Basel Committee
on Banking Supervision

Capital requirements for bank exposures to central counterparties

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Introduction

This document presents the Basel Committee's revised policy framework for the capital treatment of bank exposures to central counterparties (CCPs). Revisions to the framework were made to reflect decisions reached by the Committee after evaluating the results of the joint quantitative impact study (JQIS)[1] and the feedback received from respondents to a related consultative document published in June 2013.[2] The Committee wishes to thank institutions that participated in the JQIS as well as respondents to the consultative document.

Background

The Basel Committee, in consultation with the Committee on Payments and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO), set out to improve upon the interim capital requirements for bank exposures to CCPs that were devised by the BCBS-CPSS-IOSCO CCP Task Force and published by the Committee in July 2012.[3] To this end, a Joint Working Group on CCPs was formed in the second half of 2012. The revised policy framework represents a blending of the perspectives from each of the Group's constituencies.

In formulating the revised framework, the Committee sought to avoid undue complexity and to ensure consistency, where possible, with relevant initiatives advanced by other supervisory bodies. It also considered broader policy recommendations such as those advanced by G20 leaders and the Financial Stability Board (eg increased use of central clearing).

Revised policy framework

The final policy framework for bank exposures to CCPs retains many of the features from the interim framework, including the general terms, scope of application, treatment of trade exposures to QCCPs, and the capital requirements for bank exposures to non-qualifying CCPs.[4] Notable revisions to the framework include:

- New approach for determining the capital requirements for bank exposures to qualifying CCPs (QCCPs),

[1] For further information about the joint quantitative impact study, please see http://www.bis.org/bcbs/qis/jqis.htm.

[2] Basel Committee Consultative Document, Capital treatment of bank exposures to central counterparties, June 2013, which is available at https://www.bis.org/publ/bcbs253.pdf.

[3] The interim capital requirements can be retrieved at http://www.bis.org/publ/bcbs227.pdf.

[4] Though some adjustments are made to the standards text in these areas, the substance of the requirements remains the same.

- An explicit cap on the capital charges applied to bank exposures to QCCPs (ie those charges will not exceed the charges that would otherwise be applicable if the CCP were a non-qualifying CCP),
- Specification of the treatment for multi-level client structures, and
- Inclusion of text relating to frequently asked questions posed to the Basel Committee in the course of its work on the revised policy framework.

Transitional arrangements

The final standard will apply as of 1 January 2017. Until that time, the interim capital requirements remain in effect.

Regulatory standards text on the capital requirements for bank exposures to central counterparties

Revisions to the framework for determining capital requirements for bank exposures to central counterparties are being introduced via a new section (Section XI) of Annex 4 of the *International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version*, June 2006 (hereinafter referred to as "Basel II"). Section IX of that annex, which includes the interim capital requirements for bank exposures to CCPs, will be deleted in its entirety.

General terms and scope of application

Annex 4, Section I, A. General Terms – the following terms are amended:

- A **qualifying central counterparty** (QCCP) is an entity that is licensed to operate as a CCP (including a license granted by way of confirming an exemption), and is permitted by the appropriate regulator/overseer to operate as such with respect to the products offered. This is subject to the provision that the CCP is based and prudentially supervised in a jurisdiction where the relevant regulator/overseer has established, and publicly indicated that it applies to the CCP on an ongoing basis, domestic rules and regulations that are consistent with the CPSS-IOSCO Principles for Financial Market Infrastructures.

  As is the case more generally, banking supervisors still reserve the right to require banks in their jurisdictions to hold additional capital against their exposures to such CCPs via Pillar 2. This might be appropriate where, for example, an external assessment such as an FSAP has found material shortcomings in the CCP or the regulation of CCPs, and the CCP and/or the CCP regulator have not since publicly addressed the issues identified.

  Where the CCP is in a jurisdiction that does not have a CCP regulator applying the Principles to the CCP, then the banking supervisor may make the determination of whether the CCP meets this definition.

In addition, for a CCP to be considered a QCCP, the terms defined in paragraphs 206 and 207 of this Annex for the purposes of calculating the capital requirements for default fund exposures must be made available or calculated in accordance with paragraph 208 of this Annex.

