

Additionally, the application populates whether the exposure is LT rated or ST rated, based on the rating assigned to the exposure.

7.1.1.6.4 Risk Weight Assignment Rules

Banking Exposures Risk Weight

The ECRA Approach options for risk-weighting are selected during Run definition to update the required calculations as allowed by the specific jurisdiction. Based on the Run Definition selected the Banking Process passes through the Risk Weighting Approach. This is handled in Banking Post Crisis Risk Weight Assignment- ECRA and Post Crisis Risk Weight Assignment. For more details on the options, see the Run Management Section.

The Risk Weight Assignment Rules in Banking Post Crisis for Data Processing is categorized into ECRA which is selected through the Run Definition.

Figure 28: Process flow for Risk Weight Assignment Rules
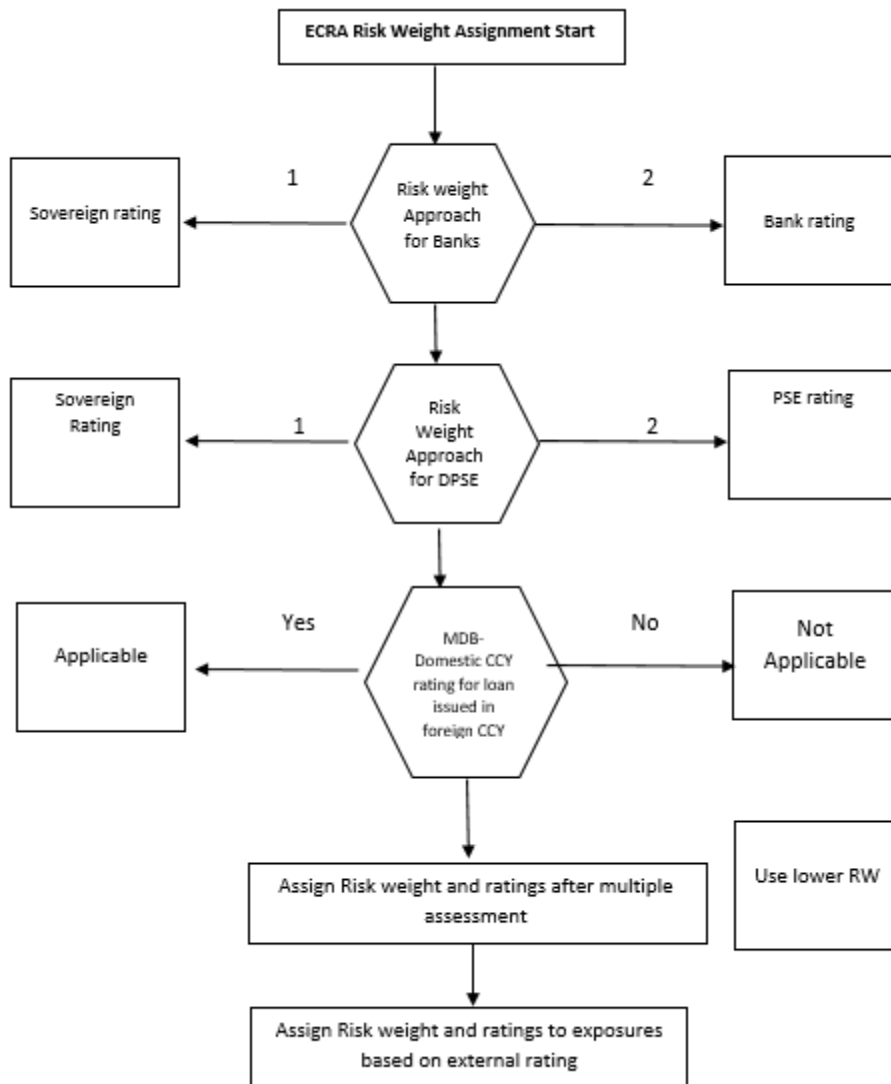
Risk Weight Assignment to all Exposures

Risk Weight is assigned based on asset class and the credit rating as per Basel guidelines. The risk weight rules operate on the risk weight table (FSI_RW_MAP_MASTER). Highly rated exposures are allocated low-risk weight and poorly rated exposures are allocated high-risk weights. If exposure has more than one rating (rated by more than one agency), then the final rating is assigned based on multiple assessments. The application updates the risk weights against the exposures directly, when ratings are not considered.

Options for risk-weighting are selected during Regulatory Definition to update the required calculations as allowed by the specific jurisdiction. This is handled in Banking Post Crisis Risk Weight Assignment- ECRA and Banking Post Crisis Risk Weight Assignment. If the jurisdiction allows the usage of External Ratings, it will be ECRA.

For more details on the options, see the Regulatory Definition Section.

Risk Weight Assignment takes place in the sub-process Post Crisis Banking Data Processing – STD Process.

Risk Weight for Retail Exposures

There is a data population for Retail Exposures which picks up relevant exposures from the Product Tables and populates the same into the FSI Cap Bank Retail Exposures Table (FSI_CAP_BANK_RETAIL_EXP). This is handled in the Banking Retail Related Data Population sub-process within the Banking Post Crisis for Data Population.

Risk Weight for Residential Real Estate Exposures

Any residential real estate is risk-weighted, provided the repayment of the mortgage does not depend on the Cash Flows generated by the property and repayment is dependent on the credit worthiness of repayment capacity of the borrower instead of the property. The Risk weight treatment is stored in the FSI Cap Bank retail exposures table (FSI_CAP_BANK_RETAIL_EXP) and FSI Cap Bank Exposures Table (FSI_CAP_BANKING EXPOSURES) handled in sub-process PCR Retail Repayment Materially Dependent based Risk Weight Assignment in Post Crisis Banking Data Processing.

Risk Weight for Commercial Real Estate Exposures

Commercial Real Estate Exposures are exposures secured by any immovable property which do not qualify for residential real estate treatment. FSI Cap Bank Retail Exposures Table (FSI_CAP_BANK_RETAIL_EXP) and FSI Cap Bank Exposures Table (FSI_CAP_BANKING EXPOSURES) handled in sub process PCR Retail Repayment Materially Dependent based Risk Weight Assignment in Post Crisis Banking Data Processing.

Risk Weight for Past Due Exposures

The application identifies the past due exposures on the basis of the defaulted flag. In certain jurisdictions, wherein there is an option to consider even 150% RW exposures as defaulted exposures, the same also gets considered for the past due treatment. The risk weight for the past due exposures are assigned based on the portion of the exposure that is unsecured and the provision coverage ratio for the same. This gets handled in the sub process BNK_PAST_DUE_TREATMENT_STD in Banking Data Processing – STD Process.

7.1.1.6.5 RWA Calculations

The RWA is calculated as the Pre-mitigation EAD multiplied by the Pre-Mitigation Risk Weight.

This is handled under the sub-process BNK_PRE_CRM_RISK_WEIGHTED_ASSET_CALCULATION_STD in Banking Data Processing – STD Process.

7.1.1.7 Credit Risk Mitigation Process

In order to calculate the post CRM RWA, application needs to account for mitigants which may be in the form of collaterals, guarantees, credit derivatives. Not all mitigants are eligible for RWA Computation. All the mitigants which get populated into the system are being made ineligible, and then the regulatory approved mitigant types and the issuer type combination are made eligible.

7.1.1.7.1 Mitigant Processing

Mitigant Data Population

Mitigant Data is loaded from the Stage Mitigant Table (STG_MITIGANTS) into the FSI CAP Mitigants Table (FSI_CAP_MITIGANTS) where further processing takes place. This is takes place under the sub-process Mitigant Data Population under the process Mitigant Data Processing.

Mitigant Multiple Assessment

Similar to exposures with multiple ratings, mitigants with multiple ratings are also subject to Multiple rating Assessment. This is handled under the sub-process Asset Class Mitigant Multiple Rating Assignment under the process Mitigant Data Processing. In the case of mitigants, the data is expected only for Instruments and Party.

This is performed by the Data Transformation CAP_MITIGANT_MULTIPLE_ASSESSMENT_DATA_POP.

7.1.1.7.2 Mitigant Approaches and their Risk Weighting Rules

Mitigant Risk Weight

For the Simple approach, the application assigns risk weight to mitigants based on credit rating (CAP Mitigant Basel Rating and Risk Weight Assignment), original maturity (CAP Mitigant RW Assignment based on Original Maturity), and for Nettable Liabilities (CAP Mitigant RW Assignment for Nettable Liabilities). These fall under the process PCR Mitigant RW Assignment.

Similarly, for the Comprehensive Approach, Mitigant Risk Weights are assigned based on Credit Rating (CAP Mitigant Basel Rating and Risk Weight Assignment), for financial collaterals (CAP Mitigant RW Assignment for Financial Collaterals - Comprehensive Approach), and for Nettable Liabilities (CAP Mitigant RW Assignment for Nettable Liabilities). These fall under the process PCR Mitigant RW Assignment.

Mitigant Eligibility

The application identifies the eligible mitigants based on the criteria as mentioned by the Regulator. The application identifies the following standard mitigants– collateral, guarantees, and credit derivatives.

The application is capable of using the Simple Approach and the Comprehensive Approach for the mitigants which are part of the collateral. The application identifies the eligibility of the financial collateral separately for the simple approach and the comprehensive approach. The eligibility of the collateral mitigants are based on the party type of the mitigant, mitigant types, the credit rating assigned to the mitigant or the party (as applicable), and the classification of collateral as senior or not. For equity, the eligibility is based on the main index equity and the equity trading status. This is handled in CAP Mitigant Eligibility for Equity - Simple Approach under the process Post Crisis Mitigant Collateral Eligibility Simple Approach.

For mutual funds, the eligibility is based on the eligible mutual fund indicator. This is handled in CAP Mitigant Eligibility for Mutual Fund - Simple approach under the process Post Crisis Mitigant Collateral Eligibility Simple Approach.

The application also identifies whether the mitigant is a Re-securitized exposure and if yes, makes it ineligible.

This is handled in CAP Collateral Eligibility - Simple Approach under the process Post Crisis Mitigant Collateral Eligibility Simple Approach.

 The application identifies the eligibility of the guarantees and credit derivatives based on the party type of the mitigant and the Credit Rating assigned to the issuer of the mitigant. This is handled in CAP Non Sec Mitigant Eligibility under the process Post Crisis Mitigant Collateral Eligibility Simple Approach.

Similar Mitigant Eligibility Rules for Comprehensive Rule can be found in the process Post Crisis Mitigant Collateral Eligibility – Comprehensive Approach.

The option for the bank to select Collateral Simple Approach or Comprehensive Approach is based on the Run Management Option as selected in the UI.

7.1.1.7.3   Mitigant Haircut Assignment

Under Standardized Approach, the bank has to follow supervisory estimates for Mitigant Haircut Assignment. This is based on the various categories like mitigant type, residual maturity, rating, issuer type and so on. This is applicable only if the bank follows comprehensive approach for collateral.

Only eligible mitigants are considered for haircut assignment and for further processing. Post Haircut Assignment, the eligible mitigants are moved from Mitigants Table (FSI_CAP_MITIGANTS) to sub-exposures table (FSI_CAP_SUB_EXPOSURES).

The application does computations for three kinds of mitigant haircuts which are volatility haircut, FOREX Haircut, and Maturity Mismatch Haircut.

Volatility Haircut

Volatility Haircuts are assigned to the collateral to account for any future fluctuations in the market value of the financial collateral. The application assign haircuts for various type of financial collateral like debt securities, equity, mutual funds, and so on. In the supervisory haircut method, the application assigns volatility haircut based on issues, issuer's ratings, mitigant's residual maturity, and type of mitigant.

This is handled in CAP CRM Mitigant Volatility Haircut - Supervisory Haircut under CRM Sub Exposure Data Haircut Assignment Process.

Forex Haircut

If the exposure and collateral are in different currencies, then the application adjusts by applying the FOREX Haircut.

This is handled in CAP CRM Forex Haircut Sub Exposures under the CRM Sub Exposure Data Haircut Assignment Process.

Maturity Mismatch Haircut

If the residual maturity of the Credit Risk Mitigant is less than that of the Underlying Credit Exposure, then a maturity mismatch haircut is applied to adjust the value.

This is handled under CAP CRM Maturity Mismatch Haircut under CRM Sub Exposure Data Haircut Assignment Process.

7.1.2 Investment Portfolio

7.1.2.1 Rating Population

The data on ratings is captured in the following rating specific tables:

- Instrument Rating Table (STG_INSTRUMENT_RATING_DETAILS)

  - Ratings for Investment Exposures subject to credit risk (one that is in STG_INVESTMENTS) and mitigants are captured in this table.

- Party Rating Table (STG_PARTY_RATING_DETAILS)

  - Ratings for the customer are captured in this table.

- Sovereign Rating Table (STG_SOVEREIGN_RATING_DETAILS)

  - Credit Rating for all countries is captured in this table.

- External Underlying Exposures Rating Table (STG_EXT_ULY_ACCT_RATING_DTL)

  - Credit Rating provided by an External agency for all underlying exposures is captured in this table. In the case of underlying exposures of CIU Transactions, it is expected that the value of Exposure ID is that of the instrument ID to which the underlying exposures belong to. For example: If the Underlying Exposure ID EXP001, which belongs to the instrument INSTR001, and has the parent ID as PARENT001; in this case, the data expected in this table is of the instrument INSTR001, with the Exposure ID as INSTR001.

7.1.2.2 Processing Steps

Banks obtain credit ratings from different sources, and these are provided as input in the application through the rating tables mentioned in the preceding list.

This is handled in the sub-process Multiple Rating Assessment in BIS Other Reclassifications Process.

The application re-classifies the rating information to BIS Specific Standard Ratings. The out-of-box application supports the Fitch / Moodys / S&P and DBRS Credit Rating reclassification for Long Term and Short Term ratings.

This is handled in the sub-process Credit Rating Reclassification in Investment Data Processing.

The rating Reclassification Lookup Table (FSI_RATING_CLASSIFICATION) is used to lookup reclassified standard ratings so that the Reclassification Rule is not repeated for each of the Rating Processing Tables. Ratings are populated from the Stage Tables (for example, STG_PARTY_RATING_DETAILS) to FSI tables (for example, FSI_PARTY_RATING_DETAILS) using the lookup table (FSI_RATING_CLASSIFICATION) to obtain a reclassified rating.

Ensure that the following columns are mandatorily populated with data in the STG_PARTY_RATING_DETAILS table: Rating source code (V_RATING_SRC_CODE), Party Code (V_PARTY_CD), Original Credit Rating Indicator (F_ORIGINAL_CREDIT_RATING_IND), Purpose (V_PURPOSE): In this field whether the rating is a domestic rating or foreign rating must be indicated. If any other rating is provided, then the exposure is considered as unrated.
Data Population.

Preprocessing Steps

Credit Risk Exposures are updated in the application for all the product types through their respective input tables known as Product Processors. Main categories of Credit Risk Investment Exposures, along with their respective table names that are used as an input, are as follows:

Table 11: Data Population for Credit Risk Investment Exposures

Product	Source Product Processor
Investment Products:	STG_INVESTMENTS
Money Market Instruments	STG_MM_CONTRACTS
Spot Forex Transactions	STG_FX_CONTRACTS
Fixed Assets	STG_FIXED_ASSETS

7.1.2.3   Data Population

There is a Data Population about the mitigants, which cater to all the types of mitigants like collateral, guarantee, and credit derivatives. There is one Data Population about the counter-guarantee for the guarantor.

Table 12: Data Population for Mitigants

Product	Source Product Processor
Mitigants – Collateral, Guarantee, Credit Derivatives	STG_MITIGANTS
Mitigant Master Table	STG_MITIGANT_MASTER

There is a data population about the mapping between the exposures and the mitigants.

Table 13: Data Population for Mapping between Exposures and Mitigants

Product	Source Table
Mapping for Exposures and Mitigants	STG_ACCOUNT_MITIGANT_MAP

In the case of investments in funds (CIUs), the underlying of the CIU is captured in either of the below tables, depending on the data availability and basis which method assignment happens within the product.

Table 14: Data Population for Underlying of the CIU

Product Type	Source Product Processor
Underlying composition Details of CIU	STG_FUND_CIS_COMPOSITION
Underlying Exposures of CIU	STG_FUND_UNDERLYNG_COMPOSITION

Processing table details

All Credit Risk Investment exposures are loaded into the table, FSI CAP Investment Exposures, FSI_CAP_INVESTMENT_EXPOSURES where further processing happens for this portfolio of exposures till the computation of Pre Credit Risk Mitigation Process.

This is handled in the process Investment Data Population.

7.1.2.4 Shareholding Percent Multiplication

Shareholding percent multiplication for common entity-level data is a part of BIS Common Data Processing (PMFCOM020) process. In this, the application updates the shareholding percentage against each entity. The parent entity is updated with the value of 1 as the shareholding percent and for each child entity, the percentage is based on the Parent's Holding Percentage as specified for each child in fact entity shareholding percent table (FCT_ENTITY_SHR_HLD_PERCENT).

Shareholding percent multiplication for exposure level is part of each portfolio as well. In this process, the application multiplies the Entity Shareholding Percentage for that entity for Parent Entity against Exposure Amount, Undrawn Amount, and Provision Amount for that exposure and updates the same.

This is handled in the sub-process INV_SHAREHOLDING_CALCULATION_STD of the process Investment Data Processing – STD.

7.1.2.5 Common Reclassification Rules

The application reclassifies the bank's product types and party types to standard product and party types. Based on the standard product and party type, the asset class for each exposure is arrived at. Similarly, the application does reclassification for mitigant based on its mitigant types and reclassifies it to Standard Mitigant Types.

Ensure that all products and party type and mitigants which are bank-specific are reclassified, as part of the setup activity. If they are not reclassified, the treatment might not happen as expected by the regulator.

Product Type Reclassification

Product types used by the reporting bank as input data are reclassified to standard product types as recommended in the Accord. The product types after reclassification are stored as Basel product types. For Example, Fixed Rate Bond is reclassified as Debt Securities.

This is handled in the Basel Product Type Reclassification which is part of the COMMON_RECLASSIFICATION Process.

Party Type Reclassification

Similar to the product type, the customer type (which is stored as counterparty type) is also reclassified as the standard counterparty type. The customer information is expected in the Stage Party Master (STG_PARTY_MASTER), and this also includes the Party Type based on the Stage Party Type Master (STG_PARTY_TYPE_MASTER).

Party type Reclassification Rules handle reclassification for customer types. For Example, a Housing Finance Company is reclassified as Corporate.

This is handled in the Party Type Reclassification which is part of the Investment Data Population.

Other Reclassification

As part of the Reclassification Rules, any other data which is being brought inside the application like seniority, transaction type, and so on also get reclassified into OFSAA Specific Values. This is also mandatory to be done, as otherwise, data will not be available for processing as required by the regulator.

This happens as part of the process COMMON_RECLASSIFICATION.

7.1.2.6 Asset Reclassification Rules

Based on Basel Product Type and Standard Counterparty Type, an Asset Class is formed by the application. This Asset Class is used for data processing. The Asset Class is the same as specified in the accord.

For example, Standard Counterparty is Corporate non-SME and Corporate SME, the Asset Class is corporate. For Basel Product Type Gold, the Asset Class is Gold.

The Asset Class for all mitigants is reclassified based on their Standard Mitigant Types and Standard Issuer Type.

This happens in the sub-process INV_RECLASSIFICATION_STD of the process HKMA- Post Crisis Investment Data Processing - STD.

7.1.2.7 Pre-mitigation Calculations

Based on the Asset Class, the application calculates the Pre-Credit Risk Mitigation (CRM) Exposure at Default (EAD) for each exposure. This value signifies the maximum loss that the bank can suffer, in case of default on this exposure, before considering any mitigation effects.

Some exposures can be hedged against credit risk through various mitigants such as guarantees, collaterals, credit derivatives, and so on. These provide mitigation to credit risk and must be considered while computing Credit RWA, as per the Accord. Hence, the application calculates the pre-mitigation exposure amount and post-mitigation exposure amount.

The application also computes pre-mitigation risk-weighted assets (Pre CRM RWA) and post-mitigation risk-weighted assets (Post CRM RWA) by multiplying the respective EAD by risk weight. The risk weight is arrived at, by considering the credit rating of the exposures and mitigants as per the guidelines.

7.1.2.7.1 Exposure at Default Amount Calculation

Pre CRM EAD

Exposure at Default (EAD) is calculated for all the products. This is being computed using the Exposure Amount (EOP Balance of the Exposure and adjusting for Provision amount, if any)

This happens in the process INV_PRE_CRM_EAD_COMPUTATION_STD of the process HKMA- Post Crisis Investment Data Processing - STD.

Post CRM EAD

Through the CRM process, the bank considers the effect of the mitigation and calculates the post-mitigation exposure at the default amount. This signifies the maximum loss that the bank can suffer in case of default on this exposure, after considering the effects of the mitigation. This will be the EAD of the Exposure Pre-Mitigation less the covered portion of the mitigant.

7.1.2.7.2 Multiple Assessment

For exposures with multiple ratings, risk weight assignment is based on multiple assessment processes. For each exposure, the final rating is the worst of the best two ratings assigned to the exposure.

The risk weight corresponding to this rating is then assigned to the exposure.

Exposures for multiple rating assessments are first moved into the table FSI Mutliple Rating Processing (FSI_MULTIPLE_RATING_PROCESSING) wherein the ranking and final selection of which rating to use takes place.

This happens in the sub-process of INV_MULTIPLE_RATING_ASSESSMENT_DATA_POPULATION, wherein the data for the multiple assessment processing gets populated into the FSI table. MULTIPLE_RATING_ASSESSMENT, wherein the identification of the multiple rating for the exposure happens, and the

INV_MULTIPLE_ASSESSMENT_BASED_RISK_WEIGHT_ASSIGNMENT wherein the actual risk weight and final rating assignment happen for the exposures.

All the above fall under HKMA- Post Crisis Investment Data Processing – STD.

7.1.2.7.3 Issue Issuer Assessment

For all exposures which remain unrated after the multiple assessment processes, the issue issuer process is performed. This happens in the Issue Issuer Assessment sub-process (INV_INV_ISSUE_ISSUER_ASSESSMENT). In this case, the unrated exposures are assigned a reference rating based on the reference issue available or the rating of the party, whichever is applicable. These unrated exposures are assigned a risk weight based on the reference rating.

For unrated Non-Securitized Exposures, the application does an issue-issuer assessment to infer a rating of the unrated exposures, based on the rating of a similar instrument (referred to as reference issue hereafter) issued by the same issuer. The reference issue is used only when it is of the same currency as the exposure and the exposure is senior or equivalent to the same. For the unavailable reference issue, the party rating is used. In the case of the party also being unrated, the exposure remains unrated. Also, the application populates whether the exposure is LT rated or ST rated, based on the rating assigned to the exposure.

7.1.2.7.4 Risk Weight Assignment Rules

ECRA Approach

The ECRA Approach options for risk-weighting are selected during Run definition to update the required calculations as allowed by the specific jurisdiction. Based on the run definition selected the Investment process passes through the Risk Weighting Approach. This is handled in Investment Post Crisis Risk Weight Assignment- ECRA and Banking Post Crisis Risk Weight Assignment. For more details on the options, see the Run Management section.

Figure 29: Process Flow for Risk Weight Assignment Rules - ECRA Approach
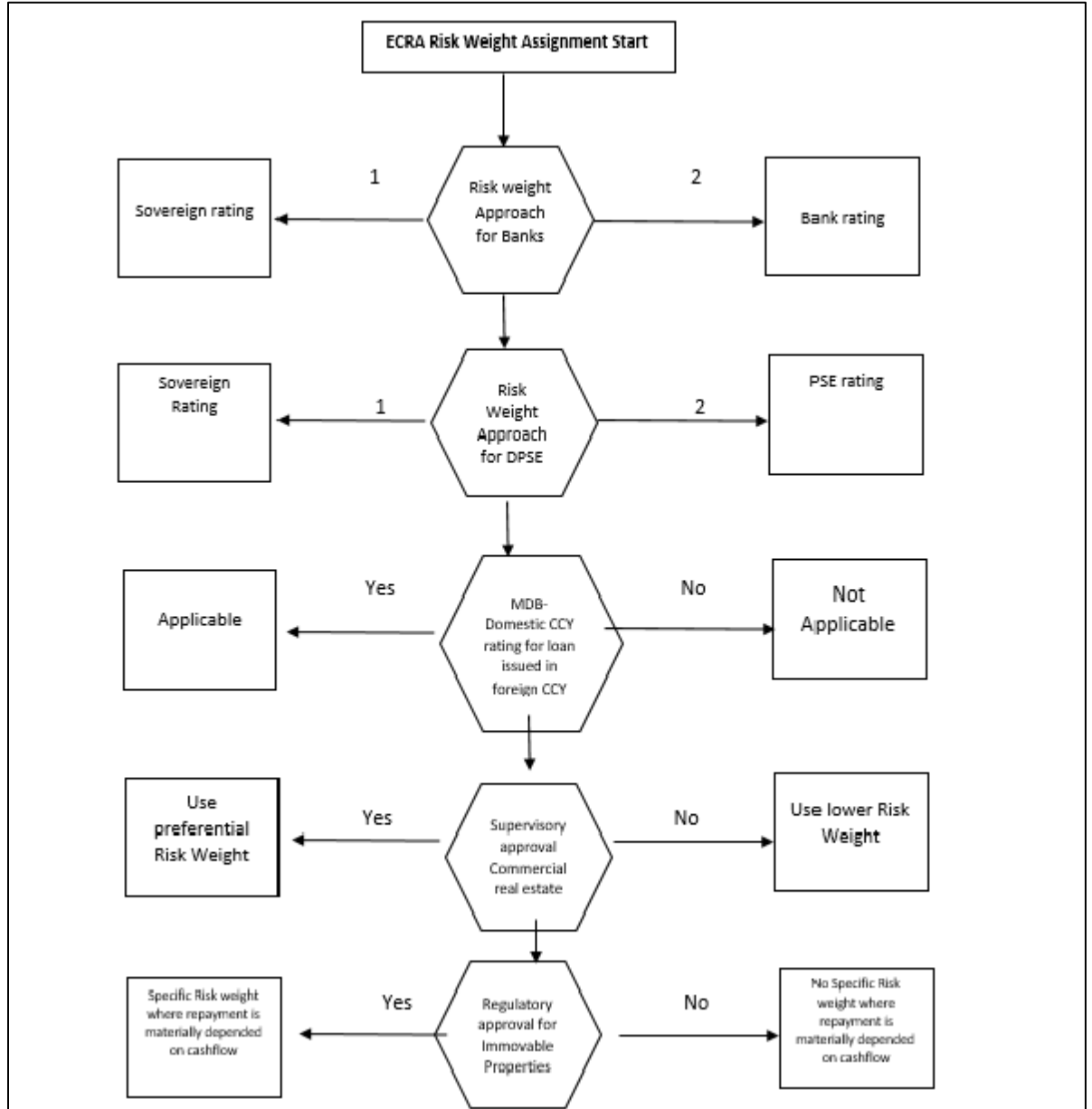
Non-Sec Exposures Risk Weight

Risk Weight is assigned based on asset class and the credit rating as per Basel guidelines. The risk weight rules operate on the risk weight table (FSI_RW_MAP_MASTER). Highly rated exposures are allocated low-risk weight and poorly rated exposures are allocated high-risk weights.

If exposure has more than one rating (rated by more than one agency), then the final rating is assigned based on multiple assessments. The application updates the risk weights against the exposures directly, when ratings are not considered.

Options for risk-weighting are selected during Run definition if the Run Management UI is used, to update the required calculations as allowed by the specific jurisdiction. For more details on the options, see the Run Management section.

This is handled under the sub-process: INV_RISK_WEIGHT_ASSIGNMENT_STD in HKMA- Post Crisis Investment Data Processing – STD process.

Funds/ Collective Investment Units

Equity Investments in Funds – (Collective Investment Units (CIU) Processing)

The CIU is funds that have invested in various exposures. The accord has specified various criteria for risk-weighting CIU exposures which is dependent upon the level of information provided by the User in the defined format as part of data expectation. The application supports all the approaches. In the case of CIU, the application follows a hierarchy of approaches:

- Look Through Approach

- Look Through Approach-Third Party

- Mandate Based Approach

- Fall Back Approach

Figure 30: Process Flow of Equity Investments in Funds
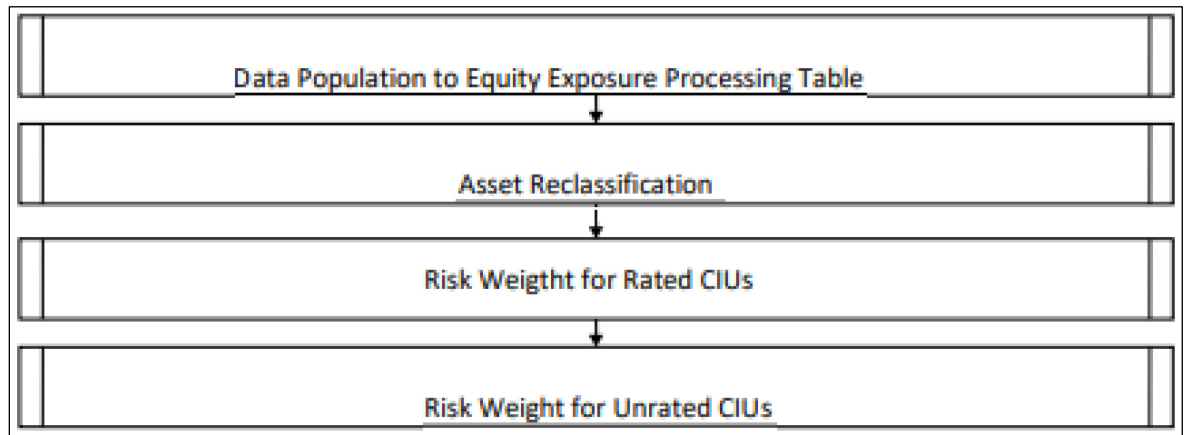
The exposures to CIU are expected in the table Stage Investments (STG_INVESTMENTS), and the instrument code is expected to be populated for these exposures. The static information related to the instruments is expected in the Instrument contract dimension table (DIM_INSTRUMENT_CONTRACT) with the V_UNDERLYING_INSTRUMENT_CD column to be non nullable for main exposures to CIU and the information about the instruments, which change periodically like the current outstanding issue amount,

Total outstanding issue amount, Total Fund Issued As Equity ,Total Fund issued as Debt is expected in the Stage Instrument Contract Detail table (STG_INSTRUMENT_CONTRACT_DTL).

The underlying exposures of CIU are expected in STG_FUND_CIS_COMPOSITION with the fund code (instrument code) populated also into Parent Instrument Code.

The underlying composition of the CIU is expected in the table Stage Fund Underlying Composition (STG_FUND_UNDERLYNG_COMPOSITION). This has the underlying composition details of the fund, across various products, and the maximum permissible limit of investment in each of the product types and within that percentage allocation in Capital Instruments with the Fund Code as the Instrument ID.

> **NOTE:**
>
> The fund underlying composition or the underlying exposures are required for processing, only when the underlying of the fund is not available and when there is mandate information available for the fund. Further there are certain data expectations with respect to Issuer of the various products related to underlying composition to be furnished.

When the derivatives products are underlying for a CIU, then the MTM value of the derivative is expected to be given as Asset MTM Value (N_ASSET_MTM_VALUE) along with basic details required as part of EAD computation (N_NOTIONAL_PRINCIPAL, D_INSTRUMENT_MATURITY_DATE) in Stage Fund CIS Composition (STG_FUND_CIS_COMPOSITION).

> **NOTE:**
>
> Unless operational criteria are met, the look-through approach is not applicable.

Look Through Approach

The first approach in the hierarchy that the application assigns based on the operational criteria given in the accord is LTA. Under Look through Approach the Undelrying Exposures of CIU are considered as exposures which are directly held by the Bank. To validate the operational criteria or conditions given, data is expected as input. Along with the regulatory prescribed conditions , the application also checks for the availability of the underlying information. If all the sufficient information is available, the application assigns the Look Through Approach (LTA) and computation will be followed as given in the accord. If operational criteria are not met, the application checks for the immediate next approach.

The look through approach are handled in the sub-process CIU - INV - Identification of Complete Underlying Availability for CIU Exposures and CIU - INV – Risk Weight Method Assignment – Look Through Approach in the process INV_CIU_UNDERLYING and INV_CIU_RISK_WEIGHT_METHOD_CALCULATION, respectively.

Look Through Approach- Third Party

This approach is applied when Banks rely on Third Party Calculations for determining the Risk Weight associated with their Equity Investment in Funds. To validate the operational criteria or conditions given, the relevant information is expected in the Stage Instrument Contract Detail Table (STG_INSTRUMENT_CONTRACT_DTL). If necessary information is provided along with other operational criteria, the application assigns the Look Through Approach- Third Party.

This is handled in the sub-process CIU - INV – Risk Weight Method Assignment – Third Party Approach in the process INV_CIU_RISK_WEIGHT_METHOD_CALCULATION.

Mandate Based Approach

This approach is applied when the information of the underlying and the Third-Party Risk Weights that can be used under the look-through approach are not available. To continue with this approach, banks are required to provide Fund's mandate information. After the application checks for the information and assigns the approach, computations for MBA under the Standardized Approach are in line with the Basel Accord.

This is handled in the sub-process CIU - INV – Risk Weight Method Assignment – Mandate Based Approach in the process INV_CIU_RISK_WEIGHT_METHOD_CALCULATION.

Fall Back Approach

If no approach from the hierarchy is applicable based on the checks performed, the application assigns Fall Back Approach. In this approach, all the exposures will be risk-weighted at 1250%.

This is handled in the sub-process CIU - INV – Risk Weight Method Assignment – Fall Back Approach in the process INV_CIU_RISK_WEIGHT_METHOD_CALCULATION.

Partial use of an approach

A bank may use a combination of the three approaches when determining the capital requirements for an equity investment in an individual fund, provided that the conditions for all the approaches are met.

This will be applicable only in the case of the treatment of funds in other funds, as within a fund the method cannot be different.

Treatment of funds invested in other funds

If the underlying information is available, then application checks for the approach that is used by the funds. If the approach is not same across then FBA will be assigned i.e. if the approach used for determining the RW of a fund and the same approach is also where it is invested. Further, if same then application carry on with the same approach (Look through or Mandate based approach respectively), if not then we will assign 1250% under Fall Back Approach.

Risk Weight assignment of Covered Bonds

Covered bonds are debt securities issued by credit institutions and secured by a pool of mortgage loans or credit towards the public sector. The proceeds derived from the issuance of Covered Bonds are invested by the Issuer in conformity with the law and during the validity of such bonds the underlying of such bonds must be capable of covering the claims attached to such Bonds. These covered bonds qualify for a preferential treatment only if they qualify for the treatment based on the criteria for the underlying exposures. If they do not qualify for the preferential treatment, they will be treated based on the issuer asset class, as any other bond instrument.

The Underlying Assets must satisfy all the criteria with respect to eligible asset class, outstanding amount and other operational criteria given in the accord to make the Debt Securities assigned Covered Bond status and eligible for preferential treatment. If operational criteria are not met they will not be eligible for preferential treatment.

This is handled in the sub process Covered Bonds Exposures Outstanding Nominal Amount Percentage Calculation, Covered Bond Underlying Assets Eligibility Assessment and Investment Exposure Eligible Preferential Treatment Flag Assignment in the process POST_CRISIS_REFORMS_COVERED_BOND_UNDERLYINGS

If any of the criteria are not met, then they will not qualify for the preferential treatment.

For example, below is a criteria based on party of the underlying exposure:

The underlying of the covered bonds belonging to the below category are eligible for preferential treatment:

Exposures to Sovereign, Central Banks

Below is another criteria based on the product to which the underlying exposure has invested

The underlying of the covered bonds belonging to the below category are eligible for preferential treatment

Loans secured by Commercial Real Estate meeting the eligibility criteria and LTV (Loan to Value) of 60% or less.

All covered bond exposures for which Preferential Treatment criteria are met will get Asset Class stamping of CB (Covered Bond).

Rated CB exposures will assign risk weight based on the rating while unrated CB exposures will use the rating of the issuer of the Financial Instrument.

Covered Bonds related tasks related to assignment of ratings and risk weight are found in the process HKMA_POST_CRISIS_REFORMS_COVERED_BONDS

7.1.2.7.5   RWA Calculations

The RWA is calculated as the Pre-mitigation EAD multiplied by the Pre-Mitigation Risk Weight.

This is handled under the sub-process INV_PRE_CRM_RISK_WEIGHTED_ASSET_CALCULATION_STD under the process Investment Data Processing – STD.

7.1.2.8   Credit Risk Mitigation Process

In order to calculate the post CRM RWA, application needs to account for mitigants which may be in the form of collaterals, guarantees, credit derivatives. Not all mitigants are eligible for RWA computation. All the mitigants which get populated into the system are being made ineligible, and then the regulatory approved mitigant types and the issuer type combination are made eligible.

7.1.2.8.1   Mitigant Processing

Mitigant Data Population

Mitigant Data is loaded from the Stage Mitigant Table (STG_MITIGANTS) into the FSI CAP Mitigants table (FSI_CAP_MITIGANTS) where further processing takes place. This is takes place under the sub-process Mitigant Data Population in the process Mitigant Data Processing.

Mitigant Multiple Assessment

Similar to exposures with multiple ratings, mitigants with multiple ratings are also subject to Multiple rating Assessment. This is handled under the sub-process Mitigant Multiple Rating Assignment – HKMA in the process Mitigant Data Processing -STD.

The Data Transformation "CAP_MITIGANT_MULTIPLE_ASSESSMENT_DATA_POP" performs this.

