

Response to feedback received

Capital Adequacy Framework (Exposures to Central Counterparties)

Introduction

The Bank issued today the policy document on *Capital Adequacy Framework (Exposures to Central Counterparties)* for financial institutions. This policy document incorporates feedback received during the consultation period to refine the proposals from the exposure draft issued on 16 December 2022.

The Bank received responses from 35 respondents during the consultation period. Respondents were broadly supportive of the proposed requirements in the exposure draft.

This document comprises the Bank's responses to key feedback received during the consultation period. Other comments and suggestions for clarification, where relevant, have been incorporated in the policy document.

Bank Negara Malaysia

15 December 2023

A. Qualifying Central Counterparties (QCCP)

1. Assessment in determining if a CCP is a QCCP

Feedback received

Respondents currently do not perform any formal assessment on the financial strength of the CCPs that they deal with, including the assessment against the QCCP criteria. To facilitate implementation of the requirements, some respondents have requested the Bank to issue a list of QCCPs, covering both local and foreign QCCPs.

The Bank's response

- 1.1 It is the responsibility of the financial institutions (FIs) to conduct an assessment on the financial strength of the CCPs and whether the CCP is a qualifying CCP for purposes of capital adequacy computation. FIs can be informed by public statements issued by the CCP or the central bank / CCP regulator of that jurisdiction.
- 1.2 The Bank would like to emphasize that FIs must conduct the assessment on the financial strength of the CCP on an ongoing basis, as set out in paragraph 7.1 of the policy document.

B. Treatment of Posted Collateral

2. Capital requirements for counterparty credit risk on collateral posted

Feedback received

Respondents have highlighted the challenge in assessing whether the collateral posted by the FIs to the CCP is held by an entity that is bankruptcy-remote from the CCP.

Some respondents also sought clarity on the interlinkages of requirements under the *Principles for Financial Market Infrastructures (PFMI)* and the Basel capital framework relating to collateral posted under bankruptcy-remote arrangements for exposures to CCPs.

The Bank's response

- 2.1 FIs must assess the counterparty credit risk on the collateral posted to the CCP even under conditions where the CCP meets the PFMI requirements on the segregation and portability of the collateral. This reflects the inherent risk that the collateral is exposed to the credit risk of the entity holding the collateral, which could be the CCP itself.
- 2.2 FIs should apply a more conservative treatment, if they are not able to determine that the collateral is not held under a bankruptcy-remote arrangement. This would be on top of the capital requirement for trade exposures to QCCP, as set out in paragraphs 8.1 to 8.5 and paragraphs 8.9 to 8.14 of the policy document.