



## Basel Committee removes selected national discretions and replies to frequently asked question on funding valuation adjustment (print version)

21 April 2015

### Press release

The Basel Committee has agreed to remove certain national discretions from the Basel capital framework. National discretion allows countries to adapt the Basel standards to reflect differences in local financial systems. However, the use of national discretions can also impair comparability across jurisdictions and increase variability in risk-weighted assets.

The Committee has agreed to remove the following national discretions from the [Basel II capital framework](#):

- *Treatment of past-due loans*: footnote 31 of paragraph 76: "There will be a transitional period of three years during which a wider range of collateral may be recognised, subject to national discretion".
- *Definition of retail exposures*: the following sentence in paragraph 232: "Supervisors may choose to set a minimum number of exposures within a pool for exposures in that pool to be treated as retail".
- *Transitional arrangements for corporate, sovereign, bank and retail exposures*: the following sentence in paragraph 264: "During the transition period, the following minimum requirements can be relaxed, subject to discretion of the national supervisor" and the related transitional arrangements in that paragraph.
- *Rating structure standards for wholesale exposures*: the following sentence in paragraph 404: "supervisors may require banks, which lend to borrowers of diverse credit quality, to have a greater number of borrower grades".
- *Internal and external audit*: the following sentence in paragraph 443: "Some national supervisors may also require an external audit of the bank's rating assignment process and estimation of loss characteristics".
- *Re-ageing*: the following sentence in paragraph 458: "Some supervisors may choose to establish more specific requirements on re-ageing for banks in their jurisdiction".

In addition, the Committee notes that the national discretion related to the internal ratings-based (IRB) approach treatment of equity exposures (paragraph 267) will expire in 2016, as the discretion was to apply for a maximum of 10 years from the publication of the Basel II framework.

The Basel Committee has also issued today a response to a frequently asked question (FAQ) on funding valuation adjustment, as discussed below. The FAQ notes that a bank should continue to derecognise its debit valuation adjustment in full, whether or not it has adopted a funding valuation-type adjustment.

**Paragraph 75 of the Basel III capital framework requires banks to "derecognise in the calculation of Common Equity Tier 1, all unrealised gains and losses that have resulted from changes in the fair value of liabilities that are due to changes in the bank's own credit risk." Therefore, with regard to derivative liabilities, banks are required to derecognise all accounting valuation adjustments arising from the bank's own credit risk. Offsetting between valuation adjustments arising from the bank's own credit risk and those arising from its counterparties' credit risk is not allowed.**

### Where a bank adopts a funding valuation adjustment (FVA), how should the capital adjustment for a firm's own credit be calculated?

A bank's adoption of FVA should not have the effect of offsetting or reducing its "own credit" adjustment according to paragraph 75 of the Basel III capital framework. The Committee recognises that derivative valuation practices and accounting adjustments continue to evolve. However, a bank should continue to derecognise its debit valuation adjustment in full, whether or not it has adopted a funding valuation-type adjustment.

### Notes to editors

1. The removal of these national discretions builds on the Committee's [earlier work](#) on identifying national discretions in the Basel capital framework. The Committee will continue to monitor national discretions and consider further removals from the framework.
2. To promote consistent global implementation of the Basel framework, the Committee periodically reviews FAQs and publishes answers along with any technical elaboration of the rules text and interpretative guidance that may be necessary.