7.1.2.8.2 Mitigant Eligibility Approaches and their Risk Weighting Rules

Mitigant Risk Weight

The Post Crisis Mitigant Risk Weight is a common sub process in Post Crisis Mitigant Data Processing from which its handles into:

- Simple Approach

- ECRA Approach

- Comprehensive Approach

- ECRA Approach

Simple Approach

The Simple Approach is selected via Run Definition. The application assigns risk weight to mitigants on the basis of credit rating of ECRA Rating Approach which is also based on the run definition selected. The risk weight is based on Credit Rating (CAP Mitigant Basel Rating and Risk Weight Assignment), original maturity (CAP Mitigant RW Assignment based on Original Maturity) and for Nettable Liabilities (CAP Mitigant RW Assignment for Nettable Liabilities). These fall under the process Mitigant RW Assignment – Simple – HKMA.

ECRA Approach

The ECRA Approach options for risk-weighting are selected during Run definition to update the required calculations as allowed by the specific jurisdiction. Based on the run definition selected the Mitigant process passes through the Risk Weighting Approach handled in Mitigant RW Assignment – Simple – HKMA.

Comprehensive Approach

The Comprehensive Approach is selected via Run Definition. The Application assigns risk weight to mitigants on the basis of selection of ECRA Rating Approach which is also based on the run definition selected. The mitigant risk weights are assigned on the basis of credit rating (CAP Mitigant Basel Rating and Risk Weight Assignment), for financial collaterals (CAP Mitigant RW Assignment for Financial Collaterals - Comprehensive Approach) and for Nettable Liabilities (CAP Mitigant RW Assignment for Nettable Liabilities). These fall under the process Mitigant RW Assignment – HKMA –Comprehensive Approach.

ECRA Approach

The ECRA Approach options for risk-weighting are selected during Run definition to update the required calculations as allowed by the specific jurisdiction. Based on the run definition selected the Mitigant process passes through the Risk Weighting Approach handled in Mitigant RW Assignment – HKMA – Comprehensive Approach.

Mitigant Eligibility

The application identifies the eligible mitigants based on the criteria as mentioned by the Regulator. The application identifies the following standard mitigants– collateral, guarantees, and credit derivatives.

The application is capable of using the Simple Approach and the Comprehensive Approach for the mitigants which are part of the collateral. The application identifies the eligibility of the financial collateral separately for the simple approach and the comprehensive approach. The eligibility of the collateral

mitigants are based on the party type of the mitigant, mitigant types, the credit rating assigned to the mitigant or the party (as applicable), and the classification of collateral as senior or not. Also application enables the selection of ECRA Approach.

For equity, the eligibility is based on the main index equity and the equity trading status. This is handled in CAP Collateral Eligibility - Simple Approach - Equity under the process Post Crisis Mitigant Eligibility Simple Approach.

For mutual funds, the eligibility is based on the eligible mutual fund indicator. This is handled CAP Collateral Eligibility - Simple Approach - Equity under the process Post Crisis Mitigant Eligibility Simple Approach The application also identifies whether the mitigant is a Re-Securitized Exposure and if yes, makes it ineligible which is also handled in Post Crisis Mitigant Eligibility Simple Approach.

The application identifies the eligibility of the guarantees and credit derivatives based on the party type of the mitigant and the credit rating assigned to the issuer of the mitigant.

This is handled in CAP Non Sec Mitigant Eligibility under the process Post Crisis Mitigant Eligibility Simple Approach Similarily Mitigant eligibility rules for Comprehensive Approach can be found in the process Post Crisis Mitigant Eligibility – Comprehensive Approach. This is also based on the run definition for ECRA Approach.

The option for the Bank to select Collateral Simple Approach or Comprehensive Approach is based on the Run Management option as selected in the UI.

7.1.2.8.3 Mitigant Haircut Assignment

Under Standardized Approach, the bank has to follow supervisory estimates for Mitigant Haircut assignment. This is based on the various categories like mitigant type, residual maturity, rating, issuer type and so on. This is applicable only if the bank follows comprehensive approach for collateral.

Only eligible mitigants are considered for Haircut Assignment and for further processing. Post Haircut Assignment, the eligible mitigants are moved from mitigants Table (FSI_CAP_MITIGANTS) to Sub Exposures Table (FSI_CAP_SUB_EXPOSURES).

The application does computations for three kinds of Mitigant Haircuts which are Volatility Haircut, Forex Haircut, and Maturity Mismatch Haircut.

The Mitigant Haircut Rules are handled in the Post Crisis Mitigant Haircut Comprehensive Approach for ECRA.

Volatility Haircut

Volatility Haircuts are assigned to the collateral to account for any future fluctuations in the market value of the financial collateral. The application assign haircuts for various type of financial collateral like debt securities, equity, mutual funds, and so on. In the supervisory haircut method, the application assigns volatility haircut based on issues, issuer's ratings, mitigant's residual maturity, and type of mitigant.

This is handled in PCR Mitigant Volatility Haircut - Comprehensive Approach – ECRA Forex Haircut.

Forex Haircut

If the exposure and collateral are in different currencies, then the application makes an adjustment by applying the FOREX Haircut.

This is handled in CAP CRM Forex Haircut Sub Exposures under CRM Sub Exposure Data Haircut Assignment Process.

Maturity Mismatch Haircut

If the residual maturity of the Credit Risk Mitigant is less than that of the underlying credit exposure, then a Maturity Mismatch Haircut is applied to adjust the value.

This is handled under CAP CRM Maturity Mismatch Haircut under CRM Sub Exposure Data Haircut Assignment Process.

7.2 Counterparty Credit RWA

Counterparty Credit RWA is the calculation of the Counterparty Credit Risk Exposures. This includes the derivative portfolio and the Securities and Financing Transaction Portfolio. This also includes the exposures in both Banking Book and Trading Book.

The Counterparty Credit Exposures also undergo additional RWA Calculation in the form of Credit Valuation Adjustment (CVA). The mark to market counterparty credit losses or the spread migration risk is captured with CVA, which was not directly capitalized before. CVA is the difference between the Risk-Free Portfolio Value and the True Portfolio Value that considers the possibility of the counterparty's default. In other words, CVA is the Market Value of Counterparty Credit Risk.

7.2.1 Derivatives Portfolio

Figure 31: Derivatives portfolio
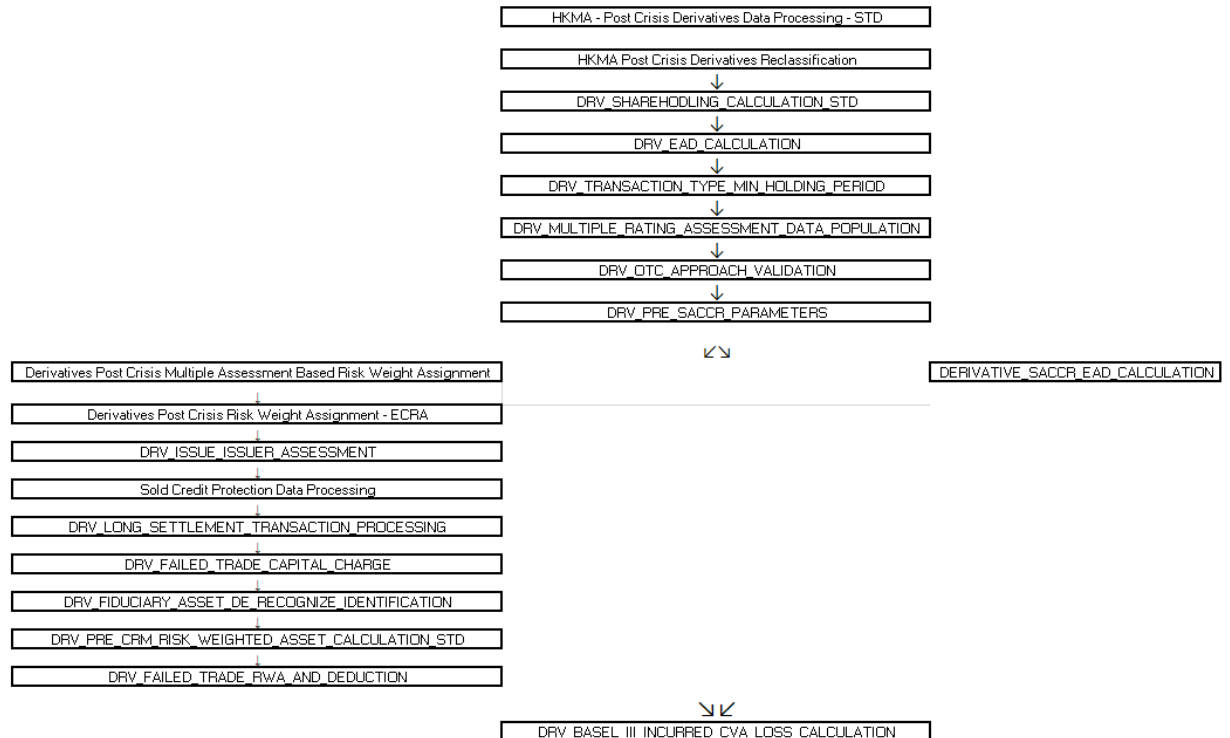
7.2.1.1   Rating Population

The Data on ratings is captured in the following rating specific tables:

- Party Rating Table (STG_PARTY_RATING_DETAILS)

    - Credit Ratings for all are captured in this table.

- Sovereign Rating Table (STG_SOVEREIGN_RATING_DETAILS)

    - Credit Rating for all countries is captured in this table.

    - Instrument Rating Table (STG_INSTRUMENT_RATING_DETAILS)

Ratings for all instruments are captured in this table. Even the posted collateral (Placed Collateral) and received collateral (Mitigants) related ratings are captured in this table and this is handled in the process DRV_INSTRUMENT_RATING_POPULATION.

7.2.1.1.1   Processing Steps

Banks obtain credit ratings from different sources and these are provided as an input in the application through the rating tables mentioned in the preceding list.

This is handled in the process RATING_RECLASSIFICATION_POPULATION.

The application re-classifies the rating information to BIS Specific Standard Ratings. The out-of-box application supports the Fitch / Moody's / S&P and DBRS Credit Rating reclassification for Long Term and Short-Term ratings.

This is handled in the process Credit Rating Reclassification.

The rating reclassification lookup table (FSI_RATING_CLASSIFICATION) is used to Lookup Reclassified Standard Ratings so that the reclassification rule is not repeated for each of the Rating Processing Tables.

Ratings are populated from the stage tables (for example, STG_PARTY_RATING_DETAILS) to FSI tables (for example, FSI_PARTY_RATING_DETAILS) using the lookup table (FSI_RATING_CLASSIFICATION) to obtain a reclassified rating.

Ensure that all the relevant columns as indicated in the DL Specs are mandatorily populated with data. For example, in the Stage Party Rating Details (STG_PARTY_RATING_DETAILS) table: Rating source code (V_RATING_SRC_CODE), Party Code (V_PARTY_CD), Purpose (V_PURPOSE) are required to be populated. The purpose code is to indicate whether the rating is a domestic rating or a foreign rating. If any other rating is provided, then the exposure is considered unrated.

7.2.1.2   Data Population

Pre-Processing Steps

Credit Risk Exposures are updated in the application for all the product types through their respective input tables known as Product Processors. Main categories of Counterparty Credit Risk Exposures, along with their respective table names that are used as an input, are as follows:

Table 15: Data Population for Credit Risk Exposures

Product	Source Product Processor
Swaps	STG_SWAPS_CONTRACTS
Futures	STG_FUTURES
Options	STG_OPTION_CONTRACTS
Credit Derivatives	STG_CREDIT_DERIVATIVES
Forwards	STG_FORWARDS

There is a Data Population about the placed collateral and Central Counterparty details, which are required for the cleared transaction and default fund contribution treatment.

Table 16: Data Population for Placed Collateral and Central Counterparty Details

Product	Source Product Processor
Placed Collateral	STG_PLACED_COLLATERAL
Default Fund Contribution	STG_CCP_DETAILS

There is a Data Population about the mitigants that adheres to the applicable mitigant type like collateral received for the derivatives.

Table 17: Data Population for Mitigants

Product	Source Product Processor
Mitigants – Collateral received	STG_MITIGANTS

There is a Data Population about the mapping between the exposures and the mitigants. And one data population about the mapping between the exposures and the placed collateral.

Table 18: Data Population for Mapping between Exposures and Mitigants

Product	Source Table
Mapping for Exposures and Mitigants	STG_ACCOUNT_MITIGANT_MAP
Mapping for Exposures and Placed Collateral	STG_ACCT_PLACED_COLL_MAP

Processing table details

All Counterparty Credit Risk related derivative exposures are loaded into the table, FSI Cap Derivative (FSI_CAP_DERIVATIVES) where further processing happens for this portfolio of exposures till they are

moved to the Netting set granularity. This is handled in the process Derivative Data Population process, under sub-processes:

- DERIVATIVE_SWAPS_EXPOSURE_DATA_POPULATION

- DERIVATIVE_FUT_EXPOSURE_DATA_POPULATION

- DERIVATIVE_OPT_EXPOSURE_DATA_POPULATION

- DERIVATIVE_CREDIT_DERIVATIVES_DATA_POPULATION

- DERIVATIVE_FORWARDS_EXPOSURE_DATA_POPULATION

All placed collateral that the bank has placed that are not specific to Securities Financing Transactions exposures are loaded into the table, FSI_ PLACED_COLLATERAL, in DERIVATIVE_PLACED_COLLATERALS_DATA_CREATION and OTH_PLACED_COLLATERAL_PROCESSING_DATA_POPULATION

All the collateral that the bank has received, as part of the Derivative transactions, are loaded into the table, FSI_CAP_MITIGANTS via OTH_PLACED_COLLATERAL_FSI_CAP_MITIGANTS_DATA_CREATION

7.2.1.3 Shareholding Percent Multiplication

Shareholding percent multiplication for common entity-level data is a part of HKMA Common Data Processing (PMFCOM020) process. In this, the application updates the shareholding percentage against each entity. The Parent Entity is updated with the value of 1 as the shareholding percent and for each Child Entity, the percentage is based on the parent's holding percentage as specified for each Child in fact Entity Shareholding Percent Table (FCT_ENTITY_SHR_HLD_PERCENT).

Shareholding percent multiplication for exposure level is part of each portfolio as well. In this process, the application multiplies the entity shareholding percentage for that entity for parent entity against exposure amount, undrawn amount, and provision amount for that exposure and update the same.

This is handled in the sub-process DRV_SHAREHOLDING_CALCULATION_STD of the HKMA - Post Crisis Derivatives Data Processing.

7.2.1.4 Common Reclassification Rules

The application reclassifies the Bank's Product Types and party types to standard product and party types. Based on the Standard Product and Party Type, the asset class for each exposure is arrived at. Similarly, the application does reclassification for mitigant based on its mitigant types and reclassifies it to standard mitigant types.

Ensure that all Products and Party Type and mitigants which are Bank-specific are reclassified, as part of the setup activity. If they are not reclassified, the treatment might not happen as expected by the regulator.

1. Product Type Reclassification

   Product types used by the reporting bank as input data are reclassified to standard product types as recommended in the Accord. The product types after reclassification are stored as Basel Product Types. For Example, Interest Rate Futures is reclassified as Futures.

   This is handled in the Basel Product Type Reclassification which is part of the Derivatives Multiple Assessment Risk weight Assignment.

2. Party Type Reclassification

Similar to the product type, the customer type (which are stored as counterparty type) are also reclassified as standard counterparty type. The customer information is expected in the Stage Party Master (STG_PARTY_MASTER), and this also includes the Party Type based on the Stage Party Type Master (STG_PARTY_TYPE_MASTER).

Party type reclassification Rules handle reclassification for customer types. For Example, a Small business entity is reclassified as Corporate SME.

This is handled in the Party Type Reclassification which is part COMMON_RECLASSIFICATION Process.

Instrument Type Reclassification

Bank Instrument types used by the Reporting Bank as input data are reclassified to Instrument types. The instrument types after reclassification are stored as Instrument types. For Example, Interest Rate Future Contract is reclassified as Interest Rate Futures. This happens as part of the process COMMON_RECLASSIFICATION Process.

Mitigant Reclassification

For mitigants the application reclassifies the mitigant type to the standard mitigant type like the Debt Securities.

The reclassification tasks are present in the MITIGANT_TYPE_RECLASSIFICATION.

7.2.1.5 Pre-mitigation Calculations - Exposure at Default Amount Calculation

Pre-mitigation Exposure at Default can be calculated as per Standardized Approach of calculations (SA CCR).

The Standardized Approach for Counterparty Credit Risk (SA-CCR) is an alternative for Standardized Method (SM) and Current Exposure Method (CEM) for Counterparty Credit Risk (CCR) in Credit Risk.

Banks can use the SA-CCR Approach while they follow Standardized or IRB Approaches for Credit Risk. The SA-CCR Approach is applicable for Over the Counter (OTC) Derivatives, Exchange Traded Derivatives, and Long Settlement Transactions.

7.2.1.5.1 SA-CCR Method of EAD Computation

The exposures under the SA-CCR consist of two components: replacement cost (RC) and potential future exposure (PFE). The replacement cost is mostly related to the mark to market of the derivative contract, by considering the collateral and margin agreement as relevant. The potential future exposure consists of a multiplier that allows for the partial recognition of excess collateral and an aggregate add-on which is inside the sub-process: DERIVATIVES_SACCR_EAD_CALCULATION which is part of the Derivatives Multiple Assessment Risk weight Assignment.

The following flowchart depicts the process flow of SA-CCR:

Figure 32: Process Flow of SA-CCR
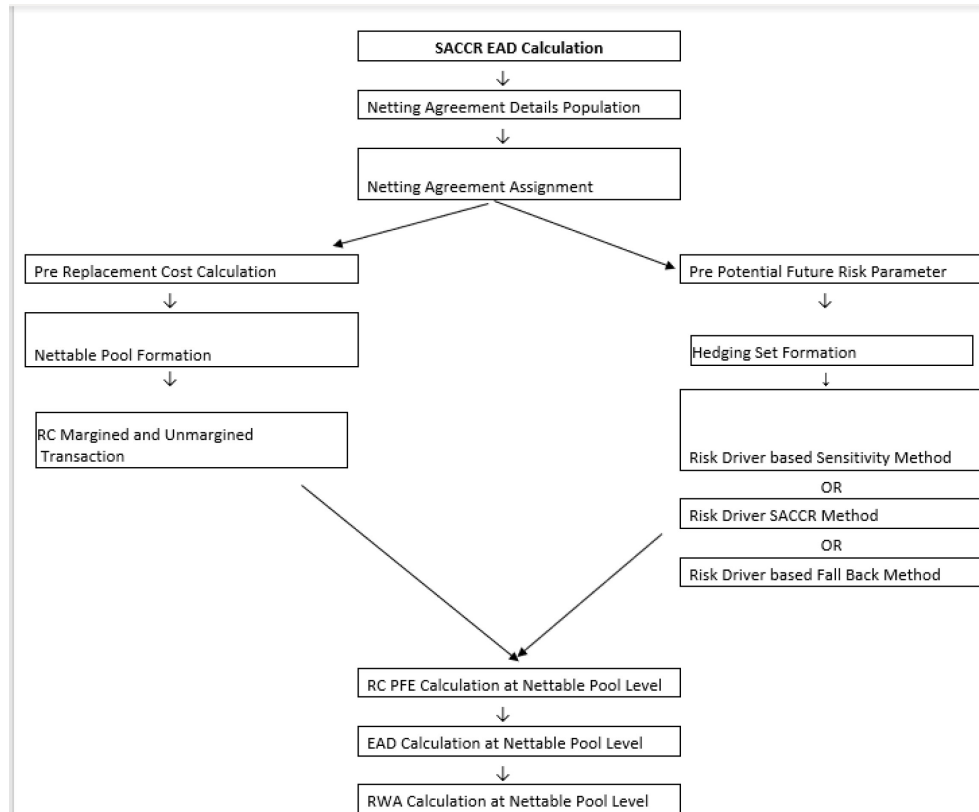
1. Netting Agreement

   For instruments participating in netting set, the notability flag should be set as 'Y'. Instruments with the same Agreement Code are netted in the same Netting Set.

   The application creates new records for the netting agreement and then populates them into the FSI Netting Agreement Details (FSI_NETTING_AGREEMENT_DETAILS) table. The netting agreements will be populated in the process NETTING_AGREEMENT_DETAILS_DATA_POP.

   In the case of the contracts not being part of any netting agreement, the application considers them as part of their netting agreement or netting set, for the calculations of the different parameters.

2. Margin Agreement

   For both RC and PFE, if one of the netting agreements has multiple margin agreements, then this netting agreement should be divided into sub-netting agreements to align with the margin agreements. This is captured in RC_MARGINED_UNMARGINED_TRANSACTION process Placed Collateral & Mitigant – Eligibility Condition.

3. Placed Collateral & Mitigant - Eligiblity

   The placed collateral is captured in FSI Cap Placed Collateral (FSI_CAP_PLACED_COLLATERAL) and this also moves to FSI Cap Mitigants (FSI_CAP_MITIGANTS), wherein the placed collateral and the mitigants both undergo the same treatment. This is part of the process FSI_PLACED_COLLATERAL_DATA_POPULATION and FSI_CAP_MITIGANT_DATA_POPULATION.

The mitigant is identified as eligible are not based on the eligibility rules for CRM as mentioned in the Basel III Accord. Credit Rating of the collateral is considered for all mitigants types issued by all party types while deciding whether a mitigant is eligible for a particular exposure or not. Separate eligibility Rules exist for mitigants types like equity, mutual funds, or debt security, to perform these checks. For the remaining, a mitigant is marked as eligible only if its credit rating is better than the exposure to which it is providing protection and also if it is classified as senior in position. This is handled in the sub-process Mitigant Data Processing – STD Approach (FSI_CAP_MITIGANTS). Mitigant eligibility is also checked based on the original and residual maturity of the collateral. Collateral is classified as eligible only if its original maturity is more than a year and residual maturity is more than 3 months.

4. Placed Collateral & Mitigant – Haircut Assignment

The application assigns three kinds of mitigant haircuts, which are volatility haircut, FOREX haircut, and maturity mismatch haircut. Volatility haircuts are assigned to the collateral to account for any future fluctuations in the market value of the financial collateral. Separate Rules exist in the application for various types of financial collaterals like debt securities, equity, mutual funds, and so on. When the exposure and collateral are in different currencies, the application adjusts by applying FOREX haircut. If the residual maturity of CRM is less than the underlying credit exposure, then a maturity mismatch is applied. If there is a maturity mismatch and CRM has an original maturity of more than a year, the Maturity Mismatch Haircut is applied to adjust the value. The application assigns a Volatility Haircut using the Supervisory Haircut Method when the Standardized Approach is selected.

This is part of the process FSI_PLACED_COLLATERAL_DATA_POPULATION and FSI_CAP_MITIGANT_DATA_POPULATION.

5. Replacement Cost

The Replacement Cost (RC) is computed differently for margined and Unmargined Netting Agreements.

All the required attributes for replacement cost are populated from the FSI Cap Derivative Exposures (FSI_CAP_DERIVATIVES) Cap Mitigants (FSI_CAP_MITIGANTS) and FSI Placed Collateral (FSI_PLACED_COLLATERAL) to the table FSI_CAP_NETTABLE_POOL wherein the replacement cost (N_REPLACEMENT_COST) calculation happens. Since there are different calculations required for the replacement cost, depending on whether it is a margined transaction or not, and depending on whether the Netting Set contains only a Single Margin Agreement or Multiple Margin Agreements, it happens in the table FSI_MARGINED_EAD_CALC. This is handled in the RC_MARGINED_UNMARGINED_TRANSACTION process.

In the case of contracts covered by Margin Agreement, the Initial Margin and the Variation Margin are expected at the netting agreement level. The Minimum Transfer Amount and Threshold Amount are also expected at the Netting Agreement Level and expected to be provided as an input in the Stage Net Exposures Tables (STG_NET_EXPOSURES).

6. Methods of identifying various risk categories and risk drivers

For each exposure, the Banks must identify the Primary Risk Driver of the risk factors such as interest rate, foreign exchange, credit, equity, or commodity. This is crucial because the Add-on formula for each risk category is different and it depends on the nature of the risk factors. The risk categories can be identified by defining the primary risk factors of underlying exposures in the derivative contracts.

This is selected by the Bank based on the Regulatory Definition Sensitivities Based Method

- Sensitivity Based Method

- All the Sensitivity/Sensitivity Risk Weights are computed for the instrument, concerning all material risk drivers. After descending Net Sensitivities for all risk categories applicable for the instrument, calculate 60% criteria using all the risk categories or calculate 30% criteria using only non material risk category and the value of sensitivity gets multiplied by the risk weight.

    This gets handled in the process and the input tables are;

    FSI_INPUT_RISK_DRIVER_SENSTVTY

    FSI_INPUT_RISK_CTGRY_SENSTVTY

- SA-CCR Based Method
  - All the Add-ons are computed for the instrument, concerning all material risk drivers are as per the SA CCR calculation. Using this, the material risk categories are identified, as the ones with the maximum absolute value of sensitivity multiplied by the risk weight. This gets handled in the process and the table.

- Fall Back Approach
  - All the Add-ons are computed for the instrument, concerning all risk drivers. Also, all the risk categories will be considered as the material risk driver. This gets handled in the process and the table.

  Essentially, it will be one instrument that can be mapped to multiple risk categories, with one material risk driver identified for each risk category. And the resultant replacement cost will be a summation of the add-on across all the material risk categories.

  The data for Risk Drivers and Categories are from the following tables

    - FSI Cap Risk Category Master (FSI_CAP_RISK_CATEGORY_MASTER)

    - FSI Cap Risk Driver Master (FSI_CAP_RISK_DRIVER_MASTER)

    - FSI Cap Risk Driver Map Master (FSI_CAP_RISK_DRIVER_MAP_MASTER)

    - Parameter Calculations for Potential Future Exposure

    - The parameters to be considered for the Calculation of Potential Future Exposure, which is treated under the process PRE_POTENTIAL_FUTURE_RISK_PARAMETERS,

Multiplier

The multiplier in the PFE formula serves to reduce the add-on for over collateralization as in practice many banks hold excess collateral precisely to offset potential increases in exposure represented by the add-on.

Aggregate Add-on

The asset classes; interest rate, foreign exchange, credit, equity or commodity and a derivatives transaction is assigned to an asset class based on its primary risk driver. The add-ons for each asset class are simply aggregated.

Most derivative transactions have one primary risk driver, defined by its reference to underlying instrument.

Adjusted Notional

For interest-rate and credit derivatives, the trade-level adjusted notional is the product of the trade notional amount, converted to the Domestic Currency, and the supervisory duration (SD).

Supervisory Delta Adjustments

These parameters are also defined at the trade level and are applied to the adjusted notional amounts to reflect the direction of the transaction. For derivatives that are not options, the value of this parameter is +1 for long (MTM increases when the value of the primary risk factor increases) or -1 for short (MTM decreases when the value of the primary risk factor increases).

Supervisory Correlation Parameters

These parameters only apply to the PFE add-on calculation for equity, credit, and commodity derivatives. For these asset classes, the supervisory correlation parameters are derived from a single-factor model and specify the weight between systematic and idiosyncratic components.

Potential Future Exposure (PFE)

The Potential Future Exposure (PFE) is computed differently for each of the risk categories, and the final value is assigned to the netting set (stored at the FSI Cap Nettable Pool (FSI_CAP_NETTABLE_POOL).

PFE add-ons are calculated for each asset class within a netting set and then aggregated. Add-ons for an asset class require the use of hedging sets, which are transactions within a single netting set within which partial or full offsetting is recognized in the methodology.

For Interest rate derivatives hedging set consists of all derivatives, Hedging sets are further divided into maturity categories. Long and short positions in the same hedging set are permitted to fully offset each other within maturity categories; across maturity categories, the partial offset is recognized.

For the calculation of PFE, it is required to adopt the Unmargined Methodology. This is because a single margin agreement applies to multiple netting agreements and collaterals are based on the netted MTM Values of the derivative contracts.

This is handled in FSI_POTENTIAL_FUTURE_EXP_CALC.

Exposure at Default Calculations (EAD)

Through the CRM Process, the Bank takes into account the mitigation effect and calculates the post-mitigation exposure at default amount. This signifies the maximum loss that the Bank can suffer in case of default on this exposure, after considering all the mitigation effects. The application also computes pre-mitigation risk-weighted assets in the process DRV_PRE_CRM_RISK_WEIGHTED_ASSET_CALCULATION and post-mitigation risk-weighted assets in the process DRV_POST_CRM_RISK_WEIGHTED_ASSET_CALCULATION by multiplying the respective EAD by risk weight. In this scenario, the Risk Weight is arrived at by analyzing the credit rating of the exposures or mitigants.

The Risk Weight is arrived at by multiplying the pre-mitigation capital charge by 12.5. Through Credit Risk Mitigation, the bank considers the effects of mitigation. The application checks mitigant eligibility based on the Basel Specifications and assigns a haircut to each mitigant based on their currency, residual maturity, and expected volatility in their Market Value.

Allocation of RWA at Nettable Pool

CCR RWA calculated at the Netting Set Level is allocated to the exposures of the Nettable Pool and the same is handled in RWA_CALUCLATION_NETTABLE_POOL_LEVEL.

The Netted Exposure gets computed without the effects of the collateral received and placed in the FSI Cap Nettable Pool (FSI_CAP_NETTABLE_POOL).

7.2.1.6 Multiple Assessment

For exposures with multiple ratings, Risk Weight Assignment is based on multiple assessment processes. For each exposure, the final rating is the worst of the best two ratings assigned to the exposure.

The risk weight corresponding to this rating is then assigned to the exposure.

Exposures for multiple rating assessments are first moved into the table FSI Multiple Rating Processing (FSI_MULTIPLE_RATING_PROCESSING) wherein the ranking and final selection of which rating to use takes place.

This happens in the sub-process of DRV_MULTIPLE_ASSESSMENT_PROCESSING_DATA_POP and MULTIPLE_RATING_ASSESSMENT, in HKMA - Post Crisis Derivatives Data Processing, wherein the data for the multiple assessment processing gets populated into the FSI Table. MULTIPLE_RATING_ASSESSMENT, wherein the identification of the multiple rating for the exposure happens, and in the sub-process Derivatives Post Crisis Multiple Assessment Based Risk Weight Assignment of HKMA - Post Crisis Derivatives Data Processing the actual Risk Weight and final rating assignment happens for the exposures.

7.2.1.7 Issue Issuer Assessment

For all the exposures which remain unrated after the multiple assessment processes, the issue issuer process is performed. This happens in the Issue Issuer Assessment sub-process (DRV_ISSUE_ISSUER_ASSIGNMENT) in the ECRA flow of the Run.

In the case when ECRA Approach is selected, the Unrated Exposures are assigned a reference rating based on the reference issue available or the rating of the party, whichever is applicable. These Unrated Exposures are assigned a risk weight based on the reference rating.

For Derivatives, the application does an Issue-Issuer Assessment to infer a rating of the Unrated Exposures, based on the rating of a similar instrument (referred to as reference issue hereafter) issued by the same issuer. The reference issue is used only when it is of the same currency as the exposure and the exposure is senior or equivalent to the same. For the unavailable reference issue, the party rating is used. In the case of the party also being unrated, the exposure remains unrated. Additionally, the application populates whether the exposure is LT rated or ST rated, based on the rating assigned to the exposure.

7.2.1.8 Risk Weight Assignment Rules

1. ECRA Approach

    The ECRA Approach options for risk-weighting are selected during Run definition to update the required calculations as allowed by the specific jurisdiction. Based on the run definition selected the Derivatives process passes through the Risk Weighting Approach. This is handled in Derivatives Post Crisis Risk Weight Assignment- ECRA and Derivatives Post Crisis Risk Weight Assignment. For more details on the options, see the Run Management section.

    The Risk weight assignment rules in Derivatives Post Crisis for Data Processing are divided into ECRA which are selected through the run definition.

Figure 33: Process Flow for ECRA Risk Weight Assignment

Risk Weight Assignment to all Exposures

Risk Weight is assigned based on asset class and the credit rating as per Basel guidelines. The risk weight rules operate on the risk weight table (FSI_RW_MAP_MASTER). Highly rated exposures are allocated low-risk weight and poorly rated exposures are allocated high-risk weights. If exposure has more than one rating (rated by more than one agency), then the final rating is assigned based on multiple assessments. The application updates the risk weights against the exposures directly, when ratings are not considered.

Options for risk-weighting are selected during Run definition if the Run Management UI is used, to update the required calculations as allowed by the specific jurisdiction. For more details on the options, see Run Management Section.

Risk weight assignment takes place in the sub-process DRV_RISK_WEIGHT_ASSIGNMENT_STD.

2. Risk Weight Assignment to Sold Credit Protection Exposures

    The sold credit protection data is specific to sold credit derivatives. This data is available in the product processor table STG_CREDIT_DERIVATIVES. The sold credit protection data is processed under Sold Credit Protection Data Processing. The underlying data are required for all the sold credit protection.

    The risk weight assignment for the sold credit protection is based on the asset type of the underlying exposure captured in Non-Sec Pre-Mitigation RW Assignment for Rated SCP – STD.

- The risk weight for the underlying exposure is calculated and this is updated to the sold credit protection exposure under the sub process Derivative Pre-Mitigation RW UL for SCP based on Revised Sec Framework.

- The RWA is calculated as the Pre-mitigation EAD multiplied by the Pre-Mitigation Risk Weight.

- In the case of sold credit protection exposures, the Pre-Mitigation EAD and the Post Mitigation EAD are the same since there are no mitigants for these exposures.

    The underlying data for sold credit protection data is provided in the STG_UNDERLYING_EXPOSURES table. The underlying for the sold credit protection have V_UNDERLYING_DATA_IDENTIFIER where the underlying of the sold credit protection have the "V_UNDERLYING_DATA_IDENTIFIER" as "SCP", to recognize this for the Sold credit protection treatment captured in sub process Derivative_SCP_underlying.

3. Risk Weight Assignment to Cleared Transaction Exposures

    Where a bank acts as a clearing member of a CCP for its own purposes, a risk weight of 2% must be applied to the bank's trade exposure to the CCP in respect of OTC derivatives, exchange traded derivative transactions and SFTs.

    Where the clearing member offers clearing services to clients, the 2% risk weight also applies to the clearing member's trade exposure to the CCP that arises when the clearing member is obligated to reimburse the client for any losses suffered due to changes in the value of its transactions in the event that the CCP defaults.

    This captured in process DRV_RISK_WEIGHT_ASSIGNMENT in sub process Derivative Basel III - RW Assignment for Cleared Transactions - Exposures - Revised Approach.

4. Risk Weight Assignment to Specific Wrong Way Risk Exposures

    Specific Wrong Way Risk: Wrong-way risk is defined as the risk that occurs when exposure to counterparty is adversely correlated with the credit quality of that counterparty. It arises when default risk and credit exposure increase together.

    For all the transactions which are identified as Specific wrong way risk, Risk weight is assigned in process DRV_RISK_WEIGHT_ASSIGNMENT.

7.2.1.9   RWA Calculations

The RWA is calculated as the Pre-mitigation EAD multiplied by the Pre-Mitigation Risk Weight.

In the case of sold credit protection exposures, the Pre-Mitigation EAD and the Post-mitigation EAD is the same since there are no mitigants for these exposures.

7.2.1.10   Post CRM RWA Calculations

In the case of derivatives, there are no additional mitigants, and therefore both pre-CRM RWA calculations and post CRM RWA Calculations are one and the same which is stored in FSI_CAP_DERIVATIVES.N_EAD_POST_MITIGATION.

7.2.1.11   Allocation of RWA at Exposures

CCR RWA calculated at the Netting Set Level is allocated to the exposures of the Nettable Pool using the following formula:

RWA at Exposure Level = Total CCR RWA at Netting Set Level * Pre-Mitigation EAD for Exposure / Sum of Pre-Mitigation EAD for all Exposures part of CCR RWA at Netting Set Level.

7.2.2 Securities Financing Transactions Portfolio

Securities Financing Transactions (SFT) include Repo Style Transactions, Margin Lending, Security Financing Borrowing, and so on.

Under Standardized Method we have two approaches –

Simple Approach

In this approach, the collateral is being substituted for the covered portion of the exposure, and the Risk Weights as applicable for the Standard Mitigant Type and Issuer Type are assigned to the collateral.

Comprehensive Approach

This is the approach wherein the collateral undergoes Haircut Treatment and the exposure value gets reduced from this portion.

For all SFT Contracts which have a placed collateral or mitigant mapped to it, the application computes CRM based on the EAD Approach undertaken by the bank.

