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# Credit, counterparty credit and delivery risks: IRB approach to capital requirements

| ID | Label | Legal references and comments |
|---|---|---|
| **Columns** | | |
| 01 | Own estimates of LGD and/or credit conversion factors | §245 of the New Capital Accord and article 65 of the Capital Ordinance. Yes shall be reported when the institution has been approved to use own estimates for the corresponding asset class. Otherwise No. |
| 02 | Internal rating system | §211, 394 and 395 of the New Capital Accord.<br>In case the reporting institution applies a unique rating system or is able to report according to an internal master scale these will be used. In any other case, the different rating systems should be merged and ordered according to the following criteria: Obligor grades or pools of the different rating systems should be pooled together and ordered from the lower PD assigned to each obligor grade or pool to the higher. |
| 02 | PD assigned to the obligor grade or pool | §461–467 of the New Capital Accord.<br>For each individual grade or pool the PD assigned to the specific obligor grade or pool should be reported. |
| 03 | Original exposure pre conversion factors | §308 and 334 of the New Capital Accord. Exposure value without taking into account value adjustments and provisions, conversion factors and the effect of credit risk mitigation techniques except in the case of funded credit protection in the form of master netting agreements. Transactions settled through a delivery-versus-payment system (according to §7 annex 3 of the New Capital Accord or article 63 paragraph 1 of the Capital Ordinance) are treated on a separate form ("SETT").<br>§317, 293 and 299 of the New Capital Accord (for an overview, see annex 10 of the New Capital Accord). For derivative instruments, repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions, the original exposure will correspond to the exposure value for counterparty credit risk calculated according to the methods laid down in annex 4 of the New Capital Accord. The effect of funded credit protection in the form of master netting agreements shall be included. By contrast, the effect of on-balance-sheet netting has to be reported under *credit risk mitigation techniques taken into account in LGD estimates*.<br>Exposures that qualify for the double default treatment will be classified according to the PD of the obligor. |
| 04 | Exposure after conversion factors | According to §474 of the New Capital Accord, EAD for an on-balance sheet or off-balance sheet item is defined as the expected gross exposure. This implies that the effect of CRM techniques has to be taken into account after application of the relevant credit conversion factor to off-balance sheet items.<br>For corporate, sovereign and bank exposures: §310–317 of the New Capital Accord and precisions in margin numbers 338–339 of the Credit Risks Circular.<br>For retail exposures: §335–338 of the New Capital Accord.<br>For defaulted assets, the exposure should be reported net of provisions. |
| 05–08 | Credit risk mitigation (CRM) techniques with substitution effects on the exposure | Credit risk mitigation techniques that reduce the credit risk of an exposure or exposures via the substitution of exposures as defined below in inflows and outflows. |
| 05 | Guarantees | When own estimates of LGD are not used: §300–305, 332–333 and 490–492 of the New Capital Accord and precisions in margin numbers 336–337 of the Credit Risks Circular.<br>When own estimates of LGD are used: §300–301, 306–307, 332–333, 480–487 of the New Capital Accord. The nominal amount of the guarantee should be reported.<br>Guarantees will be reported in column 05 when the adjustment is not made in the LGD. When the adjustment is made in the LGD column 10 shall be used. |

