



Supervision and Control of Financial Institutions Division

Date: 20-04-2018

Circular no.: 20/2018

To: All Banks operating in Qatar

Subject: Executive Regulations to Measure and Control Large Exposures

In light of Basel framework for measuring and controlling large exposures as complement to the risk-based capital standards to develop regulatory framework, to limit the risk of large exposures resulting from the sudden default of a single counterparty or a group of connected counterparties, to control large exposures among banks in particular the systematically important banks, to maintain the performance and stability of the banking and financial sector and to enhance banks' resilience and shock absorbency ability;

QCB decides that all banks should comply with this framework in accordance with the attached executive regulations which shall replace the instructions related to customer and banks credit concentrations whenever mentioned in QCB instructions to banks up to September 2013 effective from 1/1/2019 as shown in the attached instructions. Any instructions other than this framework shall remain effective as given in the Instructions to Banks regarding those related to credit concentrations for bank's board members, investments ceilings, or any other related issues.

Abdullah Bin Saud Al-Thani

The Governor



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In light of Basel framework for measuring and controlling large exposures, QCB decides to develop regulatory framework and instructions of large credit concentrations as per this circular (Executive Regulations to Measure and Control Large Exposures). These instructions cover all type of bank's exposures to all parties and transactions included in the capital adequacy standard in addition to exposures to banks and financial institutions.

First: Scope of Applications

1-These instructions shall be applied to measure and control large exposures at the same level as the risk-based capital requirements in accordance with QCB's instructions on capital adequacy issued for both conventional and Islamic banks as the following:

-These instructions shall cover all exposures for all customers, banks, financial institutions, and sovereigns included in capital adequacy standards either in banking book or trading book both on and off-balance sheet.

-These instructions shall be applied at the same consolidated bank's group level as in the Capital Adequacy standard.

-For branches of foreign banks licensed by QCB, should comply with the credit concentrations limits communicated by QCB through formal written correspondence, in addition to the concentration limits specified by their Head Office and their group as per the Instructions to Banks. However, the branches of foreign banks should comply with these instructions in measuring exposures and determining the connected counterparties.

2-Exemptions

These instructions include two regulatory requirements:

- (a) Comply with the limit of the bank's exposures to a counterparty or a group of counterparties as specified herein.
- (b) Banks shall provide QCB with periodic report on large exposures as identified herein.

All exposures to QCB and the Government of Qatar only represented in a ministry shall be exempted from the first requirement of exposure limits, in addition any secured exposures excluded by eliminating the value of the security from the exposure as specified later herein.

As regards the second requirement of reporting on large exposures, the report must include all types of large exposures without any exception (including the exempted exposures).

Second: Definition of Large Exposures:

Exposure shall be classified under large exposures if the aggregate values of exposure to counterparty or group of counterparties (as identified later herein) is equal to or exceeds 10% of the capital base tier 1 as specified in the capital adequacy ratio without deduction of the regulatory reductions (excluding goodwill).



Third: Definition of connected counterparties:

- (1) Connected counterparties are a group of counterparties dealing with the bank who may have specific relationships or dependencies that may affect their ability to fulfill their obligations towards the bank collectively or individually, such that, where one of the counterparties fails to fulfill the bank's liabilities, all of the counterparties would very likely to fail. In generally control relationship or the connected relationship between counterparties may be established as follows:

(A) Control relationship:

Control relationship is established in the following cases:

- Control relationships which necessitate consolidation of financial statements as per criteria specified under the appropriate International Financial Accounting Standards.
- Control affecting over the voting rights of a counterparty whether through ownership or agreements with owners or shareholders.
- Control affecting over the senior management decisions on policies and decision making, appointment or dismissal of senior staff working with a counterparty through delegation or agreements or the like.

Accordingly, a customer credit banking group (connected counterparties) shall include the following:

- Credit facilities granted to the customer.
- Credit facilities granted to private institutions owned by the customer.
- Credit facility granted to general partnership companies in which the customer is a partner or partnerships in which the customer is a joint partner.
- Credit facility granted to any other company in which the customer owns 30% or more or less than 30% of the capital but has the control relationship as mentioned above.

(B) Economic Interdependence:

Economic Interdependence is established between counterparties in the following cases as a minimum:

- Where a counterparty has fully or partly guaranteed the exposure of other counterparty, or is liable by any other means.
- Where 50% or more of one counterparty's sales, business, production or income derived from other counterparty and which cannot be easily replaced by others.
- Where one counterparty rely on the same source for repayment of the other counterparty which cannot repay his obligations using other sufficient sources of repayment.
- Where solvency or default of one counterparty is likely to be associated with solvency and default of one or more counterparty in such away which make difficulty for this party or parties to fulfill his obligations.
- Any other associated sources of finance or repayment which may negatively affect the parties' ability of repayment.