Process Flow for Credit Risk Securities Financing Transactions

Figure 34: Process Flow for Credit Risk Securities Financing Transactions

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┌─────────────────────────────┐
│    SFT Data Population       │
└─────────────────────────────┘
              ↓
┌─────────────────────────────┐
│ SFT Collateral data population│
│      • Posted Collateral     │
│      • Received Collateral    │
└─────────────────────────────┘
              ↓
┌─────────────────────────────┐
│ SFT Asset class reclassification│
└─────────────────────────────┘
              ↓
┌─────────────────────────────┐
│     SFT EAD Calculation      │
└─────────────────────────────┘
              ↓
┌─────────────────────────────┐
│    Multiple Assessment       │
└─────────────────────────────┘
              ↓
┌─────────────────────────────┐
│   Issue Issuer Assessment    │
└─────────────────────────────┘
              ↓
┌─────────────────────────────┐
│    Risk Weight Assignment    │
└─────────────────────────────┘
              ↓
┌─────────────────────────────┐
│ Collateral Multiple Assessment│
└─────────────────────────────┘
              ↓
┌─────────────────────────────┐
│    Collateral Risk Weight    │
│        Assignment            │
└─────────────────────────────┘
              ↓
┌─────────────────────────────┐
│   Haircut Assignment for SFT │
│         Collaterals          │
└─────────────────────────────┘
              ↓
┌─────────────────────────────┐
│ Pre Mitigation Post Volatility│
│ Haircut EAD Amount Calculation│
└─────────────────────────────┘
              ↓
┌─────────────────────────────┐
│ Nettable Pool Data population │
└─────────────────────────────┘
              ↓
┌─────────────────────────────┐
│ Pre Mitigation RWA Unexpected │
│  Loss calculation for the pool│
└─────────────────────────────┘
```

7.2.2.1   Rating Population

The data on ratings is captured in the following rating specific tables:

- Party Rating Table (STG_PARTY_RATING_DETAILS)

    - Credit Ratings for all customers and issuers are captured in this table.

- Instrument Rating Table (STG_INSTRUMENT_RATING_DETAILS)

    - Credit Ratings for all instruments which are in the form of collateral either placed or received are captured in this table

- Sovereign Rating Table (STG_SOVEREIGN_RATING_DETAILS)

    - Credit Rating for all countries is captured in this table.

7.2.2.1.1   Processing Steps

Banks obtain credit ratings from different sources and these are provided as input in the application through the rating tables mentioned in the preceding list.

This is handled in the process Credit Rating Data Population.

The application re-classifies the rating information to BIS Specific standard ratings. The out-of-box application supports the Fitch / Moodys / S&P and DBRS credit rating reclassification for Long Term and Short-Term ratings.

This is handled in the process Credit Rating Reclassification.

The rating reclassification lookup table (FSI_RATING_CLASSIFICATION) is used to lookup reclassified standard ratings so that the reclassification rule is not repeated for each of the rating processing tables.

Ratings are populated from the stage tables (for example, STG_PARTY_RATING_DETAILS) to FSI tables (for example, FSI_PARTY_RATING_DETAILS) using the lookup table (FSI_RATING_CLASSIFICATION) to obtain a reclassified rating.

Ensure that all the relevant columns as indicated in the DL Specs are mandatorily populated with data. For example, in the Stage Party Rating Details (STG_PARTY_RATING_DETAILS) table: Rating source code (V_RATING_SRC_CODE), Party Code (V_PARTY_CD), Purpose (V_PURPOSE) are required to be populated. The purpose code is to indicate whether the rating is a domestic rating or a foreign rating. If any other rating is provided, then the exposure is considered unrated.

7.2.2.2   Data Population

Credit Risk exposures are updated in the application for all the product types through their respective input tables known as Product Processors. Main categories of Counterparty Credit Risk exposures, along with their respective table names that are used as an input, are as follows:

Table 19: Data Population for Credit Risk Exposures

Product	Source Product Processor
Margin Lending Transactions	STG_LOAN_CONTRACTS
Re purchase contracts / Reverse Repurchase contracts / Security Lending & Borrowing	STG_REPO_CONTRACTS

There is a Data Population about the placed collateral that have been placed with respect to the SFT transaction.

Table 20: Data Population for Placed Collateral

Product	Source Product Processor
Placed Collateral	STG_PLACED_COLLATERAL

There is a Data Population about the mitigants, which cater to the mitigants that have been received for the SFT transaction.

Table 21: Data Population for Mitigants

Product	Source Product Processor
Mitigants – Collateral Received	STG_MITIGANTS

There is a Data Population about the mapping between the exposures and the mitigants. And one data population about the mapping between the exposures and the placed collateral.

Table 22: Data Population for Mapping between the Exposures and the Mitigants

Product	Source Table
Mapping for Exposures and Mitigants	STG_ACCOUNT_MITIGANT_MAP
Mapping for Exposures and Placed Collateral	STG_ACCT_PLACED_COLL_MAP

Processing table details

All Counterparty Credit Risk SFT exposures are loaded into the table, FSI Cap SFT Exposures (FSI_CAP_SFT_EXPOSURES) where further processing happens for this portfolio of exposures.

This is handled in the process SFT_Data_Population.

7.2.2.3   Shareholding Percent Multiplication

Shareholding Percent Multiplication for common entity level data is a part of BIS Common Data Processing (PMFCOM020) process. In this the application updates the Shareholding Percentage against each entity. The Parent Entity is updated with the value of 1 as the Shareholding Percent and for each Child Entity, the percentage is based on the parent's holding percentage as specified for each Child in fact Entity Shareholding Percent Table (FCT_ENTITY_SHR_HLD_PCT).

Shareholding Percent Multiplication for exposure level is part of each portfolio as well. In this process, the application multiplies the entity shareholding percentage for that entity for parent entity against exposure amount, undrawn amount, and provision amount for that exposure and updates the same.

This process is handled in the sub-process SFT_SHAREHOLDING_CALCULATION_STD of the process HKMA-Post Crisis SFT Data Processing.

7.2.2.4   Common Reclassification Rules

The application reclassifies the Bank's Product Types and Party Types to Standard Product and Party Types. Based on the Standard Product and Party Type, the asset class for each exposure is arrived at. Similarly, the application does reclassification for mitigant based on its mitigant types and reclassifies it to standard mitigant types.

Ensure that all products and party type and mitigants which are bank-specific are reclassified, as part of the setup activity. If they are not reclassified, the treatment might not happen as expected by the regulator.

1. Product Type Reclassification

Product types used by the reporting bank as input data are reclassified to standard product types as recommended in the Accord. The product types after reclassification are stored as Basel product types. For Example, any security lending product is reclassified as Security lending and borrowing product type.

This is handled in the Basel Product Type Reclassification which is part of the COMMON_RECLASSIFICATION process.

2. Party Type Reclassification

Similar to the product type, the customer type (which are stored as counterparty type) are also reclassified as standard counterparty type. The customer information is expected in the Stage Party Master (STG_PARTY_MASTER), and this also includes the Party Type based on the Stage Party Type Master (STG_PARTY_TYPE_MASTER).

Party type reclassification Rules handle reclassification for customer types. For Example, any Country is reclassified as Sovereign.

This is handled in the Party Type Reclassification which is part of Other Reclassification process.

3. Mitigant Reclassification

For mitigants, the application reclassifies the mitigant type to the standard mitigant type like the debt securities, cash, and so on.

The reclassification tasks are present in the COMMON_RECLASSIFICATION.

4. Other Reclassification

As part of the reclassification rules, any other data which is being brought inside the application like seniority, transaction type, and so on also get reclassified into OFSAA specific values. This is also mandatory to be done, otherwise data is not available for processing as required by the regulator.

This happens as part of the process COMMON_RECLASSIFICATION.

7.2.2.5 Asset Reclassification Rules

Based on Basel Product type and Standard Counterparty Type, an asset class is formed by the application. This asset class is used for data processing. The Asset Class is the same as specified in the Accord.

For example, Standard Counterparty is Corporate non-SME and Corporate SME, the Asset Class is corporate.

The Asset Class for all mitigants is reclassified based on their standard mitigant types and standard issuer type.

This happens in the sub-process Basel III Post Crisis SFT Reclassification and the process HKMA – Post Crisis SFT Data Processing.

7.2.2.6 Pre-mitigation Calculations

Based on the Asset Class, the application calculates the Pre-Credit Risk Mitigation (CRM) Exposure at Default (EAD) for each exposure. This value signifies the maximum loss that the bank can suffer, in case of default on this exposure, before considering any mitigation effects.

In the case of SFT Exposures, the exposures are hedged against credit risk through various collateral. These collaterals provide mitigation to credit risk and must be considered while computing Credit RWA, as per the Accord. Hence, the application calculates the pre-mitigation exposure amount and post-mitigation exposure amount.

The application also computes Pre-Mitigation Risk-Weighted Assets (Pre CRM RWA) and Post-Mitigation Risk-Weighted Assets (Post CRM RWA) by multiplying the respective EAD by risk weight. The risk weight is arrived at, by considering the credit rating of the exposures and mitigants as per the guidelines.

7.2.2.6.1 Exposure at Default Amount Calculation

Pre-mitigation Exposure at Default can be calculated using one of the two approaches of EAD – Simple Approach and Comprehensive Approach. This is based on regulatory definition selection.

1. Calculation of EAD – Comprehensive Approach

As per the Comprehensive Approach, the EAD is computed by considering the Exposure amount post haircut, and the collateral amount post haircut.

    a. Exposure Amount Calculations for the Exposures

    The exposure amount from the product processor tables STG_REPO_CONTRACTS and STG_LOAN_CONTRACTS for the respective products are based on their EOP balance i.e nothing but the End of period balance, which will be populated into the processing table (FSI_CAP_SFT_EXPOSURES) for further calculations.

    This is part of the process SFT DATA POPULATION.

b. Placed Collateral & Mitigant – Eligibility

The mitigant is identified as eligible are not based on the eligibility rules for CRM as mentioned in the Basel III accord. Credit rating of the collateral is considered for all mitigants types issued by all party types, while deciding whether a mitigant is eligible for a particular exposure or not. Separate eligibility Rules exist for mitigants types like equity, mutual funds, or debt security, to perform these checks. For the remaining, a mitigant is marked as eligible only if its credit rating is better than the exposure to which it is providing protection and also if it is classified as senior in position.

The received collateral is captured in FSI Cap Mitigants(FSI_CAP_MITIGANTS). Mitigant eligibility is also checked based on the original and residual maturity of the collateral. Collateral is classified as eligible only if its original maturity is more than a year and residual maturity is more than 3 months.

The placed collateral is captured in FSI Cap Placed Collateral (FSI_CAP_PLACED_COLLATERAL) and this also moves to FSI Cap Mitigants (FSI_CAP_MITIGANTS), wherein the placed collateral and the mitigants both undergo the same treatment.

This is part of the sub process HKMA – PCR - Mitigant Processing in the process   HKMA – Post Crisis SFT Placed Collateral Data Processing -STD .

c. Placed Collateral & Mitigant – Haircut Assignment

The application assigns three kinds of Mitigant Haircut, which are volatility haircut, FOREX Haircut, and Maturity Mismatch Haircut.

Volatility Haircuts are assigned to the collateral to account for any future fluctuations in the Market Value of the financial collateral. Separate Rules exist in the application for various types of financial collaterals like debt securities, equity, mutual funds, and so on. The application assigns a Volatility Haircut using Supervisory Haircut Method when Standardized Approach is selected.

When the exposure and collateral are in different currencies, the application makes an adjustment by applying FOREX Haircut.

If the residual maturity of CRM is less than the Underlying Credit Exposure, then a Maturity Mismatch is applied. If there is a Maturity Mismatch and CRM have an original maturity of more than a year, the maturity Mismatch Haircut is applied to adjust the value.

This is part of the sub process SFT_COMPREHENSIVE_APPROACH_HAIRCUT_in the process   HKMA – Post Crisis SFT Placed Collateral Data Processing -STD

d.   EAD Calculation for Exposures that are not part of Netting Agreement.

For SFT Transaction, the application calculates EAD for the Parent Exposure, based on the underlying information. The Underlying Exposures (which are the mitigants received and the collateral placed) are moved to FSI_SFT_UNDERLYING table from FSI_CAP_MITIGANTS. FOREX Haircut is applied if the underlying and the Parent Contract are in a different currency. Each SFT Underlying Exposure adjusted for a haircut (EAD + haircut value) is added as EAD to the Parent Contract.

This is part of the process HKMA - Post Crisis SFT Exposure and Placed Collateral Processing - STD.

e. EAD Calculation for Exposures that are part of Netting Agreement

The application nets SFT Contracts based on the same customer, Common Netting Agreement Identifier, the transaction of Repo, Re-Repo or Margin Lending, Trading or Banking Book, and so

on. Margin Lending Transaction being SFT also follows the same EAD Calculation Methodology, however Repo or Reverse Repo and margin lending are not netted together.

The calculation happens in the table FSI Cap Nettable Pool (FSI_CAP_NETTABLE_POOL). This is handled in the process SFT_NETTING_CALCULATION.

2. Calculation of EAD – Simple Approach

As per the Simple Approach, the EAD is computed by considering the Exposure amount and the mitigants assigned being sent under Credit Risk Mitigation process and assigning based on the Risk Weight of the Mitigants and the Exposures.

a. Exposure Amount Calculations for the Exposures

The exposure amount from the product processor tables STG_REPO_CONTRACTS and STG_LOAN_CONTRACTS for the respective products are based on their EOP balance i.e nothing but the End of period balance which will be populated in to the processing table (FSI_CAP_SFT_EXPOSURES) for further calculations. This is part of the process   SFT DATA POPULATION.

b. Placed Collateral & Mitigant – Eligibility

The mitigant is identified as eligible are not based on the eligibility rules for CRM as mentioned in Basel III accord. Credit rating of the collateral is considered for all mitigants types issued by all party types, while deciding whether a mitigant is eligible for a particular exposure or not. Separate eligibility Rules exist for mitigants types like equity, mutual funds, or debt security, to perform these checks. For the remaining, a mitigant is marked as eligible only if its credit rating is better than the exposure to which it is providing protection and also if it is classified as senior in position.

The received collateral is captured in FSI Cap Mitigants (FSI_CAP_MITIGANTS). Mitigant eligibility is also checked based on the original and residual maturity of the collateral. Collateral is classified as eligible only if its original maturity is more than a year and residual maturity is more than 3 months.

The placed collateral is captured in FSI Cap Placed Collateral (FSI_CAP_PLACED_COLLATERAL) and this also moves to FSI Cap Mitigants (FSI_CAP_MITIGANTS), wherein the placed collateral and the mitigants both undergo the same treatment. This is part of the sub process HKMA – PCR - Mitigant Processing in the process HKMA – Post Crisis SFT Placed Collateral Data Processing -STD.

c. Placed Collateral & Mitigant – Risk Weight Assignment

For Simple approach, the application assigns risk weight to mitigants on the basis of credit rating (CAP Mitigant Basel Rating and Risk Weight Assignment), and original maturity (CAP Mitigant RW Assignment based on Original Maturity). These fall under the process Mitigant RW Assignment – Simple –BIS.

This is part of the sub process HKMA – PCR - Mitigant Processing in the process   HKMA – Post Crisis SFT Placed Collateral Data Processing -STD

d. EAD Calculation for Exposures that are not part of netting agreement

For SFT transaction, the application calculates EAD for the parent exposure, based on the underlying information.

The underlying exposures (which are the mitigants received and the collateral placed) are moved to FSI_SFT_UNDERLYING table from FSI_CAP_MITIGANTS.

This is part of the process HKMA - Post Crisis SFT Exposure and Placed Collateral Processing - STD The SFT Exposures EAD by considering the collateral placed and received are handled as part of the credit risk mitigation process. This is in the PMF process CRM Data Processing.

e. EAD Calculation for Exposures that are part of netting agreement

The application nets SFT contracts based on the same customer, common netting agreement identifier, the transaction of Repo, Re-Repo or Margin Lending, Trading or Banking book, and so on. Margin lending transaction being SFT also follows the same EAD calculation methodology, however, Repo or Reverse Repo and margin lending are not netted together.

The netted exposure of the SFT gets computed without the effects of the collateral received and placed in the FSI Cap Nettable Pool (FSI_CAP_NETTABLE_POOL). This gets handled in the process SFT_NETTING_CALCULATION.

The SFT exposures EAD by considering the collateral placed and received are handled as part of the credit risk mitigation process. This is in the PMF process CRM Data Processing.

7.2.2.6.2   Risk Weight Assignment

1. Multiple Assessment

For exposures with multiple ratings, risk weight assignment is based on multiple assessment processes. For each exposure, the final rating is the worst of the best two ratings assigned to the exposure.

The risk weight corresponding to this rating is then assigned to the exposure.

Exposures for multiple rating assessments are first moved into the table FSI Multiple Rating Processing (FSI_MULTIPLE_RATING_PROCESSING) wherein the ranking and final selection of which rating to use takes place.

Below are the related sub-processes:

SFT_MULTIPLE_RATING_ASSESSMENT_POPULATION_STD, wherein the data for the multiple assessment processing gets populated into the FSI table.

MULTIPLE_RATING_ASSESSMENT, wherein the identification of the multiple rating for the exposure happens, and the

SFT Post Crisis Multiple Assessment Based Risk Weight Assignment, wherein the actual risk weight and final rating assignment happen for the exposures.

2. Issue Issuer Assessment

For all the exposures which remain unrated after the multiple assessment processes, the issue issuer process is performed. This happens in the Issue Issuer Assessment sub-process

(SFT_ISSUE_ISSUER_ASSESSMENT)

In this case, the unrated exposures are assigned a reference rating based on the reference issue available or the rating of the party, whichever is applicable. These unrated exposures are assigned a risk weight based on the reference rating.

For unrated exposures, the application does an issue-issuer assessment to infer a rating of the unrated exposures, based on the rating of a similar instrument (referred to as reference issue hereafter) issued by the same issuer. The reference issue is used only when it is of the same currency as the exposure and the exposure is senior or equivalent to the same. For the unavailable reference issue, the party rating is used. In the case of the party also being unrated, the exposure remains unrated. Also, the application populates whether the exposure is LT rated or ST rated, based on the rating assigned to the exposure.

3. Risk Weight Assignment

Risk Weight is assigned based on asset class and the credit rating as per Basel guidelines. The risk weight rules operate on the risk weight table (FSI_RW_MAP_MASTER). Highly rated exposures are allocated low-risk weight and poorly rated exposures are allocated high-risk weights. If exposure has more than one rating (rated by more than one agency), then the final rating is assigned based on multiple assessments. The application updates the risk weights against the exposures directly, when ratings are not considered.

Options for risk-weighting are selected during Run definition if the Run Management UI is used, to update the required calculations as allowed by the specific jurisdiction. For more details on the options, see Run Management.

Figure 35: Process Flow for ECRA Risk Weight Assignment
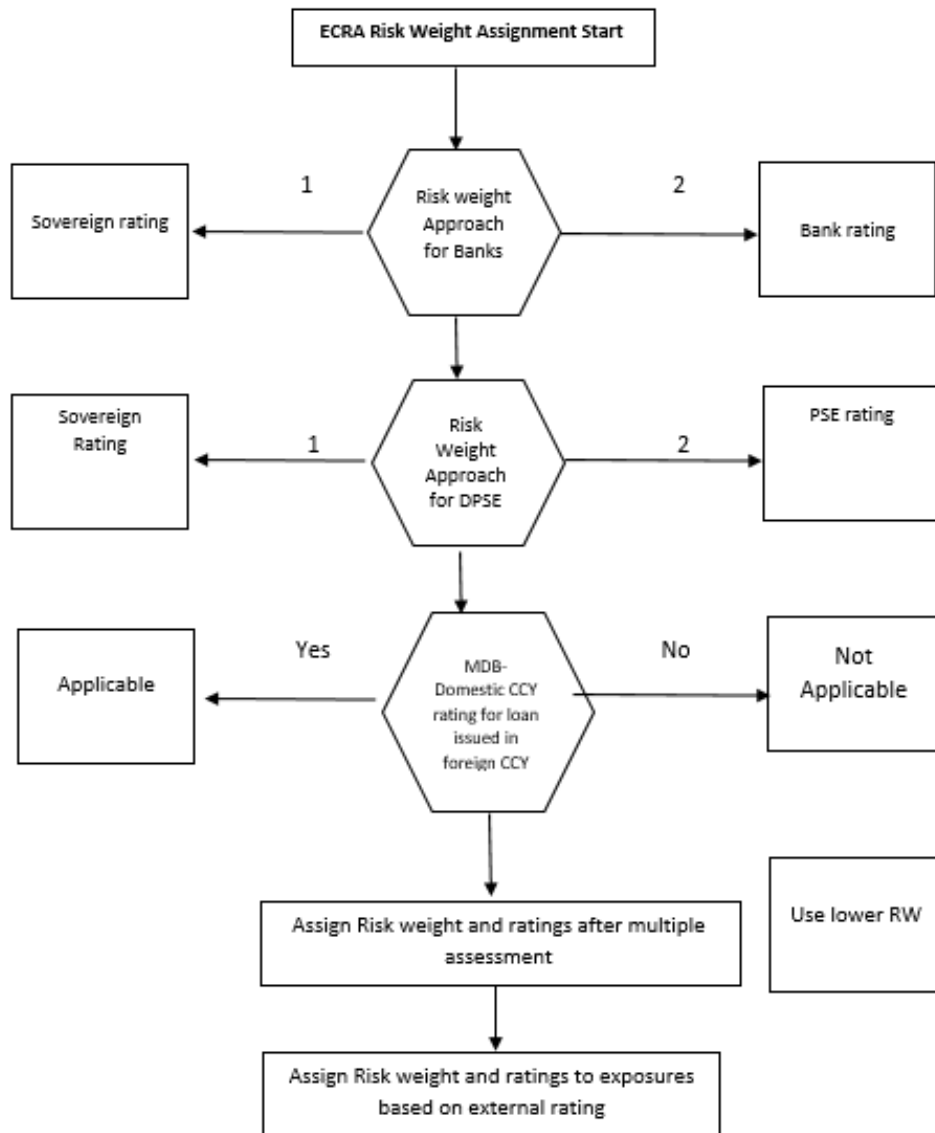
Risk Weight Assignment happens in the process "HKMA - Post Crisis SFT Data Processing" for the SFT Exposures.

7.2.2.6.3   RWA Calculations

The RWA is calculated as the Pre-mitigation EAD multiplied by the Pre-Mitigation Risk Weight.

7.2.2.7   Credit Risk Mitigation Process

In order to calculate the post CRM RWA, application needs to account for mitigants which may be in the form of collaterals (for simple approach) or guarantees that are being provided by the bank. All the

mitigants which get populated into the system are being made ineligible, and then the regulatory approved mitigant types and the issuer type combination are made eligible.

7.2.3 Pooling and Optimizer

7.2.3.1 Pooling

Pooling is one of the pre-requisites for the optimized allocation of the exposures.

Pooling pulls out an exposure, and identifies all the relevant mitigants mapped to it, and the corresponding exposures mapped to these mitigants, and again the corresponding newer mitigants mapped to these exposures. This pooling assigns the cardinality to the exposures based on the mitigant combination.

This happens in the FSI Cap Sub Exposures (FSI_CAP_SUB_EXPOSURES), and the pooling is part of the sub process

The relevant cardinalities that get assigned to the exposures, as part of this pooling process are as follows:

- 1-0➜One exposure not mapped to any mitigant
- 1-1 ➜One exposure mapped to one mitigant
- 1-N➜One exposure mapped to multiple mitigants
- N-1 ➜Multiple exposures mapped to a single mitigant
- N-N ➜Multiple exposures mapped to Multiple mitigants

7.2.3.1.1 Optimizer

The optimizer is the process of allocation of the mitigants to the exposures, based on the different logic applicable for the various granularity. The details of this is available in the Annexure.

Both Pooling and Optimizer is handled under the process CRM Sub Exposure Pooling and Optimizer Processing.

7.2.3.2 Post CRM RWA

The application computes the covered amount and the uncovered amount for the exposures. The covered amount is computed by multiplying the covered factor with the exposure amount. To this covered amount, the application assigns the Mitigant Risk Weight. The product of the covered amount and the mitigant risk weight is the covered RWA. The uncovered amount is computed by multiplying the uncovered factor (which is 1 – the sum of all covered factors for that exposure) with the exposure amount. This uncovered amount is multiplied by the exposure risk weight to get the uncovered RWA. The sum of the covered RWA and the uncovered RWA is the Post CRM RWA of the Exposure.

> **Post-CRM RWA = Covered Amount * Risk Weight of the Mitigant**
>
>   **+ Uncovered Amount * Risk Weight of the Exposure**

This is handled in the process Post CRM Expected and Unexpected Loss RWA Assignment.

7.3   Credit valuation Adjustment

Banks incurred significant CVA losses during the global financial crisis. It is therefore important that the Regulatory Framework mitigates this risk in a prudent and robust manner. The CVA Risk Framework was revised in December 2017 in part to align its design with the market risk framework published in January 2016.

Credit Valuation Adjustment is calculated at a counterparty level. CVA reflects the adjustment of default free risk prices of derivatives and SFT, due to potential default of the counterparty. Regulatory CVA can differ from Accounting CVA due to following reasons:

- Regulatory CVA excludes the default due to bank's own default

- Best practices of accounting CVA are imposed in Regulatory CVA.

CVA calculation will include all derivative transactions except those with a Qualified Central Counterparty (QCCP).

There are certain approaches for calculating CVA Capital

- Based on CCR Capital Charge

- Basic Approach

    - Reduced Version (without considering Hedges)

    - Full Version (by considering eligible Hedges)

- Standardized Approach

CVA hedging instruments can be external or internal

- All external hedge that are covered transactions must be included in CVA calculation for the counterparty to hedge

- An internal CVA hedge involves two perfectly offsetting positions: one of the CVA desk and the opposite position of the trading desk.

Basic Approach CVA is used by banks unless it receives approval to use Standardized Apporach CVA.

Banks require supervisory approval to use Standardized Apporach CVA.

7.3.1 Rating Population

The data on ratings is captured in the following rating specific tables:

- Account Rating Table (STG_ACCOUNT_RATING_DETAILS)

    - Ratings of all Credit Risk Banking Exposures are captured in this table.

- Party Rating Table (STG_PARTY_RATING_DETAILS)

    - Credit Rating for all customers and issuers are captured in this table.

- Sovereign Rating Table (STG_SOVEREIGN_RATING_DETAILS)

    - Credit Rating for all countries is captured in this table.

7.3.2 CVA Based on CCR Capital Charge

Any Bank whose aggregate notional amount of non-centrally cleared derivatives is less than or equal to 100 billion Euro can follow this approach of CVA Capital, based on Supervisory Approval.

In this approach, the CVA Capital is equal to 100% of the CCR Capital Charge.

For all CVA Calculations, there must be a Run Management Condition to check whether the supervisor allows SFT Transactions also for the CVA Calculations or not. Based on this, SFT will be considered for CVA or not. And the default option will be not to consider SFT.

There must be a run management to indicate whether the bank has supervisory approval to follow the CCR Capital charge.

If the option is selected, there must be a check to consider whether the total Derivative Exposures, excluding the cleared transactions, is less than or equal to 100 billion Euro.

In case SFT Exposures are considered, the Pre mitigation EAD should be included in the aggregation, excluding the cleared transactions to be checked against the Materiality Threshold Value.

7.3.3 CVA Basic Approach Reduced Version

This is the default approach to be applied for all banks following CVA Calculations. This is generally applicable for all the banks who have less sophisticated practice, and do not have hedges. This is also used to restrict hedging efficiency. The reduced version eliminates the element of Hedging recognition from the full version.

7.3.3.1 Process Flow of CVA Basic Approach Reduced Version

The process flow of Basic Approach reduced Verison CVA is explained below:

Figure 36: Process Flow for Basic Approach Reduced Version CVA
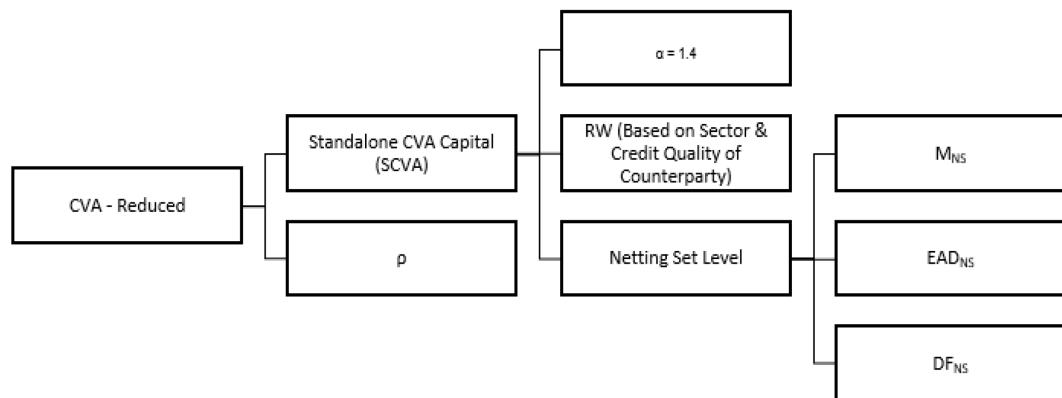
The capital requirements for CVA risk under the reduced version of the BA-CVA

(DSBA-CVA × Kreduced, where the discount scalar DSBA-CVA = 0.65) are calculated

as follows (where the summations are taken over all counterparties that are

within scope of the CVA Charge)

- SCVAc is the CVA Capital Requirement that counterparty c would receive if considered on a stand-alone basis.

- It is the Supervisory Correlation Parameter. Its square, ρ=25%, represents the correlation between credit spreads of any two counterparties. In the formula below, the effect of ρ is to recognize the fact that the CVA risk to which a bank is exposed is less than the sum of the CVA Risk for each counterparty, given that the credit spreads of counterparties are typically not perfectly correlated.

- The first term under the square root in the formula below aggregates the Systematic Components of CVA Risk, and the second term under the square root aggregates the idiosyncratic components of CVA Risk.

$$K_{reduced} = \sqrt{\left(\rho . \sum_C SCVA_C \right)^2 + \left(1 - \rho^2 \right) . \sum_C SCVA_C^2}$$

The stand-alone CVA capital requirements for counterparty c that are used in the

formula are calculated as follows:

- RWC is the Risk Weight for Counterparty c that reflects the volatility of its credit spread. These Risk Weights are based on a combination of sector and credit quality of the counterparty.

Sector of counterparty	Credit quality of counterparty	
	IG	HY and NR
Sovereigns including central banks and multilateral development banks	0.5%	2.0%
Local government, government-backed non-financials, education and public administration	1.0%	4.0%
Financials including government-backed financials	5.0%	12.0%
Basic materials, energy, industrials, agriculture, manufacturing, mining and quarrying	3.0%	7.0%
Consumer goods and services, transportation and storage, administrative and support service activities	3.0%	8.5%
Technology, telecommunications	2.0%	5.5%
Health care, utilities, professional and technical activities	1.5%	5.0%
Other sector	5.0%	12.0%

The risk weight used for the calculation of the standalone CVA capital charge is based on the sector of the counterparty, and the rating of the party. For sector, we need to check on usage in FRTB. If not, the below mentioned method to identify sector is fine.

Sector of the counterparty will be given as V_INDUSTRY_CODE in STG_PARTY_MASTER.

This will get reclassified to Regulatory Industry Code (DIM_REG_INDUSTRY). CVA risk weighting will be based on Regulatory Industry Code.

The sector of the counterparty will be based on either the industry code or the standard party type

In the case of jurisdictions following ECRA, the Investment grade will be assigned to any rating which is greater than or equal to BBB-. And any rating below that, will be considered as high yield, and unrated will be treated as unrated. This has to be updated using Rating categories, instead of Ratings.

In the case of identifying the sectors, the party's industry code, and from that, the industry type can be used. This will be the basis on which the risk weighting will happen.

- The effective maturity will be taken as the max (1 year, calculated effective maturity). Effective Maturity will come as a download.
  - The effective maturity is taken as the weighted average effective maturity, based on the notional amount of derivatives
  - The effective maturity is taken as the weighted average effective maturity, based on the notional amount of SFT
- EAD_{NS} is the exposure at default (EAD) of the netting set NS, calculated in the same way as the Bank calculates it for minimum capital requirements for CCR. Here EAD calculated as part of SAACR will be consumed.
- The Supervisory Discount Factor is 1 for banks following IMM Approach, and the below formulae when it is using SA-CCR Approach. Effective Maturity is consumed in the Discount Factor Calculation.

$$DF_{NS} = \frac{1 - e^{(-0.05 * M_{NS})}}{0.05 * M_{NS}}$$

- Stand-alone CVA is calculated as follows:

$$SCVA_c = \frac{1}{\alpha} * RW_c * \sum_{NS}(M_{NS} * EAD_{NS} * DF_{NS})$$

Alpha=1.4

The final calculations is given below:

$$K_{BA-CVA} = DS_{BA-CVA} * K_{reduced}$$
$$DS_{BA-CVA} = Discount\ Scalar\ for\ Reduced\ Version\ of\ BA\ CVA = 0.65$$

$$K_{reduced} = \sqrt{(Systemic\ Component) + (Idiosyncratic\ Component)}$$
$$K_{reduced} = \sqrt{[\rho * \sum_c SCVAc]^2 + (1 - \rho^2) * \sum_c (SCVAc)^2}$$
$$SCVA_c = CVA\ Capital\ Requirement\ of\ Counterparty\ C$$
$$\rho = Supervisory\ Correlation\ Parameter = 50\%$$

The Risk-Weighted Assets for Credit Value Adjustment Risk are determined by multiplying the

Capital Requirements calculated by 12.5.

$$RWA_{BA-CVA} = 12.5 * K_{BA-CVA}$$

7.3.3.2 Key Data Elements

Key Data Elements are provided in this section for computation for Credit Valuation Adjustment:

- Effective Maturity

- EAD at Netting Set Level

- RW of Counterparty eligible for CVA

7.3.3.3 Out of Scope

The following is not covered by the application in the computation of Credit Valuation Adjustment:

- Treatment of specific wrong way risk.

- Treatment of incurred CVA loss

7.4 Default Fund Contributions Related Capital Charge

A default fund contribution refers to the funds contributed, or commitments made by a clearing member to a Central Counterparty's (CCP) equalized loss-sharing agreement. The purpose of such default funds is to provide capital, in addition to the collateral posted by participants and in addition to capital provided by the clearinghouse, as a safeguard against extraordinary losses that might occur in connection with.

For example, a financial crisis in the market or the simultaneous defaults of several large members. The clearing members contribute to such default funds kept with the central counterparty (clearing house) in the proportion of their exposure to the central counterparty.

The default fund contributions by the clearing members contribute toward the central counterparty's regulatory capital along with CCP's contributions to the default fund. These contributions act as collaterals to mutually share in the losses incurred by the clearing members due to counterparty defaults.

For each clearing member, a contribution is made to the central counterparty's default fund.

This contribution acts as a reliefs against the defaults by any clearing member of the central counterparty.

The ACCORD explains the methods that the banking organization playing the part of a clearing member of the CCP, must adopt and compute risk-weighted assets (RWA) for a non-qualifying and a qualifying CCP.

The application handles the treatment of exposures to a QCCP and a Non-QCCP. This qualified CCP flag is expected to be provided as a download in the Party Master (STG_PARTY_MASTER) table.

7.4.1 Capital Charge for Non-QCCP

If the CCP is not qualified (Non-QCCP), then the risk-weighted asset amount for the banking organization's default fund contribution is calculated using the Own fund's requirements for pre-funded contributions to the default fund of a non-qualifying CCP approach, as suggested in the accord.

7.4.2 Capital Charge for QCCP

If the CCP is a qualified CCP (QCCP), then the RWA Amount is computed using one of the following two approaches stated below. Both are handled in the same Sub-process - RWA for Default Fund Contribution With QCCP. This is based on the Run Management option selected.

- Own funds requirements for pre-funded contributions to the default fund of a QCCP.

- An alternative calculation of own funds requirement for exposures to a QCCP.

The approach to the use of either the own fund requirements for QCCP or the Alternative Approach of the own fund requirements for QCCP is based on the Run Management Option.

Approach 1

To compute the clearing member's capital requirement, which is the reporting bank's capital requirement for the contributions made to the CCP's default fund, the hypothetical capital requirement of the central counterparty for the default fund must be known. This must be computed by the central counterparty based on the exposures of all the clearing members to the default fund. After this figure is calculated by the CCP, it is shared with all the clearing members to enable them and to compute their respective capital requirements against the default fund.

When the reporting bank gets the hypothetical capital requirement from the QCCP, the next step is to compute the capital requirement of the reporting bank by finding out the proportion of the reporting bank's contribution in the total default fund contribution.

The parameters considered for this purpose include the following QCCPs:

- Net potential exposure to the two largest clearing members,

- The total net potential exposure to all the clearing members,

- Total default fund contribution by all the clearing members,

- QCCP's contribution to the default fund, and

- The total number of clearing members for the default fund.

The last step is to compute the risk-weighted assets of the reporting bank corresponding to the default fund contribution to the QCCP by using the capital computed in the previous step.

These steps and the calculation involved are the following:

Step 1

It requires the QCCP to calculate its hypothetical capital requirement (KCCP) for the default fund. This is done by the QCCP and is published to the clearing members for them to use for their respective capital calculations.

Step 2

Compare KCCP with the funded portion of the default fund of a QCCP and calculate the capital requirement of the bank (KCM) by using the total of all the clearing members' capital requirements (K*CM). This capital requirement is considered on the contribution that the clearing members make to the default fund of the QCCP.

Approach 2

Capital Charge for the default fund contribution is calculated as follows:

Capital charge (Ki) = 8% * minimum (2% of Trade exposures to the QCCP + 1250% * default fund contribution to the QCCP, 20% * Trade Exposure Amount to the QCCP).