- **Initial margin** means a clearing member's or client's collateral posted to a CCP to mitigate the CCP's potential future exposure to the clearing member arising from the possible future change in the value of their transactions. For the purposes of this Annex, initial margin does not include contributions to a CCP for mutualised loss sharing arrangements (ie in case a CCP uses initial margin to mutualise losses among the clearing members, it will be treated as a default fund exposure). Initial margin includes collateral deposited by a clearing member or client in excess of the minimum amount required, provided the CCP or clearing member may, in appropriate cases, prevent the clearing member or client from withdrawing such excess collateral.

Annex 4, Section I, A. General Terms – the following terms are added:

- A **multi-level client structure** is one in which banks can centrally clear as indirect clients; that is, when clearing services are provided to the bank by an institution which is not a direct clearing member, but is itself a client of a clearing member or another clearing client. For exposures between clients and clients of clients, we use the term "**higher level client**" for the institution providing clearing services; and the term "**lower level client**" for the institution clearing through that client.

Annex 4, Section II. Scope of application. Paragraph 6(i) is replaced by the following:

6(i) Exposures to central counterparties arising from OTC derivatives, exchange-traded derivatives transactions, SFTs and long settlement transactions will be subject to the counterparty credit risk treatment laid out in paragraphs 188 to 211 of this Annex. Exposures arising from the settlement of cash transactions (equities, fixed income, spot FX and spot commodities) are not subject to this treatment.[5] The settlement of cash transactions remains subject to the treatment described in Annex 3.

6(ii) When the clearing member-to-client leg of an exchange-traded derivatives transaction is conducted under a bilateral agreement, both the client bank and the clearing member are to capitalise that transaction as an OTC derivative.[6] This treatment also applies to transactions between lower level clients and higher level clients in a multi-level client structure.

Annex 4. Section IX. Central counterparties. This section is deleted in its entirety and is replaced by Section XI.

Annex 4. Section XI. Central counterparties. The following paragraphs are included in this section:

XI. Central Counterparties

[5] For contributions to prepaid default funds covering settlement-risk-only products, the applicable risk weight is 0%.

[6] For this purpose, the treatment in paragraph 195 would also apply.

188. Regardless of whether a CCP is classified as a QCCP, a bank retains the responsibility to ensure that it maintains adequate capital for its exposures. Under Pillar 2 of Basel II, a bank should consider whether it might need to hold capital in excess of the minimum capital requirements if, for example, (i) its dealings with a CCP give rise to more risky exposures or (ii) where, given the context of that bank's dealings, it is unclear that the CCP meets the definition of a QCCP.

189. Where the bank is acting as a clearing member, the bank should assess through appropriate scenario analysis and stress testing whether the level of capital held against exposures to a CCP adequately addresses the inherent risks of those transactions. This assessment will include potential future or contingent exposures resulting from future drawings on default fund commitments, and/or from secondary commitments to take over or replace offsetting transactions from clients of another clearing member in case of this clearing member defaulting or becoming insolvent.

190. A bank must monitor and report to senior management and the appropriate committee of the Board on a regular basis all of its exposures to CCPs, including exposures arising from trading through a CCP and exposures arising from CCP membership obligations such as default fund contributions.

191. Where a bank is clearing derivative, SFT and/or long settlement transactions through a Qualifying CCP (QCCP) as defined in Annex 4, Section I, A. General Terms, then paragraphs 192 to 209 of this Annex will apply. In the case of non-qualifying CCPs, paragraphs 210 and 211 of this Annex will apply. Within three months of a central counterparty ceasing to qualify as a QCCP, unless a bank's national supervisor requires otherwise, the trades with a former QCCP may continue to be capitalised as though they are with a QCCP. After that time, the bank's exposures with such a central counterparty must be capitalised according to paragraphs 210 and 211 of this Annex.

Exposures to Qualifying CCPs

A. Trade exposures

(i) Clearing member exposures to CCPs

192. Where a bank acts as a clearing member of a CCP for its own purposes, a risk weight of 2% must be applied to the bank's trade exposure to the CCP in respect of OTC derivatives, exchange-traded derivative transactions, SFTs and long-settlement transactions. Where the clearing member offers clearing services to clients, the 2% risk weight also applies to the clearing member's trade exposure to the CCP that arises when the clearing member is obligated to reimburse the client for any losses suffered due to changes in the value of its transactions in the event that the CCP defaults. The risk weight applied to collateral posted to the CCP by the bank must be determined in accordance with paragraphs 200-202.