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- (2) In accordance with the above concepts of control relationship and economic interdependence, each bank shall classify their customers to credit groups where each group includes number of connected counterparties, so that measurement of credit concentrations, and compliance with maximum limits and reporting requirements shall apply to each customer and his group by considering them as one single counterparty. QCB shall be notified as per the specified forms and through the applicable reporting channels.

Fourth: Measurement for Values of Exposure

Bank must consider, in order to identify large exposures, all those exposures defined under capital adequacy regulations which include both on-balance sheet and off-balance sheet items listed either in banking or trading book, without deducting the exposures that are already excluded from capital adequacy as per the capital adequacy instructions. The total exposure shall be measured based on capital base; total tier 1 without excluding regulatory deductions after excluding goodwill.

The following are the basis of measurement of on-and-off balance exposures:

(1) Banking Book

1/1 On- Balance sheet Items:

Exposures other than derivatives shall be measured by their book value ie; net book balances after excluding provisions, interests, deferred and suspended profits.

1/2 Off- Balance sheet Items:

The off-balance sheet items shall be converted into credit exposures equivalents through credit conversion factors as given under the capital adequacy regulations at a minimum of 10%.

1/3 The Banking book and the trading book OTC derivatives and any other instruments with counterparty credit risk. The exposure value must be as per (exposure at default) calculated in accordance with the approach for counterparty credit risk specified in capital adequacy instructions. As an exception, the securities financing transactions will be as per the comprehensive approach in accordance with the deduction ratios as specified in the capital adequacy instructions.

Collaterals qualifying for Exposures Haircuts :

For the purpose of measuring the large exposures to meet the requirements of these instructions, and as a precautionary measure by QCB, some of the eligible credit risk mitigants as stated in the capital adequacy instructions as the only collaterals that are eligible for haircuts to the exposure when determining the value of large exposures. The table below gives a list of eligible collaterals qualifying for haircuts and the deduction required to be applied before exclusion from the exposure value. Any collaterals in currency other than Qatari Riyal should be subject to additional haircut not less than 10% as shown in the table below.



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Type of Collaterals:	Haircuts in Percentage of the value of Collateral:
Cash and deposits: Includes cash, deposits, certificate of deposits issued by the bank or held against the customer's exposures.	0%
Collaterals of The Government of Qatar: Includes collaterals provided by ministry of finance, QCB, and debt securities and Sukuk issued by any of them.	0%
Other Government's Collaterals: includes collaterals, debt securities and sukuk issued by other governments as: Governments with 0% RWA (b) Governments with 20% RW (c) Governments with 50% RW	0% 5% 25%
Banking Collaterals: Includes collaterals, debt securities and sukuk issued by: (d) Banks with 20% RW Banks (e) International development banks, multilateral institutions with 0% RW (f) Banks with 50% RW Banks (g) International rated Banks with 100% RW	0% 0% 20% 50%



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The following must be complied with:

- (a) The risk weights given above are identical of those specified in the capital adequacy instructions
- (b) Where there is a reduction of the exposure value for a counterparty against any of the mentioned qualifying collaterals, banks must add the same reduction value of the counterparty to the exposure of the guarantor counterparty when calculating the total exposures.
- (c) Banks must conduct an ongoing evaluation for collaterals eligibility to be qualified as mitigants as per the guarantor's credit rating and the risk weight in order to apply the changes in the haircut or to eliminate the non-eligible collaterals due to change in credit rating.

(2) Trading Book:

To measure large exposures and limits specified herein, banks must add any exposure to a counterparty listed in trading book to the those listed in the banking book as follows:

- 2/1** The exposure value of straight debt instruments and equities shall be calculated as per the accounting value of the exposure (fair value)
 - 2/2** the financial instruments such as (swap, futures, forwards, and derivative contracts) shall be converted to positions as per the requirements of capital adequacy standards. These instruments shall be decomposed into their individual legs Only transaction legs representing exposures in the scope of the large exposures framework need to be taken into consideration.
 - 2/3** In the case of credit derivatives that represent sold protection, the exposure to the referenced name must be the amount due in the case that the respective referenced name triggers the instrument, subtracted by the absolute value of the credit protection. (In the case that the market value of the credit derivative is positive from the perspective of the protection seller, such a positive market value would also have to be added to the exposure of the protection seller to the protection buyer in accordance with the credit risk of the counterparties; see para 3/1 fourth). For credit-linked notes, the protection seller shall consider positions of the note issuer and its underlying asset.
 - 2/4** The measures of exposure values of options as per this instructions differ from the exposure value used for risk-based capital requirements. The exposure value must be based on the changes in option prices which resulted from a default of the respective underlying instrument. The exposure value for a call option shall therefore be its market value, and for a short put option shall be equal to the strike price of the option subtracted by its market value. In the case of call or put options, a default of the underlying instrument shall lead to a profit(i.e. a negative exposure) instead of a loss, resulting in an exposure of the option's market value in the former case and equal the strike price of the option subtracted by its market value in the latter case.
- The resulting positions shall , in all cases, be aggregated with those from other exposures. After aggregation, negative net exposures shall be set to zero.



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2/5 Exposure values of banks' investments in transactions(ie index positions, securitizations, hedge funds or investment funds) must be calculated applying the same rules as for similar instruments in the banking book.

As such, the amount invested in a particular structure may be assigned to the structure itself, - defined as a distinct counterparty- to the counterparties corresponding to the underlying assets, or to the unknown client

2/6 Offsetting long and short positions in the trading book.

2/6/1 Offsetting between long and short positions in the same issue:

Banks may offset long and short positions in the same issue (two issues are defined as the same if the issuer, coupon, currency and maturity are identical).

Consequently, banks may consider a net position in a specific issue for the purpose of calculating a bank's exposure to a particular counterparty.

2/6/2 Offsetting between long and short positions in different issues.

(a) Positions in different issues from the same counterparty may be offset only when the short position is junior to the long position, or if the positions are of the same seniority.

(b) Similarly, for positions hedged by credit derivatives, the hedge may be recognized provided the underlying of the hedge and the position hedged fulfill the provision of paragraph (A) above (the short position is junior or of equivalent security to the long position).

(c) In order to determine the relative seniority of positions, securities may be allocated into broad buckets of degrees of seniority (for example, "Equity", "Subordinated Debt" and "Senior Debt").

(d) For those banks that find it excessively burdensome to allocate securities to different buckets based on relative seniority, they may recognize no offsetting of long and short positions in different issues relating to the same counterparty in calculating exposures.

(e) In addition, in the case of positions hedged by credit derivatives, any reduction in exposure to the original counterparty will correspond to a new exposure to the credit protection provider, except in the case described in the following paragraph (e).

(f) When the credit protection takes the form of a CDS and either the CDS provider or the referenced entity is not a financial entity, the amount to be assigned to the credit protection provider is not the amount by which the exposure to the original counterparty is reduced but, instead, the counterparty credit risk exposure value calculated according to the SA-CCR.

2/7 Offsetting short positions in the Trading book against long positions in the Banking book.

Netting across the banking and trading books is not permitted.

2/8 Net short positions after offsetting.

When the result of the offsetting is a net short position with a single counterparty, this net exposure need not be considered as an exposure for large exposure purposes.

(3) Treatment of specific exposure types.

3/1 Covered Bonds

3/1/1 Covered bonds are bonds issued by a bank or mortgage institution and are subject by law to special public supervision designed to protect bond holders. Proceeds deriving



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from the issue of these bonds must be invested in conformity with the law in assets which, during the whole period of the validity of the bonds, are capable of covering claims attached to the bonds and which, in the event of the failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

3/1/2 A covered bond satisfying the conditions set out in paragraph 3/1/3 may be assigned an exposure value of no less than 20% of the nominal value of the bank's covered bond holding.

Other covered bonds must be assigned an exposure value equal to 100% of the nominal value of the bank's covered bond holding. The counterparty to which the exposure value is assigned is the issuing bank.

3/1/3 To be eligible to be assigned an exposure value of less than 100%, a covered bond must satisfy all the following conditions:

-It must meet the general definition set out in paragraph 3/1/1.

-The pool of underlying assets must exclusively consist of:

- Claims on, or guaranteed by, sovereigns, their central banks, public sector entities or multilateral development banks with zero - 50 % risk-weight under the Basel's capital adequacy framework.
- Claims secured by mortgages on residential real estate that would qualify for a 75% or lower risk weight under the Basel II Standardized Approach for credit risk and have a loan-to-value ratio of 70% or lower;
- Claims secured by commercial real estate that would qualify for the 100% or lower risk-weight for credit risk and with a loan-to-value of 60% or lower;
- The nominal value of the pool of assets assigned to the covered bond instrument(s) by its issuer should exceed its nominal outstanding value by at least 10%. In addition to the primary assets listed in this paragraph, the additional collateral may include substitution assets (cash or short term liquid and secure assets held in substitution of the primary assets to top up the cover pool for management purposes) and derivatives entered into for the purposes of hedging the risks arising from the covered bond.