The application also supports the treatment of a CCP stopping to calculate its fund requirement to the CCP. The flag to indicate that the CCP has stopped calculating the own fund requirement is captured in the party table (STG_PARTY_MASTER). And based on the supervisory approval provided, in the run

management option, the capital will be calculated using the Alternative approach. Else, it is treated as a normal Credit Risk Exposure, part of the Corporate Asset class.

The flag to indicate that the CCP has stopped calculating the capital requirement is expected as part of the Party Master Table (STG_PARTY_MASTER). In the case of this flag being null, it is expected that the CCP is calculating the Total Capital and normal processing of QCCP or Non-QCCP happens.

Key Data Elements

Key data elements to be noted are listed in this section. To view the complete list of tables used, see the Download Specification document in MOS.

- Default fund contributions and related data are expected at the Default fund – Central Counterparty level in the entity Stage Central Counterparty Details (STG_CCP_DETAILS).

- Hypothetical Capital Requirement of CCP, Maximum Net Potential Exposure of clearing member of CCP, 2nd Maximum Net Potential Exposure of clearing member of CCP, Total Net Potential Exposure of clearing member of CCP, Number of Clearing Members to the CCP, Total funded Default Fund Contribution of all clearing members to the CCP, Total unfunded Default Fund Contribution of all clearing members to the CCP and Default fund contribution of CCP from its funds for each central counterparty level required.

  - The application supports only the capital requirement of the bank (KCM) based on Funded/Unfunded default contributions from all clearing members not by Initial Margin. But the data model supports placeholders to capture Total Initial Margin by all clearing members to CCP and Bank's initial margin posted to CCP.

7.5   Underlying Exposures Treatment

Underlying Flow

Underlying Flow Related to Securitization

The application also supports Underlying exposures that are received as input through Stage Underlying Exposures table (STG_UNDERLYING_EXPOSURES). This is relevant for the securitization exposures,

Banking Underlying Exposures

For these exposures, the parent exposures are securitization exposures, mapped via the securitization pool, but the underlying are Banking exposures.

In such cases, exposures will have a record type as INV_NON_SEC_ULY (Investment Underlying) and will be populated and processed in the Banking table FSI_CAP_BANKING_EXPOSURES. This is handled in the process Bank Underlying Data Processing –STD.

Investment Underlying Exposures

For these exposures, the parent exposures as well as the underlying exposures are both investment exposures. Such exposures will have record type as INV_NON_SEC_ULY (Investment Underlying) and will be populated and processed in the Investments table, FSI_CAP_INVESTMENT_EXPOSURES.

This is handled in the similar way as a normal investment exposure in the process HKMA-Post Crisis Investment Data Processing – STD.

Underlying Flow Related to CIU

The application also supports Underlying exposures that are received as input through Stage Fund Underlying Composition Table (STG_FUND_UNDERLYNG_COMPOSITION). This is relevant for the CIU exposures. The application also supports the underlying composition received as input through the Stage Fund CIS Composition Table (STG_FUND_CIS_COMPOSITION). These Underlying Exposures are used for assignment of Risk Weight Methodology to CIU Exposures.

Investment Underlying Exposures

For these exposures, the Parent Exposures as well as the Underlying Exposures are both Investment Exposures. Such exposures will have record type as INV_NON_SEC_ULY (Investment Underlying) and will be populated and processed in the Investments table, FSI_CAP_INVESTMENT_EXPOSURES.

Derivatives Underlying Exposures

For these exposures, the Parent Exposures are Investment Exposures, but the underlying are Derivatives Exposures. Such exposures will have record type as INV_NON_SEC_ULY (Investment Underlying) and will be populated and processed in the Derivatives table FSI_CAP_DERIVATIVES.

This is handled in the process Derivatives Underlying Data Processing -STD.

Underlying Exposures Data Flow and Treatment Related to Covered Bond

The application also supports Underlying Exposures that are received as input through Stage Underlying Exposures Table (STG_UNDERLYING_EXPOSURES). This is relevant for the Covered Bond Exposures.

Banking Underlying Exposures

For these exposures, the parent exposures are Covered Bond Exposures, mapped via the Parent Instrument Code, but the underlying are Banking Exposures.

In such cases, exposures will have a record type as INV_NON_SEC_ULY (Investment Underlying) and will be populated and processed in the Banking table FSI_CAP_BANKING_EXPOSURES. This is handled in the process Bank Underlying Data Processing –STD.

7.6 Credit RWA for Securitization

As per the revised guidelines for Securitization Framework, which is focused on addressing the short comes of the existing guidelines, a revised hierarchy of approaches that replaces the existing approaches have been introduced.

The application assigns the appropriate approach to the exposures, based on the criteria specified in the Revised Guidelines. The application assigns any of the below approaches under Securitization Standardized Approach:

- Sec-External Ratings Based Approach (SEC-ERBA)

- Sec – IAA Approach

- Sec-Standardized Approach (SEC-STD)- SSFA

- Sec 1250% RW

7.6.1 Securitization – Revised Framework

The procedure by which the application handles the Standardized Approach of Securitization Exposures is as follows:

Figure 37: Securitization Portfolio
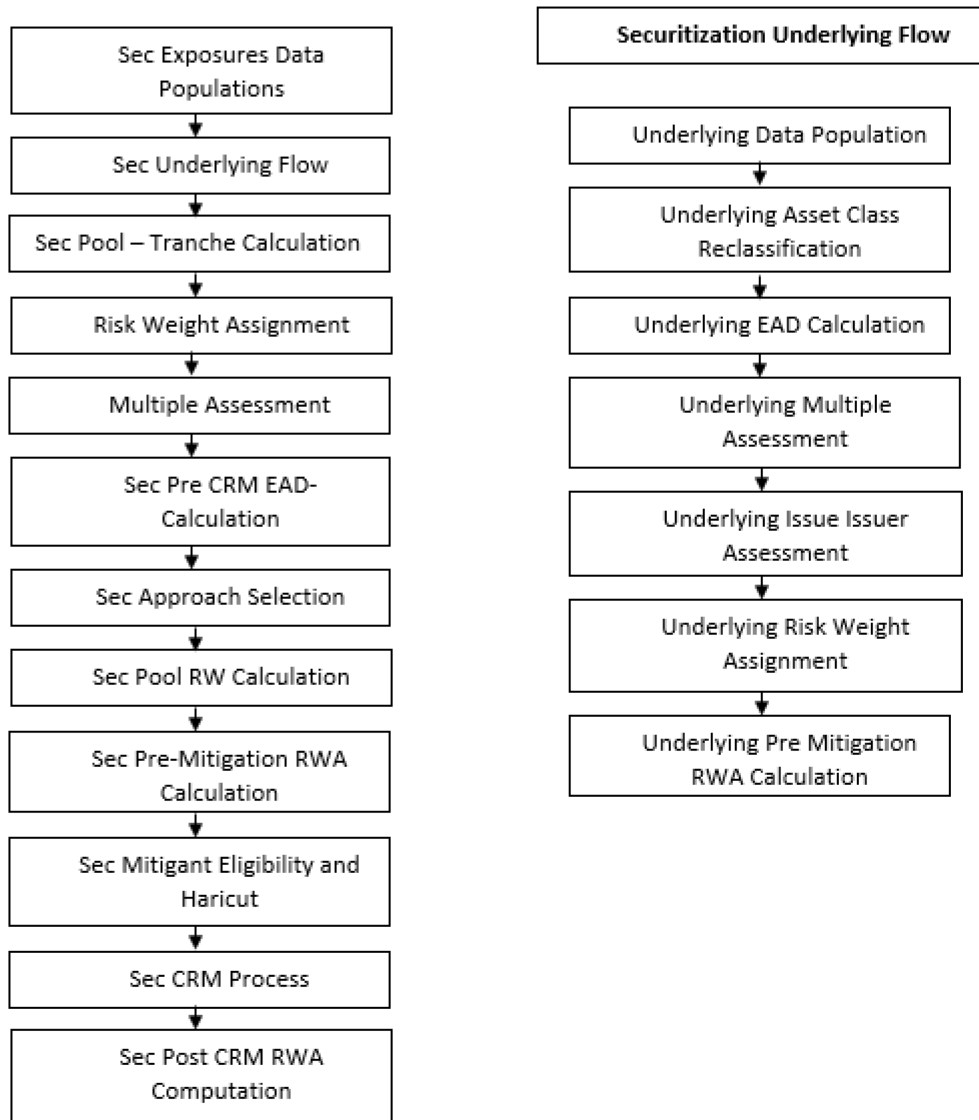
7.6.2 Rating Population

Credit Rating Process

The entire rating information of the exposures and the mitigants are populated from the staging tables to the processing tables. The exposure and the Tranche Rating Information are captured in the account rating (STG_ACCOUNT_RATING_DETAILS) and the instrument rating (STG_INSTRUMENT_RATING_DETAILS) tables respectively and the mitigant rating information is captured in the instrument rating details (STG_INSTRUMENT_RATING_DETAILS) table.

- Account Rating Table (STG_ACCOUNT_RATING_DETAILS)

    o Credit Rating for all exposures

- Instrument Rating Table (STG_INSTRUMENT_RATING_DETAILS)

- o   Credit Rating for all tranche and mitigants

- • Party Rating Table (STG_PARTY_RATING_DETAILS)

  - o   Credit Rating for all issuers are captured in this table.

- • Sovereign Rating Table (STG_SOVEREIGN_RATING_DETAILS)

  - o   Credit Rating for all countries is captured in this table.

The Processing Steps are as follows:

Banks obtain credit ratings from different sources and these are provided as an input in the application through the rating tables mentioned in the preceding list.

This is handled in the process Credit Rating Data Population.

The application re-classifies the rating information to BIS Specific standard ratings. The out-of-box application supports the Fitch / Moodys / S&P and DBRS credit rating reclassification for Long Term and Short Term ratings.

This is handled in the process Credit Rating Reclassification.

The rating reclassification lookup table (FSI_RATING_CLASSIFICATION) is used to lookup reclassified standard ratings so that the reclassification rule is not repeated for each of the rating processing tables.

Ratings are populated from the stage tables (for example, STG_PARTY_RATING_DETAILS) to FSI tables (for example, FSI_PARTY_RATING_DETAILS) using the lookup table (FSI_RATING_CLASSIFICATION) to obtain a reclassified rating.

Ensure that all the relevant columns as indicated in the DL Specs are mandatorily populated with data. For example, in the Stage Party Rating Details (STG_PARTY_RATING_DETAILS) table: Rating source code (V_RATING_SRC_CODE), Party Code (V_PARTY_CD), Purpose (V_PURPOSE) are required to be populated. The purpose code is to indicate whether the rating is a domestic rating or foreign rating. If any other rating is provided, then the exposure is considered as unrated.

7.6.3 Data Population

7.6.3.1   Pre Processing Steps

Securitization and Mitigant Data Population with Mitigant Mapping

For an investing bank, the data is expected in the Stage Underlying Exposures (STG_UNDERLYING_EXPOSURES) for the underlying of the pool, Total Pool Level attributes in the Stage Pool table (STG_SECURITIZATION_POOL), Tranche Level attributes in the Stage Tranche table (STG_SECURITIZATION_TRANCHE), and the Exposure Level Attributes in the respective PP tables.

For an originator, the data is expected in the same manner as the Investor.

For a credit protection exposure in the form of guarantee, it is expected in the Stage Guarantees table (STG_GUARANTEES); and if it is a credit derivative, it is expected in the Stage Credit Derivatives table (STG_CREDIT_DERIVATIVES). If it is a regular investment in the Tranches by an investing bank, or it is part of the mandate for retention in the pool or tranche for an originating bank, the data is expected in the Stage Investments table (STG_INVESTMENTS).

For a liquidity facility exposure, or servicer cash advance, the exposures are expected in the Stage Commitment Contracts table (STG_COMMITMENT_CONTRACTS).

For the securitization hedges done through swaps the exposures are expected in the stage swaps contracts table (STG_SWAPS_CONTRACTS).

This is handled in the process Sec Data Population(SEC_DATA_POPULATION)

With respect to the Securitization, the underlying exposures, which are not Securitization Exposures, follow the process pertaining to the Non Securitization Exposures. The Underlying Exposures, which are Securitization Exposures, follow the process pertaining to the Securitization Exposures.

The Mitigants Data are populated from the staging table to the processing table. The exposures which are mapped to the mitigants are captured and populated from the Staging Table to the Processing Table.

Mitigant Data Population is handled by the process CAP_MITIGANT_DATA_POPULATION in BIS Standard Run.

Exposure Mitigant Mapping Population is handled in the process ACCT_MITIGANT_MAPPING_POP

7.6.4 Shareholding Percent Multiplication

Shareholding Percent Multiplication for common entity level data is a part of BIS Common Data Processing (PMFCOM020) process. In this the application updates the shareholding percentage against each entity. The Parent Entity is updated with the value of 1 as the Shareholding Percent and for each Child Entity, the percentage is based on the Parent's Holding Percentage as specified for each child in fact entity shareholding percent table (FCT_ENTITY_SHR_HLD_PCT).

Shareholding percent multiplication for exposure level is part of each portfolio as well. In this process, the application multiplies the entity shareholding percentage for that entity with respect to parent entity against exposure amount, undrawn amount and provision amount for that exposure and update the same.

This is handled in the process Sec Data Population

7.6.5 Common Reclassification Rules

The application reclassifies the bank's product types and party types to standard product and party types. Based on the standard product and party type, it forms an asset class for each exposure is arrived at. Similarly, the application does reclassification for mitigant based on its mitigant types and reclassifies it to standard mitigant types.

Ensure that all products and party type and mitigants which are bank-specific are reclassified, as part of the setup activity. If they are not reclassified, the treatment might not happen as expected by the regulator.

1. Product Type Reclassification

Product types used by the reporting bank as input data are reclassified to standard product types as recommended in the Accord. The product types after reclassification are stored as Basel product types. For Example, Housing Loan is reclassified as Residential Mortgage Exposure.

This is handled in the Basel Product Type Reclassification which is part of the COMMON_RECLASSIFICATION.

2. Party Type Reclassification

Similar to the product type, the customer type (which is stored as counterparty type) are also reclassified as the standard counterparty type. The Basel application is designed to include customer type, and legal

entity type in a single table (STG_PARTY_MASTER). This is applicable for staging and the dimension model. These are reclassified together as well. Party type reclassification Rules handle reclassification for customer, and entity types. For Example, an Individual is reclassified as Retail.

This is handled in the Party Type Reclassification which is part of BIS Other Reclassification process.

3. Mitigant Reclassification

For mitigants, the application reclassifies the mitigant type to the standard mitigant type like the debt securities, cash, and so on.

The reclassification tasks are present in the COMMON_RECLASSIFICATION sub-process.

4. Other Reclassification

As part of the reclassification rules, any other data which is being brought inside the application like Pool Type, seniority, transaction type, and so on also get reclassified into OFSAA specific values. This is also mandatory to be done, as otherwise, data will not be available for processing as required by the regulator. This happens as part of the process COMMON_RECLASSIFICATION.

7.6.6 Asset Reclassification Rules

This is applicable only for the underlying exposures. See the banking and investment process.

7.6.7 Due Diligence Requirement for Securitization Exposures

If a banking organization can meet due diligence requirements, a Bank can follow any risk weight approach under securitization, to all its securitized exposures, as per the revised hierarchy of approaches. If the bank is not able to meet the due diligence requirements, then all the exposures will be risk-weighted at 1250%.

The application assigns the appropriate approach to the exposures, based on the criteria specified in the Revised Accord.

This happens in the process HKMA- Securitization Data Processing - STD.

7.6.8 Sec Approach Selection

In the case of banks which follow the standardized approach for their credit risk of Non-securitization approaches, the hierarchy is SEC-ERBA, SEC-IAA, SEC-STD and 1250% Risk Weight,

SEC-ERBA (Sec – External Ratings Based Approach) subject to supervisory approval is based on the external ratings assigned to the exposures or the instruments, and also depends on other attributes like the maturity and the tranche thickness.

In case of absence of external rating, the exposures will undergo SEC-IAA (Internal Assessment Approach), based on supervisory approval.

And, if these approaches are not applicable, then the exposures will be assigned a risk weight using SEC-STD Approach.

And if none of the approaches are applicable then the exposures will be assigned a risk weight of 1250%.

This happens as part of the sub-process Securitization Risk Weight Methodology Assignment under the process HKMA- Securitization Data Processing - STD

7.6.8.1   Pre-mitigation Calculations

The application calculates the Pre-Credit Risk Mitigation (CRM) Exposure at Default (EAD) for each exposure. This value signifies the maximum loss that the bank can suffer, in case of default on this exposure, before considering any mitigation effects.

The application also computes pre-mitigation risk-weighted assets (Pre CRM RWA) and post-mitigation risk-weighted assets (Post CRM RWA) by multiplying the respective EAD by risk weight. The risk weight is arrived by using the hierarchy of approaches as suggested.

7.6.8.2   Exposure at Default Amount Calculation

Exposure at Default (EAD) is calculated using the Exposure Amount (EOP Balance of the Exposure), Undrawn Amount of the Exposure (Undrawn Amount), and also the Credit Conversion Factor for the Off-Balance sheet Amount (CCF). This is computed for the on-balance sheet products separately, and the off-balance sheet products separately.

This is handled in the sub-process Sec Pre CRM EAD Calculation under the process HKMA- Securitization Data Processing - STD.

7.6.8.3   Multiple Assessment

For exposures with multiple ratings, risk weight assignment is based on multiple assessment processes. For each exposure, the final rating is the worst of the best two ratings assigned to the exposure.

The risk weight corresponding to this rating is then assigned to the exposure.

Exposures for multiple rating assessments are first moved into the table FSI Multiple Rating Processing (FSI_MULTIPLE_RATING_PROCESSING) wherein the ranking and final selection of which rating to use takes place.

This happens in the process of SEC_MULTIPLE_ASSESSMENT, under that sub-process the application has data transformation separately for exposures and its tranches.

7.6.8.4   Risk Weight Assignment

Sec-External Ratings Based Approach (SEC-ERBA)

If there is a supervisory approval, the application continues with the computations else it will look for the next approach.

For exposures that follow the external ratings-based approach, the risk weight assignment is based on the criteria used for risk weighting. This is handled as part of the sub-process Securitization Risk Weight Assignment for Rated Exposures.

The application uses the seniority position of the exposure, maturity, thickness of the exposure and the credit rating to assign the risk weight to the exposure.

To ensure that the exposures have the risk weight assigned based on their maturity term, the application supports interpolation of the risk weight to accommodate the varying maturity of the exposures.

The DT which is used for interpolation is "Sec_Interpolated_RW" which updates interpolated risk weights for each exposure in the FCT_SEC_EXPOSURES table. Exposures updated include both "STC condition met" exposures and "STC condition not met " exposures.

This happens in the sub-process SEC_INTERPOLATED_RISK_WEIGHT_AND_AVG_EXS_SPRD under HKMA- Securitization Data Processing - STD

Once the risk weights are assigned based on the above-mentioned process the application calculates the SEC_RISK_WEIGHT_CALCULATION under the process HKMA- Securitization Data Processing - STD.

SEC-IAA

Sec IAA is followed in the application based on Internal assessment on the exposures also based on the ABCP Indicator. The exposures with that flag enabled F_ABCP_IND will undergo the SEC_IAA approach. The Sec IAA is also to be followed based on the supervisory approval. This SEC-IAA Methodology is assigned on the sub-process SEC_EXPOSURES_METHODOLGY_ASSIGNMENT.

Once after the approach assignment, the application calculates the Risk weight as part of the sub-process Securitization Risk Weight Assignment for Rated Exposures under the process HKMA- Securitization Data Processing - STD, and the risk weight calculations are handled in the sub-process Sec Risk Weight Calculation under the process HKMA- Securitization Data Processing - STD.

Sec-Standardized Approach (SEC-STD)

For exposures following the sec-standardized approach, the application calculates the underlying weighted average capital requirement of the securitization pool (KSA). This is handled at sub-process SEC_POOL_CAPITAL_CHARGE_CALCULATION_SA

Other parameters needed for SEC-STD are calculated by the application based on underlying data. This is handled as part of the sub-process SEC_TRANCHE_CREDIT_ENHANCEMENT_CALCULATION and the pool level data calculation happens as part of the sub-process SEC_POOL_DELINQUENT_BALANCE_CALCULATION.

After all the parameters are calculated, the application computes SSFA (Simplified Supervisory formula approach) capital and uses the below-mentioned logic for risk weight computation. The exposures for which are detachment point (D) less than that of the KA, the exposures are deducted (it is risk-weighted at 1250%). The exposures for which the credit enhancement level is more than that of the KA, the exposures have the KSSFA (SSFA capital charge) computed. The exposures for which the credit enhancement level is less than that of the KA but the sum of the credit enhancement level and the tranche thickness are more than the KA, the exposures are straddled, and that is, the tranche to which the exposure belongs to is split into a position below KA and a position above KA. All the exposures mapped to the straddled tranche are also split by the application in the same proportion as the split tranche. Post-straddling risk weight is computed using the computation logic mentioned by the accord.

This happens as part of the sub-process SEC_TRANCHE_PARAMETER_CALCULATIONS.

For the calculation of Risk weight under standardized approach (SEC_STD) the below sub-processes in the application calculates the respective values mentioned above in the processing table for each exposures. This happens part of the sub process SEC_SA_PRE_CRM_CAPITAL_CALCULATION under the process HKMA- Securitization Data Processing - STD

Maximum RW for Exposures

Maximum risk weight requirements for senior exposures for all the pools is handled by the application as per the logic given in the accord.

For Maximum capital requirement, in order to apply a maximum capital charge to a bank's securitization exposure, the following inputs are required: The largest proportion of interest that the bank holds for each tranche of a given pool (P). In particular: – For a bank that has one or more securitization exposure(s) that reside in a single tranche of a given pool, P equals the proportion (expressed as a percentage) of

securitization exposure(s) that the bank holds in that given tranche (calculated as the total nominal amount of the bank's securitization exposure(s) in the tranche) divided by the nominal amount of the tranche. For a bank that has securitization exposures that reside in different tranches of a given securitization, P equals the maximum proportion of interest across tranches, where the proportion of interest for each of the different tranches must be calculated as described above.

This happens in the sub process SEC_POOL_TRANCHE_PARAMETERS_UPDATE_EXPOSURES under the process HKMA- Securitization Data Processing - STD

If none of the approach is applicable for the exposures, then 1250% Risk Weight will be applicable. This approach assignment happens part of the sub process SEC_EXPOSURES_METHODOLOGY_ASSIGNMENT under the process SEC_DATA_PROCESSING_STD. Once after the above sub process the risk weight calculation will happen based on the Sec 1250% risk weight in the sub process SEC_RISK_WEIGHT_CALCULATION under the process HKMA- Securitization Data Processing - STD.

Re-securitized exposures

Re-securitized exposures are the exposures which are issued out of a pool of underlying exposures which constitutes non-securitized exposures and some portion of securitized exposures. Application is capable of handling both securitized exposures and re-securitized exposures.

The securitized underlying of the re-securitization pool will be captured in the. Stage underlying Exposures (STG_UNDERLYING_EXPOSURES). As per the revised framework, the approach that should be used for risk weight calculation is standardized approach only, no other approaches are applicable. The application assigns the same approach based on the re-securitization flag. For these exposures parameters that are used in standardized approach are calculated for both non-securitized and securitized exposures using the logic mentioned in the revised accord.

This happens in the sub process RESEC_POOL_RW_CALCULATIONS under the process HKMA- Securitization Data Processing - STD.

STC Transactions (STC Transaction)

As per the revised Basel guidelines the transactions with simplicity means the homogeneity of the underlying assets belong to same products / characteristics and simple in nature which have the transparency of the underlying assets, the details of the transactions are with sufficient information also they are easily comparable against the equivalent transactions. The eligibility of these conditions is checked for the transactions and these transactions are handled separately by the application

This is in the sub process SEC_ELIGIBILITY_FOR_STC_TRANSACTIONS under the process HKMA- Securitization Data Processing - STD.

Once the Eligibility conditions are checked for the exposures based on the above sub process the respective exposures are handled in the downstream sub process in the application which are stated above under various approaches.

Sec Pre-CRM RWA Computation

The application calculates the Pre-CRM RWA for the exposures by multiplying the Pre-CRM EAD with the risk weight of the exposures. Pre-CRM RWA is computed in the Sec Pre-CRM RWA Computation sub process.

This is handled in application under SEC_PRE_CRM_CAPITAL_CHARGE

7.6.8.5   Credit Risk Mitigation Process

In order to calculate the post CRM RWA, application needs to account for mitigants which may be in the form of collaterals, guarantees, credit derivatives. Not all mitigants are eligible for RWA computation. All the mitigants which get populated into the system are being made ineligible, and then the regulatory approved mitigant types and the issuer type combination are made eligible in Mitigant Processing.

Mitigant Data Population

Mitigant data is loaded from the Stage Mitigant table (STG_MITIGANTS) into the FSI CAP Mitigants table (FSI_CAP_MITIGANTS) where further processing takes place. This is takes place under the process Mitigant Data Population.

Mitigant Multiple Assessment

Similar to exposures with multiple ratings, mitigants with multiple ratings are also subject to Multiple rating Assessment. This is handled under the sub-process Mitigant Multiple Rating Assignment – BIS.

All the guarantees and credit derivatives issued by issuers that are reclassified as Other Entities are treated as eligible for Securitization exposures if they satisfy the current rating and the original rating criteria specified by the Basel accord. For processing the original rating of these issuers, the application performs the multiple assessments of the initial ratings.

The Data Transformation "CAP_MITIGANT_MULTIPLE_ASSESSMENT_DATA_POP" performs this.

Mitigant Eligibility Approaches and their Risk Weighting Rules

Mitigant Risk Weight

For Simple approach, the application assigns risk weight to mitigants on the basis of credit rating (CAP Mitigant Basel Rating and Risk Weight Assignment), original maturity (CAP Mitigant RW Assignment based on Original Maturity). These fall under the process Mitigant RW Assignment – Simple –BIS.

Similarly, for Comprehensive Approach, Mitigant Risk Weights are assigned on the basis of credit rating (CAP Mitigant Basel Rating and Risk Weight Assignment), for financial collaterals (CAP Mitigant RW Assignment for Financial Collaterals - Comprehensive Approach). These fall under the process Mitigant RW Assignment – BIS –Comprehensive Approach.

Mitigant Eligibility

The application identifies the eligible mitigants based on the criteria as mentioned by the Regulator. The application identifies the following standard mitigants– collateral, guarantees, and credit derivatives.

The application is capable of using the Simple Approach and the Comprehensive Approach for the mitigants which are part of the collateral. The application identifies the eligibility of the financial collateral separately for the simple approach and the comprehensive approach. The eligibility of the collateral mitigants are based on the party type of the mitigant, mitigant types, the credit rating assigned to the mitigant or the party (as applicable), and the classification of collateral as senior or not.

This is handled in CAP Mitigant Eligibility for Equity - Simple approach under the process Mitigant Collateral Eligibility Simple Approach -BIS

For mutual funds, the eligibility is based on the eligible mutual fund indicator. This is handled in CAP Mitigant Eligibility for Mutual Fund - Simple approach under the process Mitigant Collateral Eligibility Simple Approach -BIS.

The application also identifies whether the mitigant is a Re-Securitized Exposure and if yes, makes it ineligible. This is handled in CAP Collateral Eligibility - Simple Approach under the process Mitigant Collateral Eligibility Simple Approach –BIS.

The application identifies the eligibility of the guarantees and credit derivatives based on the party type of the mitigant and the credit rating assigned to the issuer of the mitigant. This is handled in the process Mitigant Collateral Eligibility Simple Approach –BIS.

Similar mitigant eligibility rules for Comprehensive Rule can be found in the process Mitigant Collateral Eligibility – Comprehensive Approach –BIS.

The option for the bank to select Collateral Simple Approach or Comprehensive Approach is based on the Run Management option as selected in the UI.

Mitigant Haircut Assignment

Under Standardized approach, the bank has to follow supervisory estimates for Mitigant Haircut Assignment. This is based on the various categories like mitigant type, residual maturity, rating, issuer type and so on. This is applicable only if the bank follows comprehensive approach for collateral.

Only eligible mitigants are considered for haircut assignment and for further processing. Post Haircut Assignment, the eligible mitigants are moved from Mitigants Table (FSI_CAP_MITIGANTS) to sub exposures table (FSI_CAP_SUB_EXPOSURES).

The application does computations for three kinds of mitigant haircuts which are Volatility Haircut, FOREX Haircut, and Maturity Mismatch Haircut.

Volatility Haircut

Volatility Haircuts are assigned to the collateral to account for any future fluctuations in the market value of the financial collateral. The application assign haircuts for various type of financial collateral like debt securities, equity, mutual funds, and so on. In the Supervisory Haircut Method, the application assigns Volatility Haircut based on issues, issuer's ratings, mitigant's residual maturity, and type of mitigant.

This is handled in CAP CRM Mitigant Volatility Haircut - Supervisory Haircut under CRM Sub Exposure Data Haircut Assignment Process.

Forex Haircut

If the exposure and collateral are in different currencies, then the application makes an adjustment by applying the FOREX Haircut.

This is handled in CAP CRM Forex Haircut Sub Exposures under CRM Sub Exposure Data Haircut Assignment Process.

Maturity Mismatch Haircut

If the residual maturity of the Credit Risk Mitigant is less than that of the Underlying Credit Exposure, then a maturity mismatch haircut is applied to adjust the value.

This is handled under CAP CRM Maturity Mismatch Haircut under CRM Sub Exposure Data Haircut Assignment Process.

7.6.9 Pooling and Optimizer

7.6.9.1 Pooling

Pooling is one of the prerequisite for the optimized allocation of the exposures.

Pooling pulls out an exposure and identifies all the relevant mitigants mapped to it, and the corresponding exposures mapped to these mitigants, and again the corresponding newer mitigants mapped to these exposures. This pooling assigns the cardinality to the exposures based on the mitigant combination.

This happens in the FSI Cap Sub Exposures (FSI_CAP_SUB_EXPOSURES), and the pooling is part of the sub-process.

The relevant cardinalities that get assigned to the exposures, as part of this pooling process are as below:

- 1-0➜One exposure not mapped to any mitigant

- 1-1 ➜One exposure mapped to one mitigant

- 1-N➜One exposure mapped to multiple mitigants

- N-1 ➜Multiple exposures mapped to a single mitigant

- N-N ➜Multiple exposures mapped to Multiple mitigants

7.6.9.1.1 Optimizer

The optimizer is the process of allocation of the mitigants to the exposures, based on the different logic applicable for the various granularity. For more information, see Annexure.

Both Pooling and Optimizer are handled under the process CRM Sub Exposure Pooling and Optimizer Processing.

7.6.9.1.2 Post CRM RWA Computation

The application computes the covered amount and the uncovered amount for the exposures. The covered amount is computed by multiplying the covered factor with the exposure amount. To this covered amount, the application assigns the Mitigant Risk Weight. The product of the covered amount and the mitigant risk weight is the covered RWA. The uncovered amount is computed by multiplying the uncovered factor (which is 1 – sum of all covered factors for that exposure) with the exposure amount. This uncovered amount is multiplied by the Exposure Risk Weight to get the uncovered RWA. The sum of the covered RWA and the uncovered RWA is the Post CRM RWA of the exposure.

7.7 Operational Risk – The Standardized Approach

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Basel Committee after reviewing the existing approaches of Operational Risk Capital Calculation it has come up with revised Standardized Approach for calculating the Operational Risk Capital.

The Standardized Approach Methodology is based on the following components:

(i) the Business Indicator (BI) which is a financial-statement-based proxy for Operational Risk

(ii)the Business Indicator Component (BIC), which is calculated by multiplying the BI by a set of regulatory determined marginal coefficients (αi)

(iii)the Internal Loss Multiplier (ILM), which is a scaling factor that is based on a Bank's Average Historical Losses and the BIC.

Minimum Operational Risk Capital (ORC) is calculated by multiplying the BIC and the ILM

ORC = BIC * ILM

7.7.1 Data Population

The Business Indicator Component Information for any bank will be available in their General Ledger. So the GL Level Information for these Business Components which is required to calculate the Business Indicator is sourced from the STG_GL_DATA stage table.

The respective GL Information should be from the STG_GL_MASTER Stage GL Master Table.

This is handled in the process of FSI_OR_BUSINESS_INDICATOR_DTL_DATA_POP.

The loss data based on the Banks discretion whether they want to consider the Internal Loss data or the Internal Loss data from the regulatory definition the information is sourced from STG_INT_OPERATIONAL_RISK_LOSS or from the STG_EXT_OPERATIONAL_RISK_LOSS.

The loss from the internal entities are captured as the information in the LV Code similarly for the loss due to external factors the entity information is considered as a party which has created the loss.

This is handled in the process of FSI_CAP_HIST_OPERATIONAL_LOSS_POP.

The information of the Financial Year is taken from the Stage Financial year master and the same is consumed in identifying the Jurisdictions Financial year. This financial year plays the important role in identifying the number years data considered for the Business Indicator Calculation and similarly in the Historical Loss data calculation for Loss Component.

7.7.1.1 The Business Indicator

The Business Indicator (BI) comprises three components:

1. The interest, leases and dividend component (ILDC)

2. The Services Component (SC)

3. The Financial Component (FC).

The BI is defined as   BI = ILDC + SC + FC

The information sourced from the Stage GL Data will be reclassified as the Business Indicator Values using the sub process OR – GL Account to Business Indicator Reclassification and they stored in the FSI_OR_BUSINESS_INDICATOR_DTL table. The reclassification helps the application in identifying and using in further calculation.

Figure 38: Business indicator components
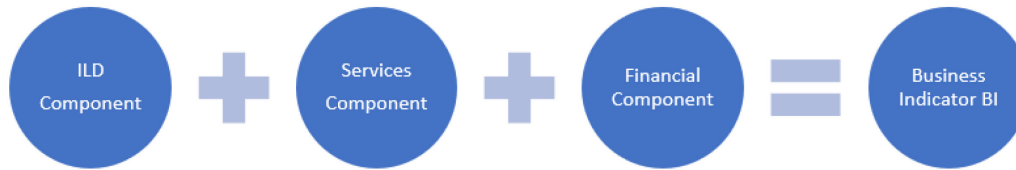
7.7.1.1.1 Calculation of Relevant Components

Interest, Leases and Dividend component:

$$ILDC = Min\left[\overline{Abs\left(Interest\ Income - Interest\ Expense\right)}; 2.25\%\cdot\overline{Interest\ Earning\ Assets}\right]+\overline{Dividend\ Income}$$

> **NOTE:**
>
> In the formula above, a bar above a term indicates that it is calculated as the average over three years : t, t-1 and t-2.

The absolute value of net items (For example, interest income – interest expense) should be calculated first year by year. Only after this year by year calculation should the average of the three years be calculated.

Services Component:

$$SC = Max\left[\overline{Other\ Operating\ Income}\ ; \overline{Other\ Operating\ Expense}\right]+Max\left[\overline{Fee\ Income}; \overline{Fee\ Expense}\right]$$

> **NOTE:**
>
> In the formula above, a bar above a term indicates that it is calculated as the average over three years : t, t-1 and t-2.

Financial Component:

$$FC = \overline{Abs\left(Net\ P\ \&\ L\ Trading\ Book\right)}+\overline{Abs\left(Net\ P\ \&\ L\ Banking\ Book\right)}$$

> **NOTE:**
>
> In the formula above, a bar above a term indicates that it is calculated as the average over three years : t, t-1 and t-2.

The absolute value of net items (For example, interest income – interest expense) should be calculated first year by year. Only after this year by year calculation should the average of the three years be calculated.

The Business Indicator respective components like the Net Values for the 3 years are calculated and stored in the FSI_CAP_OR_NET_BI_COMPONENTS table. Banks would have obtained certain regulatory approvals as per the revised Standardized Approach to exclude some of the business components from the calculation of BI Value. Business values from their Divested Entities or the business values from the Mergers and Acquisitions. Based on the regulatory approval and the application allow the banks to exclude or include these business values from the calculation.

In the above table FSI_CAP_OR_NET_BI_COMPONENTS , the Net values calculated are stored under Net values along with the V_BI_COMPONENT_IDENTIFIER to identify them , similarly the divested values and the mergers and acquisitions values are identified under DIV and MA respectively. Before calculating the business values the same are identified under the GROSS Business Identifier.

7.7.1.2   The Business Indicator Component

To calculate the BIC, the BI is multiplied by the marginal coefficients (αi). The marginal coefficients increase with the size of the BI as shown in below table.