193. The exposure amount for such trade exposure is to be calculated in accordance with Annex 4 using the IMM,[7] or the Standardised Approach for counterparty credit risk (SA-CCR), as consistently applied by such bank to such an exposure in the ordinary course of its business,[8] or Part 2, Section II, D3 together with credit risk mitigation techniques set forth in Basel II for collateralised transactions.[9]

[7] Changes to IMM introduced in Basel III also apply for these purposes.

[8] Where the firm's internal model permission does not specifically cover centrally cleared products, the IMM scope would have to be extended to cover these products (even where the non-centrally cleared versions are included in the permission). Usually, national supervisors have a well-defined model approval/change process by which IMM firms can extend the

The 20-day floor for the margin period of risk (MPOR) as established in the first bullet point of Annex 4, paragraph 41(i) dealing with the number of transactions will not apply, provided that the netting set does not contain illiquid collateral or exotic trades and provided there are no disputed trades. This refers to exposure calculations under the IMM and the SA-CCR as well as for the holding periods entering the exposure calculation of repo-style transactions in paragraphs 147 and 181 of Basel II.

In all cases, a minimum MPOR of 10 days must be used for the calculation of trade exposures to CCPs for OTC derivatives.

Where CCPs retain variation margin against certain trades (eg where CCPs collect and hold variation margin against positions in exchange-traded or OTC forwards), and the member collateral is not protected against the insolvency of the CCP, the minimum time risk horizon applied to banks' trade exposures on those trades must be the lesser of one year and the remaining maturity of the transaction, with a floor of 10 business days.

194. Where settlement is legally enforceable on a net basis in an event of default and regardless of whether the counterparty is insolvent or bankrupt, the total replacement cost of all contracts relevant to the trade exposure determination can be calculated as a net replacement cost if the applicable close-out netting sets meet the requirements set out in:

- Paragraphs 173 and, where applicable, also 174 of the main text in the case of repo-style transactions,
- Paragraph 134 of this Annex in the case of derivative transactions, and
- Paragraphs 10 to 19 of this Annex in the case of cross-product netting.

To the extent that the rules referenced above include the term "master agreement" or the phrase "a netting contract with a counterparty or other agreement", this terminology must be read as including any enforceable arrangement that provides legally enforceable rights of set-off.[10] If the bank cannot demonstrate that netting agreements meet these requirements, each single transaction will be regarded as a netting set of its own for the calculation of trade exposure.

(ii) Clearing member exposures to clients

195. The clearing member will always capitalise its exposure (including potential CVA risk exposure) to clients as bilateral trades, irrespective of whether the clearing member guarantees the trade or acts as an intermediary between the client and the CCP. However, to recognise the shorter close-out period for cleared client transactions, clearing members can capitalise the exposure to their clients applying a margin period of risk of at least five days in IMM or SA-CCR.[11]

196. If a clearing member collects collateral from a client for client cleared trades and this collateral is passed on to the CCP, the clearing member may recognise this collateral for both the CCP-clearing member leg and the clearing member-client leg of the client cleared trade. Therefore, initial margin posted by clients to their clearing member mitigates the exposure the clearing member has against

products covered within their IMM scope. The introduction of a centrally cleared version of a product within the existing IMM scope must be considered as part of such a model change process, as opposed to a natural extension.

9 In particular, see paragraph 151 or 154 for OTC derivatives and standard supervisory haircuts or own estimates for haircuts, respectively; and for SFTs, see paragraph 178 for simple VaR model.

10 This is to take account of the fact that netting arrangements for CCPs are not as standardised as those for OTC netting agreements in the context of bilateral trading; however, netting is generally provided for in CCP rules.

11 The reduced EAD should also be used for the calculation of both the Advanced and Standardised CVA capital charge.

these clients. The same treatment applies, in an analogous fashion, to multi-level client structures (between a higher level client and a lower level client).

(iii) Client exposures

197. Where a bank is a client of a clearing member, and enters into a transaction with the clearing member acting as a financial intermediary (ie the clearing member completes an offsetting transaction with a CCP), the client's exposures to the clearing member may receive the treatment in paragraphs 192 to 194 of this Annex if the two conditions below are met. Likewise, where a client enters into a transaction with the CCP, with a clearing member guaranteeing its performance, the client's exposures to the CCP may receive the treatment in paragraph 192 to 194 if the conditions in (a) and (b) below are met.

The treatment in paragraph 192 to 194 may also apply to exposures of lower level clients to higher level clients in a multi-level client structure, provided that for all client levels in-between the conditions in (a) and (b) below are met.

