

## Statement on the feedback received for draft Amendment Directions

### Subject: Counterparty Credit Risk - Add-on factors for computation of Potential Future Exposure

**1. Paragraph 4:** The Table included under Annex 2 of the circular dated August 8, 2008 (incorporated as Table 9 under paragraph 5.15.3.4 of the Basel III Master Circular) is hereby substituted by the following, namely: -

**Table 9: Credit Conversion Factors for Market-Related Off-Balance Sheet Items**

	Credit Conversion Factors (%)				
	Interest Rate Contracts	Exchange Rate Contracts and Gold	Equities*	Precious Metals except Gold*	Other Commodities*
One year or less	0.25	1.00	6.00	7.00	10.00
Over one year to five years	0.50	5.00	8.00	7.00	12.00
Over five years	1.50	7.50	10.00	8.00	15.00

\* Applicable only in respect of CCR exposures of eligible banks acting as clearing members of SEBI recognised stock exchanges in the equity derivatives and commodity derivatives segments

**(i) Feedback:** Considering that there could be broking subsidiaries in a banking group which are trading and clearing members of SEBI recognised stock exchanges, the guideline may clarify applicability on clearing exposure of such broking subsidiaries.

**RBI Comments: Accepted.** A note has been added stating that a Regulated Entity (RE) shall include CCR exposures of all entities required to be consolidated as per the Basel III framework, while computing capital on a consolidated basis.

**(ii) Feedback:** As per extant guidelines, the add-on factor for interest rate contracts which have residual maturities of more than one year and meet specified criteria, are subject to a floor. This floor may be reviewed in line with the revised add-on factors in the draft guidelines.

**RBI Comments: Accepted.** The floor has been reduced from 1.00 per cent to 0.50 per cent, in line with the reduction in add-on factors in the Amendment Directions.

**(iii) Feedback:** Clarity sought on whether the revised add-on factors for interest rate derivatives and foreign exchange derivatives shall also be applicable to outstanding deals prior to the implementation date of the revised guidelines.

**RBI comments: Accepted.** It has been clarified that all CCR exposures outstanding on the date of final issuance of these Amendment Directions will be subject to the PFE revised add-on factors as per the Amendment Directions.

**(iv) Feedback:** Clarity sought on the definition of 'Precious Metals'.

**RBI Comments: Accepted.** The list of metals / commodities to be included under both 'Precious Metals' and 'Other Commodities' under the Amendment Directions has been provided.

**(v) Feedback:** Where the RE acts as a clearing member, it may be clarified that the Clearing Member - Qualifying Central Counterparty (QCCP) leg of a client trade shall not be considered as Trade Exposure of the RE on the QCCP, provided that the clearing member, as per its legal agreement with the client, does not undertake any liability for default by QCCP.

**RBI Comments: Accepted.** In alignment with the relevant BCBS Basel III guidelines, the Amendment Directions have been revised to clarify that an RE acting as clearing member for client transactions is not required to maintain capital for such transactions (for the trade exposure to the QCCP), if it is not obligated to reimburse the client for losses in case of default by the QCCP. As a safeguard, this exemption will be subject to the RE obtaining and maintaining an independent, written, and reasoned legal opinion that it is protected from any liability in case of QCCP defaults.

**(vi) Feedback:** Where Variation Margin Credit Support Annex (CSA) / collateralise to market CSA arrangement is in place, CCF of 1 year, irrespective of the tenor of the contract or reduced add-on factors may be considered.

**RBI Comments: Not Accepted.** Under the Current Exposure Method approach, such preferential treatment for margining and collateralisation is not permitted. The proposed Standardised Approach for Counterparty Credit Risk (SA-CCR) framework would provide benefit based on the frequency of margining and collateralisation.

Some policy suggestions, which are outside the remit of the draft Amendment Directions, are being examined separately.