

London, 28 August 2024

Secretariat of the Basel Committee
on Banking Supervision (BCBS)
Bank for International Settlements
CH-4002 Basel, Switzerland

International Banking Federation response on BCBS Consultative Document *Guidelines for counterparty credit risk management*

Dear Secretariat of the Basel Committee

The International Banking Federation welcomes the opportunity to provide feedback on the BCBS's [Consultative Document](#) on Guidelines for counterparty credit risk (CCR) management. In this response we highlight several recommendations we have on the proposed guidelines.

We recognise the jeopardy that improperly managed counterparty credit risk can create for the financial system so support the Consultation Paper's (CP) focus on this risk type. But we are concerned that the Guidelines contemplate a 'zero risk' approach and may not allow firms the flexibility to manage CCR appropriately given the variable level of exposure to CCR they face, which will be dependent on their business model.

Proportionality

We strongly support the Committee's suggestion that firms should take a risk-based and proportionate approach in their assessment of counterparty credit risk (CCR). However, we are concerned that, despite the overarching risk-based proportionate approach, the detailed nature of the Guidelines could result in firms being required to undertake a tick-box exercise. Therefore, we ask BCBS to explicitly embed the option for firms to deploy risk-based approaches throughout the Guidelines, thus allowing firms to take approaches appropriate for their business model without potentially being deemed 'in breach' of the Guidelines. Different types of business undertaken with different types of counterparties pose variable CCR exposure risks to firms, depending on, for instance, the degree to which those counterparties are themselves regulated and governed. This is particularly the case with regard to non-bank financial institutions (NBFIs) where in, some well documented cases (e.g., Archegos), this risk has crystallised to the detriment of individual financial institutions. However, the CCR risks observed in the Archegos case are not necessarily reflective of the risks incurred in other product and client segments. The associated requirements should not, therefore, have to be applied in full to the widest set of counterparties.

We believe that the regulatory perimeter should be wide enough to address existing and emerging sources of systemic risk arising from NBFIs, ensuring a proper oversight of Non-Bank Financial Institutions.

Due Diligence and Monitoring

In respect of the proposed guidelines' expectations regarding due diligence and monitoring, we are concerned about the feasibility of obtaining in all cases the necessary information contemplated by the guidelines. This issue would be exacerbated if the final guidelines do not recognise the importance of a flexible, risk-based approach that allows banks to differentiate among client segments.

Onboarding a client can prove challenging. Our members of course routinely ask for the necessary information from new counterparties, importantly for KYC risk assessment purposes but market practice in some markets/products does not align to the provision of a full suite of information. This creates a 'first mover disadvantage' for any firm that might insist on the information or otherwise offboard the client. We understand that reporting on information that is proprietary, or which may have legal barriers to its disclosure is challenging. Policymakers should therefore consider efforts to standardise information provided by counterparties and to impose direct disclosure requirements for counterparties, rather than more indirect requirements on banks.

Given the heightened focus on operational resilience, we believe the sharing of information (perhaps in a standard template) on the performance and fall-back plans of any third-party custodians would allow more meaningful conversations with asset managers and other NBFIs which use the services of custodians. The BCBS could suggest that jurisdictional regulators require this information sharing as part of custodians' operational resilience frameworks.

Credit Risk Mitigation

The proposed Guidelines state that margin levels should account for market risk and also be sensitive to counterparty risk. We therefore suggest the BCBS should allow for some materiality-based sensitivity to be recognised in the margin framework, perhaps taking into account the level and frequency of information supplied by the client counterparty.

Exposure Measurement

The proposed guidelines state that banks should adjust the margin period of risk (MPOR) to account for excessive risks driven by concentrated and/or illiquid portfolios or collateral. As MPOR is prescribed under regulatory capital rules, we are concerned about the possibility that the proposed Guidelines could result in higher regulatory capital requirements, especially as the calibration of MPOR for SA-CCR and CVA risk in the Basel Framework is already highly conservative.

The consultation also states that: potential future exposure (PFE) as a measure of exposure at default should account for wrong-way risk (WWR)

'PFE as a measure of exposure at default should account for WWR'

However, we question the need for firms to include WWR in the calculation of PFE. Most firms regard WWR as a separate risk, with the impact of WWR being product dependent. This allows firms to create a more risk sensitive approach for less risky activity such as currency WWR. For example, if a foreign currency is being traded with a local bank (e.g., selling Turkish lira to a Turkish bank) this will be recognised as less risky in the WWR framework than trading self-referencing

repos for example. We believe that firms should be permitted to separately monitor PFE and WWR.

Our members would also like to see a more formal definition for WWR, using a scenario/stress-based approach or, failing that, one that takes into account the potential effect on the changing credit worthiness of counterparties. This would provide greater consistency of industry approaches. Members also believe that general wrong-way risk and specific wrong-way risk should be considered separately. This is because using a blunt PFE calculation that does not differentiate between the two can create hidden risks, particularly for over collateralised netting sets potentially masking large mark-to-market, collateral return and settlement risk.

Governance

Whilst we agree with the range of attributes requested in the BCBS guidelines, namely responsibility, seniority and expertise, together with a clearly defined escalation framework, we do not believe that responsibility should be assigned to a specific role holder who is specifically designated as a CCR manager as is suggested in the consultation. We would rather suggest firms should be allowed to take a flexible approach, to which individual takes responsibility for CCR depending on their organisational structure. This is especially important for jurisdictions where the BCBS standards have been adopted by regulation in all banks irrespective of their size, not only the large internationally active ones.

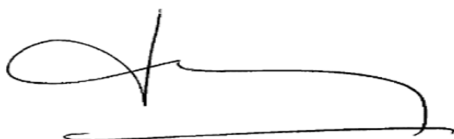
We are currently unclear as to what the BCBS means by '*independent*' when it states that:

'The metrics in use to quantify risk at any stage of the CCR management should undergo the appropriate level of internal governance and independent review applicable to the models used, irrespective of any perceived analytical simplicity'

Our current understanding is that by "independent" the BCBS means a department outside of the credit risk department and not necessarily outside of the bank. However, if this is not the case, we would like some clarity on what the BCBS' expectations are around this.

Thank you for considering our comments. We would be pleased to discuss our response at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to be 'Hedwige Nuyens', with a long horizontal flourish extending to the right.

Hedwige Nuyens
Managing Director IBFed