(a) The offsetting transactions are identified by the CCP as client transactions and collateral to support them is held by the CCP and/or the clearing member, as applicable, under arrangements that prevent any losses to the client due to: (i) the default or insolvency of the clearing member, (ii) the default or insolvency of the clearing member's other clients, and (iii) the joint default or insolvency of the clearing member and any of its other clients.[12]

The client must have conducted a sufficient legal review (and undertake such further review as necessary to ensure continuing enforceability) and have a well-founded basis to conclude that, in the event of legal challenge, the relevant courts and administrative authorities would find that such arrangements mentioned above would be legal, valid, binding and enforceable under the relevant laws of the relevant jurisdiction(s).

(b) Relevant laws, regulation, rules, contractual, or administrative arrangements provide that the offsetting transactions with the defaulted or insolvent clearing member are highly likely to continue to be indirectly transacted through the CCP, or by the CCP, if the clearing member defaults or becomes insolvent.[13] In such circumstances, the client positions and collateral with the CCP will be transferred at market value unless the client requests to close out the position at market value.

198. Where a client is not protected from losses in the case that the clearing member and another client of the clearing member jointly default or become jointly insolvent, but all other conditions in the preceding paragraph are met, a risk weight of 4% will apply to the client's exposure to the clearing member, or to the higher level client, respectively.

199. Where the bank is a client of the clearing member and the requirements in paragraphs 197 or 198 above are not met, the bank will capitalise its exposure (including potential CVA risk exposure) to the clearing member as a bilateral trade.

12 That is, upon the insolvency of the clearing member, there is no legal impediment (other than the need to obtain a court order to which the client is entitled) to the transfer of the collateral belonging to clients of a defaulting clearing member to the CCP, to one or more other surviving clearing members or to the client or the client's nominee. National supervisors should be consulted to determine whether this is achieved based on particular facts and such supervisors should consult and communicate with other supervisors via the "frequently asked questions" process to ensure consistency.

13 If there is a clear precedent for transactions being ported at a CCP and industry intent for this practice to continue, then these factors must be considered when assessing if trades are highly likely to be ported. The fact that CCP documentation does not prohibit client trades from being ported is not sufficient to say they are highly likely to be ported.

(iv) Treatment of posted collateral

200. In all cases, any assets or collateral posted must, from the perspective of the bank posting such collateral, receive the risk weights that otherwise applies to such assets or collateral under the capital adequacy framework, regardless of the fact that such assets have been posted as collateral.[14] Where assets or collateral of a clearing member or client are posted with a CCP or a clearing member and are not held in a bankruptcy remote manner, the bank posting such assets or collateral must also recognise credit risk based upon the assets or collateral being exposed to risk of loss based on the creditworthiness of the entity holding such assets or collateral.

201. Where the entity holding such assets or collateral is the CCP, a risk-weight of 2% applies to collateral included in the definition of trade exposures. The relevant risk-weight of the CCP will apply to assets or collateral posted for other purposes. Where banks use the SA-CCR to calculate exposures, collateral posted which is not held in a bankruptcy remote manner must be accounted for in the *NICA* term in accordance with paragraphs 141-145 of this Annex. For banks using IMM models, the alpha multiplier must be applied to the exposure on posted collateral.

202. All collateral posted by the clearing member (including cash, securities, other pledged assets, and excess initial or variation margin, also called overcollateralisation), that is held by a custodian,[15] and is bankruptcy remote from the CCP, is not subject to a capital requirement for counterparty credit risk exposure to such bankruptcy remote custodian (ie the related risk weight or EAD is equal to zero).

203. Collateral posted by a client, that is held by a custodian, and is bankruptcy remote from the CCP, the clearing member and other clients, is not subject to a capital requirement for counterparty credit risk. If the collateral is held at the CCP on a client's behalf and is not held on a bankruptcy remote basis, a 2% risk-weight must be applied to the collateral if the conditions established in paragraph 197 of this Annex are met; or 4% if the conditions in paragraph 198 of this Annex are met.

B. Default fund exposures

204. Where a default fund is shared between products or types of business with settlement risk only (eg equities and bonds) and products or types of business which give rise to counterparty credit risk ie OTC derivatives, exchange-traded derivatives, SFTs or long settlement transactions, all of the default fund contributions will receive the risk weight determined according to the formulae and methodology set forth below, without apportioning to different classes or types of business or products. However, where the default fund contributions from clearing members are segregated by product types and only accessible for specific product types, the capital requirements for those default fund exposures determined according to the formulae and methodology set forth below must be calculated for each specific product giving rise to counterparty credit risk. In case the CCP's prefunded own resources are shared among product types, the CCP will have to allocate those funds to each of the calculations, in proportion to the respective product specific EAD.

