

Memo

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To	Basel Committee on Banking Supervision
From	Rand Merchant Bank - Portfolio and Cross Over Risk
Date	28 November 2011

We thank the committee for the opportunity to comment on the revisions to the consultative document “Capitalisation of bank exposures to central counterparties” issued on 2 November 2011. We would appreciate further clarity in relation to the following aspects.

The paper makes reference to calculating the hypothetical capital requirement on a quarterly basis at a minimum, with more frequent calculations being subject to national supervisory discretion. To ensure that clearing member banks are sufficiently capitalised relative to their hypothetical capital requirement level, and to manage potential capital volatility, further guidance is sought on when during the quarter the calculation of K_{ccp} should be performed and on what basis, i.e. month-end position on a specific day versus an appropriate average position across a predetermined period. This is especially significant when one considers that trade volumes and position taking will vary significantly intra day/month/quarter. For example, if the K_{ccp} calculation were to be done at or near a close-out date for futures, the results will be significantly over- or underestimated.

We seek further clarity on the minimum standards to be adopted in determining the appropriate level of default fund contributions that the central counterpart (CCP) must make in relation to the overall default fund and the governance to ensure that these levels are maintained. The capital implications for clearing member banks are material when one considers Case (ii) vs. Case (iii) within the paper (page [5]). The issue around governance is simply that banks don't have control over the CCP and so can only obtain default fund contributions from the CCP to the extent that they can negotiate for it.

The application of netting across clearing member banks and the non-segregation of netting nodes has country specific insolvency implications. How is netting envisioned to apply at the central counterpart?, i.e. are all clearing member trades viewed as a single netting set and an effective NGR computed by the central counterpart on behalf of all clearing members, or are netting sets segregated at the clearing member level and the NGR computed by the central counterpart and thus easily allocated to the clearing member level?

We look forward to the committee's response to the above points.