3/1/4 for the purpose of calculating the required maximum loan-to-value for residential real estate and commercial real estate referred to in 3/1/3 above, the operational requirements related to the objective market value of collateral and the frequent revaluation must be used as per the capital adequacy standard. The conditions set out in paragraph 3/1/3 must be satisfied at the inception of the covered bond and throughout its remaining maturity.

3/2 Collective investment undertakings, securitization vehicles and other structures.

3/2/1 Banks must consider exposures even when a structure lies between the bank and the exposures, that is, even when the bank invests in structures through an entity which itself has exposures to assets (hereafter referred to as the "underlying assets"). Banks must assign the exposure amount, i.e. the amount invested in a particular structure, to specific counterparties following the approach described below. Such structures include funds, securitizations and other structures with underlying assets.

3/2/2 A bank may assign the exposure amount to the structure itself, defined as a distinct counterparty, if it can demonstrate that the bank's exposure amount to each underlying asset of the structure is smaller than 0.25% of its eligible capital base, considering only



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those exposures to underlying assets that result from the investment in the structure itself and using the exposure value calculated according to paragraphs 3/2/7 and 3/2/8 (this required test shall be passed if the bank's whole investment in a structure is below 0.25% of its eligible capital base) In this case, a bank is not required to look through the structure to identify the underlying assets.

3/2/3 A bank must look through the structure to identify those underlying assets for which the underlying exposure value is equal to or above 0.25% of its eligible capital base. In this case, the counterparty corresponding to each of the underlying assets must be identified so that these underlying exposures can be added to any other direct or indirect exposure to the same counterparty. The bank's exposure amount to the underlying assets that are below 0.25% of the bank's eligible capital base may be assigned to the structure itself.

3/2/4 If a bank is unable to identify the underlying assets of a structure:

- Where the total amount of its exposure does not exceed 0.25% of its eligible capital base, the bank must assign the total exposure amount of its investment to the structure;
- Otherwise, it must assign this total exposure amount to the unknown client. The bank must aggregate all unknown exposures as if they related to a single counterparty (the unknown client), to which the large exposure limit would apply.

3/2/5 When the look-through approach (LTA) is not required, a bank must demonstrate that it has avoided applying this approach and circumvented the large exposure limit by investing in several individually immaterial transactions with identical underlying assets.

3/2/6 If the LTA need not be applied, a bank's exposure to the structure must be the nominal amount it invests in the structure.

3/2/7 Any structure where all investors rank pari passu (e.g. Collective Investment Undertakings CIU)

When the LTA is required according to the paragraphs above, the exposure value assigned to a counterparty is equal to the pro rata share that the bank holds in the structure multiplied by the value of the underlying asset in the structure. Thus, a bank holding a 1% share of a structure that invests in 20 assets each with a value of 5 must assign an exposure of 0.05 to each of the counterparties. An exposure to a counterparty must be added to any other direct or indirect exposures the bank has to that counterparty.

3/2/8 Any structure with different seniority levels among investors (e.g. securitization vehicles)

When the LTA is required according to the paragraphs above, the exposure value to a counterparty is measured for each tranche within the structure, assuming a pro rata distribution of losses amongst investors in a single tranche. To compute the exposure value to the underlying asset, a bank must

- First, consider the lower of the value of the tranche in which the bank invests and the nominal value of each underlying asset included in the underlying portfolio of assets



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- Second, apply the pro rata share of the bank's investment in the tranche to the value determined in the first step above.

9/2/3 Identification of additional risks

Banks must identify third parties that may constitute an additional risk factor inherent in a structure itself rather than in the underlying assets. Such a third party could be a risk factor for more than one structure that a bank invests in. Examples of roles played by third parties include originator, liquidity provider and credit protection provider.

The identification of an additional risk factor has the following implications:

- Banks must connect their investments in those structures with a common risk factor to form a group of connected counterparties. In such cases, the manager would be regarded as a distinct counterparty so that the sum of a bank's investments in all of the funds managed by this manager would be subject to the large exposure limit, with the exposure value being the total value of the different investments.

But in other cases, the identity of the manager may not comprise an additional risk factor - for example, if the legal framework governing the regulation of particular funds requires separation between the legal entity that manages the fund and the legal entity that has custody of the fund's assets.

