

2/21/2020

VIA ELECTRONIC SUBMISSIONBasel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland

Re: Consultative Document: Credit Valuation Adjustment Risk – Targeted Revisions

CME Group Inc. (“CME Group”)¹ is the parent of the Chicago Mercantile Exchange Inc. (“CME”). CME is registered with the Commodity Futures Trading Commission (“CFTC”) as a derivatives clearing organization (“DCO”) and is one of the largest central counterparty (“CCP”) clearing services in the world. CME’s clearing house division (“CME Clearing”) offers clearing and settlement services for exchange-traded futures and options on futures contracts, as well as over-the-counter (“OTC”) derivatives transactions, including interest rate swaps products. On July 18, 2012, the Financial Stability Oversight Council designated CME as a systemically important financial market utility under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

CME Group appreciates the opportunity to comment on the Basel Committee on Banking Supervision’s (“BCBS”) consultative document on the *Credit Valuation Adjustment risk – targeted final revisions* (“the Consultation”).² In regard to the Consultation, we limit our comments to areas of the Consultation directly addressing centrally cleared derivatives markets and the goals of the Group of 20 (“G20”) Leaders to appropriately incentivize central clearing.

CME Group is supportive of BCBS’s proposed revisions to the Credit Valuation Adjustment (“CVA”) risk framework that exempt certain client derivatives from the scope of exposures subject to a CVA capital requirement and reduce the margin period of risk (“MPOR”) for some client cleared derivatives under the CVA standardized approach (“SA-CVA”). The proposed revisions align with the G20 Leaders’ policy objectives to promote the use of central clearing³ by recognizing the market structure for centrally cleared derivatives and providing for the consistent treatment of client cleared derivatives with other corresponding aspects of the BCBS capital framework for counterparty credit risk.

¹ As a leading and most diverse derivatives marketplace, CME Group enables clients to trade futures, cash and OTC markets, optimize portfolios, and analyze data - empowering market participants worldwide to efficiently manage risk and capture opportunities. CME Group exchanges offer the widest range of global benchmark products across all major asset classes based on interest rates, equity indexes, foreign exchange, energy, agricultural products and metals. The company offers futures trading through the CME Globex platform, fixed income trading via BrokerTec and foreign exchange trading on the EBS platform. In addition, it operates one of the world’s leading central counterparty clearing providers, CME Clearing. With a range of pre- and post-trade products and services underpinning the entire lifecycle of a trade, CME Group also offers optimization services through TriOptima, and trade processing and reconciliation services through Traiana.

² Basel Committee on Banking Supervision, Consultative Document, *Credit valuation adjustment risk – targeted final revisions* (Nov. 2019).

³ Group of 20, Leaders’ Statement, Pittsburgh Summit (Sept. 2009), available at https://www.fsb.org/wp-content/uploads/g20_leaders_declaration_pittsburgh_2009.pdf.

Exemption for client derivatives exposures

CVA risk is the risk to a bank of incurring losses on their derivatives from the deterioration in the creditworthiness of their counterparties. For a cleared derivatives transaction, CVA risk is mitigated as CCPs become the counterparty to every cleared trade – becoming the buyer to every seller and seller to every buyer and guaranteeing financial performance of both parties – and limit the accumulation of losses through facilitating the daily exchange of settlement variation to capture the mark-to-market gains or losses of the trade. Therefore, exempting certain cleared derivatives exposures⁴, in which a bank is a client of a clearing member, from the BCBS CVA risk framework appropriately reflects the market structure for centrally cleared derivatives and recognizes the risk management functions that a CCP provides and in particular, those that mitigate counterparty credit risk.

Reduction of MPOR for clearing member exposures to clients

Further, the proposal in the Consultation to reduce the MPOR floor used in the SA-CVA from ten to five days for certain cleared client derivatives exposures, in which a bank provides clearing services for clients, recognizes the enhanced transparency and liquidity of centrally cleared derivatives markets. This revision would also be consistent with the MPOR that bank clearing members may use to calculate their trade exposure to clients under the internal models method or standardized approach for counterparty credit risk.⁵

The role of CCPs to reduce systemic risk and promote financial stability, even in times of market stress as was demonstrated during the 2008 financial crisis, drove the G20 Leaders to commit to promoting the use of central clearing, including for clients. Adopting the proposed revisions related to client clearing in the BCBS CVA risk framework will not only align treatment of client cleared derivatives to other Basel III capital standards, but it will recognize the uniquely efficient market structure for centrally cleared derivatives and the risk mitigation role of a CCP.

We would be happy to further discuss and clarify any of the above remarks with the BCBS. If you have any comments or questions regarding this submission, please feel free to contact me at +1 312 634-1592 or Sunil.Cutinho@cmegroup.com. Alternatively, you may contact Sean Downey at +1 312 930-8167 or Sean.Downey@cmegroup.com.

Sincerely,



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⁴ See Basel Committee on Banking Supervision, *Capital requirements for bank exposures to central counterparties*, ¶ CRE54.14 to CRE54.16, (Dec. 2019) (noting, these exposures are defined as “client exposures” in which a bank interacts with a CCP indirectly as a client of clearing member).

⁵ See Basel Committee on Banking Supervision, *Capital requirements for bank exposures to central counterparties*, ¶ CRE54.12 (Dec. 2019).