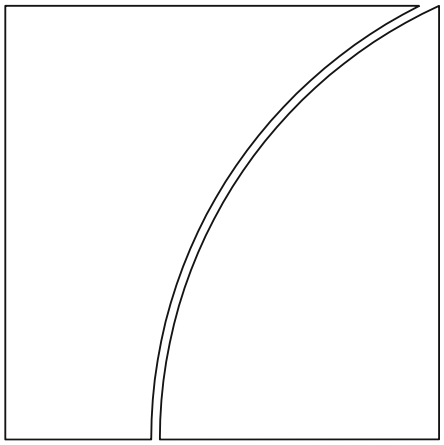
Basel Committee
on Banking Supervision

Technical Amendment



Various technical amendments and FAQs

Technical amendments issued for comment by 19 August 2024

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Introduction

To promote a consistent global implementation of the Basel Framework, the Basel Committee on Banking Supervision[1] regularly monitors and reviews issues that arise from the implementation of its standards. Where necessary, it publishes clarifications and interpretative guidance. In some instances, implementation issues can be clarified in the form of answers to frequently asked questions (FAQs), without any changes to the standard. On other occasions, the issue, though minor in effect, cannot be resolved unambiguously without an amendment to the text of the standard itself. In these cases, the Committee has decided to publish the clarification as a proposed technical amendment. Such amendments will be published for a short consultation period, typically for 45 calendar days.

Set out below are two technical amendments to the Basel Framework on which the Basel Committee would welcome feedback. The first addresses an inconsistency in the definition of specialised lending between the standardised and internal ratings-based (IRB) approaches to credit risk. The second aims to align the formula for aggregating curvature risk positions for Group 2a cryptoasset exposures with the formula applied to other asset classes under the market risk framework.

The Committee has also finalised a set of FAQs that will be added to the Basel Framework and are set out in the annex for information.

CRE20.48: Specialised lending

Paragraph CRE20.48 (2023 version) of the standardised approach to credit risk includes the following definition of specialised lending: *"A corporate exposure will be treated as a specialised lending exposure if such lending possesses <u>some or all</u> of the following characteristics, either in legal form or economic substance…."* Under the IRB approach, the definition set out under CRE30.7 is the following: *"In addition to general corporates, within the corporate asset class five sub-classes of specialised lending (SL) are identified. Such lending possesses <u>all</u> the following characteristics, in legal form or economic substance…."* To align the text in the standardised and IRB definitions, the following technical amendment is proposed:

CRE20.48 *A corporate exposure will be treated as a specialised lending exposure if such lending possesses ~~some or~~ all of the following characteristics, either in legal form or economic substance:*

[…].

SCO60.80: Curvature charge for Group 2a cryptoassets

Paragraph SCO60.80 (2022 version) of the cryptoasset exposure standard prescribes the formula for aggregating curvature risk positions within a bucket for Group 2a cryptoasset exposures. The current formula sums the absolute values of curvature sensitivities and would result in a curvature capital charge for long option positions, even though these would generate delta-adjusted gains in the curvature shock scenarios (ie negative curvature risk sensitivities). For all other asset classes under the market risk framework, a single long option position would generate zero curvature capital, rather than a positive curvature charge. In addition, hedging transactions would also result in increased curvature capital using this formula. Flooring $CVR^{+}$and CVR^{-} at zero avoids setting capital requirements for negative curvature. This formula still provides a conservative aggregation for positive curvature risks (by simple sum) without allowing any offset against negative curvature from other equities (by flooring $CVR^{+}$and CVR^{-} at zero

[1] The Basel Committee on Banking Supervision is the primary global standard setter for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability.

before summation). To align the treatment of Group 2a cryptoassets with other asset classes, the following technical amendment is proposed:

SCO60.80 *For aggregating curvature risk positions within a bucket, the following formula must be used:*

$$K_b = \max(K_b^+, K_b^-), where$$

$$\cancel{K_b^+ = \sum_k |CVR_k^+| \text{ and } K_b^- = \sum_k |CVR_k^-|}$$

$$K_b^+ = \sum_k \max(CVR_k^+, 0)$$

$$K_b^- = \sum_k \max(CVR_k^-, 0)$$

Annex: FAQs that will be added to the Basel Framework

Set out below are eight FAQs that will be added to the Basel Framework. FAQs are intended to clarify the intended interpretation of the standards and promote their consistent global implementation. As they do not change the standards themselves, they are issued in final form and are not subject to public consultation.

CRE50.19 (2023 version)

What is the meaning of "last exchange of collateral" in CRE50.19?

The "last exchange of collateral" in CRE50.19 should be interpreted as the market observation date corresponding to the last margin call the counterparty would respond to by posting the required collateral prior to its assumed default. The market value of the netting set on that date determines the collateral available to the bank at the assumed closeout at the end of the margin period of risk (MPOR). This means that the settlement process does not influence the length of the MPOR.

OPE10.2 (2023 version)

When should derivative assets be included in interest earning assets?

