31 January 2025

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: "Technical Amendment - Hedging of counterparty credit risk exposures"

Dear Basel Committee members:

The Japanese Bankers Association[1] (JBA) appreciates the opportunity to provide our comments on the Basel Committee on Banking Supervision's (BCBS) Consultative Document: "*Technical Amendment - Hedging of counterparty credit risk exposures*" (the "Consultative Document") released on 27 November 2024.

The JBA supports the BCBS's efforts to enhance counterparty credit risk (CCR) management. However, applying the proposals in the Consultative Document could impose significant costs on banks while having a limited impact on risk-weighted assets (RWA) and capital adequacy ratios. Therefore, as detailed below, we believe simplified measures should be permitted. Furthermore, if the proposed amendments are to be implemented, some aspects of the proposals remain unclear and require further clarification.

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

Allowance for simplified measures

The BCBS should allow banks to calculate the protected amount and unprotected among simply by the calculation methodology indicated in 51.19(2). For banks where CCR-related transactions account for only a small portion of their overall exposure, or where the use of CDS or guarantees for the purpose of hedging CCR is very limited, the impact of addressing this issue on RWA and capital adequacy ratios is expected to be extremely limited. The proposed amendments require banks to calculate both 51.19(1) and 51.19(2), however it would present significant practical challenges and incur substantial system development costs, with low cost-effectiveness. The following practical challenges can be envisaged when implementing the measures in detail, and it is considered extremely difficult to deal with.

[1] The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of January 1, 2025, JBA has 112 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 239 members.

- Modifications are required for the logic that was developed over time and at considerable cost, based on the finalised standardised approach for CCR (SA-CCR) and Basel III rules.
- Specifically, introducing SA-CCR calculations that assume cash collateral equivalent to the maximum contingent claim and those that assume no hedge would require large-scale system changes.

Given these practical challenges, if risks can be adequately captured by simplified measures, it is considered reasonable to permit banks to adopt these measures. For instance, the following approaches should be allowed when a bank utilising guarantees is able to manage risks and address exposures beyond the amount of guarantee limits (as proposed in 51.19(2)).

- When using guarantees whose protection amount is fixed for derivative transactions, the bank recognises the amount of guarantee limits within its internal system for capital calculation.
- By subtracting the amount of guarantee limits from the exposure at default (EAD) calculated using the SA-CCR without recognising any credit risk mitigation, the EAD of the unprotected portion is calculated. This portion is then treated as counterparty risk for the original derivative transaction, and RWA is calculated accordingly.

If such approaches are not permitted, the level of difficulty of system development is so large that it cannot be addressed in at least a short period of time, and as a result, a conservative approach to regulatory capital calculations (e.g., uniformly not considering hedging against CCR) will have to be taken, and internal risk management activities may become more difficult.

Given these considerations, we request that simplified measures be considered in accordance with the impact, rather than requiring the application of this amendment in any case.

Alternatively, should the proposed amendments be adopted, a considerable period of time will be required for system development. In this case, we request that a sufficient period of time be set aside before the amendments are implemented. We estimate that at least five years will be needed for system development after the amendments are finalised in each jurisdiction.

Items that need clarification

In CRE51.19 of the Consultative Document, it is unclear whether foreign exchange risk should be considered when the denomination currency of the exposure differs from that of the credit derivative. We believe it is necessary to include specific guidance on haircuts in cases where credit derivatives are treated as equivalent to a fixed amount of cash collateral.

Additionally, CRE51.19 does not clarify the treatment of the maturity factor when credit derivatives are treated as equivalent to a fixed amount of cash collateral in the add-on calculation. We understand that this amendment should not require changes to the maturity factor. Therefore, the maturity factor should follow CRE52.48 if the hedged exposure is unmargined and it should follow CRE52.52 if the hedged exposure is margined. We would like this point to be clarified in the finalised document.

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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