For banks in the first bucket (i.e. with a BI less than or equal to €1bn) the BIC is equal to BI x 12%. The marginal increase in the BIC resulting from a one unit increase in the BI is 12% in bucket 1, 15% in bucket 2 and 18% in bucket 3.

For example, given a BI = €35bn, the BIC = (1 x 12%) + (30-1) x 15% + (35-30) x 18% = €5.37bn.

BI Ranges and marginal coefficients

Table 23: BI Ranges and marginal coefficients

Bucket	BI Range (in Euro Bn)	BI Marginal Coefficients (αi)
1	<= 1 Bn	12%
2	1 Bn < BI <= 30 Bn	15%
3	> 30 Bn	18%

These calculations are done in the FSI_CAP_OR_CAPITAL_SUMMARY Table.

For HKMA , the first bucket BI range is less than or equal to 10 Billion HKD , the second bucket BI range is more than 10 Billion HKD and less than 300 Billion HKD for third bucket the BI range is More than 300 Billion HKD.

7.7.2 The Internal Loss Multiplier

The ILM is defined as

$$ILM = Ln\left(\exp(1) - 1 + \left(\frac{LC}{BIC} \right)^{0.8} \right)$$

The Loss Component (LC) is equal to 15 times average annual operational risk losses incurred over the previous 10 years.

NOTE:

> The loss data to be there for 10 years of high quality data and in case of unavailability of the data for 10 years based on 5 years of data the LC can be calculated and banks do not have 5 years of data then the calculation of capital requirement will be based on BIC solely with supervisory approval.

LC = 15 * average of previous 10 years (Annual Operational Risk Loss).

For Loss Component Calculation, based on regulatory definition option the bank can choose either Internal Loss, External Loss or both for their Calculation based on the regulatory approvals they have. Similarly, number of quality loss data considered for their loss calculation also selected through Regulatory definition.

If the Bank is not having the quality loss data as recommended by the regulatory then they have the option for selecting the Internal Loss Multiplier directly based on the approval and the multiplier suggested by the regulator.

For HKMA there is no minimum loss threshold for considering into loss calculation and so any loss amount to be considered for the loss component calculation.

These calculations are done in the FSI_CAP_OR_CAPITAL_SUMMARY table.

Once the BIC and ILM are calculated then the Minimum Operation Risk Capital is calculated, post this the Risk Weighted Asset Calculation is done by multiplying the 12.5 times of the Minimum Operational Risk Capital.

The Flow Chart for the Operational Risk based on the Standardized Approach Calculation handled in the application is as follows.

Figure 39: Flow chart for the Operational Risk
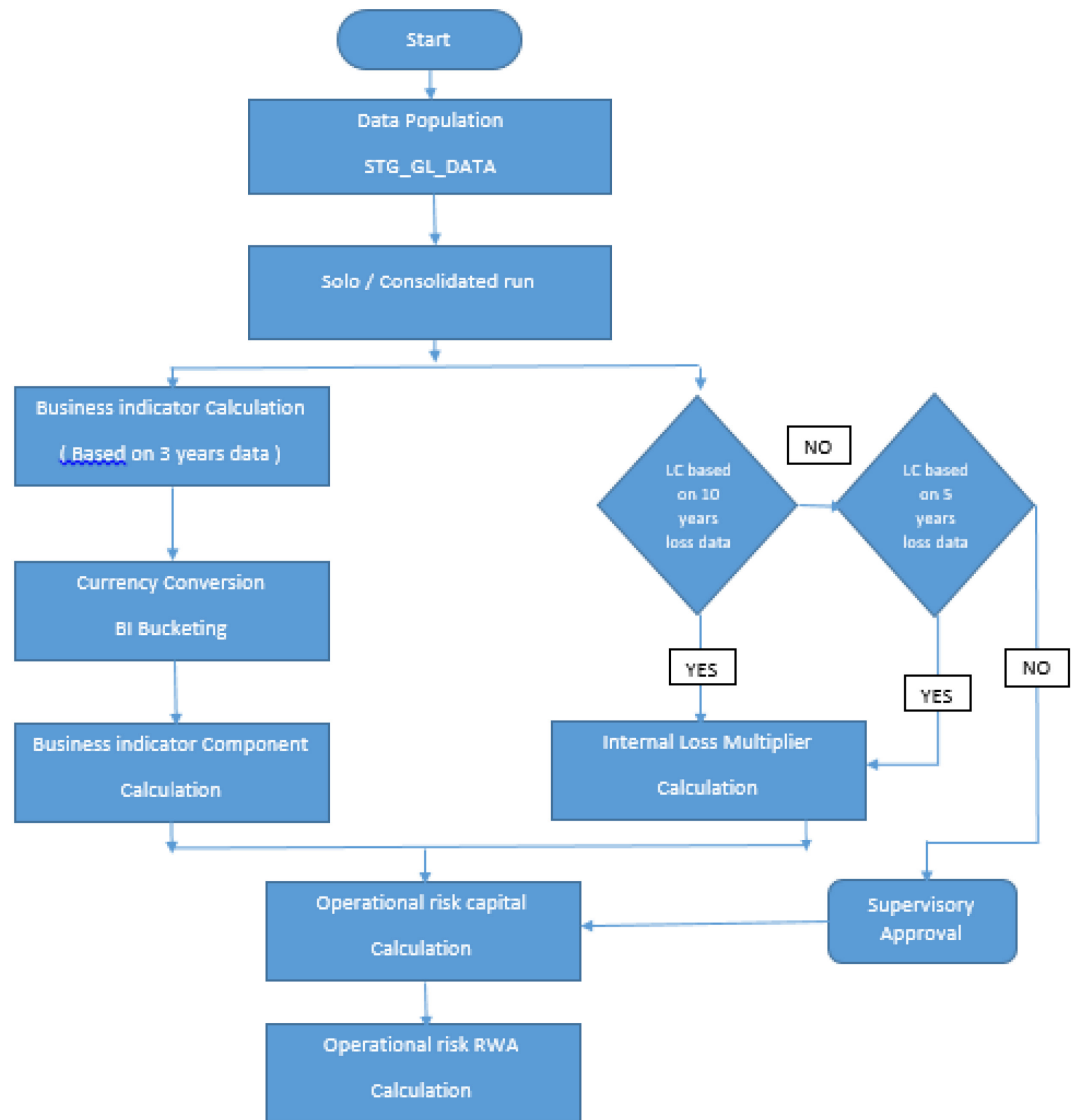
7.7.3 Operational Risk RWA

As per the Basel Accord, "Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events". External losses can occur due to theft of information or hacking of systems. The Basel Accord suggests as part of post crisis reforms The Standardized Approach for measuring the minimum Operational Risk Capital Requirements replaces all existing approaches of Basel II Framework. The Banks are recommended to use the Standardized Approach for calculating the Operational Risk RWA. The Standardized Approach consists of three components.

- The Business Indicator (Proxy of Banks Financial Statement Components)

- The Business Indicator Component (Based on Co-Efficient of Banks Business)

- Internal Loss Multiplier (Based on Average Historic Loss)

Figure 40: The Standardized approach
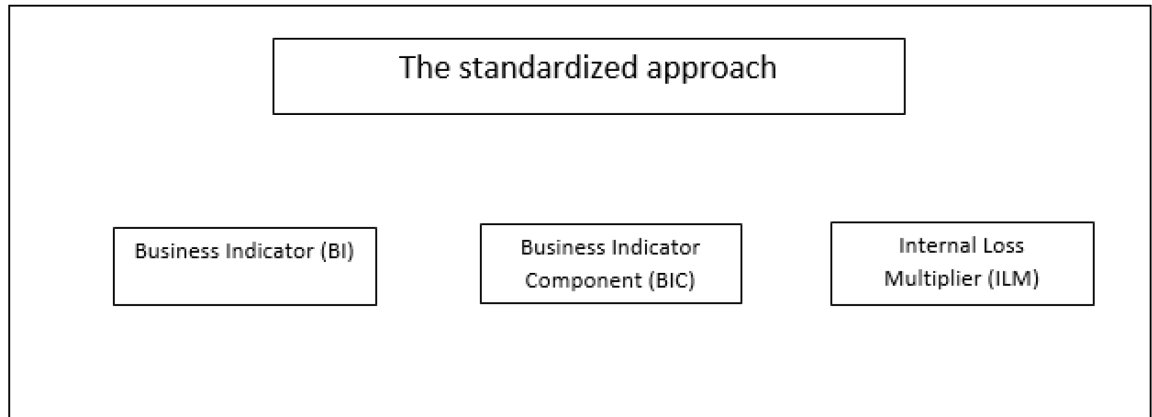
Capital Structure During the economic crisis, the Global Banking System had an insufficient level of high-level quality capital. During the crisis, it was identified that there was inconsistency in the definition of capital across jurisdictions and lack of disclosure. To address this issue of inconsistency, the Basel committee has prescribed a new definition of capital to strengthen the global capital framework under Basel III.

As per the new definition in the Basel III Accord, total capital consists of some of the following elements:

- Tier1 Capital that consists of

- Common Equity Tier 1

- Additional Tier 1

- Tier 2 Capital

The following illustration displays the process flow for Capital Structure:

Figure 41: Process Flow for Capital Structure
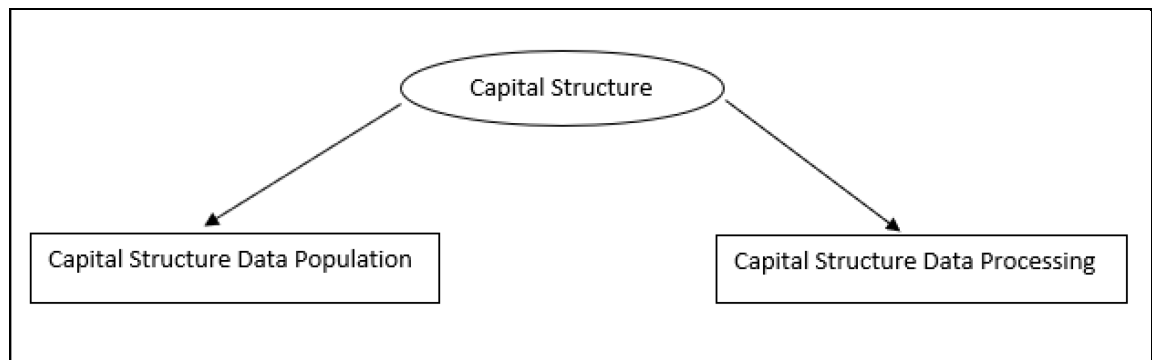
7.8   Capital Structure

During the economic crisis, the global banking system had an insufficient level of high-level quality capital. During the crisis, it was identified that there was inconsistency in the definition of capital across

jurisdictions and a lack of disclosure. To address this issue of inconsistency, the Basel committee has prescribed a new definition of capital to strengthen the global capital framework under Basel III.

Figure 42: Process Flow for Capital Structure
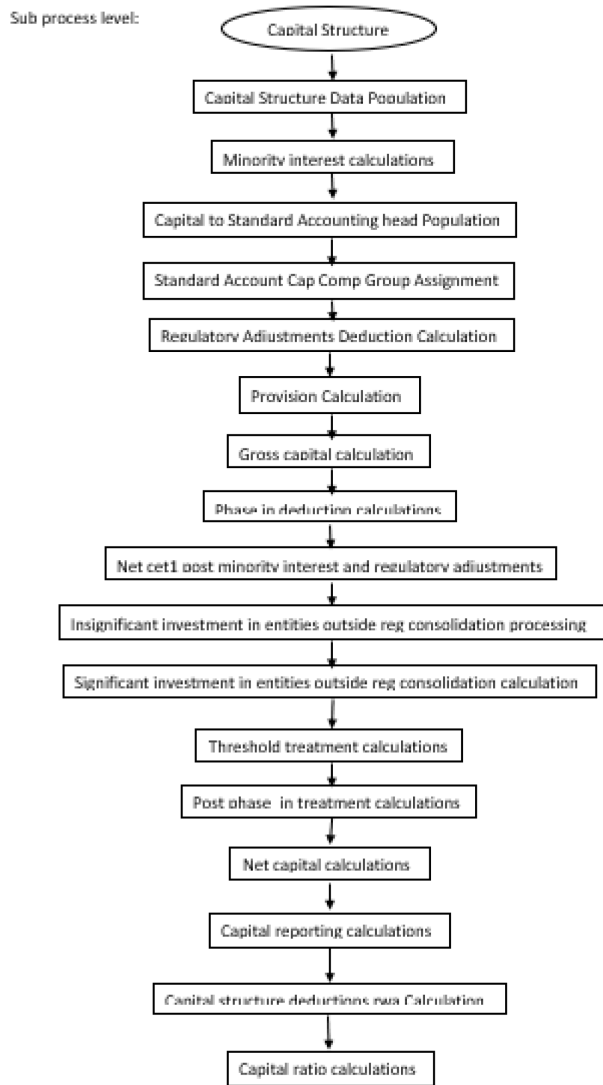
As per the new definition in the Basel III accord, total capital consists of the sum of the following elements:

1. Tier1 Capital, which comprises of the following components,

   - Common Equity Tier 1

   - Additional Tier 1

2. Tier 2 Capital

   Each component of capital is subject to restrictions where CET1 must be at least 4.5% of the total risk-weighted asset. Tier 1 capital must be at least 6.0% of total risk-weighted asset. The total capital must be 8.0% of total risk-weighted asset. Each component of capital undergoes minority interest

and regulatory adjustments. The minority interest is applicable for a consolidated entity only, during the consolidation run. Most of the regulatory adjustment line items are to be deducted from CET1.

All the regulatory adjustment line items follow a phase-in arrangement from the beginning of 2014 till 2017.

In particular, the regulatory adjustments begin at 20% of the required adjustments to Common Equity Tier 1 on 1 January 2014, 40% on 1 January 2015, 60% on 1 January 2016, 80% on 1 January 2017, and reach 100% on 1 January 2018. The same transition approach applies for all deductions from additional Tier 1 and Tier 2 capital.

While executing Solo Run the parent entity data is processed. Investment into the subsidiary data is processed as per Credit Risk and Market Risk rule. Capital line item for parent entity is only processed.

While executing Consolidation Run, the parent entity and the subsidiary data is considered.

7.8.1 Assumption

Investments in accounting entities (which are outside the scope of regulatory consolidation) by parent banks are long-term investments and mostly equity-related instruments, hence these investments are not processed for Credit Risk Mitigation.

The GL codes are expected to be unique across entities in Stage General Ledger Data (STG_GL_DATA) and Capital Accounting Head Dimension (DIM_CAPITAL_ACCT_HEAD).

7.8.2 Data Population

Exposure level input for capital structure will flow from different stage portfolio tables.

Along with the portfolio level stage tables, application uses these below table,

Stage GL DATA (STG_GL_DATA),Stage Gl master(STG_GL_MASTER),Stage Party Share Holding Percentage (STG_PARTY_SHR_HLD_PERCENT),Stage Entity Share Holding Percentage (STG_ENTITY_SHR_HLD_PERCENT),Dim Organization Structure (DIM_ORG_STRUCTURE),Stage Standard Accounting Head (STG_STANDARD_ACCT_HEAD),Stage Legal Entity Details (STG_LEGAL_ENTITY_DETAILS), FSI_SETUP_CAPITAL_SOURCE (In this table application stores the CAPID details for example the capital component group or if it is eligible for transition),FSI_SETUP_CAPITAL_HEAD (In this table application stores all the seeded ratios as per regulatory guidelines).

7.8.3 Shareholding Percent Multiplication

Based on the share-holding percentage of the parent bank in the subsidiary and the consolidation approach to be followed for each of the entity, the Basel approach is selected.

For example: if the share-holding for an entity is 35% and is part of the consolidation process, then the approach selected for this entity is pro-rata consolidation. The reclassification is performed in task – 'Basel III Capital Consolidation Basel Approach Type Reclassification for an Entity' in the process 'CAPITAL_CONSOLIDATION AND PARAMETER ASSIGNMENT'.

The entity-level population is part of BIS Common Data Processing (PMFCOM020) process. The application updates the shareholding percentage against each entity common data in the fact capital accounting head from the fact entity shareholding percent table and update the capital accounting head

amount multiplying with the shareholding percentage of that particular entity. The parent data in the processing table of fact capital accounting head is updated with the value 1 and for each child entity, the data is based on the parent's holding percentage specified for each child in fact entity shareholding percent table.

7.8.4 Common Reclassification Rules

There are certain reclassifications that are specific to the capital structure process – standard accounting head reclassification, and entity type reclassification.

- Capital to Standard Accounting Head Reclassification

    This is the reclassification of the Capital accounting head to standard accounting head. In this, all the Capital accounting heads of the bank need to be reclassified into the Standard Accounting Head, as that is the one which is being consumed in the application. This happens in the COMMON_RECLASSIFICATION (PMFCOM005) sub-process process in Common Data Processing (PMFCOM006).

- Entity Type Reclassification

    The entity type reclassification is also handled as part of the Party Type reclassification since there cannot be a difference in the party type and entity type.

    This happens in the BIS Other Reclassification (PMFCOM010) process.

- Product to Capital Component Group Reclassification

    This reclassification of the product to the capital component group is based on the Basel Product type, and this is handled at the individual portfolio tables of Investments and Derivatives. For investments, this happens in the process INV_CAPITAL_STRUCTURE_RECLASSIFICATION_STD (PMFINV005) and for derivatives, this happens in the DRV_RECLASSIFICATION_STD (PMFDRV012) in the process.

7.8.5 Gross Capital Calculations

For Gross Capital calculation all the components are classified into their respective tiers (CET1, AT1, and T2) based on the standard accounting head, and the specifications as mentioned by the regulator. The total gross capital for each tier of capital (CET1, AT1, and T2) is calculated as per the definition of CET1, AT1, and T2 by adding the relevant financial instrument in each tier of capital. This is processed using GROSS_CAPITAL_CALCULATIONS sub-processes in HKMA - Capital Structure Data Processing (PMFHKMACS001) process.

7.8.6 Minority Interest Calculations

Surplus of Minority Interest

Minority Interests are calculated and the surplus amount in each tier of capital, which is attributed to third parties, is deducted from the gross capital of each tier of capital.

Minority interest is the amount that is attributable to any other party, which is not part of the bank's entities and has a shareholding in the entity. The surplus of minority interest is calculated as the third party's interest (shareholding percent) in the surplus capital (available capital – minimum required capital).

- All the values required for processing are populated into Minority Interest Capital (FSI_MINORITY_INTEREST) table which is the processing table for minority interest calculations.

- The sub-process – MINORITY_INTEREST_CALCULATIONS (PMFBISCS001) in HKMA - Capital Structure Data Processing (PMFHKMACS001) process covers this processing.

- The minority interest is deducted from the gross capital of each tier of the capital.

The deduction also includes internal transactions in each tier of capital among the various entities which are part of the regulatory consolidation. Hence, minority interest attributed to third party as well as the internal transactions in each tier of capital is deducted from the gross capital of each tier of capital.

7.8.7 Internal Transactions Deduction

The deduction also includes internal transactions in each tier of capital among the various entities which are part of the regulatory consolidation. This is to ensure that there is no double-counting of exposures. This is handled in the process CAPITAL_STANDARD_ACCOUNTING_POPULATION (PMFBISCS002).

7.8.8 Regulatory Adjustments & Deductions from Each Tier of Capital

Regulatory Adjustment: Goodwill and Other Intangibles, DTAs, Cash Flow Hedge Reserve, Gain on Sale of Securitization Transaction, cumulative gain and losses due to change in Own Credit risk, Defined Pension Fund Asset are direct download (in STG_GL_DATA table).

All the regulatory adjustment line items are expected as a download in the Stage General Ledger Data table (STG_GL_DATA). Some of these line items are Goodwill, Other Intangibles, Deferred Tax Assets, Cash flow hedge reserve, and so on. The related deferred tax liabilities are also expected to be provided as a download. The application calculates the values net of DTL and then processes it for the Regulatory Adjustments. The detailed list of these line items is part of the FSI Setup Capital Source (FSI_SETUP_CAPITAL_SOURCE) table.

The sub-process – REGULATORY_ADJUSTMENTS_DEDUCTION_CALCULATION (PMFBISCS004) and PROVISION_CALCULATION (PMFBISCS005) in HKMA - Capital Structure Data Processing (PMFHKMACS001) process handle this requirement.

7.8.9 Certain Deductions part of Corresponding Deduction Approach

There are certain deductions which are expected to be part of each of the tier of capital. And they follow the corresponding deduction approach, wherein the deduction of the line item happens in the same tier of capital to which the exposure belongs. This is being mostly pulled from the relevant

7.8.9.1   Investment in Own Shares

The investment in own shares are calculated as the sum of the pre-mitigation EAD (EAD Pre-Mitigation Measure Value (N_EAD_PRE_MITIGATION). The source for investment in own share is the individual portfolio table.

The source for Non-Sec exposures is FSI Cap Investment Exposures (FSI_CAP_INVESTMENT_EXPOSURES), and FSI Cap Derivative Exposures (FSI_CAP_DERIVATIVES). The process where this is being handled is HKMA - Capital Structure Data Processing (PMFHKMACS001).

This populates into the Fact Calc Accounting Head (fct_calc_acct_head). This is being populated for each of the respective tier of capital.

The Investment in own shares is being calculated in the task INV_DRV_DEDUCTION_CALC_ACCT_HEAD_DATA_POP in Capital Structure Data Population (PMFBISCS019) Process.

This also goes for a phase in calculations, which is being handled in the PHASE_IN_DEDUCTION_CALCULATIONS (PMFBISCS007) process.

7.8.9.2   Reciprocal Cross-Holdings

The Investment in reciprocal cross-holdings are calculated as the sum of the pre-mitigation EAD (EAD Pre-mitigation Measure Value) (N_EAD_PRE_MITIGATION) in FSI Cap Investment Exposures (FSI_CAP_INVESTMENT_EXPOSURES), and FSI Cap Derivative Exposures (FSI_CAP_DERIVATIVE) of the exposures which have the flag of reciprocal cross-holding indicator (F_RECIPROCAL_CROSS_HLDG_IND) as "Y".

For this processing, the reciprocal amount is expected as a download in the Stage Capital Investments Position Table (STG_CAP_INVESTMENTS_POSITIONS) at an instrument level. The instrument code provided in this table is the instrument in which the reporting bank has invested, and for which there is a reciprocal cross-holding by the reporting bank. The reciprocal cross-holding amount is also captured in this table. The application expects the staging data of the exposures to have the reciprocal cross-holding indicator (F_RECIPROCAL_CROSS_HLDG_IND) as 'Y'.

The application uses this INV_DRV_DEDUCTION_CALC_ACCT_HEAD_DATA_POP task in the Capital Structure Data Population (PMFBISCS019) process to populate into the Fact Calc accounting head (FCT_CALC_ACCT_HEAD). This is being populated for each of the respective tier of capital.

This also goes for phase in calculations which is being handled in the PHASE_IN_DEDUCTION_CALCULATIONS (PMFBISCS007) process.

And finally, the adjusted amount after deductions goes back to the exposure level,

which is being handled in CAPITAL_STRUCTURE_DEDUCTIONS_RWA_EXPOSURES (PMFBISCS022) from the process Capital Structure Data Processing (PMFBISCS021).

The exposure that meets the reciprocal cross-holding amount is stamped with the reciprocal cross-holding indicator (F_RECIPROCAL_CROSS_HLDG_IND) as 'Y'. This will be reduced in all the amount columns in FSI Cap Investment Exposures (FSI_CAP_INVESTMENT_EXPOSURES), and FSI Cap Derivative Exposures (FSI_CAP_DERIVATIVES) as per the reciprocal cross-holding ratio and store the actual amounts in FSI CAP DEDUCTION EXPOSURE table (FSI_CAP_DEDUCTION_EXPOSURES).

The portion of the exposure, which is above the reciprocal cross-holding amount is treated as a regular exposure and is risk-weighted as per the Basel asset class for that instrument.

7.8.9.3   Insignificant Investment

Investment in all financial entities, which are outside the scope of regulatory consolidation, is identified as significant and insignificant investments.

The shareholding percent for these parties are expected as a download in Stage Party Shareholding Percent Table (STG_PARTY_SHR_HLD_PERCENT). Any party that is a part of the Org Structure but is not part of the regulatory consolidation, can also qualify for this treatment if it is a financial entity. If the entity

is part of the Org structure, the shareholding percent is expected in the Stage Entity Shareholding percent table (STG_ENTITY_SHR_HLD_PERCENT).

The parties are identified as significant when the shareholding percentage is greater than or equal to 10%. And the others are identified as an insignificant investment. This processing happens in the PARTY_SHAREHOLDING_PERCENT process.

The total investment amount in insignificant entities is computed by summing up the Pre-mitigation EAD (EAD Pre-mitigation Measure Value (N_EAD_PRE_MITIGATION)) from the portfolio tables FSI Cap Investment Exposures (FSI_CAP_INVESTMENT_EXPOSURES), and FSI Cap Derivative Exposures (FSI_CAP_DERIVATIVES). And also, the tier-wise computation of investment amount happens. The total amount is compared with the 10% of the CET1 amount of the parent bank amount post regulatory adjustments. The amount above the 10% limit is processed for deduction.

This summing up includes the direct, indirect, and synthetic investments. Indirect investments are investments in Investment funds, and which are invested in capital instruments. Synthetic investments are those investments in synthetic transactions on capital instruments. For all these exposures, the net long position amount that is updated in N_EAD_PRE_MITIGATION is considered.

This is expected for all capital positions, and not for specific capital positions.

The total deduction amount is pro-rated among each tier of capital based on the percentage of investment in each tier of capital. The amount arrived is deducted from each tier of Capital.

The investment amount below the 10% limit is treated as per the banking book rule for the instrument.

The application computes as follows:

Parties are marked as insignificant investment parties by updating the flag: Significant Entity Indicator (F_SIGNIFICANT_INVESTMENT_IND) in Fact Party Shareholding Percent (FCT_PARTY_SHR_HLD_PCT) with value N, and F_SIGNIFICANT_INVESTMENT_IND in Fact Entity Info (FCT_ENTITY_INFO) with value N.

- The Exposure Amount of banking book and trading book exposures (any counterparty credit risk exposures) to these entities are summed by grouping their component of capital and compared against 10% of the parent bank's CET1 capital. The portion of the amount that exceeds the 10% limit is deducted.

- This is computed by calculating tier-wise deduction percentage and multiplying this percentage with the exposure amount to arrive at the amount to be deducted from each tier of capital.

- The Total Investment Values are populated into the Non-Regulatory Consolidation Entity Investment (FSI_NON_REG_CONSL_ENTITY_INVST) table which is the processing table for insignificant and significant investment deductions.

- The sub process – INSIGNIFICANT_INVESTMENT_IN_ENTITIES_OUTSIDE_REG_CONSOLIDATION_PROCESSING (PMFBISCS010) in HKMA - Capital Structure Data Processing (PMFHKMACS001) covers the processing.

- After the application of this treatment, the Insignificant Investments line item also follows phase-in arrangement which is similar to the phase-in arrangement for Regulatory Adjustments.

7.8.9.4 Significant Investment

The total investment amount is checked against the set limit of 10% of the CET1 amount of the parent bank, post insignificant investment amount adjustment. The CET1 amount above 10% is deducted from

the CET1 post insignificant investment amount deduction. The CET1 amount below 10% follows the threshold deduction. The investment amount in AT1 and T2 is fully deducted from its respective AT1 and T2 tier of capital. The application computes as follows:

Entities are marked as significant investment entities by updating the flag – Significant Entity Indicator (F_SIGNIFICANT_INVESTMENT_IND) in Fact Party Shareholding Percent (FCT_PARTY_SHR_HLD_PCT) with value Y and Significant Entity Indicator (F_SIGNIFICANT_INVESTMENT_IND) in Fact Entity Information (FCT_ENTITY_INFO) with value 'Y'.

The exposure amount of banking book and trading book exposures (any counterparty credit risk exposures) to these entities are summed by grouping their component of capital and compared against 10% of the parent bank's CET1 capital. The portion of the amount that exceeds the 10% limit is deducted from CET1. The exposures of AT1 and T2 are fully deducted from the respective tier of the capital. This is performed by calculating the deduction percentage for CET1 and by multiplying this percentage with the CET1 exposure's exposure amount to arrive at the amount to be deducted from CET1 capital.

The sub process – SIGNIFICANT_INVESTMENT_IN_ENTITIES_OUTSIDE_REG_CONSOLIDATION_PROCESSING (PMFBISCS011) in HKMA - Capital Structure Data Processing (PMFHKMACS001) covers the processing.

After the application of this treatment, the Significant Investments line item also follows phase-in arrangement which is similar to the phase-in arrangement for Regulatory Adjustments.

7.8.10   Threshold Deduction Treatment

Threshold Deduction is populated in the FSI_THRESHOLD_TREATMENT table and the threshold calculations are processed in this table.

The line items, (Significant and insignificant Investment in the Common Shares of Accounting entities are populated from the FSI NON REGULATORY CONSOL ENTITY INVESTMENT table (FSI_NON_REG_CONSL_ENTITY_INVST), Mortgage Servicing Rights net of Deferred Tax Liabilities are populated from the Fact Standard Accounting head (FCT_STANDARD_ACCT_HEAD) table, and DTAs that arises from temporary differences are populated from the Fact Capital Accounting Head (FCT_CAPITAL_ACCT_HEAD).

The three-line items' significant investment in the common shares of BFSI where the bank owns more than 10%, Mortgage Servicing Rights (MSR), and DTAs that arises from temporary differences is processed for threshold deduction are populated in the Capital Threshold Treatment (FSI_THRESHOLD_TREATMENT) table and the threshold calculations are processed in this table. These three-line items are individually compared with the 10% of CET1 calculated Post Regulatory Adjustments, Insignificant Investments, and Significant Investment. The amounts which are above 10% CET1 limit are deducted from CET1 following the phase-in arrangements. During the transition period, any amount of these three-line items, which is not deducted as per the 10% mentioned earlier, is summed up for the aggregate 15% limit check. During the transition period, the check of 15% is against the CET1 post all regulatory adjustments and adjustments to insignificant investments and significant investments and the individual threshold deduction. In the post-transition period, instead of 15%, the aggregate check is 17.65% of CET1, post all regulatory adjustments and adjustments to insignificant investments, less 100% of the sum of the line items which goes for threshold deduction.

The amount which is not deducted due to this 10% and 15% check is risk-weighted 250% during the transition period and is risk-weighted 250% post the transition period. The entire processing is done in the sub-process – 'THRESHOLD_TREATMENT_CALCULATIONS (PMFBISCS012) in HKMA - Capital Structure Data Processing (PMFHKMACS001) .Net Capital Calculations

The net CET1, net AT1, and net T2 capital amount are calculated post all regulatory adjustments. Any shortfall in T2 capital amount is adjusted against Net AT1 amount and any shortfall of AT1 capital amount is adjusted against Net CET1 amount.

This is performed in the sub-process – NET_CAPITAL_CALCULATIONS (PMFBISCS014) in HKMA - Capital Structure Data Processing (PMFHKMACS001). For RWA, RWA_POPULATIONS (PMFBISCS016) in HKMA - Capital Structure Data Processing (PMFHKMACS001).

For net capital, it is NET_CAPITAL_CALCULATIONS (PMFBISCS014) HKMA - Capital Structure Data Processing (PMFHKMACS001). Total RWA Calculations

The RWA amount for Credit Risk - Non-Securitization, Counterparty Credit Risk, Credit Valuation Adjustment Risk-Weighted Asset, Credit Risk - Securitization, Market Risk, and Operational Risk and Regulatory Capital Phase in Related RWA are calculated by summing up the RWA amount.

The Phase-In RWA captures the capital instrument investments that go for deduction from Capital but because of Phase-In arrangement are to be risk-weighted such as – Reciprocal Cross-holding, Treasury Stock, Insignificant Investment amount, Significant Investment amount, and Threshold deduction amount.

These are reported under different Capital accounting heads such as 'Risk-weighted Asset amount for Standardized Portfolios/IRB portfolio' for Non-Securitization, "Sec Std RWA" for Securitization portfolio, "Market RWA" for Market Risk and "Operational RWA" for Operational Risk.

This is part of the RWA_POPULATIONS (PMFBISCS016) in HKMA - Capital Structure Data Processing (PMFHKMACS001).

NET CAPITAL CALCULATION

The Net CET1, Net AT1, and Net T2 capital amount are calculated post all regulatory adjustments. Any shortfall in T2 capital amount is adjusted against Net AT1 amount and any shortfall of AT1 capital amount is adjusted against Net CET1 amount. This is done in sub process – Net Capital Calculations (NET_CAPITAL_CALCULATIONS) in HKMA - Capital Structure Data Processing (PMFHKMACS001) Capital Ratio Calculations

Tier 1 capital ratio and capital adequacy ratio are calculated using the total RWA amount, net Tier 1 capital, and Total capital amount.

For capital ratio, the process is CAPITAL_RATIO_CALCULATIONS (PMFBISCS017) in HKMA - Capital Structure Data Processing (PMFHKMACS001). Required Capital ratio

This process is handled in CAPITAL_RATIO_CALCULATIONS (PMFBISCS017).

In this, the application calculates the CET1 capital ratio, T1 capital ratio, T2 capital ratio, and a total capital ratio summing all of them. This is compared with the required capital ratio provided as an input for the specific regulator. The required capital ratio is being provided as an input in the FSI Setup Capital Accounting Head (FSI_SETUP_CAPITAL_HEAD).

7.8.10.1 Deficit or Excess Capital

The shortfall is handled in the sub-process Net capital calculations (PMFBISCS014),

Here the application calculates CET1, AT1, and T2 capital shortfall amounts.

7.8.10.2 Key Data Elements

Key data elements to process the Capital Structure for the consolidated entity is as follows. For a complete list of tables and columns to be updated, see the Download Specifications document.

Entity details are part of regulatory consolidation and parent entity shareholding percent. This data is captured in Stage Entity Shareholding Details (STG_ENTITY_SHR_HLD_PERCENT) table.

The capital structure component for each tier of capital for all entities involved in regulatory consolidation.

The total RWA, total CET1, AT1, and T2 amount, and third-party percentage of holdings in each tier of capital for minority interest calculation.

The regulatory adjustment amount like goodwill, DTA, other intangible assets, cash flow hedge reserve, and defined pension fund asset, MSR, and so on.

The transaction of the investment amount for an accounting entity that is outside the scope of regulatory consolidation.

The CET1, AT1, and T2 capital of the entity which has third-party minority holdings in it are expected as a download in the legal entity details (STG_LEGAL_ENTITY_DETAILS) table. Similarly, the third-party investment in each tier of capital is also expected as a download in the legal entity details table.

The calculation logic and the source for each CAPID is recorded in FSI_SETUP_CAPITAL_SOURCE

The minimum required capital for each tier for each capital adequacy regulator (for the entity that has a third-party minority holding in it) is expected in the setup table - Setup Capital Heads (FSI_SETUP_CAPITAL_HEAD). The Total RWA (CAP838) for the entity that has a third-party minority holding in it is a download value in FSI_STANDARD_ACCT_HEAD.

7.9   Capital Buffers

Capital Buffer is calculated after the calculation of Capital Ratios, as they go as an input to Buffer calculation. Each sub-process is explained in detail under the Capital Buffer section of the user guide.

For example, the Required Capital Conservation Buffer and Required Countercyclical Buffer calculation are detailed in the 'Required Total Buffer' sub-section of the Capital Buffer section in this document. Similarly, the Minimum Capital Conservation ratio is detailed in the 'Capital Conservation Ratio' sub-section of the Capital Buffer section in this document.

Figure 43: Process Flow for Capital Buffers
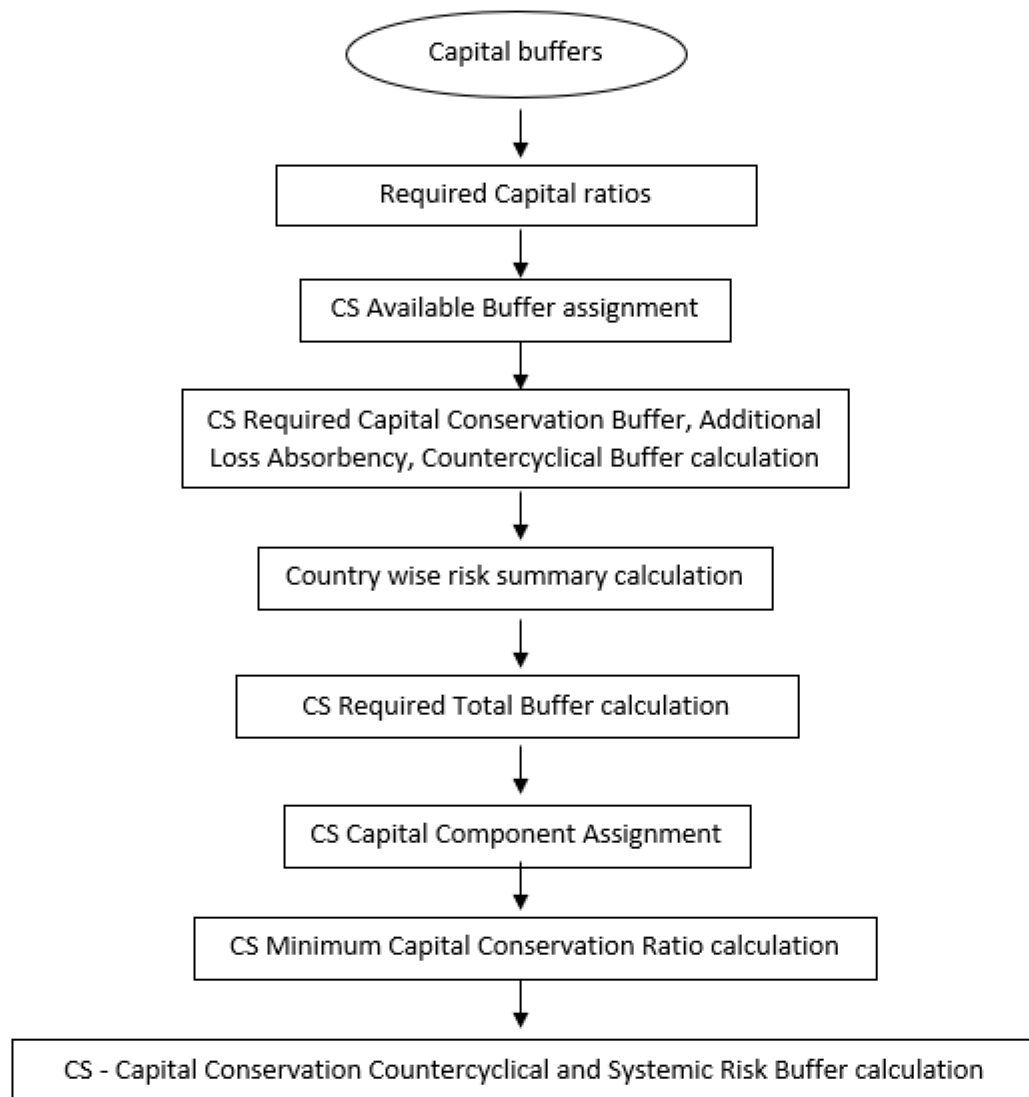
7.9.1 Data Population

The major input for capital buffers is the total capital ratio and the Net Common Equity Tier 1 Capital Ratio s which gets computed as part of the capital structure process. This is consumed from the fact standard accounting head.

Along with that, the application consumes additional data related to buffers from the Stage Countrywide Risk Summary (STG_COUNTRYWISE_RISK_SUMMARY) which is used to populate country-wise risk summary.

FSI Benchmark Capital Conservation Ratio (FSI_BENCHMARK_CAP_CONS_RATIO) and FSI Benchmark Countercyclical Buffer (FSI_BENCHMARK_CNTR_CYC_BUFFER).

7.9.2 Buffer Requirements

There are different types of Capital that the banks are expected to maintain:

- Capital Conservation Buffer

- Countercyclical Buffer

- Additional Loss Absorbency Capital (for G-SIB)

A detailed description of each of these buffers is provided in the following sections.

7.9.2.1 Capital Conservation buffer

As part of the Basel III compliance, requires banks are required to maintain Capital Conservation Buffer (CCB) out of Common Equity Tier 1 Capital (CET1).

This buffer is used to ensure that any loss should not erode the bank's capital, and hence it is expected to be met over and above the Required CET1 Capital. The actual required ratio for the jurisdiction is being specified in the FSI Setup Capital Head (FSI_SETUP_CAPITAL_HEAD).

The application also computes CET1 and Buffer Lookup Ratio, which is further required for calculating Minimum Capital Conservation Ratio

7.9.2.2 Countercyclical Buffer

As part of the Basel III compliance, banks are required to maintain a Countercyclical Buffer that is prescribed by the respective jurisdiction's regulator through an extension of the Capital Conservation buffer.

The application calculates the buffer requirement for internationally active banks as the weighted average of the buffers required across all the jurisdictions to which the bank has exposures, weighted on basis of the exposure amount to different countries of the counterparty of their exposures.

If the guarantor and credit default swap is present for exposure, then the application considers the domicile country of these mitigants for the covered portion and the country of the exposure counterparty for the uncovered portion. After calculating the weighted average, the application then computes a single value for the Countercyclical Buffer benchmark which is applicable on all exposures of all jurisdictions.

7.9.2.3 Additional Loss Absorbency Buffer (GSIB Buffer)

If a banking organization is categorized as a Globally–Systematically Important Banks (G-SIB), then the application identifies all subsidiaries in various jurisdictions as G-SIB as well. Based on this assessment, banks are assigned a GSIB score and the applicable bucket is decided. Identification of this bucket is based on the score as per the guidelines. Loss absorbency is required to be met as an extension of Capital Conservation and Countercyclical for a computational buffer for computational purposes. The additional loss absorbency requirement specified by different regulators for different buckets should be setup in the table Benchmark Loss Absorbency Ratio (FSI_SETUP_BENCHMARK_LOSS_ABS).

Required Weighted Average Countercyclical Buffer

For Required Weighted Average Countercyclical Buffer calculation, the exposures used in the bank are all accounts exposed to both Credit Risk (Securitized and Non Securitized) and those exposed to Market Risk. However, the application can be restructured to consider only those exposed to Credit Risk.

7.9.3 Required Buffers

Required Total Buffer (CAP825) is the sum of the three required buffers: (CAP829) Required Buffer from CET1 Capital, (CAP830) Required Buffer from Tier 1 Capital, (CAP831) Required Buffer from Capital Adequacy Ratio.

The calculated values (only positive values are considered) are stored against the corresponding Cap IDs as two separate line items of which one is 0.

The Required buffers as a percentage are provided as a download in the FSI Setup Capital Account Head (FSI_SETUP_CAPITAL_ACCCT_HEAD), as per the specific regulatory need. This is being multiplied by the Total RWA to arrive at the Required Buffer as an amount.

7.9.4 Assumptions

Countercyclical Buffer requirement for each country must be provided by the client or the bank as the final percentage applicable for each country and this is dependent on the home regulator. G-SIB status and applicable bucket information for each entity must also be provided by the client/bank.

For Required Weighted Average Countercyclical Buffer calculation, the exposures used in the bank are all accounts exposed to credit risk (Securitized and Non-Securitized) and those exposed to Market Risk. However, the application can be restructured to consider only those exposed to Credit Risk.

In Capital Conservation Ratio, for the computation of the quartiles that are used to arrive at Minimum Capital Conservation Ratio, the application is dependent on the required CCB ratio. From 2013 till 2016, CCB requirements keep changing every year as per the transitional arrangement to calculate the quartiles range, the application considers it as per the transitional arrangement. At the same time, the application has the flexibility to have the required CCB constant at 2.5% throughout. Also, the minimum required CET1 Ratio considered for building these quartiles is 4.5%

7.9.5 Key Data Elements

Key data elements are elaborated in this section. For a complete list of tables to be updated, see the Download Specifications document.

Countercyclical Buffer requirements for each country must be provided by the client or the bank as the percentage applicable for each country is dependent on the home regulator's jurisdiction. The home regulator's jurisdiction can prescribe a Countercyclical Buffer percentage that is higher than the percentage prescribed by the regulator of exposure country. Hence, the required Countercyclical Buffer percentage for each exposure country provided as input must be the one that the home regulator agrees to.

G-SIB status and applicable bucket information for each entity must be provided by the client or the bank. In the case of a consolidated Run, loss absorbency charges applicable to the parent, as required by the regulator of the parent applies to the complete Run. This Run output is supposed to be reported to the jurisdictional regulator of the parent. For a Solo Run, loss absorbency charges as required by the regulator for a subsidiary entity are applicable. Hence, for Solo and Consolidated Runs, the G-SIB status of the reporting bank, and the applicable bucket, is provided by the bank itself.

As the required Capital Conservation Buffer (CCB) must be met as per the transitional arrangement, therefore the required buffer value must be set up in Setup Capital Heads (FSI_SETUP_CAPITAL_HEAD) table for different periods against the standard account head ID CAP823. Different CCB requirements specified by the different regulators can be set up by specifying the regulator codes against the same

standard account head ID. This regulator code must be the same as the jurisdiction code assigned by the Rule Jurisdiction Code Assignment.

The required benchmark of Countercyclical Buffer for different countries as set by different regulators is expected as a download in Stage Benchmark Counter-Cyclical Buffer (STG_BENCHMARK_CNTR_CYC_BUFFER). This data is populated to Benchmark Counter-Cyclical Buffer Ratio (FSI_BENCHMARK_CNTR_CYC_BUFFER) using a Slowly Changing Dimension (SCD) process. Buffer requirement given on a date is valid till the next buffer is specified. For a solo Run, the regulator of subsidiary specified buffer requirements are considered and for a consolidation Run, the consolidating entity's regulator specified buffer requirements are considered.

The Additional Loss Absorbency requirement specified by different regulators for different buckets must be set up in the table Benchmark Loss Absorbency Ratio (FSI_SETUP_BENCHMARK_LOSS_ABS). For the solo Run, the loss absorbency requirement set by the local regulator is considered. For consolidation Run, the consolidating entity's regulator specified loss absorbency requirement is considered.

