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Basel Committee on Banking Supervision

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Consultation on the non-internal model method for capitalizing counterparty credit risk exposures (BCBS 254)

Dear Sirs,

We appreciate the opportunity to comment on the consultation on the non-internal model method for capitalizing counterparty credit risk exposures with the following comments to the questions raised.

Q6. Is the proposed approach of using a different methodology for determining the add-on for each asset class appropriate? Is each proposed add-on methodology for each asset class effective at capturing the main risk driver of that asset class?

The general approach to use different methodologies for determining the add-on for each asset class seems appropriate however; the calibration of the supervisory factors is not fully transparent and especially for electricity seems overly conservative, considering currently available data.
The approach seems to allow for national regulators to require more detailed definitions of commodities if they are significantly exposed to basis risk i.e. prescribe lower correlations than those in table 1. It should also be permitted to use higher correlations where a low basis risk can be established.

Q7. Are the proposed minimum time risk horizons for each transaction category (unmargined, non-centrally cleared, centrally cleared) appropriate? Should the Basel Committee consider factors other than the IMM for determining the appropriate time risk horizon for the NIMM (eg harmonising with other international or national legislation)?

The proposal to use a uniform 5 business days for centrally cleared derivatives does not seem appropriate, as:

- CCPs clear standardized, non-exotic derivatives with a low close-out time horizon, which they must prove to their competent authorities

- CCPs employ intraday margins which significantly reduce risk, as significant developments on the markets can be collateralized in practice before a subsequent member default happens.

The EMIR legislation and the regulatory technical standards[1] contain requirements to use 2 days for derivatives other than OTC derivatives. Those, or the time horizon set for the margin calculation of the CCP should be allowed for the calculation of the minimum time risk horizon.

Q8. Do the suggested formula and 5% floor appropriately recognize the benefits of overcollateralization?

NIMM allows a risk reducing effect from collateral only for current value, the risk reducing effect on the PFE component is achieved via the excess collateral method which is conservatively calibrated. Under EMIR CCPs have to calculate their margin requirements to cover the PFE component as the current value is typically low due to daily mark-to-market and potential intraday margin calls. The margin is calculated using data from periods of stress and including a procyclicality buffer. In such cases the conservative collateralization adjustment should be eliminated or reduced significantly.

Q10. Are there any risk factors that should be included in their own category or accounted for in another manner?

CCPs currently only clear standardized, non-exotic contracts. The conservative calibration of NIMM will lead to higher capital charges for centrally cleared contracts which may conflict with the goal of strengthening central clearing. This negative effect could be avoided by allowing the conservativeness factor in the down-scaling formula of the MPOR to be 2/2 for centrally cleared, standardized non-exotic contracts. The question of whether a CCP clears standardized non-exotic contracts should be determined by the local competent authority.

Signed,

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[1] Commission Delegated Regulation (EU) No 153/2013 Article 26