

Via E-Mail (BaselCommittee@bis.org)

27th Sept. 2013

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

Dear Committee Members:

Re: BCBS 254 Consultative Document – The non-internal model method for capitalizing counterparty credit risk exposures

CCP12¹, a global association of 32 major central counterparty organizations, applaud the BCBS work towards developing an alternative to the Current Exposure Method (CEM) which poorly reflected the exposures for derivatives transactions. The NIMM approach contains many improvements over the CEM model with respect to legally binding netting arrangements amongst clearing members and their customers. CCP12 was happy to be part of a meeting in June '13 on the subject convened by BCBS Risk Measurement Group where the underlying issues were explained. It also considers it a privilege to get an opportunity to comment on the Consultative Paper detailing the possibilities.

2. As may be appreciated, the recent BCBS proposals for changes may have significant impact on the avowed G-20 goals of promoting central clearing of OTC derivatives. BCBS has also published another Consultative Document BCBS 253 on *Capital treatment of bank exposures to central counterparties* which proposes to use NIMM extensively. In this context, it is necessary that NIMM should not lead to overestimation of exposures. While QIS being run by BCBS should provide guidance to this aspect, many of our members are not part of this QIS and they are apprehensive that the QIS may not appropriately measure the risk of the markets served.

3. CCP12 do believe that the NIMM approach contains some areas where further work is needed, particularly the flat +/- 0.5 Supervisory Delta adjustment (δ) for all non-linear transactions, the absence of netting across currencies, and an unclear approach to the treatment of option value as a form of member firm collateral. CCP12 is however of the view that NIMM should be applied to the capitalization of CCP exposures, leverage ratio and large exposures related requirements.

4. In this backdrop, CCP12 would like to place the under-noted observations for consideration by the Basel Committee:

(i) With regards to the flat +/- 0.5 Supervisory Delta adjustment (δ), it believes that the approach outlined in NIMM will lead to an overestimation of the exposures of non-linear derivatives. In this respect, the NIMM model actually reduces simplicity and introduces complexity into the quantification of exposures for non-linear derivatives since exchange traded non-linear instruments already reflect true delta information in their

market prices. To the extent actual delta information is publicly available and published by an exchange, participants should be permitted to reflect these levels in their exposures measures from the NIMM model.

(ii) With regards to netting across currencies, it believes that a similar approach should be employed in this area as currently proposed for the treatment of interest rate derivatives across maturity buckets. The NIMM model appears to ignore some key characteristics and correlations between currencies within the interest rate derivatives and foreign exchange derivatives asset classes.

(iii) With regards to the treatment of option value collateral, market practice is to treat the option value of a firms trading among non-linear instruments as a form of collateral against the firms initial margin requirement. This practice is employed because the value of these instruments is measurable by its value within the market, and it is reliable as there are many participants willing to exchange these derivatives in the market. For this reason, we believe that option value collateral should remain a form of collateral in the NIMM approach.

(iv) On the proposed approach for determining the supervisory add-ons and on the time risk horizon, use of Margin Period of Risk should be same as the holding period allowed for the products by the regulator supervising the CCP under PFMI. Moreover, regulator supervising the CCP should have discretion to fine-tune the factors in case they perceive that the peculiarity of the market demands any modulation.

5. CCP12 appreciates your consideration of this letter and looks forward to working with you to advance the steps being taken for safer OTC Derivatives markets.

Sincerely,

Siddhartha Roy
Chairman,
CCP12 – The Global Association of Central Counterparties

Attachments:Annex 1: List of CCP12 Member Organizations

¹ **About CCP12**

Formed in 2001, CCP12 is a global association of 32 major central counterparty clearing house organisations across Africa, the Americas, Asia, Australia and Europe. CCP12's mission is to collaboratively share information, support development of standards and liaise with regulators, industry groups and global market users to foster dialogue on areas of mutual interest and concern, and to promote best practices in CCP risk management and operations.

For further information/clarification on this submission, please contact the Chair of CCP12 Mr Siddhartha Roy, Chief Risk Officer, The Clearing Corporation of India Ltd., Mumbai at +91 22 6154 6411 or via sroy@ccilindia.co.in

ANNEX 1

List of CCP12 Member Organizations

CCP-12 Member Organization	Geographic Identifier
ASX Limited (ASX)	Australia
BM&F Bovespa (BM&F)	Brazil
Cassa di Compensazione e Garanzia S.p.A. (CC&G)	Italy
Contraparte Central S.A. (CCLV)	Chile
Cámara de Riesgo Central de Contraparte de Colombia S.A. (CRCC)	Colombia
CME Group (CME)	USA
The Clearing Corporation of India Ltd. (CCIL)	India
TMX Group (TMX)	Canada
Depository Trust & Clearing Corporation (DTCC)	USA/UK
Dubai Commodities Clearing Corporation (DCCC)	UAE
Gre Tai Securities Markets (GTSM)	Taiwan
Grupo BMV	Mexico
Eurex Group	Germany
Hong Kong Exchanges & Clearing Ltd (HKEx)	Hong Kong
Indian Clearing Corporation Limited (ICCL)	India
Intercontinental Exchange (ICE)	UK
Krajowy Depozyt Papierów Wartościowych (KDPW)	Poland
Korea Exchange (KRX)	South Korea
LCH Clearnet Group Ltd. (LCH)	UK
Mercado de Valores de Buenos Aires S.A. (Merval)	Argentina
NASDAQ OMX (NASDAQ)	USA/Sweden
National Securities Clearing Corporation Limited (NSCCL)	India
National Clearing Center (NCC)	Russia
The Options Clearing Corporation (OCC)	USA
Johannesburg Stock Exchange (SAFCOM)	South Africa

CCP-12 Member Organization

Shanghai Clearing House (SHCH)

Singapore Exchange Ltd (SGX)

SIX X-clear (SIX)

Taiwan Futures Exchange (Taifex)

Taiwan Stock Exchange (TWSE)

Tel Aviv Stock Exchange (TASE)

Japan Securities Clearing Corporation &
Tokyo Stock Exchange, Inc.**Geographic Identifier**

China

Singapore

Switzerland

Taiwan

Taiwan

Israel

Japan

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