

Basel's Third Quantitative Impact Study: The Results

May, 2003

Purpose & Process of QIS-3

- Understand effect of/recalibrate proposal
- Compare current capital standard with each of three potential approaches, showing details for each portfolio
- Covered full proposal--all of credit risk, plus market and operational risk
- 22 U.S. BHCs, >350 worldwide
- Most addressed only standardized approach

Process (continued)

- Substantial preparation, domestically and abroad
- Data/spreadsheet clean-up, corrections, and changes
- Findings used to “tweak” recent CP-3

Modification	% Change
– LGD floor for mortgages	1%
– Revised risk wt curve for credit cards	0%
– Revised Std approach for Op Risk	3%

A Challenge to All

- Participants generally satisfied with their efforts and results
- Questions remain about data
- Not surprising at this stage

G10 Results: Effect on Total RWA 1/

Portfolio contribution to total credit risk change, percentage points

<u>Portfolio</u>	<u>Standardized</u>	<u>FIRB</u>	<u>AIRB</u>
Corporate	1	-2	-4
Sovereign	0	2	1
Bank	2	2	0
Retail: (total)	-5	-9	-9
– Mortgage	-3	-6	-6
– Non-mortgage	-2	-3	-3
– Revolving	0	0	0
SME (total)	-1	-2	-3
Equity	0	2	2
Trading book	1	0	0
Securitised assets	1	0	0
Other portfolios	1	1	2
General provisions	0	-1	-2
Overall credit risk	0	-7	-13
Operational risk	10	10	11
Overall change	11	3	-2

1/ Group 1 banks completing both IRB approaches

U.S. Results: Effect on Total RWA (AIRB)

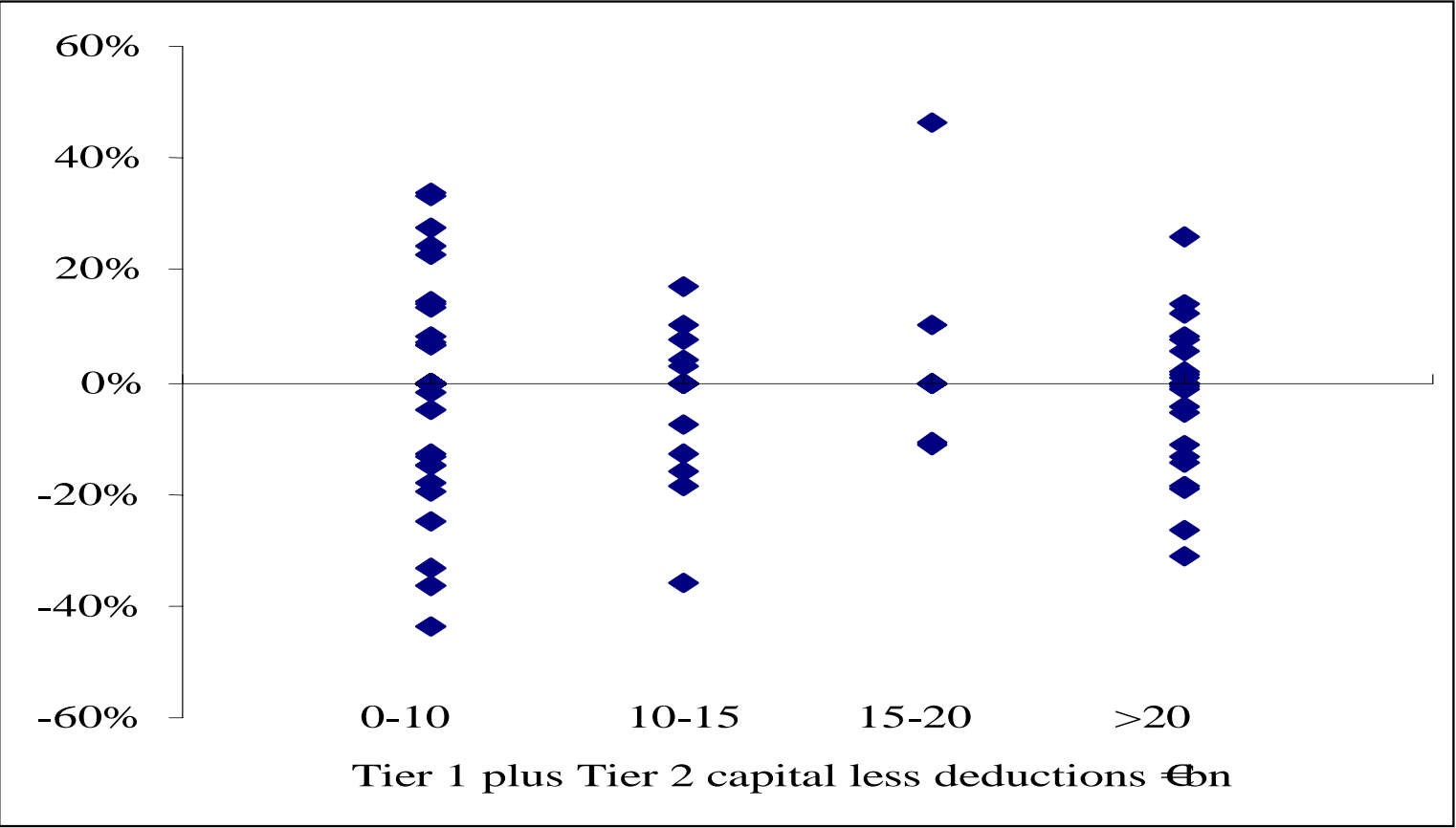
<u>Portfolio</u>	<u>U.S. Capital-Weighted Average</u>				<u>Memoranda: G-10 Average contribution</u>	
	<u>Percent of Current RWAs</u>	<u>X</u>	<u>Percent Change in RWAs</u>	<u>=</u>		<u>Contribution to Overall Credit Risk Change</u>
Corporate	37%		-26%		-10%	-4%
Sovereign	2%		12%		0%	1%
Bank	3%		-28%		-1%	0%
Retail: (of which)	29%		-27%		-8%	-9%
– Mortgage	13%		-53%		-7%	-6%
– Non-mortgage (ex-SME)	8%		-25%		-2%	-3%
– Revolving	8%		16%		1%	0%
SME (total)	11%		-33%		-3%	-3%
Equity	2%		232%		4%	2%
Trading book	7%		2%		0%	0%
Securitised assets	7%		-10%		-1%	0%
Other portfolios	3%		33%		1%	2%
General provisions					0%	-2%
Overall credit risk	100%		-17%		-17%	-13%
Operational risk					11%	11%
Overall change			-6%		-6%	-2%

Key Issue/Question--Dispersion

Contributing factors include:

- Different assessment horizons or PD estimation methods
- Sensitivity of PDs to different rating grades
- Selection of stress/non-stress LGDs
- Interplay of LGD/EAD
- Interpretation/application of draft proposal
- Data availability, strength/consistency of each company's internal process
- Actual differences in risk

Percent Change in Capital Requirements (AIRB) All G-10 Banks



Conclusion/Issues

- All need to gain greater understanding and comfort with the range of results
- QIS-3 data on best efforts basis & not subject to supervisory review
- Important implications
 - QIS 3 results for individual banks may have substantial margins for error
 - Committee's calibration process should be ongoing--QIS 4?
 - The transition to Basel II must be managed with care
- Potential competitive implications?
 - Large banks vs small
 - Product lines (e.g., mortgages)