

Methods for Calculating Bank's Regulatory Capital and Risk-Weighted Assets

PART ONE Standardized approach and internal ratings-based approach to credit risk

I. Standardized Approach to Credit Risk	2
A. Risk weights	2
(A) Capital charge for the credit risk of on-balance sheet items	2
(B) Capital charge for the credit risk of off-balance sheet items	8
B. External credit assessment	11
(A) Criteria for eligible external credit assessment institution (ECAI)	11
(B) Principles for using external credit assessment	12
C. Credit risk mitigation	14
(A) Scope of application and treatment principles	14
(B) Collaterals	15
(C) On-balance sheet netting	30
(D) Guarantees and credit derivatives.....	31
II. Internal Ratings-Based Approach to Credit Risk (IRB Approach)....	41
A. Overview -.....	41
B. Categorization of exposures	42
(A) General	42
(B) Definition of corporate exposures	42
(C) Definition of sovereign exposures	44
(D) Definition of bank exposures	44
(E) Definition of retail exposures	44
(F) Definition of equity exposures	45
(G) Definition of eligible purchased receivables	46
C. Calculation of risk components under the foundation IRB (FIRB) approach and	

advanced IRB (AIRB) approach	47
(A) General requirements	47
(B) Application to different types of exposures	48
D. Implementation of the IRB approach	49
(A) Phased roll-out	49
(B) Transitional arrangement	49
E. Risk-weighted assets and calculation of capital charge	51
(A) Corporate exposures (same for sovereign and bank exposures)	51
(B) Retail exposures	63
(C) Equity exposures	65
(D) Purchased receivables	68
F. Treatment of expected losses and recognition of loss provisions	71
(A) Calculation of expected losses	71
(B) Calculation of loss provisions.....	72
(C) Treatment of EL and loss provisions	73
G. Minimum requirements for IRB approach - common requirements	74
(A) Compliance with minimum requirements	74
(B) Rating system design for meaningful differentiation of risks	74
(C) Coverage and integrity of rating process	79
(D) Risk quantification	83
(E) Validation of rating results.....	88
(F) Use of internal ratings	92
(G) Corporate governance and oversight	93
H. Minimum requirements for IRB approach - specific requirements	94
(A) Requirements specific to estimating the risk components for qualifying purchased receivables	94
(B) Requirements specific to estimating the risk components for leasing.....	97
(C) Specific requirements for the calculation of capital charge for equity exposures.....	97

IV. Calculation of capital requirements	181
A. Capital deduction for securitization exposures	181
B. Originating bank's maximum capital requirement for securitizations	182
C. Standardized approach for securitization exposures -	182
D. Internal ratings-based (IRB) approach for securitization exposures	191
V. Illustrative examples: Calculating risk-weighted assets for securitization exposures	204
A. Basic assumptions	204
B. Calculations	204

PART THREE Operational Risk

I. Measurement Methodologies	209
A. Basic Indicator Approach (BIA)	209
(A) Calculation method	209
(B) Calculation of gross income	210
B. Standardized Approach (SA) or Alternative Standardized Approach	210
(A) Qualifying criteria	210
(B) Calculation method under the Standardized Approach	211
(C) Calculation method under the Alternative Standardized Approach (ASA)	213
C. Advanced Measurement Approach	214
(A) Capital floor requirements in the initial period of implementation	214
(B) Basic requirements for management framework	215
(C) Qualitative standards	215
(D) Quantitative standards	216
(E) Loss data	218
(F) Business environment and internal control factors	220
(G) Scenario analysis	220
(H) Risk mitigation	220
(I) Principles for selecting (combining) measurement methodologies	221

II. Annexes	223
Annex 1 Calculation of Gross Income	223
Annex 2 Definitions of Business Lines under the Standardized Approach ...	224
Annex 3 Classification of Operational Loss Event Types	227

PART FOUR Market Risk

I. Introduction	232
A. Definition of market risk	232
B. Scope of market risk	232
C. Definition of trading book and related provisions	232
II. Standardized Measurement Method	237
A. Interest rate risk.....	238
B. Equity position risk	273
C. Foreign Exchange Risk (Including Gold)	283
D. Commodity Risk	286
E. Treatment of options	290
III. Internal Models Approach	301
A. Introduction	301
B. General criteria	301
C. Qualitative standards	302
D. Specification of market risk factors (parameters)	304
E. Quantitative standards	306
F. Stress testing	311

Part Five Forms for Calculating Bank's Regulatory Capital and Risk-weighted Assets

I. Summary forms	318
II. Standardized approach to credit risk	322
III. Internal-ratings based approach to credit risk (IRB approach)	332

IV. Asset securitization.....	337
V. Operational risk	352
VI. Market risk.....	358