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| 06 | Credit derivatives | When own estimates of LGD are not used: §300–305, 332–333 and 490–492 of the New Capital Accord and precisions in margin numbers 336–337 of the Credit Risks Circular.<br>When own estimates of LGD are used: §300–301, 306–30, 332–333, 488–489 of the New Capital Accord. The nominal amount of the credit derivative should be reported.<br>Credit derivatives will be reported in column 06 when the adjustment is not made in the LGD. When the adjustment is made in the LGD column 11 shall be used. |
| 07–08 | Substitution of the exposure due to CRM | Outflows correspond to the covered part of the original exposure after conversion factors, that is deducted from the obligor's reporting category and, when relevant, risk weight or obligor grade or pool, and subsequently assigned to the protection provider's reporting category and, when relevant, risk weight or obligor grade or pool. This amount will be considered as an inflow into the protection provider's reporting category and, when relevant, risk weights or obligor grades or pools.<br>Inflows and outflows within the same reporting categories and, when relevant, risk weights, obligor grades or pools should also be considered. |
| 07 | Outflow (–) | |
| 08 | Inflows (+) | |
| 09 | Exposure after CRM substitution effects and after conversion factors | Exposure assigned in the corresponding obligor grade or pool and exposure class after taking into account outflows and inflows due to *credit risk mitigation (CRM) techniques with substitution effects on the exposure.* |
| 10–15 | Credit risk mitigation techniques taken into account in LGD estimates excluding double default treatment | Excludes the CRM techniques that have an impact as a result of the application of the substitution effect of CRM techniques taken into account in columns 05 to 08 as well as double default treatment taken into account in column 16.<br>When own estimates of LGD are not used: §290, 291, 295, 296 of the New Capital Accord.<br>When own estimates of LGD are used:<br>– Regarding unfunded credit protection, for exposures to central government and central banks, institutions and corporates: §300, 301, 306 and 307 of the New Capital Accord. For retail exposures, §332 and 333 of the New Capital Accord.<br>– Regarding funded credit protection collateral taken into account in the LGD estimates according to §468-473 of the New Capital Accord. |
| 10 | Guarantees | See column 05. |
| 11 | Credit derivatives | See column 06. |
| 12 | Eligible financial collateral | For trading book operations includes financial instruments and commodities eligible for trading book exposures. Credit linked notes and on-balance sheet netting are treated as cash collateral.<br>When own estimates of LGD are not used: §290–293 and 506 of the New Capital Accord; the adjusted value (C x [1–$H_C$–$H_{FX}$] incl. maturity adjustments) as set out in §147 of the New Capital Accord shall be reported.<br>When own estimates of LGD are used: financial collateral taken into account in the LGD estimates according to §469–470 of the New Capital Accord. The amount to be reported should be the estimated market value of the collateral. |
| 13–15 | Other eligible collateral | When own estimates of LGD are not used: §295 and 506–522 of the New Capital Accord and precisions in margin numbers 333–335 of the Credit Risks Circular.<br>When own estimates of LGD are used: other collateral taken into account in the LGD estimates according to §469–470 of the New Capital Accord. |
| 13 | Real estate | When own estimates of LGD are not used: §507–510 of the New Capital Accord and precisions in margin number 334 of the Credit Risks Circular.<br>When own estimates of LGD are used: the amount to be reported should be the estimated market value. |

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| 14 | Other physical collateral | When own estimates of LGD are not used: §521–522 of the New Capital Accord and precisions in margin numbers 335 of the Credit Risks Circular.<br>When own estimates of LGD are used: the amount to be reported should be the estimated market value of collateral. |
| 15 | Receivables | When own estimates of LGD are not used: §511–520 of the New Capital Accord.<br>When own estimates of LGD are used: the amount to be reported should be the estimated market value of collateral. |
| 16 | Subject to double default treatment: unfunded credit protection | Guarantees and credit derivatives covering exposures subject to the double default treatment. See §307 (i)–(ii) of the New Capital Accord. See also legal references and comments for guarantees and credit derivatives. |
| 17 | Exposure weighted average LGD (%) | All the impact of CRM techniques on LGD values as specified in §284–307 and 331–338 of the New Capital Accord should be considered. In the case of exposures subject to the double default treatment the LGD to be reported will correspond to the one selected according to §284 (ii) of the New Capital Accord.<br>For defaulted exposures, margin numbers 323 and 351 of the Credit Risks Circular have to be considered: therefore, for these exposures, the amount of specific provisions in proportion to total exposure should be used as best estimate for the LGD values. |
| 18 | Exposure weighted average maturity value (days) | §318–325 of the New Capital Accord, as well as precisions in margin numbers 342–349 of the Credit Risks Circular. |
| 19 | Risk weighted exposure amount | For central governments and central banks, corporates and institutions see §271–284 (iii) of the New Capital Accord and precisions in margin numbers 323–329 and 340–341 of the Credit Risks Circular. For retail see §327–330 of the New Capital Accord and precisions in margin numbers 350–351 of the Credit Risks Circular. |
| 20 | Capital requirements | Article 33 of the Capital Ordinance. Capital requirements before application of the institute specific IRB multiplier according to Article 65 paragraph 3 of the Capital Ordinance. |
| 21 | Expected loss amount | §375–379 of the New Capital Accord and precisions in margin numbers 374–377 of the Credit Risks Circular. |
| 22 | Value adjustments and provisions | §380 of the New Capital Accord and precisions in margin number 378 of the Credit Risks Circular. |
| **Rows** | | |
| 03 | On-balance sheet items | Assets referred to in article 37 of the Capital Ordinance not included in any other category. |
| 04 | Off-balance sheet items | Items included in article 40 of the Capital Ordinance except those included as securities financing transactions and long settlement transactions, derivatives or from contractual cross product netting. |
| 05 | Securities financing transactions and long settlement transactions | Securities financing transactions (SFT) and long settlement transactions as defined in annex 4 of the New Capital Accord. |
| 06 | Derivatives | |
| 07 | From contractual cross product netting | Exposures that due to the existence of a contractual cross product netting (as defined in annex 4 of the New Capital Accord) cannot be assigned to either derivatives or securities financing transactions and long settlement transactions will be included under this category. |
| 08–18 | Specialised lending slotting criteria | §275–277 and 280 of the New Capital Accord, as well as precisions in margin number 326–329 of the Credit Risks Circular. This only applies to the corporate asset class (reporting category 04). |
| 12 | Of which “strong exposures“ | §277 of the New Capital Accord and precision in margin number 328 of the Credit Risks Circular. |