[14] Collateral posted must receive the banking book or trading book treatment it would receive if it had not been posted to the CCP. In addition, this collateral is subject to the CCR framework of the Basel rules, regardless of whether it is in the banking or trading book. This includes the increase due to haircuts under either the standardised supervisory haircuts or the own estimates.

[15] In this paragraph, the word "custodian" may include a trustee, agent, pledgee, secured creditor or any other person that holds property in a way that does not give such person a beneficial interest in such property and will not result in such property being subject to legally-enforceable claims by such persons creditors, or to a court-ordered stay of the return of such property, if such person becomes insolvent or bankrupt.

205. Whenever a bank is required to capitalise for exposures arising from default fund contributions to a qualifying CCP, clearing member banks will apply the following approach.

206. Clearing member banks will apply a risk weight to their default fund contributions determined according to a risk sensitive formula that considers (i) the size and quality of a qualifying CCP's financial resources, (ii) the counterparty credit risk exposures of such CCP, and (iii) the application of such financial resources via the CCP's loss bearing waterfall, in the case of one or more clearing member defaults. The clearing member bank's risk sensitive capital requirement for its default fund contribution (K_{CMi}) must be calculated using the formulae and methodology set forth below. This calculation may be performed by a CCP, bank, supervisor or other body with access to the required data, as long as the conditions in paragraph 208 of this Annex are met.

207. The steps for calculation will be the following:

(1) First, calculate the hypothetical capital requirement of the CCP due to its counterparty credit risk exposures to all of its clearing members and their clients.[16] This is calculated using the formula for K_{CCP}:

$$K_{CCP} = \sum_{CM\ i} EAD_i \cdot RW \cdot capital\ ratio$$

where

RW is a risk weight of 20%.[17]

Capital ratio means 8%.

EAD_i is the exposure amount of the CCP to CM 'i', including both the CM's own transactions and client transactions guaranteed by the CM, and all values of collateral held by the CCP (including the CM's prefunded default fund contribution) against these transactions, relating to the valuation at the end of the regulatory reporting date before the margin called on the final margin call of that day is exchanged.

The sum is over all clearing member accounts.

Where clearing members provide client clearing services, and client transactions and collateral are held in separate (individual or omnibus) sub-accounts to the clearing member's proprietary business, each such client sub-account should enter the sum separately, ie the member EAD in the formula above is then the sum of the client sub-account EADs and any house sub-account EAD. This will ensure that client collateral cannot be used to offset the CCP's exposures to clearing members' proprietary activity in the calculation of K_{CCP}. If any of these sub-accounts contains both derivatives and SFTs, the EAD of that sub-account is the sum of the derivative EAD and the SFT EAD.

In the case that collateral is held against an account containing both SFTs and derivatives, the prefunded initial margin provided by the member or client must be allocated to the SFT and derivatives exposures in proportion to the respective product specific EADs, calculated according to paragraphs 173

16 K_{CCP} is a hypothetical capital requirement for a CCP, calculated on a consistent basis for the sole purpose of determining the capitalisation of clearing member default fund contributions; it does not represent the actual capital requirements for a CCP which may be determined by a CCP and its supervisor.

17 The 20% risk weight is a minimum requirement. As with other parts of the capital adequacy framework, the national supervisor of a bank may increase the risk weight. An increase in such risk weight would be appropriate if, for example, the clearing members in a CCP are not highly rated. Any such increase in risk weight is to be communicated by the affected banks to the person completing this calculation.

to 177 in the main text for SFTs and the SA-CCR (without including the effects of collateral) for derivatives.

If the default fund contributions of the member (DFi) are not split with regard to client and house sub-accounts, they must be allocated per sub-account according to the respective fraction the initial margin of that sub-account has in relation to the total initial margin posted by or for the account of the clearing member.

