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



Japanese Bankers Association

## **JBA comments on the BCBS Consultative Document: “Guidelines for counterparty credit risk management”**

Dear Basel Committee members:

The Japanese Bankers Association<sup>1</sup> (JBA) appreciates the opportunity to provide our comments on the Basel Committee on Banking Supervision’s (BCBS) Consultative Document: “*Guidelines for counterparty credit risk management*” (the “Consultative Document”) released on 30 April 2024.

The JBA supports the BCBS’s efforts to enhance counterparty credit risk (CCR) management. However, applying the proposals in the Consultative Document uniformly across all areas of CCR management could increase the cost of risk management and hinder banks from appropriately allocating resources according to the risk level. Therefore, as detailed in our comments below, we believe it should be clarified that a risk based and proportional approach applies to all areas.

We hope that our comments will contribute to further discussions at the BCBS.

### **Proportionality**

The Consultative Document states “to all types of counterparties” in “1. Introduction” on page 3; however, rather than uniformly requiring the proposed guidelines to be applied for all parties, it is preferable that flexibility be allowed for modifying them according to the risk. Considering that most corporate entities are unable to engage in collateral transactions, we believe that CCR management tailored to the risk of the counterparty should be permitted.

### **Due diligence and monitoring/Onboarding**

Regarding paragraph 9, for banks that establish client relationships without engaging in prime broker (PB) business, it is not practicable for such banks to obtain information at the level of “such as their level and sources of liquidity and how the orderly liquidation of underlying positions might occur” from the counterparties. The BCBS should clarify that banks could establish a relationship with clients based on the information available as much as possible from them.

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<sup>1</sup> The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of August 1, 2024, JBA has 114 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 74 Associate Members (banks & bank holding companies), 49 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 241 members.

## **Exposure measurement/Potential future exposure**

It is unclear whether the application of potential future exposure (PFE) is mandatory. Although the measurement methods are described based on the premise that PFE is used, applying PFE to all counterparties would result in an excessive cost increase. The BCBS should add specific examples or detailed explanations on how authorities and financial institutions in various countries are expected to utilise this CCR guideline, especially in cases where the institutions do not engage in transactions with high-risk customers.

Furthermore, in the Consultative Document, it is mandated that stress testing be utilised to complement the limitations inherent in the PFE model (paragraph 57). Within the context of stress testing, there is a requirement to capture idiosyncratic risk, concentration risk, and liquidity risk (paragraphs 60, 61, 63) while the PFE model is also required to capture such risks (paragraph 52). Therefore, the consideration of idiosyncratic risk, concentration risk, and liquidity risk is redundantly required in both the PFE model and stress testing. However, incorporating these risks into the PFE model is not always practically feasible, and when these risks are not considered within the PFE model, it is imperative to capture these risks within stress testing to compensate for such limitations of the PFE model. This we understand is the essence of the guideline, particularly paragraph 57. It is sufficient for these risks to be captured in either the PFE model or stress testing, and the decision on which tool is used to capture these risks should be left to the discretion of the banks. We propose that the following sentence be added to the end of paragraph 52: “Should the risks discussed in this paragraph (for example, idiosyncratic risk, concentration risk, liquidity risk) not be captured within the PFE model, it is crucial to consider these risks within stress testing.”

## **Exposure measurement/CCR stress testing**

Stress testing for CCR is required to complement the exposure measurement through PFE, but conducting stress tests for all counterparties may place a significant load on the system. On the other hand, conducting the same uniform test for all counterparties may have limited effectiveness, considering that the individual trading conditions (such as the type of collateral and the size of exposure) and their risk tolerance vary across counterparties. Therefore, we would like to request permission to conduct stress tests individually as needed, taking into account the specific circumstances of each counterparty.

## **Governance/Limit governance and exception management**

Regarding the establishment of an intraday monitoring system in paragraph 98, it would impose excessive costs on banks. Balancing the level of system enhancement and the investment effect needs to be carefully considered. We believe that a decision can be made to continue business based on the judgment that risks are sufficiently controlled through daily monitoring.

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We thank the BCBS again for the opportunity to comment on the Consultative Document and hope our comments will contribute to further consideration in the BCBS.

Yours faithfully,

Japanese Bankers Association