In the case of structured finance products, the liquidity provider or sponsor of short-term programs (asset-backed commercial paper – ABCP – conduits and structured investment vehicles – SIVs) may warrant consideration as an additional risk factor (with the exposure value being the amount invested). Similarly, in synthetic deals, the protection providers (sellers of protection by means of CDS/guarantees) may be an additional source of risk and a common factor for interconnecting different structures (in this case, the exposure value would correspond to the percentage value of the underlying portfolio).

- Banks may add their investments in a set of structures associated with a third party that constitutes a common risk factor to other exposures (such as a loan) it has to that third party. Whether the exposures to such structures must be added to any other exposures to the third party would again depend on a case-by-case consideration of the specific features of the structure and on the role of the third party. This may result in the fact of adding together the exposures may not be necessary. For example, in the case of a credit protection provider, the source of the additional risk for the bank investing in a structure is the default of the credit protection provider. The bank must add the investment in the structure to the direct exposures to the credit protection provider since both exposures might crystallize into losses in the event that the protection provider defaults .
- It is conceivable that a bank may consider multiple third parties to be potential drivers of additional risk. In this case, the bank must assign the exposure resulting from the investment in the relevant structures to each of the third parties.



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- The requirement set out in paragraph 3/2/6 to recognize a structural risk inherent in the structure instead of the risk stemming from the underlying exposures is independent of whatever the general assessment of additional risks concludes.

Fifth: The large Exposures Limits

The maximum limits shown in this section must be measured as percentage to the value of tier 1 of the capital adequacy standard instructions. For this purpose the exposures shall be calculated as shown in the above section "Fourth" and after eliminating the eligible collaterals as shown in the same section. The following are the maximum limits decided accordingly:

(1) All counterparties except banks:

- 1/1 The maximum limit of total exposure to credit facilities 20%
against a single counterparty and its group: Shall include the sum of all the exposures in the loan portfolio and advances in conventional banks, the financing portfolio in Islamic banks within the financial position and on indirect facilities outside the financial position such as the letters of credits, guarantees and the unutilized ceilings and any other indirect facilities.
- 1/2 The maximum limit of total exposure to credit facilities and 25%
All other types of exposures to a single counterparty and its credit group:
As shown in section Fourth above
- 1/3 The maximum limit of total exposures for a single counterparty and its credit group for all banks in Qatar QAR 8 billion

(2) Banks

1/2 Exposures for foreign banks and banks unlicensed by QCB

The maximum limit of the bank's total exposures to another bank Or its interconnected group shall fall within the following three categories:

First Category:

Banks with international credit rating for non-short term and with 25%
up to 50% risk weight as per the capital adequacy standard.

Second Category:

Banks with international credit rating for non-short term and with 100% risk weight as per the capital adequacy standard. 10%

Third Category:

Banks with international credit rating and with 150% risk weigh or banks without international credit rating which has restrictions on currency conversions. 5%

2/2 Exposures for foreign banks and banks licensed by QCB

- The maximum limit of the bank's total exposures to another bank And its interconnected group. 25%
 - The maximum limit of the total exposures of a (D-SIB)Systematically Important bank to another bank and its interconnected group. 15%
- 2/3The intraday interbank transactions shall Not be considered in measuring the large exposures and the maximum limit of exposure.



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Sixth: Reporting Large Exposures

As per the definition of large exposures in section “Second”, all banks must submit the following reports to QCB on quarterly basis as per the forms and dates determined by QCB: -

- 1- Report on all large exposure to all categories of interconnected counterparties and their credit groups without the deduction of eligible collaterals .
- 2- Report on all large exposure to all categories of interconnected counterparties and their credit groups after the deduction of eligible collaterals .
- 3- Report on all large exposures of (D-SIB) banks to other (D-SIB) banks.
- 4- Report on large exposures to the parties exempted from the maximum limit of exposures (QCB and the Ministry of Finance) including the guaranteed exposures.
- 5- Report on the largest 20 exposures to counterparties irrespective of the values of these exposures and their relativity to the bank’s capital base.
- 6- Report on exposure violating the maximum limits showing the date of violation, justifications of violation and how and when the violation shall be rectified.

Seventh: Implementation date and transitional arrangements

- 1- National banks shall adjust their positions as from the date of issuing these instructions. Banks are expected to adhere in full to the exposure limits as specified herein as from 1/1/2019. Within this period no bank may violate the current limits applicable up to 31/12/2018.
- 2- Banks shall start submitting the above reports as in section “Sixth” as per the forms and dates which shall be determined by QCB later.