- For derivatives, EAD_i is calculated as the bilateral trade exposure the CCP has against the clearing member using the SA-CCR.[18] All collateral held by a CCP to which that CCP has a legal claim in the event of the default of the member or client, including default fund contributions of that member (DFi), is used to offset the CCP's exposure to that member or client, through inclusion in the PFE multiplier in accordance with paragraphs 148-149 of this Annex.
- For SFTs, EAD is equal to max($EBRM_i$ – IM_i – DF_i; 0), where
  - $EBRM_i$ denotes the exposure value to clearing member 'i' before risk mitigation under paragraphs 173 to 177 of the main text; where, for the purposes of this calculation, variation margin that has been exchanged (before the margin called on the final margin call of that day) enters into the mark-to-market value of the transactions;
  - IM_i is the initial margin collateral posted by the clearing member with the CCP;
  - DF_i is the prefunded default fund contribution by the clearing member that will be applied upon such clearing member's default, either along with or immediately following such member's initial margin, to reduce the CCP loss.

Any haircuts to be applied for SFTs must be the paragraph 151 standard supervisory haircuts in the main text.

As regards the calculation in this first step:

(i) The holding periods for SFT calculations in paragraphs 167 to 169 of the main text and those for derivatives in paragraph 41(i) of this Annex remain even if more than 5000 trades are within one netting set, ie the first bullet point of paragraph 41(i) of this Annex, included in the Basel III framework, will not apply in this context.

(ii) The netting sets that are applicable to regulated clearing members are the same as those referred to in paragraph 194 of this Annex. For all other clearing members, they need to follow the netting rules as laid out by the CCP based upon notification of each of its clearing members. The national supervisor can demand more granular netting sets than laid out by the CCP.

(2) Second, calculate the capital requirement for each clearing member:

$$K_{CM_i} = \max\left(K_{CCP} \cdot \left(\frac{DF_i^{pref}}{DF_{CCP} + DF_{CM}^{pref}}\right); 8\% * 2\% * DF_i^{pref}\right)$$

Where

- K_{CMi} – is the capital requirement on the default fund contribution of member *i*;
- DF_{CM}^{pref} – the total prefunded **default fund contributions from clearing members**;

[18] A MPOR of 10 days must be used to calculate the CCP's potential future exposure to its clearing members on derivatives transactions

- DF_{CCP} – the **CCP's prefunded own resources** (eg contributed capital, retained earnings, etc), which are contributed to the default waterfall, where these are junior or *pari passu* to prefunded member contributions; and
- DF_i^{pref} - the prefunded default fund contributions provided by clearing member *i*.

This approach puts a floor on the default fund exposure risk weight of 2%.

208. The CCP, bank, supervisor or other body with access to the required data, must make a calculation of K_{CCP}, DF_{CM}^{pref}, and DF_{CCP} in such a way to permit the supervisor of the CCP to oversee those calculations, and it must share sufficient information of the calculation results to permit each clearing member to calculate their capital requirement for the default fund and for the bank supervisor of such clearing member to review and confirm such calculations.

K_{CCP} must be calculated on a quarterly basis at a minimum; although national supervisors may require more frequent calculations in case of material changes (such as the CCP clearing a new product). The CCP, bank, supervisor or other body that did the calculations must make available to the home supervisor of any bank clearing member sufficient aggregate information about the composition of the CCP's exposures to clearing members and information provided to the clearing member for the purposes of the calculation of K_{CCP}, DF_{CM}^{pref}, and DF_{CCP}.

Such information must be provided no less frequently than the home bank supervisor would require for monitoring the risk of the clearing member that it supervises. K_{CCP} and K_{CMi} must be recalculated at least quarterly, and should also be recalculated when there are material changes to the number or exposure of cleared transactions or material changes to the financial resources of the CCP.

C. Cap with regard to QCCPs

209. Where the sum of a bank's capital charges for exposures to a qualifying CCP due to its trade exposure and default fund contribution is higher than the total capital charge that would be applied to those same exposures if the CCP were for a non-qualifying CCP, as outlined in paragraphs 210 and 211 of this Annex, the latter total capital charge shall be applied.

Exposures to non-qualifying CCPs

210. Banks must apply the Standardised Approach for credit risk in the main framework, according to the category of the counterparty, to their trade exposure to a non-qualifying CCP.

211. Banks must apply a risk weight of 1250% to their default fund contributions to a non-qualifying CCP. For the purposes of this paragraph, the default fund contributions of such banks will include both the funded and the unfunded contributions which are liable to be paid if the CCP so requires. Where there is a liability for unfunded contributions (ie unlimited binding commitments), the national supervisor should determine in its Pillar 2 assessments the amount of unfunded commitments to which a 1250% risk weight applies.