There is an option to directly input the applicable loss absorbency percentage. This is also useful when the percentage applied is different from the corresponding bucket percentage. This must be provided in the column N_LOSS_ABS_OVERRIDE of the table Stage Legal Entity Details (STG_LEGAL_ENTITY_DETAILS). If this column has a value, it is given priority over the loss absorbency percentage corresponding to the bucket.

The minimum Capital Conservation Ratios requirement for different quartiles (1, 0.8, 0.6, 0.4, 0) is expected as a download in Stage Benchmark Capital Conservation Ratio (STG_BENCHMARK_CAP_CONS_RATIO). This data is populated to the semi-static table Benchmark Capital Conservation Ratio (FSI_BENCHMARK_CAP_CONS_RATIO) using an SCD process. Conservation ratios specified once are valid till the next revision.

In the FSI_REQUIRED_CNTR_CYC_BUFFER table, the post-mitigation exposure amount is updated against each country code. This is applicable for Credit Risk (for Non-Securitization and Securitization exposures) and Market Risk.

7.10 Large Exposures

The large exposure framework is a framework detailing how the banks have to manage their exposures to various parties both at the individual level, as well as to the group of connected clients' level.

The large exposure framework has to comply with the bank at both a solo and consolidated level. As part of the solo execution, the bank has to identify its large exposures and comply with the required threshold limit.

As part of the consolidation execution, the bank has to identify the total large exposures at the consolidated level and comply with the required threshold limit.

The solo and consolidation are as per the regulatory definitions and same as the one which is being used for the regular capital adequacy.

The large exposures are identified based on the comparison of the total individual party's exposures to the Tier 1 Capital, which changes based on whether it is a solo execution or consolidation execution.

7.10.1 Data Population

The large exposure computations require data for the various portfolio such as banking, investment, derivatives, securities and financing transactions, and trading book exposures.

Non-Securitization Data Population

Data must be loaded in the application for all the product types and is the same as Capital Adequacy-related data expectation.

See the individual portfolio for the data elements:

- Banking

- Investment

- Derivatives

- Securities Financing transactions

Mitigant Data Population

The data relating to the mitigants associated with the exposures are captured in this process. This is also the same as the regular capital adequacy run-related data.

For more information about Mitigant Data Population, see Mitigant Processing Section.

Securitization Data Population

Data must be loaded in the application for all the relevant Securitization tables and is the same as Capital Adequacy related data expectation.

For more information about the securitization data population, see Securitization Data Population section

Trading book Data Population

Data must be loaded in the application for all the trading book exposures and is the same as Capital Adequacy related data expectation.

For more details, please refer Market Risk Data Population.

All these data are populated into the processing table of FSI_LARGE_EXPOSURE_ACCT_DETAIL.

Large exposure data population is handled in the sub-process LARGE_EXPOSURE_DATA_POPULATION

7.10.2   Reclassification

The reclassification rules are the same as the ones already detailed in the individual portfolio – banking, investment, derivatives, securities and financing transactions, securitization, and trading book exposures.

In addition to the above, the reclassification which is specific to large exposures is the one mentioned below.

7.10.2.1   Party Relationship Reclassification

All the relationships at the party level are expected in the stage party–party relationship table (STG_PARTY_PARTY_RELATIONSHIP)

The Large Exposures computation require the details of the party's relationship to one another, since there are different limitation to the group exposure (which will be a group of connected counterparties based on various relationship types), and to individual counterparties (without considering any other related counterparties).

From a definition perspective, connected counterparties are individual entities that are considered as a group due to the direct or indirect control established between entities. This direct or indirect control is being identified based on the party-party relationship table, wherein every related party's information is provided, and the relationship type is also defined.

This is reclassified into the standard relationship type, to be used for further processing and reporting.

7.10.3   Computation of the Direct Exposures

The direct exposures are the actual exposures that are in the bank's portfolio in the form of banking, derivatives, and SFT exposures. In the case of an investment portfolio, the direct exposures are the ones that are an investment in the form of debt securities or equity, and which do not have any underlying dependencies. This is handled for individual counterparties.

This gets handled as part of the sub-process BIS_LARGE_EXPOSURE_EAD_ASSIGNMENT under the process LARGE_EXPOSURE_DATA_PROCESSING.

7.10.4   Computation of Indirect Exposures

The indirect exposures are the mitigants that have been provided to the exposures in the bank's portfolio in the form of banking, derivatives, investment and SFT exposures. This is handled for individual counterparties.

This gets handled as part of the sub-process BIS_LARGE_EXPOSURE_EAD_ASSIGNMENT under the process LARGE_EXPOSURE_DATA_PROCESSING.

7.10.5   Computation of Synthetic Exposures

The synthetic exposures are the ones for Securitization and CIU, wherein there are synthetic exposures to the underlying of these transactions.

In this scenario, these exposures are computed by assigning them to the unknown clients or the actual counterparty to whom the underlying belongs, depending on data availability.

This is handled for individual counterparties.

The computation of gross credit exposure for CIU/SPV is handled in the process LARGE_EXP_SPV_UNDERLYING_PROCESSING

7.10.6   Exempted Exposures

Certain exposures are being exempted from the large exposure calculations. These are mostly as specified by the regulator, and include the cleared transactions, and other exposures that are deducted from capital, since it does not make sense to consider them in the large exposure calculations.

This is handled for individual counterparties.

The computations for this are handled in the sub-process BIS_LARGE_EXPOSURE_EXEMPTIONS of the process LARGE_EXPOSURE_DATA_PROCESSING.

7.10.7   Calculation of Total Exposure to a counterparty

Calculation of gross credit exposure depends on the specific product category of the on-balance sheet, off-balance sheet exposure, derivative products, secured lending and borrowings, exposures arising from CIU, exposures arising from SPVs along with the exposures to third parties of the SPVs, and trade exposures. The calculation also covers indirect exposures of the counterparty arising out of the mitigant exposures of the bank.

This is applicable for all the counterparties for which the bank has exposures in the form of either direct, indirect, or synthetic exposures. This is handled in the sub-process LARGE_EXPOSURE_COUNTERPARTY_POPULATION and BIS_LARGE_EXPOSURE_COUNTERPARTY_PROCESSING in the process LARGE_EXPOSURE_DATA_PROCESSING.

7.10.8   Identification of Related Parties

It is expected that the party ID is the one for which it is considered as a related party. For example, if Bank A is related to party B, and party B is related to party C, it is expected that the data is provided for Bank A to party B, and Bank A to party C, to ensure that every mapping is being considered.

The solution sums up the exposures for all the counterparties belonging to the same parent, along with the parent, and populates the FSI Large Exposure Account Detail Table (FSI_LARGE_EXPOSURE_ACCT_DETAIL).

The expectation is that all the parties which are related to each other, have the Parent ID of the Party table as the same, or are part of the related party. Based on these related parties identified, and the parent id in the DIM_PARTY, the related parties are identified, and these are also considered as belonging to the same group.

This is handled in the sub-processes LARGE_EXP_PARTY_GROUP_MEMBER_MAPPING and LARGE_EXP_PARTY_GROUP_EXP_POPULATION in the process LARGE_EXPOSURE_DATA_PROCESSING.

On the party group, the threshold limit check is applied, and large exposures are identified.

7.10.9   Calculation of Total Exposure to a group of related counterparties

All the total exposures of the parties will be clubbed together to calculate the total party group exposures. This will be based on the related parties identified. This is the total exposure based on which the large exposure identification happens, and also the breach condition check happens.

This is handled in the sub-process BIS_PARTY_GROUP_LARGE_EXP_PROCESSING in the process LARGE_EXPOSURE_DATA_PROCESSING.

7.10.10   Total Capital of the Bank

This is used to calculate the total capital of the bank. This is computed as per the Capital Structure related calculations.

This is handled in the sub-process LARGE_EXPOSURE_CAPITAL AMOUNTS_POPULATION in the process LARGE_EXPOSURE_DATA_PROCESSING.

7.10.11   Identification of Large Exposure Counterparties

The large exposures are identified based on whether the group exposure of the counterparties exceeds the required threshold using the pre mitigation value.

This is handled in the sub-process BIS_PARTY_GROUP_LARGE_EXP_PROCESSING in the process LARGE_EXPOSURE_DATA_PROCESSING.

7.10.12   Threshold criteria for Large Exposure Counterparties

The regulator indicates the threshold criterion below which the large exposures can be maintained by the bank. This threshold percent is assigned based on the standard party type of the counterparty, as specified by the regulator.

This is handled in the sub-process Large Exposures Counterparty Threshold Amount Calculation in the process BIS_LARGE_EXPOSURE_COUNTERPARTY_PROCESSING.

7.10.13   Large Exposure Breach Calculations

The application identifies whether there has been any breach to the large exposure threshold as specified by the regulator and is stamped a flag indicating that the counterparty as a group has breached it.

This is handled in the sub-process Large Exposures Counterparty Threshold Limit Breach Indicator Assignment in the process BIS_LARGE_EXPOSURE_COUNTERPARTY_PROCESSING.

7.10.14   Leverage Ratio

During the financial crisis, banking institutions built up excessive on-balance sheet and off-balance sheet leverage which forced the banking sector to reduce its leverage. To prevent the building of excessive leverage on the institutions' balance sheet, the BIS has introduced a non-risk-based leverage ratio which is a new regulatory tool supplementing risk-based capital requirement. The leverage ratio guidelines were revised and published on 10th October 2014. The guidelines are mostly in sync with the revised leverage ratio guidelines issued in 2014 by BIS.

The solution supports this revised approach in the calculation. The application calculates the leverage ratio for a reporting bank. The minimum required leverage ratio is 3%.

The leverage ratio is calculated by dividing an institution's Tier 1 capital measure by the total leverage exposure measure.

$$\textbf{Leverage Ratio} = \frac{\textbf{Tier 1 Capital}}{\textbf{Leverage Exposure Measure}}$$

The Run Basel III Revised Leverage Ratio Calculation is used for computing the leverage ratio, as per the revised guidelines.

Net Tier 1 capital is the summation of Net CET1 and Net AT1 capital amount post regulatory adjustment. Exposure measure is the summation of on-balance sheet items, off-balance sheet items, Derivative Exposures, and Structured Financial Transactions (SFT). The on-balance sheet items include the Non-Securitization exposures' amount and the Securitization exposures' amount. The off-balance sheet items include the Non-Securitization exposures' amount and the Securitization exposures' amount. Mitigation is not considered when calculating exposure amount.

The leverage calculation happens at the consolidated parent entity level. The market risk data are not captured for the EU Jurisdiction, and hence that is expected as a download. This is expected in Stage Standard Account Head (STG_STANDARD_ACCT_HEAD) for the CAP843 (Leverage Ratio).

The leverage ratio calculations are a separate run and not part of the regular capital calculation run. This is because of the changes in the Credit conversion factor assigned to the exposures, and also the exemption of few exposures from the calculation which are part of the capital charge calculations. Also, mitigation is not required for these exposures, and the exposure measure calculations are different from the regular EAD calculations.

The accord is not explicit on the inclusion of Securitization and market-related transactions in the exposure measure calculations. However, the application has considered Securitization and the market-related transactions in the calculation of total leverage exposure measure.

As the application does not support market-related capital calculations for the BIS jurisdiction, the application expects the MR-related Exposure measure as a download.

Figure 44: Different form of EAD Calculations
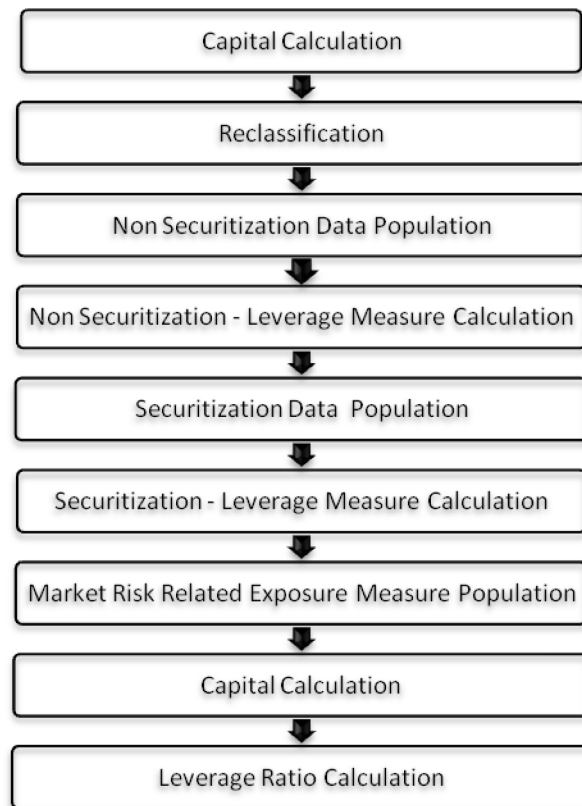
7.10.15   Data Population

Non-Securitization Exposure Data Population

Data from the Product Processors are populated to FCT_NON_SEC_EXPOSURES table in the process NON_SEC_DATA_POPULATION. This data population also remains the same as existing in the capital calculation run.

Collateral of Derivative

Collateral for the derivatives, which is already considered in the MTM calculation, are provided in the STG_MITIGANTS table with the eligibility flag as 'N' and the corresponding entry is added into the STG_EXP_MITIGANT_MAPPINGS table.

The MTM provided for the derivatives' instruments, must be after following the corresponding operational accounting framework.

Securitization Data Population

Securitization exposure data is populated to the securitization processing table in the process SEC_DATA_POPULATION. The population remains the same as in the capital calculation run.

Key Data Elements

Key data elements are elaborated in this section. For a complete list of tables and columns to be populated, see the Download Specifications document.

To calculate the leverage ratio, the exposure amount for all product types and the total capital is required.

The key data elements for exposure measure calculation of the various product types are as follows:

- On-Balance Sheet Exposures: For on-balance sheet items, End of Period (EOP) balance amount, write-off, and accrued interest amount are required.

- SFT Exposures: For repo products, exposure amount, and instrument rating are required.

- Derivative Exposures: For derivative products, exposure mark to market value, notional principal amount, and underlying instrument types are required.

- Off-Balance Sheet Exposures: For off-balance sheet items, an undrawn amount is required.

- Securitization Transaction: For securitization transactions, an exposure amount is required.

- Capital Calculation: See the Capital Structure for more details.

- Cash Variation Margin: The collateral segregated flag, exchange-traded flag, and netting agreement code is required.

- Netting Agreement: The margin threshold and the minimum transfer amount are required, which are captured in the Stage Net Exposures table (STG_NET_EXPOSURES).

7.10.16   Exposure Measure Calculations

- After data is populated in the Non-Sec processing table, the exposure measure is calculated in the process BASELIII_LEV_RATIO_EXPOSURE_MEASURE_CALCULATION.

- The Exposure measure is the sum of the Pre-mitigation EAD amount of the following exposure types:
  - On-Balance Sheet Exposures
  - Off-Balance Sheet Exposures
  - SFT Exposures
  - Derivative Exposures

- Details on the calculation of these exposure measures are mentioned in the following sections. All the exposure measures are computed and populated into the Leverage Exposure amount (N_LEVERAGE_EXPOSURE_AMOUNT) column. And any exempted exposures are identified by the solution in the Regulatory Capital Exemption Criteria in the Non-Sec Exposures processing table. These exempted criteria are part of the dimension table of Regulatory Capital Exemption Criteria Dimension (DIM_REG_CAP_EXEMPTION_CRITERIA).

7.10.16.1 On Balance Sheet Exposures

- The accounting value of the on-balance sheet exposures net of specific provisions and valuation adjustments are considered for the exposure measure. The valuation adjustments are captured at an instrument level, in the FSI setup table for Instrument Valuation Details (FSI_SETUP_INSTR_VALUATION_DTLS).

- The exposure measure considered is the Pre-Mitigation amount and does not consider the benefit of the mitigation.

- Some of the exempted exposures are detailed as follows.

- Fiduciary Assets

- If the bank considers the assets of the fiduciary assets, as the bank's assets, then these assets are exempted from the calculation. The fiduciary assets are identified based on the exposures having the Parent Fiduciary Account Number (V_PARENT_FIDUCIARY_ACCT_NUMBER) in the product processor (PP) staging tables.

- The bank has to select the run management option to select whether the exposures are derecognized in the balance sheet or not. If the run management option of Y is selected, all the fiduciary assets with the parent fiduciary account are exempted from the Leverage Exposure Measure calculations. If the run management option of N is selected, specific fiduciary assets can be exempted from the Leverage Exposure Measure calculations. These specific fiduciary assets are expected to be provided in the FSI Fiduciary Assets setup table (FSI_SETUP_DEREC_FIDUCIARY_ASST).

- This is handled in the Fiduciary Assets Exemption sub-process of the BASELIII_LEV_RATIO_EXPOSURE_MEASURE_CALCULATION process.

7.10.16.2 Off-Balance sheet exposures

The exposure amount for off-balance sheet exposures is the undrawn amount of the exposure multiplied by the CCF. The CCF of the exposures remain the same as in the Capital Calculation Run, except that the CCF is floored at 10%. The flooring of the CCF to 10% is handled by the rule Non-Sec Off-Balance Sheet Exposures CCF Percent Flooring in the Non-Sec CCF Assignment sub-process. This exposure measure does not consider the mitigation effect.

7.10.16.3 Derivative Exposures

Derivative transactions (OTC Derivatives) exposure measures are calculated using the Mark to Market Method. The add-on assignment is the same as mentioned in the Capital Calculation Run. The exposure measure is the sum of market value, and the notional amount multiplied by the add-on percent.

The derivative exposure measure has few specific treatments, in terms of the Leverage Exposure Measure calculations. They are as detailed as follows.

Collateral of Derivative

The collateral received concerning the derivatives, cannot be used in netting and reducing the exposure amount of the derivatives. Based on whether the operative accounting framework allows for the netting of the collateral or not, the solution updates the exposure measure. The solution expects a run management selection to identify whether the bank considers netting of the collateral outside the application, and provides the netted amount as input to the product processor staging tables.

The collateral of the derivative is given in the mitigant table. There is a run management option to capture whether the operative accounting framework allows for the netting of the collateral as per the master netting agreement or not.

If 'Yes' is selected, assuming that the bank has provided the MTM value based on already considering the collateral amount, the collateral amount is added to the MTM of the exposure. And if 'No' is selected, there is no change to the MTM value.

7.10.16.4 SFT Exposures

The exposure amount of the SFT Exposures to be considered for the leverage measure is post the effect of the collateral. The SFT Exposures data provided in the staging must not consider the accounting netting.

The data capture for the SFT exposures remains the same as in the Capital calculation run. The bank role in the SFT transaction is also captured in the staging table.

The Gross amount and the Add-on amount, as expected in the accord are computed by the application. The Gross amount is the actual transaction amount of the SFT exposures, as provided in the Repo contracts staging table. And the Add-on amount is the difference between the fair value of the repo exposures and the fair value of the collateral placed or received.

- The fair value of the exposures, including the placed collateral are captured at an instrument level, in the FSI setup table for Exposure Fair Value Details (FSI_SETUP_INSTR_VALUATION_DTLS), and the fair value of the mitigants are captured in the FSI setup table for Mitigant Fair Value (FSI_SETUP_MTGNT_VALUATION_DTLS).

The mitigants which are used to offset the fair value of the repo exposures, are stamped accounting heads, to ensure that they can be tracked.

The exposure amount calculations are different for the bank acting as a principal in the SFT transactions, and an agent in the SFT transactions. The solution supports both treatments.

For bank acting as an agent, the solution handles all the treatment mentioned in the accord. The data expectation for them are as follows:

- Case 1: Bank is an agent, and does not get involved in any other role with the SFT Exposure

- In this case, the data is not expected in the Repo contracts staging table.

- Case 2: Bank is an agent, and provides a guarantee equal to the difference between the SFT Exposure and the collateral amount

    In this case, the data is expected in the Repo contracts staging table, with the bank role as an agent, and the indemnity indicator (F_INDEMNITY_IND) as 'Y'.

    The application computes only the Add-on amount for this SFT transaction, in line with the guidelines. And this Add-on amount is populated into the Add-on column of the processing table. This Add-on amount is calculated in the data transformation Lev_Ratio_SFT_Addon_amt.

This is handled in the sub-process (Leverage Ratio Computations) of the process (BASELIII_LEV_RATIO_EXPOSURE_MEASURE_CALCULATION).

- Case 3: Bank is an agent, and provides a guarantee more than the difference between the SFT Exposure and the collateral amount

  In this case, the data is expected in the Repo contracts staging table, with the bank role as an agent, and the indemnity indicator (F_INDEMNITY_IND) as Y. And a separate guarantee transaction is expected to be recorded in the guarantee staging table. This guarantee transaction is also provided as a mitigant with the mitigant table storing the guarantee contract ID (V_GUARANTEE_CONTRACT_ID). And the exposure and the mitigant must be mapped to each other in the exposure mitigant mapping table STG_ACCOUNT_MITIGANT_MAP).

  This guarantee is not for a mitigant treatment, and hence, this is expected with the mitigant eligibility flag as 'N'. This identified guarantee is populated in FNSE.n_repo_contract_skey.

  The application computes both the gross exposure amount and the addon amount for this SFT transaction, in line with the guidelines. This Add-on amount is calculated in the data transformation Lev_Ratio_SFT_Addon_amt.

  This is handled in the sub-process (Leverage Ratio Computations) of the process (BASELIII_LEV_RATIO_EXPOSURE_MEASURE_CALCULATION).

7.10.16.5 Total Capital Calculations

The capital measure is calculated in the EU_CAPITAL_STRUCTURE process. Capital Measure used in the leverage ratio is equal to Net Tier 1 which is post all regulatory adjustments. The capital structure is the same as the capital calculation run.

7.10.16.6 Leverage Ratio Calculations

The leverage ratio is calculated as follows.

Leverage Ratio = Tier 1 Capital / Total Leverage Exposure Measure

This is computed in the process – BASELIII_LEV_RATIO_LEVERAGE_RATIO_CALCULATION.

8   Account Clustering

For more information, refer to the Account Clustering section, in the Oracle Financial Services Basel Regulatory Compliance User Guide.

9 User Interface For Reclassification and Regulatory Predefined Values

For more information, refer to the User Interface for Reclassification section, in the [Oracle Financial Services Basel Regulatory Compliance User Guide](#).

10   Multiple data load for a particular date

For more information, refer to the Multiple data load for a particular date section, in the Oracle Financial Services Basel Regulatory Compliance User Guide.

11 Annexure A: Key Concepts

11.1 Slow Changing Dimensions

This component details how to load data from the stage tables into the Slowly Changing Dimension (SCD) tables. SCD Batches are run usually at fixed intervals, for example at the end of each month. There are certain SCDs that have to be run whenever any new data is required to be added for the bank.

When the SCD Batch is executed for the first time it loads all the data in the stage tables for that Extraction Date and it also inserts two records – Missing and Others.

When the batch is run for the next Extraction Date, then the new records are inserted. The End Dates of the modified records are updated with the Extraction Date and new records with the Start Date as the extraction records are inserted. The records that are the same for both Extraction Dates are left untouched.

The SCD Component is delivered through an executable.

Type 1 SCD Methodology

The Type 1 Methodology overwrites old data with new data, and therefore, does not track changes to the data across time. For Example, consider a Dimension table, DIM_PRODUCT.

Table 24: Values in the DIM_Product Table

N_Product_Skey	V_Product_Name	D_Start_Date	D_End_Date	F_Latest_Record_Indicator
1	PL	5/31/2010	12/31/9999	Y

The following is a description of the column names in this table:

- N_Product_Skey is the Surrogate Key Column which is a unique key for each record in the Dimension Table.

- V_Product_Name is the product name.

- D_Start_Date indicates the date from which this product record is valid.

- D_End_Date indicates the date to which this product record is valid.

- F_Latest_Record_Indicator: A value Y indicates this is the latest record in the Dimension table for this product and N indicates it is not.

  If the V_Product_Name column is set as a Type 1 and if there is a change in the product name from PL to Personal Loan in the earlier example in the next Processing Period, then the SCD that executed the record in the earlier example is changed.

Table 25: Values in the DIM_Product Table

N_Product_Skey	V_Product_Name	D_Start_Date	D_End_Date	D_End_Date F_Latest_Record_Indicator
1	Personal Loan	6/30/2010	12/31/9999	Y

Type 2 SCD Methodology

The Type 2 method tracks Historical Data by creating multiple records for a given natural key in the Dimensional Tables with separate Surrogate Keys. With Type 2, the historical changes in Dimensional Data are preserved. In the earlier example, for the change in product name from 'PL' to 'Personal Loan' if history is preserved, then the V_Product_Name column is set as Type 2, that is, when SCD is processed for the processing period, it inserts a new record as shown in the following example.

Table 26: Values in the DIM_Product Table

N_Product_Skey	V_Product_Name	D_Start_Date	D_End_Date	F_Latest_Record_Indicator
1	PL	5/31/2010	12/31/9999	Y
1	Personal Loan	6/30/2010	12/31/9999	Y

A new record is inserted into the product Dimension Table with the new product name and the latest record indicator for this is set as 'Y' indicating this is the latest record for the Personal Loan Product and the same flag for the earlier record is set to 'N'.

Prerequisites

The setup tables accessed by the SCD component, including **SYS_TBL_MASTER**, **SYS_STG_JOIN_MASTER** have the required entries. The tables **SYS_TBL_MASTER** and **SYS_STG_JOIN_MASTER** are seeded. You must only add entries in these tables if you add user-defined dimensions.

Tables used by SCD Component

The **Stage Dimension Data Load** tab in the OFS Basel Regulatory Capital Runchart Details HKMA Standardized Approach excel sheet lists out the SCD Stage and Dimension that are used in the BASEL Application.

No changes are needed in this table if the Standard Key Dimensions are being used within the Basel Application. If any new dimensions are added, the related column details are to be inserted into this table manually.

STG_<dimensionname>_MASTER - is the database table that SCD uses as the source. This table comes as a part of the Data Model.

DIM_<dimensionname> – is the output table to which SCD writes the Dimension Data.

A sequence is added for every user-defined dimension.

For Example,

create sequence SEQ_DIM_<DIM> minvalue 1

max value 999999999999999999999999999

increment by 1

Executing SCD Components

For information on the configuration and execution of SCD Components, see the Operations Section in the Oracle Financial Services Analytical Applications Infrastructure 8.1.2 User Guide.

The Basel Batch created for SCDs is the <infodom>_SCD. Infodom refers to the Information Domain Name.

When the file is being executed you have the choice to either wait till the execution is complete or proceed with the next task. Click the list box of the field provided for Wait in the Value field and select Yes or No. Clicking Yes confirms that you wish to wait for the execution to be completed. Clicking No indicates that you wish to proceed.

Stage Data

In this section, the Stage Data can be populated in either the Product Processors or Other Stage Tables:

- **Product Processor**: An entity in the Basel Regulatory Capital Application that stores data from the Operational Systems of the Bank. This entity is created based on the various financial products that the bank caters to. Stage Tables for Product Processors are categorized as exposure data of Product Processors. The Product Processors of all the jurisdictions are the same, except for the Islamic Banking Jurisdiction.

- Others: Data can be populated into Stage tables, besides using Product Processors, as per the respective jurisdiction.

  For more information on the list of columns to be populated within each table, see the Download Specifications Document.

  The set of sample data to be to be populated for the following tables are listed in the worksheet available in the following location: Sample Data.

- STG_PRODUCT_MASTER

- STG_LOB_MASTER

- STG_MITIGANT_TYPE_MASTER

- STG_PARTY_TYPE_MASTER

  Seeded Data

  The tables are seeded in the installation as per the worksheet available in the following files:

- Seeded_Tables_Data_1

- Seeded_Tables_Data_2

11.2   Exhibit 3: Currency Conversion

SETUP_MASTER table is a setup table, used to provide the setup information of a Run. It can be used to set the default values of Rate Data Source Code or Standard Currency Code. For currency conversion, the rate data source and standard currency are important values. If the rate data source value is missing, then BLOOMBERG is by default considered to determine the Rate Data Source Code from the **DIM_ORG_STRUCTURE** table during currency conversion. If the Standard Currency Code Values are not provided or are missing, then USD is used as the destination currency code from the **DIM_ORG_STRUCTURE** table during currency conversion. This is column under the **DIM_ORG_STRUCTURE** table mapped to these default values are as follows:

Table 27: Column Values for DIM_ORG_STRUCTURE

V_COMPONENT_CODE	V_COMPONENT_DESC	V_COMPONENT_VALUE
DEFAULT_FX_RATE_SRC	Default Rate Data Source Code	BLOOMBERG
STD_CCY_CD	Standard Currency Code	USD

Rule Reporting Currency Code Assignment is set to 'USD' out of the box but can be modified to any other currency. The reporting currency selection can be done in the Run Execution Windows if the Run is executed from the Run Execution Window.

Currency conversion is performed on multiple tables to convert the values from its natural currency to Reporting Currency. The steps which are performed for the currency conversion are as follows:

- The table Stage Forward Exchange Rates **STG_FORWARD_EXCHG_RATES** stores the details about the pair of currencies and the corresponding exchange rate to perform the same with the extraction date for which the forward exchange rate is provided. This table also contains the information about the data source from which the exchange rates are quoted and the tenor which is used to identify the period for which the forward exchange rate is applicable for.

- The data from this table is populated to the **Exchange Rates** fact table through the common batch which is executed in the beginning. The initial data populated hereby contains the default Run Skey which is set to minus 1. Only the records with tenor 0 are used for currency conversion for which the spot exchange rate is required.

- After populating the data in the table, in each Run, all the exchange rates are updated based on the conditions at the time of execution to account for the increase or decrease in the exchange rates. A Rule is used which updates the exchange rates and populates the corresponding Run Skey which is then used for currency conversion in that particular Run. The exchange rates are then moved into the table wherever currency conversion is required. This is performed in the Product Processor data population step.

- Different legal entities can use the Exchange Rates quoted by different data sources. Therefore, the column which contains the information about the data source in the table Exchange Rates is compared with the required data source for a legal entity stored in the Org Structure Dimension (DIM_ORG_STRUCTURE) table.

- After the exchange rate population into the required fact tables, the currency conversion rules are executed which take the values stored in amount columns in natural currency, multiply them with the exchange rate and populate to the Reporting Currency Amount Columns.

  For mitigants table, the Exchange Rate that is used for currency conversion is the exchange rate for the entity of the exposure which the mitigant belongs to. The list of tables and corresponding columns where currency conversion is carried out is available in the following OTN Documentation Library location:

  Currency Conversion Tables and Columns

11.3 Exhibit 4: FSI_CAPITAL_STANDARD_MAPPING Table Mapping

As a part of Basel Capital Structure, information stored in Capital Standard Mapping (FSI_CAPITAL_STANDARD_MAPPING) table is a mapping of GL Capital Line items with seeded data in

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Standard Accounting Head Dimension Table (DIM_STD_ACCT_HEAD). This is also required for all the computed fields, so that the computation happens in the application for those standard accounting heads.

For all jurisdictions this mapping must be present which is elaborated in the following worksheet, available in the following OTN Documentation Library location:

FSI CAPITAL STANDARD MAPPING

11.4 Exhibit 5: Data Expectations for few of the Basel Products

11.4.1 Equity Exposures Data Expectations

The Equity Exposures and any other exposures which were expected to be treated under Equity Asset Class of the particular jurisdiction were expected in Stage Equity Exposures (STG_EQUITY_EXPOSURES) till 8.0.3 release of Basel application.

Starting from 8.0.4 release, any exposure which must be treated under Equity Asset Class is expected to be provided in Stage Investments (STG_INVESTMENTS).

For mandate-based approach in Equity Investment in funds when there are no entries in STG_FUND_UNDERLYING_COMPOSITION, application assigns Fall Back Approach to the remaining exposures.

All the required attributes pertaining to Equity Exposures are expected to be provided in Stage Investments (STG_INVESTMENTS) and any Instrument Specific attributes in Instrument Contract Dimension Table (DIM_INSTRUMENT_CONTRACT).

11.4.2 Securities Financing Transaction Related Exposures Data Expectations

The Securities Financing Transaction (SFT) related exposures were expected in Stage Repo Contracts (STG_REPO_CONTRACTS), and all their related collateral were expected in Stage Underlying Exposures (STG_UNDERLYING_EXPOSURES) till 8.0.3 release of Basel Application.

Starting from the 8.0.4 release, there are changes to the capture of the collateral related to the SFT.

- The collateral which the bank has received concerning the SFT Transactions is captured in the Stage Mitigants **STG_MITIGANTS** table, with the SFT Exposure mapped to the collateral received using the Stage Account Mitigant Map **STG_ACCOUNT_MITIGANT_MAP** table.

- The collateral which the bank has placed concerning the SFT Transactions are captured in the Stage Placed Collateral **STG_PLACED_COLLATERAL** with the SFT Exposure mapped to the collateral placed using the Stage Account Placed Collateral Map **STG_ACCT_PLACED_COLL_MAP** table.

  Any Instrument Specific Attributes are expected in the Instrument Contract Dimension Table **DIM_INSTRUMENT_CONTRACT**.

11.4.3 Account Mitigant Mapping Data Expectations

Any account in the product processors, mapped to the various mitigants received were captured in the Stage Exposure Mitigant Mapping **STG_EXP_MITIGANT_MAPPINGS** till 8.0.4 release of Basel Application.

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Starting from the 8.0.5.0.0 release of the application, this is expected to be provided in the Stage Account Mitigant Map (STG_ACCOUNT_MITIGANT_MAP) table.

11.4.4   Commitment Contract Data Expectations

Any commitment contracts issued by the Bank were initially expected in Stage LC Contracts (STG_LC_CONTRACTS) till 8.0.4 release of Basel Application.

Starting from the 8.0.5 release of the application, any exposure which a commitment contract is issued by the bank is expected to be provided in the Stage Commitment Contracts **STG_COMMITMENT_CONTRACTS**.

