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Market risk

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Basel Committee on Banking Supervision

BIS: Technical Amendment - Hedging of Counterparty Credit Risk Exposures

- The Basel Committee on Banking Supervision (BIS) has finalized a technical amendment (TA) to the Basel Framework, clarifying **the treatment of fixed or capped guarantees and credit derivatives used to hedge counterparty credit risk (CCR) arising from derivative exposures**. This amendment addresses ambiguities in the application of risk mitigation and aligns these instruments more closely with the treatment of collateral.
- The amendment applies specifically to fixed or capped protection used in the context of derivative exposures calculated under the **Standardised Approach for CCR (SA-CCR) or Internal Models Method (IMM)**.
- **Key changes** from the consultation version include: **Scope Clarification** - The TA explicitly excludes SFTs and securitisations and applies only to fixed or capped protection for derivative exposures; **Proportionate Protection Handling** - The final version incorporates expectations and formulae for adjusting exposure at default (EAD) when only partial protection (capped proportionate) is provided; **Simplified EAD Calculation** - The prior "higher of" rule for EAD has been replaced.

Now, the unprotected portion of the exposure is calculated by treating the protection as a fixed cash collateral amount within the netting set; **Application of Haircuts** - The amendment mandates applying currency and maturity mismatch haircuts consistent with other Basel provisions.

- Importantly, **the TA does not alter the EAD** used for calculating credit valuation adjustment (CVA) risk. Furthermore, it sets out specific guidelines for scenarios involving pari passu or pro rata loss-sharing structures and outlines how banks using the Advanced IRB approach should incorporate protection into LGD estimates.
- The revised standard will be implemented by **1 November 2028**, and regulators will monitor for circumvention or unintended effects that may necessitate further adjustments.

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