To: Basel Committee on Banking Supervision

10 September 2021

Saxo Bank's Response to the Basel Committee on Banking Supervision (BCBS) Consultative Document on Prudential Treatment of Cryptoasset Exposures

Saxo Bank welcomes the opportunity to respond to the above mentioned Consultative Document on Prudential Treatment of Cryptoasset Exposures. Our response will solely address the capital treatment of Group 2 Cryptoassets with the intention that Group 2 assets will receive a fair prudential treatment.

Q12. Do you think the proposed capital treatment of Group 2 cryptoassets, including the application of a 1250% risk weight instead of deducting the asset from capital (for the reasons explained above), appropriately reflects the unique risks inherent in these assets?

Q13. Are there alternative approaches that the Committee should consider that are simple, conservative and easy to implement? For exposures in the trading book, would it be appropriate to permit recognition of hedging via the application of a modified version of the standardised approach to market risk?

Saxo Bank offers clients access to a variety of cryptoassets through exchange traded products (ETPs) and Crypto FX pairs. The Bank's product offering within Group 2 cryptoassets such as Bitcoin, Ethereum or Litecoin, thus offers investors the opportunity to:

- Invest in the more mature market for cryptoassets, which now has a much broader investor base compared to earlier,
- Participate in the broad public interest in cryptoassets.
- Diversify their investment portfolio by including a (minor) stake in cryptoassets.
- Use investment in cryptoassets as an option for future price increases.
- Take advantage of the volatility in trading cryptoassets for more advanced investors.

Furthermore, we believe that trading and investing in cryptoassets will mean that prices become more efficient. We note that when trading and investing in cryptoassets, investors should take due notice of the extreme price volatility associated with the asset class as well as be aware of other risk factors.

Risk Weight of 1250% for direct exposures against Cryptoassets

Saxo Bank has noted that the BCBS is assigning a 1250% weight to cryptoassets which is the equivalent of full or 100% capitalization, however, we find that the proposed treatment of applying the full capitalization to the largest of the absolute value of the long or short positions will significantly motivate increased risk taking by not recognizing the value of netting or hedging of exposures. We therefore believe that the proper capitalization should be applied on a net basis.

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Similarly, for exposures in derivates we believe that the use of the absolute value of gross notional amount used for the calculation of PFE, carries the same drawbacks as mentioned above.

Moreover, we find it important to differentiate between a direct exposure against cryptoassets and a synthetic exposure such as can be offered via the use of derivatives. The latter should take into account that, as opposed to the direct exposure, the counterparty to a derivative transaction can be assigned a certain payment value which is not taken into account if the method in Annex 2 is assigned to the prudential treatment of derivatives. We therefore support a method which is based on a modified SA-CCR approach or such as described in the third paragraph on page 14 of the consultative document.

Saxo Bank