April 21, 2022

Mr. Pablo Hernández de Cos, Chairman
Mr. Neil Esho, Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Request to revisit the Standardized Approach for measuring Counterparty Credit Risk exposures

Dear Mr. Hernández de Cos & Mr. Esho,

The International Swaps and Derivatives Association ("ISDA"), the Institute of International Finance ("IIF"), the Global Financial Markets Association ("GFMA"), and our members ("the Industry") are writing to respectfully request that the Basel Committee on Banking Supervision ("BCBS") reconsider the 2014 standardized approach[1] for measuring counterparty credit risk exposures ("SA-CCR"). We wish to bring to your attention the Industry's concerns regarding the SA-CCR standard.

While the SA-CCR standard is a more risk sensitive approach for calculating exposure at default for counterparty credit risk ("CCR") compared to the Current Exposure Method ("CEM"), there remain aspects of the standard that result in excessive risk exposures with associated impact on capital and end-user costs[2]. This deficiency is largely due in part to the timing of the finalization of the standard, April 2014, which ultimately results in a lack of reflection of structural changes in the derivatives market and the overall regulatory framework since 2014, as well as a calibration of SA-CCR that lacks risk sensitivity.

Furthermore, this is becoming more evident as firms implement the revised Basel III standards and as a result the standard needs to be revisited to recognize market developments. Additional detail on the points raised above is provided below:

- **Holistic and consistent review of SA-CCR across all jurisdictions to minimize risk of market fragmentation:** as part of the implementation of SA-CCR in various jurisdictions, the Industry has raised concerns around the design and calibration of SA-CCR[3]. In certain cases, supervisors have indicated that they shared some of these concerns and as a result, they proposed certain modifications to SA-CCR not related to local specificities. While this is necessary to lessen the impact of SA-CCR on the derivatives market, any such modifications that have been implemented or proposed have been

[1] *The standardised approach for measuring counterparty credit risk exposures* (2014, April) https://www.bis.org/publ/bcbs279.htm

[2] This can be demonstrated vis-à-vis the US SA-CCR Final Rule (*Standardized Approach for Calculating the Exposure Amount of Derivative Contracts*), whereby the regulators removed the Alpha Factor of 1.4 for commercial end-users ("CEUs") in order to mitigate the associated regulatory capital costs. Even after the needed mitigation of CEU exposures, the SA-CCR impacts were still significant as evidenced by the Q4 2021 earnings releases for large US banks that have recently gone live under SA-CCR.

[3] An example of this is the local transposition of SA-CCR into a binding minimum requirement due to the calibration issues identified in SA-CCR. The US published the SA-CCR Final Rule in November 2019, while in Europe, SA-CCR as an input to the Output Floor forms part of the latest CRR III proposal. The US and EU transpositions of SA-CCR demonstrate the concerns that local regulators have in relation to the SA-CCR calibration. However, the different actions taken across the regions have introduced fragmentation which may increase further as part of the finalization of the Basel III package in various jurisdictions.

limited. The Industry believes a more holistic review of SA-CCR in the broader context of the Basel III implementation is crucial and if done at the Basel level, would result in a more consistent implementation across jurisdictions.

- **Structural changes in the markets since the finalization of SA-CCR:**
  - there is a significant increase in collateralization via Initial Margin ("IM") under the BCBS-IOSCO Margin Requirements for Non-Centrally Cleared Derivatives ("UMR").[4] Given the increased IM in the financial system, it is important this is properly accounted for as a key risk mitigant in the SA-CCR standard.
  - the emergence of the new digital asset class and the need to ensure appropriate evolution of the SA-CCR design to accommodate these exposures.
  - the introduction of a new ISDA master netting agreement[5] to allow for netting of Derivatives and Secured Financing Transactions ("SFTs"). The current framework does not provide guidance on an exposure calculation across SFTs and Derivatives in a standardized framework.
- **Changes in the overall regulatory framework:** Since its finalization in 2014, SA-CCR's importance in the regulatory framework has significantly increased. SA-CCR impacts Risk Weighted Assets for CCR, Credit Valuation Adjustment ("CVA") Risk, Large Exposures, Leverage ratio, Global Systemically Important Banks ("GSIB") surcharge and the Risk Weighted Assets ("RWA") Output Floor. Therefore, an overly conservative calibration results in disproportionate impacts on markets activity which ultimately increases hedging costs for end-users[6]. SA-CCR was the first of the new standardized approaches to be finalized and subsequent standardized approaches (market risk and CVA risk) have more reliance on firms' pricing models.
- **Calibration of SA-CCR is not sufficiently risk sensitive**: there has been a wealth of Quantitative Impact Study ("QIS") Data[7] produced since the publication of the standard. SA-CCR was proposed (as Non-Internal Model Method – "NIMM")[8] and implemented with just one consultation and Quantitative Impact Study ("QIS"). The compressed timeframe to implement was driven by the need to have a more risk sensitive calculation of exposures for central counterparties.

We believe there is a need for global coordination to revisit SA-CCR at the Basel level for the above stated reasons. Therefore, we respectfully request that the BCBS act in line with the stated goal of promoting global consistency in the application of SA-CCR. Appropriate revisions to the SA-CCR standard will serve to bridge the gaps across regions and reduce the need for jurisdictions to offer their own solutions to mitigate the impact of the current global SA-CCR standards.

The Industry strongly believes the reasons identified above warrant a review of SA-CCR in order to improve the effectiveness and risk sensitivity and to help ensure a level playing field in the CCR space via a consistent transposition into regional and national laws[9]. The Industry is currently developing a technical

[4] Basel Committee on Banking Supervision, Margin Requirements for Non-Centrally Cleared Derivatives (Sept. 2013), *available at* https://www.bis.org/publ/bcbs261.pdf

[5] 2022 ISDA Securities Financing Transactions Definitions: https://www.isda.org/book/2022-isda-securities-financing-transactions-definitions/

[6] Using publicly disclosed data for 6 US GSIB's, under Basel III standardized, the impact of adopting SA-CCR resulted in a permanent aggregate RWA increase of $124 Bn.

[7] Since April 2014, there have been 15 semiannual Basel III Monitoring Report QIS publications (bcbs289, d312, d334, d354, d378, d397, d416, d433, d449, d461, d477, d500, d512, d524, and d531)

[8] https://www.bis.org/publ/bcbs254.pdf

[9] The Basel Committee may leverage regional studies such as the one the EBA will conduct before June 2023 on the relative calibration of CCR exposure approaches (CRRII, article 514).

paper to present specific considerations for the SA-CCR standards that will serve to address the issues noted above. To the extent BCBS finds this paper beneficial, we would be happy to share this paper in the near term.

We remain committed to assist the BCBS in this endeavor, and stand ready to provide further evidence, technical solutions, and alternatives as needed to ensure that the revisions meet the intended objectives of the standard.

Yours sincerely,

Panayiotis Dionysopoulos	Richard Gray	Allison Parent
Head of Capital	Director, Regulatory Affairs	Executive Director
International Swaps and Derivatives Association	Institute of International Finance	Global Financial Markets Association