

Mr. Stefan Ingves

Chairman, Basel Committee on Banking Supervision

Re: BCBS 251 Consultative Document – Revised Basel III Leverage Ratio framework & disclosure requirements.

Dear Sir,

1. CCP12, a global association of 32 major central counterparty organizations¹, wishes to congratulate the Basel Committee on Banking Supervision (BCBS) for publication of a document on the above-stated subject which seeks to touch upon all relevant issues. It also welcomes the opportunity to put forward its views on the subject.

2. As may be appreciated, many of the BCBS proposal for changes may have significant impact on the avowed G-20 goals of promoting central clearing of OTC derivatives. BCBS has published two other consultation papers BCBS 253 on *Capital treatment of bank exposures to central counterparties* and BCBS 254 on *The non-internal model method for capitalizing counterparty credit risk exposures*, for which the consultations are running concurrently. When viewed collectively, CCP12 gets a feeling that the standards proposed through these consultative documents are possibly somewhat conflicting, can be seen to disincentivize clearing, and as a result, could encourage OTC products to remain in un-cleared status, thus re-enforcing the problems seen in the 2008 crisis for OTC derivatives, and otherwise work against the BCBS's stated policy goal of crafting standards that seek to incentivize clearing of clearable OTC derivatives.

3. In the following sections, the issues identified in the Consultative document on Revised Basel III Leverage Ratio Framework and Disclosure Requirements (BCBS 251) has been elaborated. Paragraph 26 of the text states "Collateral received in connection with derivative contracts has two countervailing effects on leverage: (1) it reduces counterparty exposure; but (2) it can also increase the economic resources at the disposal of the bank, as the bank can use the collateral to leverage itself (eg cash collateral can be on-lent, non-cash collateral can be on-lent or sold)." Para 27 therefore disallows netting for collaterals received.

ii) While CCP12 does not intend to opine on how banks choose to use collaterals received from clients in relation to uncleared OTC derivatives contracts, the collateral received from clients for centrally cleared derivatives is prohibited by certain regulatory bodies from being used to leverage the financial resources at a bank. The above-mentioned statement in para 26 is thus inaccurate for collateral received for derivatives that are subject to central clearing at a QCCP. CCP12 research has shown that the suggested approach in counting client collateral for exposures will, based on inappropriate consideration, probably take away the rightful exemption that client collateral relating to CCP clearing should get and thus will indirectly incentivize uncleared and unmarginated derivatives, contrary to the G20 mandate.

iii) Additionally, depending on the accounting treatment for the centrally cleared derivatives, cleared transactions could be viewed as having two legs in an agency model, and potentially three legs in a principal model. This view is based on potential issues with legal netting allowed across the counterparties under the BCBS and the IFRS/GAAP accounting treatments, as well as the underlying assumption of whether or not the clearing member firm is guaranteeing the performance of a client's trade with a CCP. The end result would be a leverage requirement for centrally cleared derivatives of double or triple the amount required for uncleared derivatives.

4. CCP12 therefore ask the BCBS to consider allowing a deduction from the leverage ratio exposure quantification for client collateral held for centrally cleared derivatives and to clarify and correct the number of exposure legs associated with centrally cleared derivatives in order to accurately reflect the underlying economics and binding legal nature of those arrangements.

5. CCP12 appreciates your consideration of this letter and looks forward to working with you to advance the steps being taken for safer OTC Derivatives markets.

Sincerely,

Siddhartha Roy
Chairman, CCP12

Attachments: Annex 1: List of CCP12 Member Organizations

¹ About CCP12

Formed in 2001, CCP12 is a global association of 32 major central counterparty clearing house organisations across Africa, the Americas, Asia, Australia and Europe. CCP12's mission is to collaboratively share information, support development of standards and liaise with regulators, industry groups and global market users to foster dialogue on areas of mutual interest and concern, and to promote best practices in CCP risk management and operations.

For further information about CCP12 activities or to enquire about joining CCP12, please contact the current Chair, Mr Siddhartha Roy, Chief Risk Officer, The Clearing corporation of India Ltd., Mumbai at +91 22 6154 6411 or via sroy@ccilindia.co.in