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| 19 | Exposures from free deliveries applying standardised risk weights or 100% under the alternative treatment | Annex 3, §6 and 8 of the New Capital Accord. |
| 20 | Dilution risk: Total purchased receivables | §369–370 of the New Capital Accord and precisions in margin number 372 of the Credit Risks Circular. |
| 21–N | Obligor grade or pool | For exposures to corporates, institutions and central governments and central banks see §397 of the New Capital Accord. For retail exposures see §401 of the New Capital Accord.<br>Exposures for dilution risk of purchased receivables will not be reported by obligor grades or pools and will be reported in row *dilution risk: total purchased receivables*.<br>Where the institution uses a large number of grades or pools, a reduced number of grades or pools to be reported may be agreed with the competent authorities. |
| 100 | Defaulted assets | Margin numbers 323 and 351 of the Credit Risks Circular. |

| Reporting categories | | Legal references and comments |
|---|---|---|
| **[P/C]_CRIRB_01** | Sovereigns | §229 of the New Capital Accord. |
| | Institutions | §230 of the New Capital Accord. Besides banks and securities firms, this exposure class covers also certain public sector entities (PSEs) and multilateral development banks (MDBs). |
| **[P/C]_CRIRB_02** | – Banks and securities dealers | Banks and securities dealers. |
| **[P/C]_CRIRB_03** | – Other institutions | PSEs and MDBs that fall under the definition of §230 of the New Capital Accord. |

| Reporting categories | | Legal references and comments |
|---|---|---|
| | Corporates | §218–228 of the New Capital Accord and precisions in margin numbers 297–298 of the Credit Risks Circular. |
| **[P/C]_CRIRB_04** | – Specialised lending | §219–228 of the New Capital Accord and precisions in margin numbers 297–298 of the Credit Risks Circular. |
| **[P/C]_CRIRB_05** | – Corporates without specialised lending | |
| | Retail | §231–234 of the New Capital Accord and precisions in margin numbers 299–317 of the Credit Risks Circular. |
| **[P/C]_CRIRB_06** | – Secured by real estate | §231–234 of the New Capital Accord and precisions in margin numbers 299–317 of the Credit Risks Circular. |
| **[P/C]_CRIRB_07** | – Qualifying revolving | §234 of the New Capital Accord. |
| **[P/C]_CRIRB_08** | – Other retail | §233 of the New Capital Accord. Consider also precisions in margin numbers 303–307 of the Credit Risks Circular regarding lombard loans. |