

CFTC Commissioners Propose a Standardized Approach for Measuring Counterparty Credit Risk

Article By:

Kevin M. Foley

Laura N. Krcmaric

On February 15, four members of the Commodity Futures Trading Commission (Commissioner Stump recused herself) filed a comment letter regarding the standardized approach for calculating the exposure amount of derivative contracts proposed by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (the Agencies). In 2018, the Agencies proposed a standardized approach for measuring counterparty credit risk (SA-CCR), which would replace the current exposure methodology (CEM) as an alternative method for calculations under the Agencies' capital rules.

Under the proposed rules, large banking organizations (i.e., firms with \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance sheet foreign exposure) would be required to use SA-CCR to calculate both standardized total risk-weighted assets and the supplementary leverage ratio (SLR). Smaller banking organizations could elect to use either CEM or SA-CCR to determine exposure for derivative contracts.

In their comment letter, the Commissioners explained that bank capital standards, when implemented appropriately, should not deter central clearing for swaps. However, the Commissioners believe that the existing capital standards (and in particular the SLR) are counterproductive, "limiting access to derivatives risk management strategies and discouraging the central clearing of standardized swap products." Further, imposing an SLR without also permitting an offset for the initial margin that clearing members hold on behalf of clients (as proposed) could have a substantial adverse impact on clearing members. Without changes to the SA-CCR, therefore, clearing members could curtail the provision of clearing services or exit the clearing business altogether.

The comment letter is available [here](#).

©2024 Katten Muchin Rosenman LLP

Source URL: <https://www.natlawreview.com/article/cftc-commissioners-propose-standardized-approach-measuring-counterparty-credit-risk>