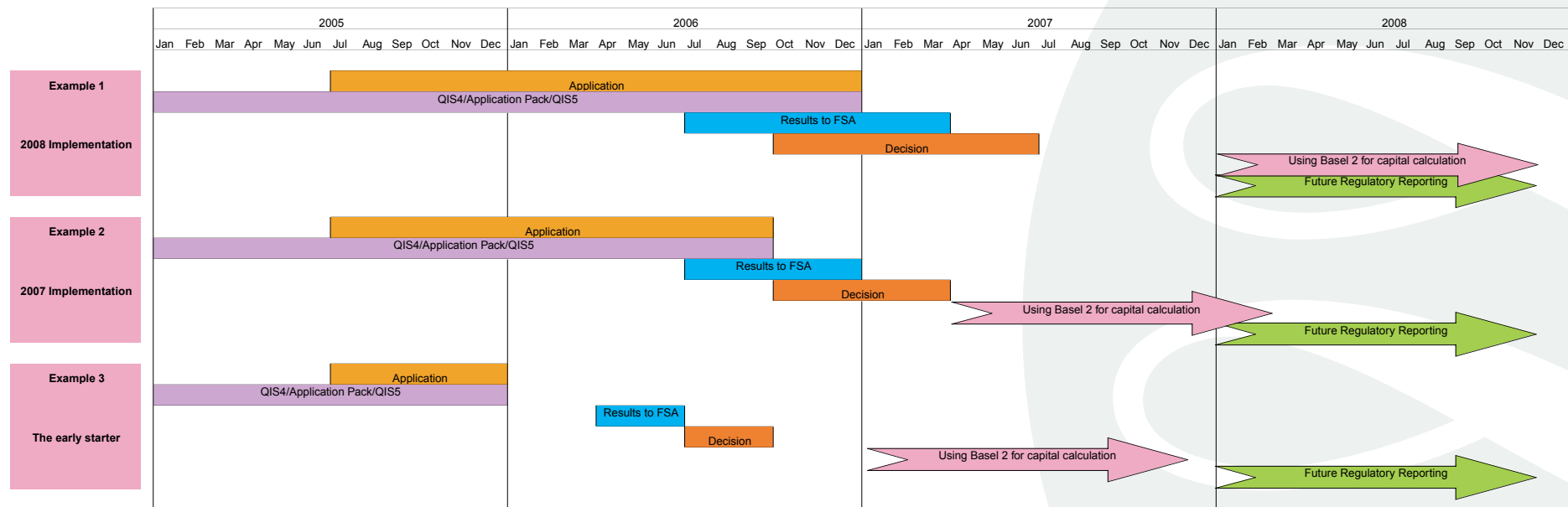


Financial Services Authority

QIS4, QIS5 and Parallel Running: What it means for firms and when



QIS4/Application Pack/QIS5

Scope: QIS5s main purpose is Basel calibration so it will be necessary to include portfolios that are moving to IRB during the roll out period
A firm will need to have completed either QIS4 and the application pack of when available QIS5 and the application pack during this period

Results to FSA

Scope: Parallel running is on those portfolios that are moving to the advanced approaches, other portfolios not moving to advanced can continue on the basis of an enhanced QIS.
Firm must be able to demonstrate the results of its parallel running three months prior to a decision being taken. In practice this may mean a firm has to parallel run for more than one year.
A minimum of a full years parallel running will apply to all portfolios, pre and post Basel Implementation, before being allowed to include it in the Basel 2 capital calculation
Except: if it's a small addition using existing systems. The firm should agree where this is the case with the FSA if not already made clear from the firms roll out plan

What is parallel running?

Firm must be able to calculate its capital requirement at least quarterly for regulatory purposes on the old and new basis
Firm must have in place a robust process for reconciling risk data to accounting data and explaining the differences
Firm must continue to support the calculation under the old Basis until the waiver is in force
Firm must, on at least their significant and risky portfolios, be able to run reports quickly through its systems with minimal workarounds and manual interventions in place
Firm must, on at least their significant and risky portfolios, be able to run quickly stress and scenario tests on the data
Firm must be able to demonstrate that systems are being tested and improved over time

Please note that Advanced = AMA, Foundation IRB and Advanced IRB