

Basel Committee on Banking Supervision

CRE

Calculation of RWA for credit risk

CRE70

Capital treatment of unsettled transactions and failed trades

This chapter sets out the capital requirements that apply to failed trades and unsettled securities, commodities, and foreign exchange transactions.

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First version in the format of the consolidated framework.



BANK FOR INTERNATIONAL SETTLEMENTS

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Overarching principles

70.1

Banks are exposed to the risk associated with unsettled securities, commodities, and foreign exchange transactions from trade date. Irrespective of the booking or the accounting of the transaction, unsettled transactions must be taken into account for regulatory capital requirements purposes.

70.2

Banks are encouraged to develop, implement and improve systems for tracking and monitoring the credit risk exposure arising from unsettled transactions and failed trades as appropriate so that they can produce management information that facilitates timely action. Banks must closely monitor securities, commodities, and foreign exchange transactions that have failed, starting the first day they fail.

Delivery-versus-payment transactions

70.3

Transactions settled through a delivery-versus-payment system (DvP), providing simultaneous exchanges of securities for cash, expose firms to a risk of loss on the difference between the transaction valued at the agreed settlement price and the transaction valued at current market price (ie positive current exposure). Banks must calculate a capital requirement for such exposures if the payments have not yet taken place five business days after the settlement date, see [CRE70.9](#) below.

Non-delivery-versus-payment transactions (free deliveries)

70.4

Transactions where cash is paid without receipt of the corresponding receivable (securities, foreign currencies, gold, or commodities) or, conversely, deliverables were delivered without receipt of the corresponding cash payment (non-DvP, or free deliveries) expose firms to a risk of loss on the full amount of cash paid or deliverables delivered. Banks that have made the first contractual payment/delivery leg must calculate a capital requirement for the exposure if the second leg has not been received by the end of the business day. The requirement increases if the second leg has not been received within five business days. See [CRE70.10](#) to [CRE70.12](#).

Scope of requirements

70.5

The capital treatment set out in this chapter is applicable to all transactions on securities, foreign exchange instruments, and commodities that give rise to a risk of delayed settlement or delivery. This includes transactions through recognised clearing houses and central counterparties that are subject to daily mark-to-market and payment of daily variation margins and that involve a mismatched trade. The treatment does not apply to the instruments that are subject to the counterparty credit risk requirements set out in [CRE51](#) (ie over-the-counter derivatives, exchange-traded derivatives, long settlement transactions, securities financing transactions).

70.6

Where they do not appear on the balance sheet (ie settlement date accounting), the unsettled exposure amount will receive a 100% credit conversion factor to determine the credit equivalent amount.

70.7

In cases of a system-wide failure of a settlement, clearing system or central counterparty, a national supervisor may use its discretion to waive capital requirements until the situation is rectified.

70.8

Failure of a counterparty to settle a trade in itself will not be deemed a default for purposes of credit risk under the Basel Framework.

Capital requirements for DvP transactions

70.9

For DvP transactions, if the payments have not yet taken place five business days after the settlement date, firms must calculate a capital requirement by multiplying the positive current exposure of the transaction by the appropriate factor, according to the Table 1 below.

Table 1

Number of business days after the agreed settlement date	Corresponding risk multiplier
From 5 to 15	8%
From 16 to 30	50%
From 31 to 45	75%
46 or more	100%

Capital requirements for non-DvP transactions (free deliveries)

70.10

For non-DvP transactions (ie free deliveries), after the first contractual payment/delivery leg, the bank that has made the payment will treat its exposure as a loan if the second leg has not been received by the end of the business day. This means that:

1. For counterparties to which the bank applies the standardised approach to credit risk, the bank will use the risk weight applicable to the counterparty set out in [CRE20](#).
2. For counterparties to which the bank applies the internal ratings-based (IRB) approach to credit risk, the bank will apply the appropriate IRB formula (set out in [CRE31](#)) applicable to the counterparty (set out in [CRE30](#)). When applying this requirement, if the bank has

no other banking book exposures to the counterparty (that are subject to the IRB approach), the bank may assign a probability of default to the counterparty on the basis of its external rating. Banks using the Advanced IRB approach may use a 45% loss-given-default (LGD) in lieu of estimating LGDs so long as they apply it to all failed trade exposures. Alternatively, banks using the IRB approach may opt to apply the standardised approach risk weights applicable to the counterparty set out in [CRE20](#).

70.11

As an alternative to [CRE70.10\(1\)](#) and [CRE70.10\(2\)](#) above, when exposures are not material, banks may choose to apply a uniform 100% risk-weight to these exposures, in order to avoid the burden of a full credit assessment.

70.12

If five business days after the second contractual payment/delivery date the second leg has not yet effectively taken place, the bank that has made the first payment leg will risk weight the full amount of the value transferred plus replacement cost, if any, at 1250%. This treatment will apply until the second payment/delivery leg is effectively made.