

May 31, 2021

## Implementation timeline for the Basel III Standards

The Global Association of Central Counterparties – CCP12 – respectfully requests that local regulatory authorities coordinate globally on the implementation timelines of the Basel III standards. We also ask that these authorities provide transitional arrangements, if necessary, such that foreign central counterparties (“CCPs”) could continue to be treated as qualifying CCPs (“QCCP”) under their bank and bank-affiliated clearing members’ local regulatory regimes, despite any timing gap in the foreign CCP’s domestic regulatory regime for the implementation of the Basel III standards. In particular, diverging local implementation timelines of the Basel Committee on Banking Supervision’s (“Basel Committee”) Basel III standards could hinder the ability of banks to continue to be able to treat a foreign CCP as a QCCP relative to a CCP’s adoption of the *Standardized approach for counterparty credit risk* (“SA-CCR”)<sup>1</sup> for calculating its hypothetical capital requirement (i.e., “ $K_{CCP}$ ”).<sup>2</sup> CCP12 is concerned that possible divergences of local implementation timelines could have unintended knock-on effects on certain bank and bank-affiliated clearing members, if they are unable to obtain a hypothetical capital requirement from CCPs that are domiciled in jurisdictions other than their own (i.e., foreign CCPs) in the manner that is required under the prudential regulations for which these clearing members are subject.

By way of example, a clearing member’s prudential regulator may require that a foreign CCP’s hypothetical capital requirement be calculated under SA-CCR, as implemented by the foreign CCP’s home country in a manner consistent with the Basel Committee’s methodology. This approach would appropriately allow a foreign CCP to calculate its  $K_{CCP}$  using SA-CCR pursuant to the globally agreed standard, and not under methodologies tailored to each jurisdictional regime to which its clearing members are subject, to be deemed as a QCCP in all relevant jurisdictions. However, this still could present potential challenges if local jurisdictions have different implementation timelines for the Basel Committee’s standards, including the use of SA-CCR by a CCP for calculating its  $K_{CCP}$  figure.

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<sup>1</sup> See <https://www.bis.org/bcbs/publ/d424.pdf>

<sup>2</sup> See ¶ 207 of *Basel Committee’s standard on Capital requirements for bank exposures to central counterparties*, available at <https://www.bis.org/publ/bcbs282.pdf>.

The Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision, endorsed the Basel III standards, including the use of SA-CCR in the *Standardized approach for credit risk* in December 2017, which included endorsing an implementation date of 1 January 2022. In March 2020, the Basel Committee endorsed deferring the implementation date of certain standards finalized in December 2017<sup>3</sup>, by one-year, to 1 January 2023.<sup>4</sup> The Chairman of the Basel Committee noted that this would “free up operational capacity for banks and supervisors as they respond to the economic impact of Covid-19.”<sup>5</sup>

Unless properly addressed, the timing gap for the implementation of the Basel Committee’s standards could result in certain clearing members (and their clients) facing potentially prohibitive capital charges for their cleared trades and default fund contributions compared to other clearing members of the same CCP, due to their applicable local regulatory regime.

CCP12 notes that the highly regulated status and risk management requirements for QCCPs are unchanged during such a possible temporary period. Thus, any unintended knock-on effects on the ability of bank and bank-affiliated clearing members to treat foreign CCPs as QCCPs due to an inconsistency in local implementation timelines of certain Basel III standards should be addressed by local regulators and policy-makers, where necessary.

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<sup>3</sup> CCP12 notes that the targeted implementation of January 2017 for the Basel Committee's standard on *Capital requirements for bank exposures to central counterparties*, which incorporates the use of SA-CCR, was not delayed.

<sup>4</sup> Governors and Heads of Supervision announce deferral of Basel III implementation to increase operational capacity of banks and supervisors to respond to Covid-19: <https://www.bis.org/press/p200327.htm>

<sup>5</sup> *Id.*

## About CCP12

CCP12 is the global association for CCPs, representing 37 members who operate more than 60 individual central counterparties (CCPs) globally across the Americas, EMEA and the Asia-Pacific region.

CCP12 promotes effective, practical, and appropriate risk management and operational standards for CCPs to ensure the safety and efficiency of the financial markets it represents. CCP12 leads and assesses global regulatory and industry initiatives that concern CCPs to form consensus views, while also actively engaging with regulatory agencies and industry constituents through consultation responses, forum discussions and position papers.

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## CCP12 Members

