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## **SA-CVA Consultative feedback and comments**

## BACKGROUND

The Base III standards published in December 2017 to address the shortcomings of the pre-crisis regulatory framework, had a particular focus on credit reforms, one of the components of which includes the revision of the credit value adjustment framework. Credit Value Adjustment (CVA) is the potential losses due to changes in counterparty credit spreads and other market risk factors; CVA is a complement to counterparty credit risk (CCR). The Basel Committee has been undergoing a collaborative and consultative process ahead of the finalisation of the SA-CVA framework which will be implemented in tandem with the revised market risk framework (FRTB) in 2023.

The purpose of this memo is to provide comments to the consultative document issued by Basel committee in November 2019, for comments by 25<sup>th</sup> February 2020. The main changes to the proposed CVA risk framework are predominately to align the risk weights of CVA to the market risk weights for interest rate risk, foreign exchange rate risk and various exposures that may incur CCR and credit spread risk. The second change relates to the adjustments in the scope of portfolios that will be subject to CVA risk capital requirements and the potential reduction in the margin period of risk for some centrally cleared client derivatives.

## FSR QUESTIONS

- 1) **Page 5, Section 2** – The Basel Committee have proposed a range in which to adjust the value of the existing multiplier from 1.25 to [1 to 1.25];
  - a. where was this number derived from initially, and what would be the determinant for an adjustment within that range?
  - b. Where supervisory authorities will have the possibility of increasing the multiplier, under what circumstances would they do so and what would there be a maximum threshold for the increase.
- 2) **Page 5, section 2** – The Basel committee are proposing a uniform, general scalar to be applied to the overall BA CVA capital requirement calculation formulas;
  - a. What are the indicative scalars that may be proposed for the BA-CVA?
- 3) **Page 6, Annex to Section 2, 50.7** – To what extent will approval for SA-CVA be predicated or related to approval for FRTB by local supervisory authorities?