



COMMENTS FROM THE ASSOCIATION OF SUPERVISORS OF BANKS OF THE AMERICAS (ASBA) TO THE CONSULTATIVE DOCUMENT

“Review of the Credit Valuation Adjustment Risk Framework”

(ISSUED BY THE BASEL COMMITTEE ON BANKING SUPERVISION FOR COMMENTS BY 1 OCTOBER 2015)

I. Objectives

The Basel Committee on Banking Supervision (BCBS) is proposing changes to the Credit Valuation Adjustment Risk Framework (CVA) for the following reasons:

- a. To capture all CVA risks as well as to enhance a better recognition of CVA hedges.
- b. To align with industry practices for accounting purposes.
- c. To align with the proposed revisions to the market risk framework.

As required, we would like to make the following comments to the specific questions considered by the Basel Committee on Banking Supervision.

II. Specific Comments

Q1. To what extent do large netting sets; potentially illiquid transactions inside a netting set; and recent disputes affect the internal assessment of the Margin Period of Risk (MPoR)?

The Margin Period of Risk (MPoR), could be affected due to the number of operations held with a defaulting counterpart, and the corresponding operative costs incurred to carry out the compensations.

Should a controversy arise over the valuation of a derivative's operation, there could be a delay in the compensation or netting of positions. For instance, in a forward sale of foreign currency, given a default, there could be a discrepancy between the spot exchange rate and the one used to value the operation for compensation or netting.

Q2. Is Alternative 1 or Alternative 2 preferred with regard to the calculation of MPoR?

Alternative 1 would be preferred for jurisdictions with non-complex systems for operations with derivatives. This approach facilitates monitoring by supervisors. However, to be of use, the parameters of the formula to define the margin period of basis risk would have to be adjusted to reflect the characteristics of local systems.

Q3. Should IMM approval be included as an additional eligibility requirement for the FRTB-CVA framework under Option A (i.e. accounting-based CVA method for generating scenarios of discounted exposure)?

The use of eligibility criteria to apply for the FRTB-CVA framework, as envisaged in this consultative document, can be sufficient to ensure that banks acceding to it have the adequate systems and procedures to undertake CVA calculations.

Regarding that the use of internal models to calculate capital requirements in LAC is limited, the use of IMM as a requirement for applying the method FRTB would be restrictive for the region.



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Q4. *To what extent is there synergy between the calculation of accounting CVA and the EAD calculation for IMM with respect to processes, data, and methodology?*

Accounting CVA calculations as well as the EAD calculation using internal models, are similar in the sense that both methods assume that the counterparty risk exposure can be affected by future movements in relevant market factors such as interest rates, exchange rates, among others. Thus, the required databases to calculate either approach would be similar.

However, the estimation of the EAD using internal models does not specify a calculation method but suggests a model based on simulations with leptokurtic exposure distributions, in contrast with the CVA accounting method that applies normal distributions.

Q5. *Is Option A (accounting-based CVA) or Option B (IMM-based CVA) preferred for exposure calculation?*

Given the characteristics of most regional financial markets, Option A would be preferred since it is more conservative, promotes the convergence between accounting and regulation, and its calculation would be relatively easy. Also, considering the lack of information on credit spreads of the counterparties, it would more efficient to take the correlation matrix proposed under Option A (Accounting CVA).

However, Option A may have a limitation because correlations established in the document may not be appropriate for most countries in the LAC due to its characteristics

Q6. *Is Option 1 or Option 2 preferred for simulation time horizons?*

Since the use of CDS is limited in the region, information on credit spreads of counterparties may not be available; therefore, no time horizon could be established for liquidity.