In the case of the commitment contracts issued under a Credit Line Facility, then, the linkage of the Credit Line to the contract is required to be provided. The Credit Line is expected to be populated into the Dimension Credit Line **DIM_CREDIT_LINE table**.

11.4.5   Credit Line Issued Data Expectations

Any Credit Line, issued by the Bank was initially expected in Stage LC Contracts (STG_LC_CONTRACTS) till 8.0.4 release of Basel Application.

Starting from the 8.0.5 release of the application, any exposure which is a line of credit issued by the Bank is expected to be provided in the Stage Credit Line Details (STG_CREDIT_LINE_DETAILS) along with entries in the Dimension Credit Line (DIM_CREDIT_LINE) table.

The Credit Line Table will hold information concerning all the lines of credit issued by the bank. The lines of credit can be drawn for various products like Credit Card (Corporate Credit Cards issued to various employees under a credit line for that corporate), Loan commitments (loan issued to the customer as part of a credit line issued to that customer) and so on. This table will hold all the information related to the credit line, and any undrawn portion related to that credit line.

The drawn portion of the Credit Line, or the portion which has been earmarked for a specific product like credit card, will be part of the corresponding product processor (STG_CARDS, in this example), with the credit line code populated. And under that particular product, there can be both the drawn and undrawn portion, which will be captured in the same product processor (STG_CARDS, in this example).

The undrawn portion of the credit line is the one that is treated as a line of credit, and receives the corresponding Basel guideline specific treatment.

11.4.6   Forward Contract Data Expectations

Any forward agreement or contract was initially expected in Stage Futures (STG_FUTURES) till the 8.0.4 release of the Basel Application.

Starting from the 8.0.5.0.0 release of the application, any exposure that is a forward agreement is expected to be provided in the Stage Forwards **STG_FORWARDS**.

11.4.7   Asset Sold Data Expectations

Any assets sold with recourse were initially expected in Stage Loan Contracts (STG_LOAN_CONTRACTS) till 8.0.4 release of Basel Application.

Starting from the 8.0.5.0.0 release of the application, any exposure which is an asset sold is expected to be provided in the Stage Assets sold (STG_ASSETS_SOLD). This will include all the assets sold by the bank. And the assets sold, for which the bank is retaining recourse will be part of the regulatory capital calculations, and that will be taken up for the Basel-related processing.

11.4.8   Spot Forex Data Expectations

Any Forex Transaction, which is a spot were initially expected in Stage Investments (STG_INVESTMENTS) till the 8.0.4 release of the Basel Application.

Starting from the 8.0.5 release, any Forex Transaction which is a spot contract is expected to be provided in the Stage Forex Contracts (STG_FX_CONTRACTS).

Note: All other forex transactions are expected to be populated in their respective derivative tables (Currency Swap in STG_SWAPS_CONTRACTS and so on).

11.4.9   Underlying Exposures for Derivatives

The underlying exposures for derivatives are now being captured through STG_UNDERLYING_MASTER.

The Data expectation for the underlying relationship for the derivatives is as follows:

- Case 1 – Both Parent derivative contract and underlying of the derivative are instruments:
    - This will involve usage of the two tables for capture of the underlying information – STG_UNDERLYING_MASTER/ DIM_UNDERLYING and STG_UNDERLYING_DTL.
    - The parent account will be in one of the derivative contract, and the relationship between the parent and the underlying will be captured in the derivative tables as Underlying Instrument Code or the Underlying Code.
    - DIM_UNDERLYING will be used to store the static information about the underlying instruments, and STG_UNDERLYING_DTL will be used to store any variable information about the underlying instruments.
    - Data for STG_UNDERLYING_DTL
        o The STG_UNDERLYING_DTL can support the relationship reference of 1 parent to 1 underlying or multiple underlying instruments.
        o In this, the underlying instrument code will be provided as v_instrument_code and the parent's Instrument Code will be provided as v_contract_instrument_code.
        o Both these Instrument Codes will have reference in dim_instrument_contract.
- Case 2 – If Parent Derivative Contract or underlying of the derivative are not instruments but instead are accounts or exposure:
    - This will involve usage of a single table for capture of the underlying information – STG_UNDERLYING_EXPOSURES.
    - The Parent Account will be in one of the derivative contract, and the relationship between the Parent and the underlying will be captured in the underlying table as the Parent Exposure ID.
    - Data for STG_UNDERLYING_EXPOSURES.

- o The STG_UNDERLYING_EXPOSURES can support the relationship reference of 1 parent to 1 underlying or multiple underlying instruments.

- o In this, the underlying exposure will be provided as v_exposure_id and Parent's Exposure ID in v_parent_exposure_ID.

- o Both these exposure ID's will have reference in dim_exposure.

11.5 Exhibit 6: Design Changes

11.5.1 Design Changes for Handling Organization Structure

From Release 8.1.0.0 onwards, for a selected Org Entity and the mode of execution either Solo or Consolidation, the application flattens the Org entries from DIM_ORG_STRUCTURE into a structure as follows:

Example for Dim Org Structure Data

Table 28: Sample Values for DIM_ORG_STRCUCTURE Table

Dim Org Account	Dim Org Parent
A1	A2
A2	A3
A3	A4

If you select, A3 as the Entity and Consolidation as execution type, the following data is populated in the flattened table:

Table 29: List of Data Populated in the Flattened Table

Entity	Parent Entity	Consolidation Parent	Heir Level
A3	A3	A3	0
A3	A2	A3	1
A2	A1	A3	2

All the entities from the Entity column from Consolidation Parent = A3 are picked up and populated into the **FCT_ENTITY_INFO** table.

This step is done to avoid the population of all unnecessary org structure data into FCT_ENTITY_INFO and later it is deleted once they are unused.

11.5.2 Design Changes for Standardization of Asset Class and Rating

It has been seen that across jurisdictions, functionally the treatment of Asset Class mapped to a specific rating are the same, but the regulatory requirement to keep up with the reporting needs is more granular. Though the functionally same, the way both the data are expected by each of the regulators are slightly

different, and the nomenclature used is different. Due to this, there was a need for standardization of the Basel Credit Rating and the Basel Asset Class.

The base premise of this standardization is to have the intermediate mapping of the standard values (as referred to by BIS) to the actual values referred to by the regulator.

Asset Class Standardization:

Jurisdiction-specific asset classes are converted into standardized asset class categories which are in turn used for all computation purposes in the application. These asset classes are mapped to the asset class categories based on the specific treatment expected by the jurisdiction.

- DIM_BASEL_ASSET_CLASS_CATEGORY table holds the list of all standardized asset class categories used across jurisdictions.

- FSI_BASEL_ASSET_CAT_MAP_MASTER table is the mapping master table that holds all the asset classes being mapped to their respective asset categories per jurisdiction.

- FSI_BASEL_ASSET_CATEGRY_MAP table holds the run based snapshot per jurisdiction requirement.

    For example, a regulator can expect a treatment for all Corporate Exposures, whereas another regulator can indicate that the treatment is the same, but reporting has to be differentiated into Corporate and Corporate SME Exposures. Both will be mapped to the same category of Corporate.

    Rating Standardization:

    The standardized ratings are converted into the jurisdiction-specific rating requirement, in the form of any band or the actual rating. The standardized ratings are used for the calculation, whereas these rating bands are used for the reporting as per jurisdictional requirements.

    DIM_CAP_REG_RATING holds all the standardized bands that are applicable across jurisdictions.

    FSI_BASEL_RATING_MAP_MASTER is a master table that stores the standardized bands for a process type of SEC, NON-SEC, Market Risk Non Sec, Market Risk Sec, and Sold Credit protection.

    FSI_BASEL_RATING_BAND_MAP table is a Run-based snapshot of FSI_BASEL_RATING_MAP_MASTER loaded for a jurisdiction.

    For example, a regulator can expect a treatment for all AAA to AA- of Corporate Exposures to be risk-weighted at 20%. Another regulator can expect the same treatment but they might be calling it as Credit Quality Step 1, and all exposures of corporate with Credit quality step 1 rating to be risk-weighted at 20%. In this scenario, AAA to AA- and Credit Quality Step 1 are both signifying the same. The rating band will indicate it to be AAA to AA-, and the regulatory rating will be Credit Quality Step 1 as stored in the table FSI_BASEL_RATING_BAND_MAP.

12 Annexure B

12.1 Download Specifications

For information, see [Download Specifications](#).

12.2 Regulatory Definition Setup for Creating a Run

Regulation: Basel III Post Crisis Reforms

Jurisdiction: HK

The values for BASEL III Post Crisis Reforms with jurisdiction as HK and Credit Risk Non-Securitization Approaches

Item Description	Available Options	Applicable Column Name	Applicable Approaches	Default Option
Does the Regulator allow specific risk weighting for property exposures whose repayment are materially dependent on cashflow generated by the property?	No Yes	Allow Materially Not dependant	Standardized Approach	Yes
Credit Risk Mitigation Approach	Comprehensive Approach for Collateral Recognition Simple Approach for Collateral Recognition	Crm Method	Standardized Approach	Simple Approach for Collateral Recognition
Risk Weighting methodology for Immovable Assets	LTV Based Risk Weighting	Claims secured by Residential properties Risk Weighting Approach	Standardized Approach	LTV Based Risk Weighting
Do all the Fiduciary Assets meet the criteria for derecognition or deconsolidation as per the bank's accounting standards?	No Yes	Option For Derecognition Or Deconsolidation Criteria Of Fiduciary Assets	Standardized Approach	Yes
Does the Regulator allow Equity Exposures to National Legislated Programs, to be risk	No	Regulatory Retail Risk weight for Equity based on national discretion	Standardized Approach	No

weighted lower than the other equity exposures?				
Supervisory Approval to use Domestic Currency Rating for Loans issued in foreign currency?	Yes	Non Sec Std - Borrower Dom Ccy	Standardized Approach	Yes
Supervisory Approval to use ECA Scores for Risk Weighting?	Not applicable for risk weighting	Non Sec Std - Eca Scores For Rw Of Soverign	Standardized Approach	Not applicable for risk weighting
Risk Weighting Approach	Based on Bank Rating	Non Sec Std - Option For Rw Of Banks	Standardized Approach	Based on Bank Rating
Risk Weighting Approach	Based on Sovereign Rating	Non Sec Std - Option For Rw Of Domsetic Pses	Standardized Approach	Based on Sovereign Rating
Volatility and Forex Haircut Estimates	Supervisory Parameters	Non Sec - Haircut Method	Standardized Approach	Supervisory Parameters
Optimization allocation based on	Exposure Amount Post CCF	Optimizer Allocation Basis	Standardized Approach	Exposure Amount Post CCF
	Exposure Amount Without CCF			
Does the Regulator allow Junior Lien to be considered on par with First Lien of the property?	No	Identification of properties satisfying the claim over the property criterion of Real Estate	Standardized Approach	No
Does the Regulator allow Residential Property under construction to be treated under a completed property?	No	Identification of properties satisfying the completed property criterion of Real Estate Asset Class	Standardized Approach	No
Does the Regulator Allow Exposures funded and denominated in same currency to be Risk Weighted at 0%	Yes	Risk Weight Based on National Discretion	Standardized Approach	Yes

Does Regulator Allow Usage of External Ratings for Risk Weighting?	Yes	Risk Weight Option External Rating	Standardized Approach	Yes

The values for BASEL III Post Crisis Reforms with jurisdiction as HK and Counterparty Credit Risk

Item Description	Available Options	Applicable Column Name	Applicable Approaches	Default Option
Recognition of Offset across Maturity Buckets for Interest Rate Risk Category	No Yes	IR Bucket Offset Option	Counterparty Credit Risk	Yes
Supervisory Approval to include SFTs for CVA calculation?	No Yes	Include Sft For Cva	Counterparty Credit Risk	Yes
Credit Valuation Adjustment - Capital Calculation Approach	Based on CCR Capital Charge Basic Approach - Reduced Version	Cva Method	Counterparty Credit Risk	Basic Approach - Reduced Version
Derivative Transactions - EAD Calculation Approach	Standardized Approach - CCR	Non Sec - Otc Approach	Counterparty Credit Risk	Standardized Approach - CCR
Securities Financing Transactions - EAD Calculation Approach	Comprehensive Approach for Collateral Recognition Simple Approach	Non Sec - Sft Approach	Counterparty Credit Risk	Simple Approach
Derivatives Exposure At Default	Computed by System Provided by Bank	Derivatives EAD Calculation Option	Counterparty Credit Risk	Computed by System
Risk Category Identification Approach Selection for Instruments belonging to multiple risk categories	Fall-Back Approach SA-CCR Method and Fall-Back Approach Sensitivity-based Method and Fall-Back Approach	SACCR Multiple Risk Approach	Counterparty Credit Risk	Sensitivity-based Method and Fall-Back Approach

The values for BASEL III Post Crisis Reforms with jurisdiction as HK and Securitization Approaches

Item Description	Available Options	Applicable Column Name	Applicable Approaches	Default Option
Does the bank have supervisory approval for using IAA?	No / Yes	IAA Approval	Standardized Approach	Yes
Are Contractual Payment Dates of Cash flow available to calculate Tranche Maturity?	No / Yes	Unconditional Contractual Payment Date Of Cash Flow Available	Standardized Approach	Yes

The values for BASEL III Post Crisis Reforms with jurisdiction as HK and Rating Assessment

Item Description	Available Options	Applicable Column Name	Applicable Approaches	Default Option
Basis for eligible rating in multiple assessment	Rating Rank / Risk Weight Rank	Multiple Assessment Rating Eligibility Basis	Rating Assessment	Risk Weight Rank

The values for BASEL III Post Crisis Reforms with jurisdiction as HK and Operational Risk Approach

Item Description	Available Options	Applicable Column Name	Applicable Approaches	Default Option
Basel Operational Risk Capital Charge Computation Level	Entity Level / LOB Level	Basel Operational Risk Capital Charge Level Option	Standardized Approach	Entity Level
Exclusion of Divested Activities In BI Calculation	No / Yes	Supervisory Approval For Excluding Divested Activities	Standardized Approach	No
Exclusion of Mergers And Acquisitions In BI Calculation	No	Supervisory Approval For Excluding Mergers And Acquisition Activities	Standardized Approach	No
Supervisory approval for excluding the Operational losses from Loss Component	No / Yes	Supervisory Approval For Excluding Operational Losses	Standardized Approach	No

Number of Years Considered for Historical Loss Calculation	1	Supervisory Approval For Historical Loss Years	Standardized Approach	10
	10			
	2			
	3			
	4			
	5			
ILM Value To Be Considered For Calculation	Supervisory Defined ILM Value	Supervisory Approval For Internal Loss Multiplier Override	Standardized Approach	Supervisory Defined ILM Value
Loss Event Threshold	100000	Supervisory Approval For Loss Event Threshold	Standardized Approach	20000
	20000			
Are the Qualitative Standards For ILM Value Calculation Met?	No	Supervisory Approval For Qualitative Standard Met	Standardized Approach	Yes
	Yes			
Loss Type Considered for Historical Loss Calculation	Both External And Internal	Supervisory Approval For Historical Loss Type	Standardized Approach	Both External And Internal
	Only External			
	Only Internal			

The values for BASEL III Post Crisis Reforms with jurisdiction as HK and Leverage Exposure Measure and Ratio Calculations

Item Description	Available Options	Applicable Column Name	Applicable Approaches	Default Option
Does the operative accounting framework allow for recognizing the cash variation margin paid in cash to the counterparty as a receivable asset?	No	Gaap Offset Option	Leverage Exposure Measure and Ratio Calculations	Yes
	Yes			
Does the operative accounting framework allow for offsetting the derivative exposure amount (or market value) by the collateral	No	Placed Collateral As Receivable Asset	Leverage Exposure Measure and Ratio Calculations	Yes
	Yes			

amount or cash variation amount?				

The values for BASEL III Post Crisis Reforms with jurisdiction as HK and Capital Structure and Capital Buffers

Item Description	Available Options	Applicable Column Name	Applicable Approaches	Default Option
Buffer Allocation Priority	Capital Conservation > Countercyclical > Systemic Risk	Buffer Allocation Priority Option	Capital Structure and Capital Buffers	Capital Conservation > Systemic Risk > Countercyclical
	Capital Conservation > Systemic Risk > Countercyclical			

Column details from the Fsi Run Parameter table for the physical column name and the physical code used for the RMO options are available in this sheet.

12.3 Using Process Modelling Framework

12.3.1 Basel CAP PACK Process Modelling Framework Filters and Decision Rules

PMF provides an option to apply filter hierarchies at the Run and/or Business Pipeline level. These filters are similar to the regular filter hierarchies used in rules. They get appended to each task in that business pipeline or Basel Run at run-time based on the applicability of the filter to that task.

In 8.1.2, CAP PACK makes use of two filter hierarchies, which apply through PMF. The filter hierarchies used are follows:

Figure 45: Filter Hierarchies

12.3.1.1 Exposure Approach Type

This hierarchy is based on the underlying seeded table FSI_CAP_APPROACH_TYPE_MASTER.

Used mainly to filter data in processing based on the approach selected by the user in the Advanced Run. Approach types are Standardized, Foundation IRB and Advanced IRB. Further, the approach is broken into the matrix provided in the following table:

Table 30: Exposure Approach Type

V_APPROACH_TYPE	V_APPROACH_TYPE_DESC
OTH	Others
NSSTD	Non Securitization Standardized
NSFIRB	Non Securitization FIRB
NSAIRB	Non Securitization AIRB
SECSTD	Securitization Standardized
SECIRB	Securitization - Internal Rating Based Approach
MRSA	Market Risk Standardized Approach
MRIMM	Internal Models Approach
ORBIA	Basic Indicator Approach (BIA)
ORSA	Standardized Approach (SA)
ORASA	Alternative Standardized Approach (ASA)

For a task, if this table is part of the used tables list, then the filter chosen in the calling business pipeline or Run Pipeline is applicable to it. Used tables can be either part of the Dataset (for Rules) or Mapped/NonMapped column (for T2Ts).

12.3.1.2 Exposure Record Type

This hierarchy is based on the underlying seeded table FSI_CAP_RECORD_TYPE_MASTER. Used mainly to filter data of each portfolio for processing within or across portfolios. Depending upon the portfolio(s) the user picks as part of the run, the record type decides the type of data to be processed by each task in each portfolio. Record types that are supported is detailed in the following table:

Table 31: Type of Exposure Records

V_RECORD_TYPE	V_RECORD_TYPE_DESC
INV_NON_SEC_EXP	Investment Non Sec Exposure
INV_NON_SEC_ULY	Investment Non Sec Underlying
INV_SEC_ULY	Investment Sec Underlying
BNK_NON_SEC_EXP	Banking Non Sec Exposure

V_RECORD_TYPE	V_RECORD_TYPE_DESC
BNK_NON_SEC_ULY	Banking Non Sec Underlying
BNK_SEC_ULY	Banking Sec Underlying
DRV_NON_SEC_EXP	Derivatives Non Sec Exposure
DRV_NON_SEC_ULY	Derivatives Non Sec Underlying
DRV_SEC_ULY	Derivatives Sec Underlying
SFT_NON_SEC_EXP	SFT Non Sec Exposure
SFT_NON_SEC_ULY	SFT Non Sec Underlying
SFT_SEC_ULY	SFT Sec Underlying
OTH_PLACED_COLL_EXP	Other Placed Collateral Exposure
SFT_PLACED_COLL_EXP	SFT Placed Collateral Exposure
MITIGANT	Mitigant
SFT_MITIGANT	SFT Mitigant
OTH	Others

A simplified example of such a case can be Investment Portfolio and Banking Portfolio for which Data Sources, besides other sources, are as follows:

- Securitization:
  - Product Processor Tables [main exposures]
  - From PP tables to FSI_CAP_INVESTMENT_EXPOSURES.
  - STG_UNDERLYING_EXPOSURES [Investment underlying exposures which are banking products and investment products]
  - From STG_UNDERLYING_EXPOSURES to FSI_CAP_BANKING_EXPOSURES.
- Banking Portfolio:
  - Product processor Tables [main exposures]
  - From PP tables to FSI_CAP_BANKING_EXPOSURES.

If the user chooses banking and investment portfolios together in a run, the data movement is as per the following tables:

Table 32: Data Movement for Banking in a Run

Banking				
MAIN EXPOSURE TYPE	SOURCE	ULY EXPSOURE TYPE	TARGET	V_RECORD_TYPE
BANKING	PP TABLES		FSI_CAP_BANKING_EXPOSURES	BNK_NON_SEC_EXP

Table 33: Data Movement for Investment Portfolios in a Run

Investments				
MAIN EXPOSURE TYPE	**SOURCE**	**ULY EXPSOURE TYPE**	**TARGET**	**V_RECORD_TYPE**
INVESTMENT	PP TABLES		FSI_CAP_INVESTMENT_EXPOSURES	INV_NON_SEC_EXP
INVESTMENT	STG_UNDERLYING_EXPOSURES	BANKING	FSI_CAP_BANKING_EXPOSURES	INV_NON_SEC_ULY
INVESTMENT	STG_UNDERLYING_EXPOSURES	INVESTMENT	FSI_CAP_INVESTMENT_EXPOSURES	INV_NON_SEC_ULY

When banking and investments both execute, the record type filter helps processing exposures as follows:

3. **Banking Portfolio**:

   Only those exposures, which have record type as BNK_NON_SEC_EXP in FSI_CAP_BANKING_EXPOSURES.

4. **Investment Portfolio**:

   a. Exposures, which have record type as INV_NON_SEC_EXP and INV_NON_SEC_ULY in FSI_CAP_INVESTMENT_EXPOSURES.

   b. Exposures, which have record type as INV_NON_SEC_ULY in FSI_CAP_BANKING_EXPOSURES.

The steps to apply filters at Run and Business Pipeline levels are detailed in OFS Analytical Applications Infrastructure User Guide.

12.3.1.3 Execution and Decision Rules

PMF has a capability to allow the flow of execution to follow a certain path while running a batch. The decision to include/exclude components in a user-defined run is based upon the Run Management Options. This allows the user to manage and report data for only those components, which the user has opted through the Basel Configuration > Run Management screen.

Based upon the selections made in the configuration screen, a table FSI_CAP_RUN_EXE_PAREMETERS is updated with the answers to the questionnaire.

A simple example can be of which portfolios the user has opted. If the user wishes to execute banking and investments only, then a Basel configuration is created through run management with this questionnaire. This configuration is selected during run execution.

12.3.1.4 Evaluation of Execution Rule

The questionnaire data is captured and pushed into the table FSI_CAP_RUN_EXE_PAREMETERS.

The execution rule 'Basel Execution Approach Assignment' reads the data from this table and assigns the values to respective PMF variables. The following image shows the rule Basel Execution Approach Assignment:

Figure 46: Execution Rule - Basel Execution Approach Assignment
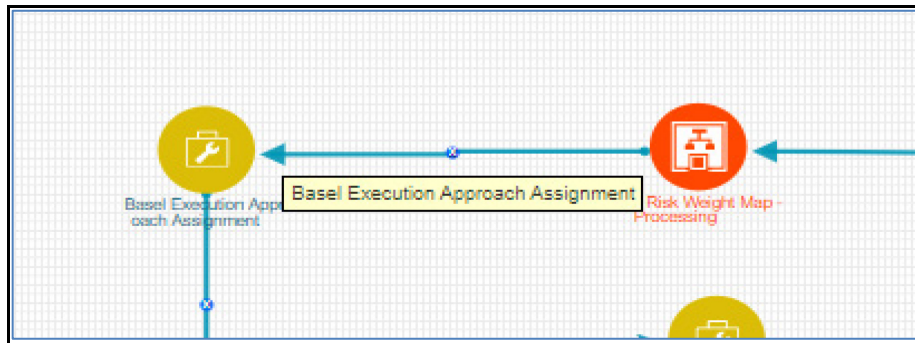
Figure 47: Edit API Details Window

12.3.1.5 Evaluation of Decision Rule

The variables which are values are assigned in the execution rule, are evaluated in the respective transition lines for each applicable component. If the value matches with expected value in the transition line, then that path is taken.

Figure 48: Evaluation of Decision Rule
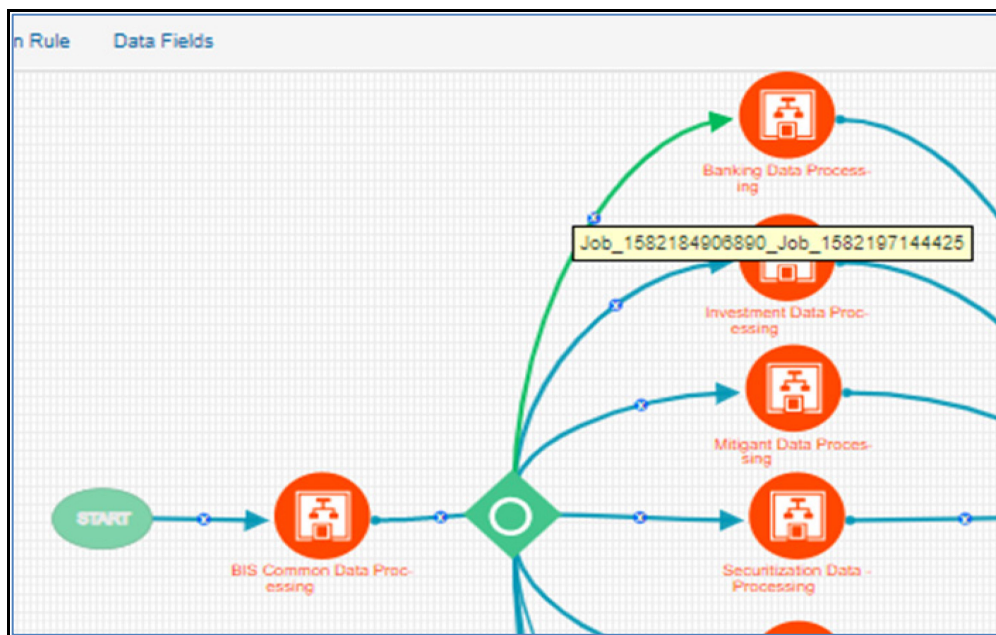
Figure 49: Edit Transition

Figure 50: Edit Decision Rule

12.3.1.6 Deprecation of Uncovered Record Creation DT and New Logic

The DT,Pop_Uncovered_Mitigant that creates uncovered exposure records in FCT_SUB_EXPOSURE table is deprecated and is replaced with three T2Ts as mentioned as follows:

For the effective optimization of the mitigants, the application used to create a replica of the exposures, with the standard mitigant type as Uncovered. This used to happen with the DT POP_UNCOVERED_MITIGANT.

To handle the revised data flow of processing, this is replaced by three T2Ts as follows:

1. **T2T_FSI_CAP_NET_POOL_UNCOV_SUB_EXPOSURES**

   This T2T creates and inserts one uncovered exposure in FSI_CAP_SUB_EXPOSURES for each nettable pool account from FSI_CAP_NETTABLE_POOL.

2. **SUB_EXPOSURES_BANKING_UNCOV_DATA_POP**

   This T2T creates and inserts one uncovered exposure in FSI_CAP_SUB_EXPOSURES for each exposure from FSI_CAP_BANKING_EXPOSURES.

3. **SUB_EXPOSURES_INVESTMENT_UNCOV_DATA_POP**

   This T2T creates and inserts one uncovered exposure in FSI_CAP_SUB_EXPOSURES for each exposure from FSI_CAP_INVESTMENT_EXPOSURES.

12.3.1.7 Reuse of PMF Process for Underlying or Placed Collateral Data Processing

Investment Portfolio requires banking and derivative underlying for its processing and calculations apart from investment exposures.

The Banking and derivative underlying exposures must get the respective portfolio treatment (Risk weighting, AD and so on) while being processed under investment portfolio.

To achieve the above, investment portfolio pipeline calls banking portfolio and derivative portfolio pipeline to process the respective underlying and then use the processed or calculated attributes of these underlying to complete investment processing.

Therefore, Investment Portfolio reuses the complete Banking and Derivative Pipeline (PMF Process).

These pipelines are called only for the respective underlying by applying proper process filter on record type for underlying. The record type values can be found in FSI_CAP_RECORD_TYPE_MASTER. The process filter will allow only underlying records to be processed when called from the investment pipeline.

The record type process filter used are as follows:

- BNK_NON_SEC_ULY in Banking Pipeline.

- DRV_NON_SEC_ULY in Derivative Pipeline.

Securitization Portfolio calls Banking Portfolio Pipeline from within to process non Securitized Banking underlying exposures which are part of Securitized Pool and are required for overall processing of the Securitization Portfolio. The Banking Pipeline is called with appropriate record type process filter to process only banking underlying exposures.

The record type process filter used is BNK_SEC_ULY in Banking Pipeline.

Derivative Portfolio and SFT Portfolio Pipelines call Mitigant Pipeline from within to provide mitigant treatment (eligibility, mitigant risk weight and haircut) to their placed collaterals. The Mitigant Pipeline is called with appropriate record type process filter to process only placed collaterals.

The record type process filter used are follows:

- OTH_PLACED_COLL_EXP in Mitigant Pipeline called in Derivative Portfolio Pipeline.

- SFT_PLACED_COLL_EXP in Mitigant Pipeline called in SFT Portfolio Pipeline.

12.4   Run Parameters Setup for Creating a Run

If the Run Definition has not been created through the Run Management UI, then the USER_DEFINED_RUN_PARAMETERS table must be set up manually for the selected options/approaches for particular regulation and segment. This table contains the setup codes for different options. However, if you want to add more options, then you can add a record (new setup codes with options) by using information from that are updated for the selected option are given in the following tables:

Regulation: Basel III

Segment: EU

Table 34: The Values for the BASEL III Regulation with the Segment as EU and Approach as Securitization

RUN_PARAMETERS column name	Approach for Securitization	Selected Option	RUN_PARAMETERS column value
v_sec_approach	Standardized	N/A	OPT0500
v_sec_approach	Rating Based Approach	N/A	OPT0601
v_sec_approach	Internal Assessment Approach	N/A	OPT0604
v_sec_approach	Internal Rating Based Approach	N/A	OPT0608
v_ssf_simple_n_lgd	Supervisory Formula Approach	Yes	OPT0611
		No	OPT0612

RUN_PARAMETERS column name	Approach for Securitization	Selected Option	RUN_PARAMETERS column value
	Usage of the Simplified Method for computing N and LGD		
v_ssf_simple_n_lgd	Internal Rating Based Approach	Yes	OPT0614
	Usage of the Simplified Method for computing N and LGD	No	OPT0615

Table 35: The Values for the BASEL III regulation with the Segment as EU with the Approach as Market Risk Standardized Approach

RUN_PARAMETERS column name	Approach for Market Risk Standardized Approach	Selected Option	RUN_PARAMETERS column value
v_mrs_options_method	Options	Simplified Approach	OPT1013
		Delta Plus Approach	OPT1014
v_mrs_interest_rate_method	Interest Rate Risk	General Market Risk-Duration Method	OPT1003
		General Market Risk-Maturity Method	OPT1004
v_mrs_commodity_risk_method	Commodity Risk	Simplified Approach	OPT1008

Table 36: The values for the BASEL III regulation with the segment as EU with the Approach as Non-Securitization Standardized

RUN_PARAMETERS column name	Approach for Non Securitization Standardized	Selected Option	RUN_PARAMETERS column value
v_nss_eca_for_soverign	Use ECA Country Scores for risk-weighting claims on Sovereign	Yes	OPT0004
		No	OPT0005
v_nss_rw_option_dpse	Option used for claims on domestic PSEs	Option I	OPT0008
		Option II	OPT0009
v_nss_rw_option_bank	Option for risk-weighting claims on Banks	Option I	OPT0012
		Option II	OPT0013
v_nss_100pct_rw_corp		Yes	OPT0016

RUN_PARAMETERS column name	Approach for Non Securitization Standardized	Selected Option	RUN_PARAMETERS column value
	Supervisor permission to risk weight all corporate claims at 100% without regard to external rating	No	OPT0017
v_nss_lower_rw_cre	Has the national supervisor permitted a lower RW for certain commercial real estate?	Yes	OPT0020
		No	OPT0021
v_nss_pastdue_for_non pastdue	Past due treatment for non-past due loans to counterparties subject to a 150% RW	Yes	OPT0024
		No	OPT0025
v_nss_0_rw_for_gold	Use of 0% RW for Gold Bullion held in own vaults or on an allocated basis	Yes	OPT0027
		No	OPT0028
v_nss_borrower_ccy_rat _mdb	Use of borrower's domestic currency rating for exposure in foreign exchange transactions	Yes	OPT0030
		No	OPT0031
v_ns_sft_method	Approach for Securities Financing Transactions	Simple Approach	OPT0037
		IMM	OPT0038
		VaR Model	OPT0039
v_ns_otc_method	Approach for Over the Counter Products	CEM	OPT0041
		IMM	OPT0042
		Standard Approach	OPT0043
v_ns_lst_approach	Approach for Long Settlement Transactions	CEM	OPT0045
		IMM	OPT0046
		Standard Approach	OPT0047
v_ns_haircut_method	Applying Haircut	Supervisory Haircut	OPT0056
		Own Estimate	OPT0057
v_cva_method	CVA Standardized Approach	N/A	OPT0060
v_cva_include_sft	CVA Standardized Approach which includes SFTs for CVA calculation	Yes	OPT0062
		No	OPT0063

RUN_PARAMETERS column name	Approach for Non Securitization Standardized	Selected Option	RUN_PARAMETERS column value
V_EXP_ADJ_PROVISIONS	Applicable for both STD and IRB approaches	Yes	OPTLE0003
		No	OPTLE0004
V_PARAMETER_GROUP_DESC	Large Exposure Calculations	Yes	OPTLE0003
		No	OPTLE0004
V_PARAMETER_DESC	Option to consider Provision Amount for EAD Calculations	Yes	OPTLE0003
		No	OPTLE0004

Table 37: The values for the BASEL III regulation with the segment as EU with the Approach as Non-Securitization Standardized (FIRB)

RUN_PARAMETERS column name	Approach for Non Securitization Standardized (FIRB)	Selected Option	RUN_PARAMETERS column value
v_cva_cds_index_decomposition	CDS Index must be decomposed	Yes	OPT0267
		No	OPT0268

Table 38: The values for the BASEL III regulation with the segment as EU with the Approach as Non-Securitization FIRB

RUN_PARAMETERS column name	Approach for Non Securitization FIRB	Selected Option	RUN_PARAMETERS column value
v_nfir_explicit_mat_adj	Use of Explicit Maturity Adjustment	Yes	OPT0203
		No	OPT0204
v_nir_default_risk_app	Purchase Receivables for Default Risk Approach	Top Down	OPT0207
		Bottom-Up	OPT0208
v_nir_dil_risk_immaterial	Is Dilution Risk immaterial for Purchase Receivables?	Yes	OPT0210
		No	OPT0211
v_nir_1yr_mat_corp_pr	Use of one-year maturity for Dilution Risk of Purchased Corporate Receivables:	Yes	OPT0213
		No	OPT0214
v_ns_haircut_method	Applying Haircut	Supervisory Haircut	OPT0216
		Own Estimate	OPT0217
v_ns_sft_method	Approach for Securities Financing Transactions	Simple Approach	OPT0224

RUN_PARAMETERS column name	Approach for Non Securitization FIRB	Selected Option	RUN_PARAMETERS column value
		IMM	OPT0225
		VaR Model	OPT0226
v_ns_otc_method	Approach for Over the Counter Products	CEM	OPT0228
		IMM	OPT0229
		Standard Approach	OPT0230
v_ns_lst_approach	Approach for Long Settlement Transactions	CEM	OPT0232
		IMM	OPT0233
		Standard Approach	OPT0234
v_nir_sl_pref_rw	Specialized Lending-Slotting Criteria Approach. Use of preferential risk weights for specialized lending sub-classes in Strong and Good	Yes	OPT0241
		No	OPT0242
v_nir_equity_approach	Approach for Equity	IMM Approach	OPT0245
		Simple Risk Weight Approach	OPT0246
		PD - LGD Approach	OPT0247
v_cva_method	Approach for Credit Value Adjustments	CVA Standardized Approach	OPT0261
		CVA Internal Model Method Approach	OPT0262
v_cva_include_sft	Include SFTs for CVA calculation	Yes	OPT0264
		No	OPT0265
v_cva_cds_index_decomposition	CDS Index must be decomposed	Yes	OPT0267
		No	OPT0268

Table 39: The values for the BASEL III regulation with the segment as EU with the Approach as Non-Securitization Standardized (AIRB)

RUN_PARAMETERS column name	Approach for Non Securitization Standardized (AIRB)	Selected Option	RUN_PARAMETERS column value
v_nir_default_risk_app	Default Risk Approach for Purchase Receivables	Top Down	OPT0303
		Bottom-Up	OPT0304
v_nir_dil_risk_immaterial	For purchase, receivables are Dilution Risk immaterial?	Yes	OPT0306
		No	OPT0307
v_nir_1yr_mat_corp_pr	Use of one-year maturity for Dilution Risk of Purchased Corporate Receivables	Yes	OPT0309
		No	OPT0310
v_ns_haircut_method	Applying Haircut	Supervisory Haircut	OPT0312
		Own Estimate	OPT0313
v_ns_sft_method	Approach for Securities Financing Transactions	Simple Approach	OPT0320
		IMM	OPT0321
		VaR Model	OPT0322
v_ns_otc_method	Approach for Over the Counter Products	CEM	OPT0324
		IMM	OPT0325
		Standard Approach	OPT0326
v_ns_lst_approach	Approach for Long Settlement Transactions	CEM	OPT0328
		IMM	OPT0329
		Standard Approach	OPT0330
v_nir_sl_pref_rw	Specialized Lending-Slotting Criteria Approach. Use of preferential risk weights for specialized lending sub-classes in Strong and Good	Yes	OPT0337
		No	OPT0338
v_nir_equity_approach	Approach for Equity	IMM Approach	OPT0341
		Simple Risk Weight Approach	OPT0342
		PD - LGD Approach	OPT0343

RUN_PARAMETERS column name	Approach for Non Securitization Standardized (AIRB)	Selected Option	RUN_PARAMETERS column value
v_cva_method	Approach for Credit Value Adjustments	CVA Standardized Approach	OPT0361
		CVA Internal Model Method Approach	OPT0362
v_cva_include_sft	To include SFTs for CVA calculation?	Yes	OPT0364
		No	OPT0365
v_cva_cds_index_decomposition	CDS Index must be decomposed	Yes	OPT0367
		No	OPT0368

12.4.1 Selecting Run Definition For Execution

The Run Definition can be selected by searching or scrolling in the "Regulatory Definition" field while triggering a Run Execution.

Figure 51: Select Run Parameters

12.4.2 Importing Run Definitions

To import the DMP file, perform the following steps:

1. Rename or delete the existing OOB definitions in the setup.

2. Navigate to the directory path `$FIC_HOME/utility/Migration/conf/`.

3. Create a copy of the file `OBJECTMIGRATION_template.xml` as `OBJECTMIGRATION.xml` and provide appropriate values for the parameters as per the following table:

Table 52: Parameters for the OBJECTMIGRATION.xml File

Parameter	Value
$USERID$	Application User ID
$LOCALE$	Locale Information
$INFODOM$	Information Domain
$FOLDER$	Folder or Segment where you wish to import the definition
MODE	IMPORT
$FILE_NAME$	Name of the file to be imported without the .dmp extension
MIGRATION_CODE$	11

4. Place as many unique codes as per the number of definitions available in the dump.

   For example: `<OBJECT Code="1000" Type="4003" />`

   To find the object codes, you must perform the following steps:

   i. Execute the following query in the atomic schema to check the existing `N_RUN_PARAM_DEFN_ID` that are in use.

   ` SELECT * FROM FSI_RUN_PARAM_DEFINITION_TL;`

   ii. Use the Object Code in OBJECTMIGRATION.xml which does not exist in N_RUN_PARAM_DEFN_ID column.

   > **NOTE**
   >
   > The type must have the value 4003 which represents Regulatory Calculation Definitions.

5. Create the following folder structure in the path `$FIC_HOME/utility/Migration`:

6. `metadata/restore`

7. Copy the dump file from the installer and place it in the directory path `$FIC_HOME/utility/Migration/metadata/restore`

8. Execute the following script located in the directory path `$FIC_HOME/utility/Migration/bin/`:

9. `./ObjectMigration.sh`

   Check the availability of definitions in the UI. Migration logs are available in the directory path `$FIC_HOME/utility/Migration/logs/migration.log`.

12.4.3   Exporting Optimizer Definitions

1. Navigate to the directory path `$FIC_HOME/utility/Migration/conf/`.

2. Create a copy of the file `OBJECTMIGRATION_template.xml` as `OBJECTMIGRATION.xml` and provide appropriate values for the parameters as per the following table:

Table 53: Parameters for the OBJECTMIGRATION.xml File

Parameter	Value
$USERID$	Application User ID
$LOCALE$	Locale Information
$INFODOM$	Information Domain
$FOLDER$	Folder or Segment of the existing definition
MODE	EXPORT
$FILE_NAME$	Name of the file to be exported without the .dmp extension
MIGRATION_CODE$	11

3. Place as many unique codes as per the number of definitions available in the dump.

4. For example, `<OBJECT Code="1000" Type="4003" />`

To find the object codes, perform the following steps:

a. Execute the following query in the atomic schema for run definitions:

