



February 25, 2020

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2, CH-4002 Basel, SWITZERLAND

Dear Sirs and Madams:

The Futures Industry Association (“FIA”)¹ welcomes the opportunity to comment on the Basel Committee on Banking Supervision (Committee) consultation on Credit Valuation Adjustment Risk: targeted final revisions.

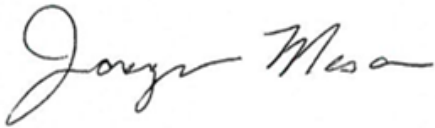
FIA acknowledges the revisions to client clearing by reducing the floor MPOR to five business days from ten. However, FIA believes that client cleared derivatives should be removed from the scope from CVA. This is primarily because the only counterparty credit risk related losses that a bank can incur in client clearing is when there is an actual default of the client and this is fully captured through the existing counterparty credit risk default charge (CCR). Moreover, the initial margin required by central counterparties (CCPs) to be posted on behalf of clients by clearing members is in general adequate to mitigate the gap risk as a result of a client default.

Client cleared transactions (CCTs) are not accounted for on the bank’s balance sheet as the bank does not assume principal risk in these transactions. The bank rather acts as a clearing member in an agency / intermediary capacity to facilitate the clearing of trades for the client. Any losses are borne directly by the client, not the bank clearing member. Given that CCT are off balance sheet, there is also no CVA recorded against these transactions. In this respect it is unclear what the CVA tries to capitalize as any possible losses as a result of the default of the client is captured through CCR. As such, the CVA capital charge unnecessarily penalizes client clearing contrary to the G20 goal to incentivize clearing as part of the post-crisis derivatives reform.

¹ FIA’s mission is to support open, transparent and competitive markets; protect and enhance the integrity of the financial system; and promote high standards of professional conduct. As the principal members of derivatives clearinghouses worldwide, FIA’s clearing firm members play a critical role in the reduction of systemic risk in global financial markets.

FIA recommends removing CCTs from CVA to align with actual economics of a defaulting client and with accounting practices, one of the stated rationale for revising the CVA framework. FIA would be happy to answer any questions or concerns relating to the above. Please feel free to contact me at 202-772-3040 or jmesa@fia.org

Sincerely,

A handwritten signature in black ink that reads "Jacqueline Mesa". The signature is written in a cursive, flowing style.

Jacqueline Mesa
COO and SVP, Global Policy
FIA