The interest rate derivative assets that, depending on the accounting treatment under the applicable accounting standard, affect a bank's interest income (as included in the interest, leases and dividend component of the business indicator) should be included in interest earning assets used in the calculation of the interest, leases and dividend component. These derivative assets should be captured at their fair value (not their notional value). The fair value used must be positive. A negative fair value should not be subtracted.

OPE25.10 (2023 version)

Should average annual operational risk losses be calculated net of recoveries?

Yes. Consistent with OPE 25.25, average annual operational risk losses used in the calculation of the internal loss multiplier should be net of recoveries.

MAR21.34 and 21.58 (2023 version)

In accordance with MAR21.58(1), sensitivities to credit spread risk (CSR) arising from the correlation trading portfolio (CTP) should be classified according to the same bucket structure as the one for CSR non-securitisation, as set out in MAR21.51, except for index buckets (bucket 17 and bucket 18). Since an index CTP should be considered a risk factor as a whole and cannot be broken down into its constituents, as stated in MAR21.34(2), how should a bank determine which bucket to assign the delta sensitivity of an index CTP instrument, given the aforementioned bucket structure?

The delta CSR sensitivity of an index CTP instrument should be assigned to a single specific delta sector bucket consistent with the characteristics of, at least, 75% of the index constituents (taking into account the weightings of that index), in accordance with MAR21.33(1). If this is not possible, then the index should be assigned to bucket 16, "Other sector". The sensitivity to that index CTP instrument should be considered and treated like any other single-name sensitivity assigned to that same sector bucket.

MAR21.99 and 21.23 (2023 version)

In relation to the curvature risk capital requirement for the commodity risk class, MAR21.99 requires that the curvature risk weight is the parallel shift of all the tenors for each curve based on the highest prescribed delta risk weight for each bucket. A parallel shift in MAR21.99 implies that an

additive shock (in absolute terms) is applied along the curve. However, MAR21.23 states that the shock applied to delta commodity is a relative shock. How should the shock be applied to commodity curvature?

The sizes of upward and downward shocks applied to assess the net curvature risk capital requirement for a specific commodity´s curvature risk factor should be based on the risk weight connected to the curvature bucket where that commodity is classified, in accordance with MAR21.97 and MAR21.82. The same relative shocks should be applied to all curvature risk factors classified under the same bucket, defined along the dimension of the constructed curve (ie no term structure decomposition) per each commodity spot price, as described in MAR21.13(3). For example, the constructed curve for gold (with a risk weight of 20%) would be shifted up by multiplying each tenor price by 1.2 and down by multiplying each tenor price by 0.8.

MAR30.2 (2023 version)

How are the capital requirements for modellable risk factors (internally modelled capital charge, IMCC), stressed expected shortfall (SES) and default risk charge (DRC) calculated for reporting at the end of each quarter? More precisely, how are the results of backtesting at the trading desk level, the profit and loss attribution test (PLAT) at the trading desk level, and the risk factor eligibility test (RFET), as well as a change of a stress period and a reduced set of risk factors, considered in the calculation of the single risk figures used to determine the average capital numbers at the end of the quarter?

The scope of desks approved and eligible for the internal models approach (IMA) capital requirement calculation at the end of the quarter should be based on the results of backtesting and PLAT at the trading desk level. The PLAT and RFET must be performed quarterly. The Basel Framework does not specify in detail when these tests must be performed during the quarter but requires that "the bank's risk management system is conceptually sound and is implemented with integrity". Therefore, risk measures (Expected Shortfall (ES), SES, DRC) entering the 60-day (or 12-week) averages used for IMA capital computation at the end of the quarter should be calculated based on a stable set of desks. To calculate those risk measures, the results of the backtesting, PLAT and RFET should be used to update the set of eligible trading desks as well as the reduced set and the stressed period at the beginning of the 60-day (or 12-week) calculation period. To ensure representativeness, banks should ensure that the dates on which the backtesting and PLAT conclude and the RFET is performed are sufficiently close to the beginning of the 60-day (or 12-week) calculation period (the end of the previous quarter).

MAR40.2 (2023 version)

Should the scaling factors under the simplified standardised approach be applied to capital requirements calculated for securitisation positions?

The scaling factor for interest rate risk should be applied to all capital requirements calculated in MAR40.3 to MAR40.40.

NSF30.9 (2019 version) and NSF30.24 (2019 version)

Does the deduction of variation margin from replacement cost in connection with a derivative or bilateral netting contract include the portion of variation margin that is in excess of the replacement cost amount of that derivative or bilateral netting contract? Or do national supervisors allow a variation margin deduction only up to the amount of the derivative asset or liability?

While national discretion exists on this matter, the amount of variation margin in connection with a derivative or bilateral netting contract that is in excess of the replacement cost of that derivative or bilateral netting contract must be adequately captured. This can be done by considering the full amount of variation margin in the calculation of the bank's net derivative asset or liability, or by excluding any amount of variation margin that is posted or received in excess of the replacement cost of the corresponding derivative

or bilateral netting contract and treating them according to the corresponding balance sheet treatment (ie, typically a loan), the period of encumbrance and, where applicable, the type of counterparty. ~~The Committee intends to monitor the impact of this national discretion.~~