```
SELECT * FROM FSI_RUN_PARAM_DEFINITION_TL;
```

N_RUN_PARAM_DEFN_ID is the object code and value of Type is 4003.

b. Execute the following query in the atomic schema for portfolio definitions:

```
SELECT * FROM FSI_PORTFOLIO_MASTER;
```

N_PPORTFOLIO_ID is the object code and value of Type is 4002.

c. Execute the following query in the atomic schema for optimizer definitions:

```
SELECT * FROM FSI_BASEL_OPTIMIZER_MODEL_TL;
```

N_MODEL_ID is the object code, and the value of Type is 4001.

5. Execute the following script in the directory path `$FIC_HOME/utility/Migration/bin`:

a. `./ObjectMigration.sh`

b. The Dump is available in the directory path
`$FIC_HOME/utility/Migration/metadata/archive`.

i. The migration logs are available in file `migration.log` in the directory path
`$FIC_HOME/utility/Migration/logs`.

12.4.4   BackDated Execution - Run Execution Parameter

In the previous releases of the application, when you execute a Capital Calculation Run, the application considered only the dimensions that have the Latest Record Indicator (LRI) as Y.

You can use the BackDated Execution feature to provide BackDated Reporting Date as a Run Execution Parameter. Then the application considers only those dimensions for execution that were active during that particular period. You can use backdated execution for Capital Calculation and Post Crisis Reforms Runs.

You must complete a set of configurations to enable the BackDated Execution Feature. For more information, see Oracle Financial Services Analytical Applications Infrastructure User Guide.

You must also update the SCD mode in the DMT Configurations window to enable backdated execution for these Runs. For more information on the SCD mode for DMT Configurations, refer to the Oracle Financial Services Analytical Applications Infrastructure User Guide.

12.5 Data Transformation Details for Portfolio or Module

This section lists the Data Transformation (DT) details for each Portfolio or Module.

See Oracle Financial Services Basel Data Transformation Details document for more details.

12.5.1 DT Details - Banking

Table 54: List of data transformations for banking

DT TASK NAME	PROCESS CODE	PROCESS NAME
Bnk_Map_Ret_Exp	PMFBNK006	BNK_REGULATORY_RETAIL_PORTFOLIO
Bnk_Unrated_Exp_RW_Rat_Asses	PMFBNK013	BNK_ISSUE_ISSUER_ASSESSMENT
Bnk_Issue_Issuer_Assessment	PMFBNK013	BNK_ISSUE_ISSUER_ASSESSMENT

12.5.2 DT Details - Investment

Table 55: List of Data Transformations for Investments

DT TASK NAME	PROCESS CODE	PROCESS NAME
Inv_Ind_Mat_Chk_CE_CR_STD	PMFINV011	INV_PRE_CRM_EAD_COMPUTATION_STD
Inv_Unrated_Exp_RW_Rat_Asse	PMFINV017	INV_INV_ISSUE_ISSUER_ASSESSMENT
Inv_Issue_Issuer_Assessment	PMFINV017	INV_INV_ISSUE_ISSUER_ASSESSMENT

12.5.3 DT Details – Derivative

The following table details the data transformation for derivatives and its details:

Table 56: Data Transformation Details for Derivatives

DT TASK NAME	PROCESS CODE	PROCESS NAME
Drv_Unrated_Exp_RW_Rat_Asses	PMFDRV021	DRV_ISSUE_ISSUER_ASSESSMENT
Drv_Issue_Issuer_Assessment	PMFDRV021	DRV_ISSUE_ISSUER_ASSESSMENT
Drv_Mult_Assessment_SCP	PMFDRV043	SOLD_CREDIT_PROTECTION_DATA_PROCESSING
Drv_Mult_Assessment_SCP	PMFDRV056	SOLD_CREDIT_PROTECTION_DATA_PROCESSING_IRB

DT TASK NAME	PROCESS CODE	PROCESS NAME
SCP_BCP_Offset_Mapping_for_Derivatives	PMFDRV105	LR Written Credit Derivatives Related Exemptions

12.5.4   DT Details - Secured Financial Transactions (SFT)

The following table lists the data transformations for SFT and its details:

Table 57: Data transformation details for SFT

DT TASK NAME	PROCESS CODE	PROCESS NAME
Sft_Issue_Issuer_Assessment	PMFSFT013	SFT_ISSUE_ISSUER_ASSESSMENT
Sft_Unrated_Exp_RW_Rat_Asses	PMFSFT013	SFT_ISSUE_ISSUER_ASSESSMENT
LR_Add_On_Amount_Calculation_for_SFT	PMFSFT068	EU - LR SFT Exposure Measure Calculation

12.5.5   DT Details - Operational Risk

The following table lists the data transformations for Operational Risk and its details:

Table 58: Data Transformations for Operational Risk

DT TASK NAME	PROCESS CODE	PROCESS NAME
Opr_Risk_Capital_Charge	PMFBISOR002	Operational Risk-Basic Indicator Approach
OR_Capital_Std_App	PMFBISOR003	Operational Risk Alternative Std Approach

12.5.6   DT Details - Capital Structure

The following table lists the data transformations for Capital Structures and its details:

Table 59: Data Transformations for Capital Structures

DT TASK NAME	PROCESS CODE	PROCESS NAME
Deduction_RWA_Cap_Struct	PMFBISCS022	CAPITAL_STRUCTURE_DEDUCTIONS_RWA_EXPOSURES

12.6   Implementing Basel

12.6.1   Rules List for Configuration

The list of rules which customer needs to reconfigure at their site are as follows.

Table 60: Rules List for Configuration

Functionality	Reclassification Rule Name
Common	Basel III Capital Consolidation Approach Type Reclassification for an Entity
Common-8.1.2.0.0 only	Credit Rating Reclassification
Common-8.1.2.0.0 only	Party Type Reclassification - STD
Common-8.1.2.0.0 only	Seniority Reclassification
Counterparty Credit Risk	Netting Agreement Mitigant Type Reclassification - SA - CCR
Counterparty Credit Risk, Market Risk--8.1.2.0.0 only	Basel III Instrument Type Reclassification
Capital Structure	Cap Consl Basel Entity Type Reclassification
Market Risk	MR PC Instrument Type Reclassification - Convertible Bond
Market Risk	MR PC Instrument Type Reclassification - Credit Derivatives
Market Risk	MR PC Instrument Type Reclassification - Exotic Instruments
Market Risk	MR PC Instrument Type Reclassification - Forwards and Futures
Market Risk	MR PC Instrument Type Reclassification - Hybrid Instruments
Market Risk	MR PC Instrument Type Reclassification - Options
Market Risk	MR PC Instrument Type Reclassification - Swaps
Operational Risk	OR Internal LoB to Standard LoB Reclassification
Large Exposures	Party Relationship Type Reclassification

12.6.2   Custom Reclassification Rules

See Configure Rule with Target Members for more information on Custom Reclassification Rules.

12.6.3   Seeded Values Used

To view the seeded values for the following Seeded tables, see Seeded_Tables_Data.

12.7   Basel Analytics Table Population - Reporting T2T

This section provides information on the target and the granularity of tables. See Oracle Financial Services Basel Analytics User Guide for more information

13 Annexure C: Frequently Asked Questions

This section addresses some of the frequently asked questions which are as follows:

13.1 Leverage Ratio

Does the application require a different set of input data to execute the Leverage Ratio?

No. Leverage Ratio can be executed on the same set of input data required for normal processing to execute the Basel III Run. The input for leverage ratio is the subset of the data provided for Basel III executions. However, an additional set of data is required (total consolidated asset) for accounting entity which is outside the scope of the consolidation process. As per the Basel III Accord, total consolidated asset value must add up to the Total Exposure Measure calculation for Leverage Ratio.

Can we execute Leverage Ratio if the bank has installed the application for the first time?

Yes, we can compute Leverage Ratio. The application calculates the current month Leverage Ratio and the Leverage Ratio of the previous two months, which is provided as a download by the client or the bank. This information is considered as an input to calculate Regulatory Leverage Ratio. If the previous month's data is not available, then the application considers the value as 0 and computes the Regulatory Leverage Ratio. Also, you have the flexibility to use the current month Leverage Ratio as input for previous two months' leverage ratio, if required.

Can Leverage ratio be calculated on any day during a particular month?

There is no restriction on the execution date for computing Leverage Ratio. Leverage Ratio can be calculated on any given day. However, Leverage Ratio is to be executed based on the month-end data.

As per Basel III requirement, the Leverage Ratio is to be calculated on Tier 1 capital. However, if a particular jurisdiction prescribes to calculate the Leverage Ratio based on Total capital, then can the application support such modifications?

Yes, the application has the flexibility to change the input criteria by adding or deleting the Rule related to capital. To achieve this, modify the Business Processor's BP-Leverage Ratio expression by modifying one of the used measures. Instead of measure CS Net Tier1 capital, add another measure created on Total capital by deleting the existing one. The data model is not affected by such changes.

13.2 Capital Buffers

As per the Basel III Accord, Capital Buffers are required to be maintained from 2016 only. However, if for internal purposes the bank wants to start computing it from 2013 itself, then does the application support such modifications? If yes, then will it consider the required capital ratios as per the transitional arrangement?

Yes, the application supports the calculation of capital buffers from 2013 and it considers the transitional arrangement for the calculations before 2016.

For Example: The application considers the required Tier 1 Ratio in 2013 as 4.5%. For this calculation, no changes are required in the input data as the calculation in the application begins from 2013.

Likewise, the application selects the required values for CET1, Tier 1, and CAR as per the transitional arrangements for years 2013, 2014 and 2015.

While building quartiles, how much Required CET1 is considered for computing Capital Conservation Ratio?

Required CET1 ratio is used for computing the four quartiles or intervals for Capital Conservation Ratio. Since Required CET1 is phased out through a transitional arrangement, the value used in the calculation of quartiles is a maximum of 4.5% or the CET1 required by that specific jurisdiction in that specific year.

The computed value for Available Buffer from CET1 capital is considered for all three buffers. Is there any priority of one buffer over the other?

As per the Basel III Accord, there is no priority given to one buffer over the other. Required Buffer from CET1 capital is compared against the Available Buffer from CET1 capital. Any shortfall or excess is reported at an aggregate level. It cannot be reported for one specific type of buffer. This approach in the application is built as per our interpretation of the Basel guidelines. As per the Basel III Accord, the other two buffers are met through an extension of Capital Conservation Buffer and the accord does not explicitly mention about its priority. The Capital Conservation Ratio for a shortfall is also calculated at an aggregate level and not at individual buffer level.

Can the regulator of the parent jurisdiction prescribe countercyclical buffer requirement different from the one prescribed by the home country's regulator to which the exposure relates to?

As per our interpretation of the Basel III accord, the countercyclical buffer requirements can be different. By default, the requirement that is prescribed by the parent regulator must be used as input data which in turn is used for further calculations.

If one of the exposure countries has not implemented Basel III and the country's regulator have not recommended any buffer, must countercyclical buffer requirement be taken as 0% for the exposures of that country?

No, the countercyclical buffer requirement cannot be taken as 0% as the parent company's regulator has exposure to this country. For a consolidated Run, it depends on the buffer requirement required for all the exposure countries by the parent regulator.

By default, the buffer requirement specified by the parent regulator for each exposure country is included in the input data. Therefore, data is not required to be modified.

As per Basel requirements, all three buffers are calculated from CET1. However, in the future as per guidelines of the Basel Committee on banking supervision, it may be required to be calculated from Tier 1 or CAR. Does the application have a provision for that?

Yes. The application is flexible to compute such changes. It can be modified to compute buffer from Tier 1 capital and CAR. The logic for computing this buffer is similar to the one used for buffer from CET1 capital. The application can calculate buffers form Tier 1 capital, by taking remainder of following:

Excess of Tier1 Capital Ratio over benchmark (6.0 %), after catering to the shortfall, if any, in Tier 2 capital to its respective benchmark level, which is 2%, minus Required Benchmark Buffer from CET1 capital. Hence, Capital Conservation Buffer excludes any additional CET1 needed to 8% Total Capital Ratio.

To calculate buffer form Total Capital, remainder of following is taken:

Excess of Total Capital Ratio over benchmark (8.0%), minus Required Benchmark Buffer from Tier 1 capital.

13.3 Credit Valuation Adjustment

How will the application handle Index Decomposition, if data for index is not provided and index decomposition is selected?

In this case, the application calculates CVA charge without decomposition. The Run can be successfully executed and Index Hedge position is treated without decomposition.

How does the application handle an Index Hedge position marked to the counterparty wherein multiple counterparties which are part of Index and Index decomposition are selected?

The application creates a single name CDS hedge for all the counterparties with which the bank has exposures and is a part of the index. Index position mapped to a counterparty is used only to allocate CVA charge to the counterparty while using Standardized Approach for CVA calculation.

Can IMM approach be selected for Capital Conservation Ratio calculation and standardized approach for CVA Calculation?

No, IMM approach cannot be selected for Capital Conservation Ratio. The application requires CEM method output for computing CVA Charge using Standardized approach.

Can the discount factor be changed which is currently proposed as 5% as per the Basel guideline?

Yes, risk free rate can be changed by modifying Rules. For more information on modifying Rules, see **Error! Reference source not found.**.

How is CVA RWA used in the application?

The application calculates CVA RWA and sums it to Credit RWA. CVA RWA is not multiplied by the factor 1.06.

Will the application create a duplicate hedge record from Index Decomposition, if the Run is executed twice?

No, the application does not create a duplicate hedge record. The application checks whether the record already exists and it uses the same. If the record does not exist, then the application creates a hedge record.

13.4 Operational Risk

If the input parameter to calculate the Annual Gross Income is different for other jurisdictions, then can the input parameters be changed?

Yes, you can change the input parameters by adding or deleting the Rule related to Annual Gross Income. To achieve this, modify the BP expression - Ops Risk Annual Gross Income by adding the newly defined measure or deleting the used measure. The data model can undergo changes if the newly added parameter is not captured. The data model changes affect the staging table and the processing table.

Can reclassification rule for mapping of internal LOB to standard LOB be modified?

Yes, you can change Reclassification Rule as per jurisdiction requirement. You must add the mapping in the Rule OR Internal LOB to Standard LOB Reclassification and make an entry into DIM_LOB and DIM_STANDARD_LOB.

13.5   Capital Structure (Basel III)

Are the list of instruments provided for each component of capital that is, CET1, AT1, and T2 fixed or can the list of instrument be extended or reduced to accommodate as per the requirement?

The list of instruments mapped to different components of capital is a bare minimum list. You can add or delete as per their definition of capital by adding or deleting a mapping in the Rule – Non-Sec Standard Product type to capital Comp Group Reclassification for banking book (non securitization) exposures and in Rule – Mkt Risk Instrument type to Capital Comp Group Reclassification for trading book exposures. No data model changes are required.

The criteria to calculate the surplus capital in CET1 for Minority Interest is Minimum CET1 plus the Capital Conservation Buffer. If the criteria changes in the future to include the countercyclical buffer along with CET1 and CCB, then can the application handle such modifications?

The application has the flexibility to include any parameter or delete any parameters to calculate the Minority Interest. In such a case, the Rule can be modified to include additional parameters or delete if required.

Is there any flexibility in the Rule to add or delete any regulatory adjustment line item during the calculation of CET1?

Yes, the application has the capability to add or delete any regulatory adjustment line item. This is handled in the Rule by adding or deleting any regulatory adjustment line item.

Considering that the phase-in treatment criteria specified as per the accord changes in the future where the deduction values and risk-weighting values change, then can this scenario be handled by the application without affecting other sections?

The application is flexible to accommodate any scenario for phase-in treatment. For example: if in the future the phase-in criteria changes from 20%, 40%,60%,80% to 25%, 45%,65%, 85%, then the application has the capability to change the value as well during the phase-in. The deduction amount that is not deducted is to be risk-weighted with some different percentage.

The values in the capital component column of the Setup Capital Heads (FSI_SETUP_CAPITAL_HEAD) must be changed to accommodate this phase-in treatment.

What if the Bank doesn't calculate CR RWA, MR RWA, and OR RWA and directly provides a value against each of this line item?

The application supports such direct download values for RWA in table – STG_STANDARD_ACCT_HEAD against appropriate Standard Account Head identifiers (CAP169 for Credit RWA, CAP090 for Market RWA, and CAP170 for Operational RWA).

13.6   Securitization

The Reporting Bank wants to implement the Securitization aspect of the Credit Risk. The Bank currently does not have the Credit Risk module. How can the Reporting Bank implement only the Securitization module?

If the bank wants to implement Securitization Standardized approach, then data relevant to the exposures, tranche, pool, rating, and mitigant details are expected. If the IRB approach is implemented, then the complete underlying exposure details are expected apart from the previous mentioned details.

The reporting bank has the underlying data and has provided the pool, tranche, and exposures data. Additionally, the reporting bank has also provided the pool and tranche information in the exposures table. In this case, will the application use the data from the pool and tranche table or from the exposures table?

The application expects the data only in either of the following tables:

Pool, tranche, and exposures table with all the pool, tranche, and exposures attribute data only in their respective tables.

Exposures table with the entire exposures attribute and few of the attributes of the pool and tranche.

The application gives a preference to the pool and tranche attributes in the exposures table, compared to the attributes given in the pool and tranche table. In this case, all the computations is based out of the data given in the exposures table.

How does the bank select particular Securitization approach?

As per regulator's guidelines, banks are expected to follow the hierarchy of approaches while implementing IRB approach as follows:

Supervisory Formula Approach (SFA)

Simplified Supervisory Formula Approach (SSFA)

Risk Weight at 1250%

The application supports this hierarchy of approaches. As stated in the accord, the SFA/SSFA approaches are data driven approaches and availability of data drives the approach selection. In case the bank has relevant data of underlying exposures that is required for SFA calculations, it needs to follow SFA approach. Most of banks that are originators and sponsors of deal have this data and some of the investor banks may have it and hence they naturally follow SFA. However, in case the bank does not have this underlying data, it cannot follow SFA approach; such banks can follow SSFA approach by providing parameters that are applicable only to SSFA as direct input to the application.

The reporting bank, who is an investor in securitization transaction, has an unrated securitization exposure. How will this unrated exposure be treated by the application?

The application treats the unrated exposure based on the approach being followed for that exposure. The approach followed is the same for the originator and the investor.

Standardized Approach

In this case, the application calculates the weighted average risk weight of the underlying exposures and assigns this to the exposure.

If the details regarding the underlying exposures are not available, then the unrated exposures are deducted.

Ratings Based Approach

In this case, the application tries to infer the rating based on the presence of the rated subordinate tranche information, belonging to the same pool.

The application tries to identify whether there are any rated subordinate tranche belonging to the same pool, and which has the credit enhancement level less than that of the unrated exposure and which has the residual maturity more than that of the unrated exposure and which has the seniority less than that of the unrated exposure. The seniority is a number denoting the seniority of the cash flows to that tranche and it starts from the value of 1 which is the senior most tranche.

If the ratings are inferred, then the application assigns the rating to the exposure and hence assigns the corresponding risk weight.

All other processing are the same as other rated exposures.

If the rating cannot be inferred, then the unrated exposures are deducted.

Supervisory Formula Approach

In this case, there is no dependency on the ratings. Hence, it proceeds without any difference in the treatment.

The reporting bank, which is an investor in Securitization Transaction, is provided protection on its securitization exposure with the help of an Nth to Default credit derivative mitigant. How will the application recognize the benefit for this exposure?

The application identifies the nth to default credit derivative protection based on the comparison of the tranche attachment point, initial pool amount, and the cumulative loss amount of the pool. Using this, the application calculates whether the tranche is in default or not. Further, the application counts the number of tranches in default and then compares this number with the defaulted position covered by the mitigant. Hence for this, the entire tranche information of the pool is required, regardless of whether the Bank has an exposure in all those tranches or not.

For example: the exposure held by the bank belongs to tranche T1 and this belongs to the pool P1. Assume that there are a total of 10 tranches being issued out of that pool. (T1 to T10). The mitigant provided is 7th to default credit derivative. Hence, the application recognizes this mitigant only if there are 6 defaults in the basket of exposures (T1 to T10) or else there is an eligible 6th to default credit derivative for the same pool. Assume that the following are the calculations:

The application takes the tranche attachment point and multiplies this with the initial pool amount. This amount is compared by the application with the cumulative loss of the pool. If the amount is less than or equal to the cumulative loss of the pool, then that tranche is in default. Further, the application takes the count of all the tranches which are in default. In the following case, there are 6 defaults in the exposures. This is compared with the defaulted position of the mitigant. Since there are n-1 defaults (7-1 = 6) in the exposure, the mitigant is recognized for this pool. The exposure with the least risk weight and highest seniority is allocated the mitigant and all other exposure combinations mapped to this mitigant is ineligible.

Table 61: Calculation of Trance Attachment Point and Initial Pool Amount

Tranche ID	Tranche Attachment Point	Associated Pool ID	Initial Pool Amount	Attachment * Pool	Cumulative Loss of the Pool	Defaulted?
T1	0.75	P1	1,000,000.00	750,000.00	300,000.00	N
T2	0.58	P1	1,000,000.00	580,000.00	300,000.00	N
T3	0.45	P1	1,000,000.00	450,000.00	300,000.00	N
T4	0.34	P1	1,000,000.00	340,000.00	300,000.00	N
T5	0.29	P1	1,000,000.00	290,000.00	300,000.00	Y
T6	0.22	P1	1,000,000.00	220,000.00	300,000.00	Y
T7	0.18	P1	1,000,000.00	180,000.00	300,000.00	Y

Tranche ID	Tranche Attachment Point	Associated Pool ID	Initial Pool Amount	Attachment * Pool	Cumulative Loss of the Pool	Defaulted?
T8	0.15	P1	1,000,000.00	150,000.00	300,000.00	Y
T9	0.05	P1	1,000,000.00	50,000.00	300,000.00	Y
T10	0	P1	1,000,000.00	-	300,000.00	Y

The Reporting Bank has multiple exposures mapped to multiple mitigants. How will the application allocate the mitigants to the exposures?

The application uses the optimizer to allocate the mitigants to the exposures. The optimizer constraints in the case of securitization are dependent on the seniority of the exposures, risk weight of the exposures, and the mitigant value assigned to the exposure post the haircut. Assume the following case of exposures and mitigants mapped to each other along with the seniority, risk weight, and the haircut factor.

Table 62: Allocation of Mitigants to Exposures

Exposure ID	Exposure amount	Exposure Seniority	Exposure RW	Mitigant ID	Mitigant Amount	Mitigant RW	Haircut Factor
E1	5,000.00	1	0.5	M1	10,000.00	0.2	0.2
E2	3,000.00	2	0.5	M1	10,000.00	0.2	0.4
E3	2,000.00	2	0.5	M1	10,000.00	0.2	0.15
E4	1,500.00	3	1	M1	10,000.00	0.2	0.1
E1	5,000.00	1	0.5	M2	5,000.00	0	0.4
E2	3,000.00	2	0.5	M2	5,000.00	0	0.87
E3	2,000.00	2	0.5	M2	5,000.00	0	0.37
E4	1,500.00	3	1	M2	5,000.00	0	0.64
E1	5,000.00	1	0.5	M3	3,500.00	0.2	0.05
E2	3,000.00	2	0.5	M3	3,500.00	0.2	1
E3	2,000.00	2	0.5	M3	3,500.00	0.2	0.18
E4	1,500.00	3	1	M3	3,500.00	0.2	0.27

The mitigants are assigned to the exposures based on the seniority of the exposures. The mitigants with the least risk weight are assigned first to the exposures. The following table details the order in which the mitigants are allocated:

Table 63: Allocation of Mitigants

Exposure ID	Mitigant ID
E1	M2
E2	M2

Exposure ID	Mitigant ID
E3	M2
E4	M2
E1	M1
E2	M1
E3	M1
E4	M1
E1	M3
E2	M3
E3	M3
E4	M3

The application assigns the exposures to the mitigants based on this order and computes the Post-CRM RWA of the exposures.

Does optimizer work on pool-by-pool basis? Can the user explicitly mention how many pools can be processed at a time?

Yes, the optimizer works on pool-by-pool basis. However, you can specify the number of pools to be processed at a single fand so onh in Optimizer_Config.xml in <PROCESSEDPOOLSIZE> tag.

Is it possible that few of the exposure-mitigant combination can have no pool ids? If so, what happens to those records?

All the records are expected to have pool IDs based on the exposure mitigant combination. If few records do not satisfy the join/filter condition present in pooling definition, then the pool IDs are not assigned. Such records are not considered for optimizer and covered factor is not calculated for those exposures.

13.7 Capital Structure (Basel II)

Are the list of instruments provided for each component of capital that is, T1, T2, and T3 fixed or can the list of instrument be extended or reduced to accommodate as per the requirement?

The list of instrument mapping to different components of capital is a bare minimum list. You can add or delete as per their definition of capital in the Rules – 'Bank capital Group Components Reclassification' and 'STD to Capital Group Components Reclassification'

Is there any flexibility in the Rule to add or delete any regulatory adjustment line item during the calculation of T1 and T2?

Yes, the application has the capability to add or delete any regulatory adjustment line item. This is handled in the rule by adding or deleting any regulatory adjustment line item.

What if the Bank does not calculate any of the CR RWA, MR RWA and OR RWA and directly provides a value against each of these line items?

The application supports and has taken into account for such direct download values for RWA in the table – STG_STANDARD_ACCT_HEAD against appropriate Standard Account Head identifiers (CAP169 for

Credit RWA, CAP090 for Market RWA and CAP170 for Operational RWA) for entities for which the bank does not calculate RWA using our application.

13.8 Market Risk (Basel II)

Does the Greeks Engine calculate Greeks parameters for all kind of Options?

Currently, the Greeks Engine calculates parameters only for normal options. The exotic options are not covered by Greeks Engine.

13.9 Mitigant Eligibility (Basel III)

The Reporting Bank has a wholesale exposure and for that guarantee from an issuer is present which can be reclassified under the "Other Entities". The current rating of the guarantor is B-. How does the application handle this in Basel II and Basel III runs?

The application handles the mitigant eligibility of Basel II and Basel III using separate rules. The application using the Basel III Rule, checks for the presence of a rating for this kind of issuer type and if there is a rating available, then this mitigant becomes eligible. The application under the Basel II rule checks for the rating to be A- or better and if the rating is below A-, then this mitigant becomes ineligible.

13.10 Haircut Assignment (Basel III)

The Reporting Bank has a securitized exposure and for that two financial collaterals are present - a debt instrument from an issuer which can be reclassified under the "Non-Sovereign" issuer type and a debt instrument which is part of a securitization transaction. For the first instrument, the current ratings of the instrument by 2 agencies are AAA and A+ and its residual maturity is 4.5 years. For the second instrument which is a securitized debt exposure, the current rating of the instrument by 2 agencies are A and BBB+, and its residual maturity is 8 years. What is the volatility haircut applied for this mitigant by the application under Basel II and Basel III rules?

The application handles the volatility haircut assignment for debt securities of Basel II and Basel III using separate rules. The application requires a single rating for the debt securities. Since there are multiple ratings, the application applies multiple assessment and calculates the final current rating. In this case, the first mitigant is rated A+ and second mitigant is rated BBB+, post multiple assessment. The application under the Basel III rule checks for the current rating of the debt instrument, its residual maturity, whether the debt security is a securitized exposure or not, and the issuer of the debt security.

For the first mitigant, the current final rating is A+ and it is a debt security issued by a non-sovereign with a residual maturity of 4.5 years. The haircut assigned is 6%.

For the second mitigant, the current final rating is BBB+ and it is a debt security which is a securitized exposure with a residual maturity of 8 years, the haircut assigned is 24%.

The application using the Basel II Rule, checks the current rating of the debt instrument, its residual maturity, and the issuer of the debt security.

For the first mitigant, the current final rating is A+ and it is a debt security issued by a non-sovereign with a residual maturity of 4.5 years. The haircut assigned is 6%.

For the second mitigant, the current final rating is BBB+ and it is a debt security issued by a non-sovereign with a residual maturity of 8 years, the haircut assigned is 12%.

13.11 Cleared Transactions

What is the treatment for the transaction between clearing member and client which arises due to clearing member acting as intermediary for the transaction and reporting bank act as clearing member?

Currently the treatment assigned in the accord is of bilateral trade and application expects user not to identify the previous trades as cleared transaction.

Will the netting agreement be changed for cleared transaction?

No. Trade marked for the Netting agreement is the trading input and risk calculation does not change previous logic.

Since the each collateral is treated separately is there a chance that separate risk weight is assigned to different collateral?

No. Risk Weight assigns changes only when the reporting bank is clearing member client and have not posted the collateral and due diligence is not conducted. Application expects the previous condition to be uniform for all the collateral posted, that is, if collateral is cash and securities will either cover all losses or not cover all losses. Data consistency is expected from the user. Moreover the reporting bank to get the transaction cleared from CCP, previous two conditions are mandatory to meet, so the application expects very less trade to go with 4% risk weight.

Will the transaction with non-qualifying CCP have CVA Charge?

No. CVA charge is excluded for the transaction with CCP. Qualifying CCP transactions are given preferential treatment for RW and non-qualifying CCP is treated as bilateral trades. Both trades do not qualify for CVA Charge.

How does the application distinguish between qualifying and non qualifying CCP?

Application expects the user to identify the CCP as qualifying and non-qualifying. Application expects this information as counterparty information. For collateral posted with non-qualifying CCP the application expects other inputs for calculating RWA like, collateral type, pd, lgd, and maturity. Also counterparty type is assumed to be Central Counterparty for the calculation.

Why do application expects the role of the reporting bank with CCP for each transaction?

As per the example in BIS, a CCP also plays a role of Clearing Member for reporting bank transaction with another CCP. This case makes it difficult for the risk system to capture the role of reporting bank at party level and hence is required for each transaction.

13.12 Investment Portfolio

What are the different approaches for assignment of Risk Weight for Investment in Equity funds held in Banking Book ? How are they assigned by the application?

There are four types of approaches for assignment of Risk weights for Investment in Equity Funds which are mentioned in the relevant subheading under Investment Portfolio. Application expects the user to provide the data as per the criteria specified by the Accord which are further processed for assignment of Approach and resultant Risk Weight. For cases where operational criteria are not met or no information is provided for the underlyings of the Fund, the application assign Fall Back Approach which attract Risk Weight of 1250%.

14   Annexure D: Account Clustering Application Integration

In the previous releases, **V_ACCOUNT_POOL_ID** for exposures was being provided as a download in the setup table **FSI_SETUP_ACCT_MODELING_INFO.V_RETAIL_POOL_ID**. This Retail Pool ID same was used in processing.

Starting from this release, a module of Basel IRB Application - Retail Pooling (RP) - computes the Retail Pool ID. The Retail Pool ID is stored in **FSI_CAP_RETAIL_EXPOSURES.N_K_MEANS_CLUST_ID.** If this module is installed and available in the same setup as that of the Basel Application, then the Capital Calculation Run consumes the Retail Pool ID that is computed and populated by the RP module for its processing. If not, it continues to download this attribute from **FSI_SETUP_ACCT_MODELING_INFO**.

Information regarding the availability and usage of the Retail Pooling Module has to be provided in the **SETUP_MASTER** table as a Y/N flag against the V_COMPONENT_CODE **BASEL_RTL_POOL_APP_AVL.**

PMF processes are introduced in the Data Population Pipelines of Non-Securitization exposures for the Account Pool ID assignment.

Based on the value that you provide in the **SETUP_MASTER** table against **BASEL_RTL_POOL_APP_AVL**, **V_ACCOUNT_POOL_ID** for exposures is either selected from **FSI_CAP_RETAIL_EXPOSURES** or **FSI_SETUP_ACCT_MODELING_INFO**.

15   Glossary

BCBS	Basel Committee on Banking Supervision
Bankruptcy Remote	In case of liquidation of the company, if the collateral is bankruptcy remote then legal proceeding will not have the right to liquidate the collateral.
BIS	Bank of International Settlements
CAR	Capital Adequacy Ratio
Central Counterparty (CCP)	Central Counterparty (CCP) is a clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the future performance of open contracts.
CCB	Capital Conservation Buffer
CCF	Credit Conversion Factor
CCR	Counterparty Credit Risk
CET1 Ratio	Common Equity Tier 1 Ratio
Clearing Member (CM)	Clearing Member (CM) is a member of, or a direct participant in, a CCP that is entitled to enter into a transaction with the CCP, regardless of whether it enters into trades with a CCP for its own hedging, investment or Capitalization of exposures to central counterparties.
Clearing Member Client (CMC)	Clearing Member Client (CMC) is the client of the Clearing Member and trades are done through clearing member for the client.
CRE	Commercial Real Estate
CRM	Credit Risk Mitigants
CVA	Credit Valuation Adjustment

EAD	Exposure At Default
GL	General Ledger
IRB	Internal Rating Based
LGD	Loss Given Default
OFSAA	Oracle Financial Services Analytical Application
OFSAAI	Oracle Financial Services Analytical Application Infrastructure
OTC	Over the Counter
Non Securitization Exposure	The exposures that are not securitized by the bank which include, loans, investments, Bonds, Facilities Purchase Receivables and so on are known as Non Securitized Exposures.
PD	Probability of Default
Private Sector Credit Exposure	A private sector credit exposure is defined as an exposure to a company or an individual that is included in credit risk-weighted assets (excluding an exposure to a sovereign, the Bank for International Settlements, the European Central Bank, the European Commission, the International Monetary Fund, Hong Kong Monetary Authority's ,a multilateral development bank (MDB), a public sector entity (PSE), or a government sponsored entity (GSE). The geographic location of a private sector credit exposure is the national jurisdiction of the place the borrower is located in.
Qualifying Central Counterparty (QCCP)	A qualifying central counterparty (QCCP) is an entity that is licensed to operate as a CCP (including a license granted by way of confirming an exemption), and is permitted by the appropriate regulator/overseer to operate as such with respect to the products offered.

This is subject to the provision that the CCP is based and prudentially supervised in a |

	jurisdiction where the relevant regulator/overseer has established, and publicly indicated that it applies to the CCP on an ongoing basis, domestic rules and regulations that are consistent with the CPSS-IOSCO Principles for Financial Market Infrastructures.
RRE	Residential Real Estate
RWA	Risk-weighted Assets
SCD	Slowly Changing Dimension
SFT	Securities Financing Transactions
T2T	Table to Table

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