

September 27, 2013

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland
baselcommittee@bis.org

Dear Sir/Madam:

Re: ABA Comments on the Basel Committee on Banking Supervision's Consultative Document: The non-internal model method for capitalising counterparty credit risk exposures

The American Bankers Association¹ (ABA) appreciates the opportunity to comment on the consultative document of the Basel Committee on Banking Supervision's (BCBS): The non-internal model method for capitalizing counterparty credit risk exposures. ABA broadly supports the detailed joint response of the International Swaps and Derivatives Association (ISDA), the Global Financial Markets Association (GFMA), and the Institute of International Finance (IIF) to this consultative document, which highlights many of the concerns that the industry has identified with the proposal.

ABA supports the BCBS' efforts to develop a framework that is generally more risk sensitive and that improves upon the Current Exposure Method (CEM) by better capturing the benefits of collateral, legal netting arrangements and variation margin, and correcting for some of the known deficiencies of the CEM. While ABA sees the non-internal model method (NIMM) as a step forward, we strongly urge the BCBS to take as much time as needed to evaluate NIMM thoroughly, perform empirical testing on actual portfolios, and take into account the impact on customer activities. As set out below, we are concerned NIMM, as proposed and contrary to the BCBS' goal, lacks sufficient risk sensitivity with respect to some transactions and products. Further, we continue to have concerns about the required use of such a methodology for noncomplex derivatives portfolios and about the applicability of the proposed approach in contexts such as the supplementary leverage ratio and large exposures framework.

Risk Sensitivity

ABA believes that some of the changes to CEM will actually reduce risk sensitivity for certain types of products and transactions, contrary to the BCBS's stated objectives. First, for example, with regard to the maturity adjustment for interest rates swaps, the proposed NIMM seems unduly punitive and could have significant negative impact on bank customers. As corporate clients use these types of derivatives extensively, unintended consequences of this lack of risk sensitivity may include reduction in availability of risk management tools for large corporate customers or encouraging these customers to make use of the nonbank sector.

¹ The American Bankers Association represents banks of all sizes and charters in the United States and is the voice for the nation's \$14 trillion banking industry and its 2 million employees. Learn more at www.aba.com.

Second, NIMM as proposed does not always appropriately recognize the reality of some collateral and netting arrangements, resulting in disproportionately high levels of exposure, and does not take into account offsetting risks across portfolios. Finally, in other cases, such as foreign exchange transactions, the proposal appears not to align with well-established effective risk management practices.

Non-complex portfolios

As proposed, NIMM uses a more complex formula as compared to CEM and is not necessarily a suitable framework for all organizations engaged in derivatives transactions, particularly banking organizations with less complex derivatives portfolios. This is the case, for example, with regard to interest rate swap portfolios used for hedging or commercial customers' needs. We believe that each jurisdiction should allow institutions flexibility in determining the method that is best suited for the complexity of their portfolio by permitting the use of less complex methods, including the optional use of the CEM, subject to supervisory review. As is the case today in many jurisdictions, supervisors would maintain the ability to mandate the use of a particular measurement method where appropriate.

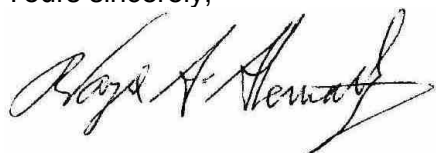
Application of NIMM in Other Contexts

Finally, we are pleased that the BCBS is conducting a quantitative analysis prior to finalizing the NIMM proposal for risk based capital purposes. Our comments and suggestions are based on the use of NIMM in the calculation of risk based capital for counterparty credit exposures. They do not necessarily take into the account the issues that may arise if NIMM were used to calculate exposures under other applications, such as the supplementary leverage ratio and the BCBS large exposures proposal. If the BCBS chooses to use NIMM in any other contexts we strongly urge the Committee to consult the industry on such use and to conduct additional quantitative impact studies prior to applying NIMM in any other context.

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We would hope that you find our comments and concerns constructive, and we thank you for taking them into consideration. Please contact Beth Knickerbocker at (202)663-5042 or bknicker@aba.com or me if you have any questions or would like to discuss these issues further.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Wayne A. Abernathy". The signature is fluid and cursive, with a large, stylized "W" and "A".

Wayne A. Abernathy