



Bank for International Settlements
Secretariat of the Basel Committee on Banking Supervision
CH-4002 Basel
Switzerland

E-mail: baselcommittee@bis.org

3 February 2011

Comments of the EAPB on the Basel Committee on Banking Supervision's consultation concerning the capitalisation of bank exposures to central counterparties

Dear Madam or Sir,

The European Association of Public Banks (EAPB) welcomes that the bank exposures to central counterparties (CCP) have been made subject matter of a consultation. In the case of our members, the prevailing situation will likely be indirect access to a CCP as a non-member bank transacting with a CCP clearing member. In the terminology of the European Commission, the indirect access will take place as a client or even a sub-client.

According to sec. 112 of the consultation paper, indirectly cleared transactions generally receive "normal" capital treatment depending on the risk weight of the counterparty (in this case the clearing member). A non-clearing member would only be eligible to claim the reduced capital charges associated with a CCP exposure under the following conditions:

- if any assets of the non-clearing member related to such trade are segregated and bankruptcy remote from the clearing member;
- if the non-clearing member is legally ensured that another clearing member will take over such trade if the original clearing member counterparty cannot perform.

This entails the following issues:

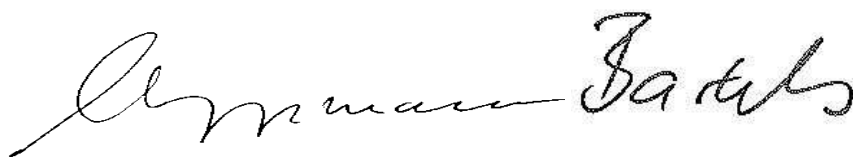
- there are a number of different segregation models in different jurisdictions. Further clarification would be required on which segregation models remove the additional capital charge.
- the requirement to legally ensure that another clearing member takes over the portfolio if the original clearing member cannot perform does not appear reasonable as the consequence of the default of a clearing member would be that the (indirect) clients portfolio would be liquidated (if no other direct clearing member was willing to take the portfolio). The liquidation proceeds would then be paid out to the (indirect) client. While we are aware of the fact that liquidation of the portfolio would be highly undesirable and

could result in m-t-m loss, we cannot see how the fact that the portfolio would be liquidated could result in additional counterparty risk to the clearing member. In this regard we ask for clarification.

In addition, we are not sure whether the proposed 2% risk weight is appropriate as we are not aware of any related analysis.

Should you have additional questions or comments, please do not hesitate to contact us.

Kind regards,

Two handwritten signatures in black ink. The first signature, on the left, is 'Henning Schoppmann' and the second, on the right, is 'Boris Bartels'.

Henning Schoppmann
EAPB

Boris Bartels
EAPB

The European Association of Public Banks (EAPB) represents the interests of 35 public banks, funding agencies and associations of public banks throughout Europe, which together represent some 100 public financial institutions. The latter have a combined balance sheet total of about EUR 3,500 billion and represent about 190,000 employees, i.e. covering a European market share of approximately 15%.