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(B) The notional weighted average maturity of all transactions in the netting set.

§217.133 Cleared transactions.

(a) General requirements. (1) A Boardregulated institution that is a clearing member client must use the methodologies described in paragraph (b) of this section to calculate risk-weighted assets for a cleared transaction.

(2) A Board-regulated institution that is a clearing member must use the methodologies described in paragraph (c) of this section to calculate its riskweighted assets for cleared transactions and paragraph (d) of this section to calculate its risk-weighted assets for its default fund contribution to a CCP.

(b) Clearing member client Board-regulated institutions—(1) Risk-weighted assets for cleared transactions. (i) To determine the risk-weighted asset amount for a cleared transaction, a Board-regulated institution that is a clearing member client must multiply the trade exposure amount for the cleared transaction, calculated in accordance with paragraph (b)(2) of this section, by the risk weight appropriate for the cleared transaction, determined in accordance with paragraph (b)(3) of this section.

(ii) A clearing member client Boardregulated institution's total riskweighted assets for cleared transactions is the sum of the risk-weighted asset amounts for all of its cleared transactions.

(2) Trade exposure amount. (i) For a cleared transaction that is a derivative contract or a netting set of derivative contracts, trade exposure amount equals the EAD for the derivative contract or netting set of derivative contracts calculated using the methodology used to calculate EAD for OTC derivative contracts set forth in §217.132(c) or (d), plus the fair value of the collateral posted by the clearing member client Board-regulated institution and held by the CCP or a clearing member in a manner that is not bankruptcy remote. When the Board-regulated institution calculates EAD for the cleared transaction using the methodology in §217.132(d), EAD equals EAD_{unstressed}.

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(ii) For a cleared transaction that is a repo-style transaction or netting set of repo-style transactions, trade exposure amount equals the EAD for the repo-style transaction calculated using the methodology set forth in §217.132(b)(2), (b)(3), or (d), plus the fair value of the collateral posted by the clearing member client Board-regulated institution and held by the CCP or a clearing member in a manner that is not bankruptcy remote. When the Board-regulated institution calculates EAD for the cleared transaction under §217.132(d), EAD equals EAD_{unstressed}.

(3) Cleared transaction risk weights. (i) For a cleared transaction with a QCCP, a clearing member client Board-regulated institution must apply a risk weight of:

(A) 2 percent if the collateral posted by the Board-regulated institution to the QCCP or clearing member is subject to an arrangement that prevents any loss to the clearing member client Board-regulated institution due to the joint default or a concurrent insolvency, liquidation, or receivership proceeding of the clearing member and any other clearing member clients of the clearing member; and the clearing member client Board-regulated institution has conducted sufficient legal review to conclude with a well-founded basis (and maintains sufficient written documentation of that legal review) that in the event of a legal challenge (including one resulting from an event of default or from liquidation, insolvency or receivership proceedings) the relevant court and administrative authorities would find the arrangements to be legal, valid, binding and enforceable under the law of the relevant jurisdictions.

(B) 4 percent, if the requirements of §217.132(b)(3)(i)(A) are not met.

(ii) For a cleared transaction with a CCP that is not a QCCP, a clearing member client Board-regulated institution must apply the risk weight applicable to the CCP under §217.32.

(4) *Collateral*. (i) Notwithstanding any other requirement of this section, collateral posted by a clearing member client Board-regulated institution that is held by a custodian (in its capacity

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as custodian) in a manner that is bankruptcy remote from the CCP, the custodian, clearing member, and other clearing member clients of the clearing member, is not subject to a capital requirement under this section.

(ii) A clearing member client Boardregulated institution must calculate a risk-weighted asset amount for any collateral provided to a CCP, clearing member or a custodian in connection with a cleared transaction in accordance with requirements under §217.131.

(c) Clearing member Board-regulated institution—(1) Risk-weighted assets for cleared transactions. (i) To determine the risk-weighted asset amount for a cleared transaction, a clearing member Board-regulated institution must multiply the trade exposure amount for the cleared transaction, calculated in accordance with paragraph (c)(2) of this section by the risk weight appropriate for the cleared transaction, determined in accordance with paragraph (c)(3) of this section.

(ii) A clearing member Board-regulated institution's total risk-weighted assets for cleared transactions is the sum of the risk-weighted asset amounts for all of its cleared transactions.

(2) *Trade exposure amount*. A clearing member Board-regulated institution must calculate its trade exposure amount for a cleared transaction as follows:

(i) For a cleared transaction that is a derivative contract or a netting set of derivative contracts, trade exposure amount equals the EAD calculated using the methodology used to calculate EAD for OTC derivative contracts set forth in §217.132(c) or §217.132(d), plus the fair value of the collateral posted by the clearing member Board-regulated institution and held by the CCP in a manner that is not bankruptcy remote. When the clearing member Board-regulated institution calculates EAD for the cleared transaction using the methodology in §217.132(d), EAD equals EAD_{unstressed}

(ii) For a cleared transaction that is a repo-style transaction or netting set of repo-style transactions, trade exposure amount equals the EAD calculated under §§ 217.132(b)(2), (b)(3), or (d), plus the fair value of the collateral posted by the clearing member Board-regulated institution and held by the CCP in a manner that is not bankruptcy remote. When the clearing member Board-regulated institution calculates EAD for the cleared transaction under §217.132(d), EAD equals EAD_{unstressed}.

(3) Cleared transaction risk weights. (i) A clearing member Board-regulated institution must apply a risk weight of 2 percent to the trade exposure amount for a cleared transaction with a QCCP.

(ii) For a cleared transaction with a CCP that is not a QCCP, a clearing member Board-regulated institution must apply the risk weight applicable to the CCP according to §217.32.

(4) Collateral. (i) Notwithstanding any other requirement of this section, collateral posted by a clearing member Board-regulated institution that is held by a custodian in a manner that is bankruptcy remote from the CCP is not subject to a capital requirement under this section.

(ii) A clearing member Board-regulated institution must calculate a riskweighted asset amount for any collateral provided to a CCP, clearing member or a custodian in connection with a cleared transaction in accordance with requirements under §217.131

(d) Default fund contributions—(1) General requirement. A clearing member Board-regulated institution must determine the risk-weighted asset amount for a default fund contribution to a CCP at least quarterly, or more frequently if, in the opinion of the Board-regulated institution or the Board, there is a material change in the financial condition of the CCP.

(2) Risk-weighted asset amount for default fund contributions to non-qualifying CCPs. A clearing member Board-regulated institution's risk-weighted asset amount for default fund contributions to CCPs that are not QCCPs equals the sum of such default fund contributions multiplied by 1,250 percent or an amount determined by the Board, based on factors such as size, structure and membership characteristics of the CCP and riskiness of its transactions, in cases where such default fund contributions may be unlimited.

(3) Risk-weighted asset amount for default fund contributions to QCCPs. A

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clearing member Board-regulated institution's risk-weighted asset amount for default fund contributions to QCCPs equals the sum of its capital requirement, K_{CM} for each QCCP, as calculated under the methodology set forth in paragraph (d)(3)(i) of this section (Method 1), multiplied by 1,250 percent or paragraph (d)(3)(iv) of this section (Method 2).

(i) *Method* 1. The hypothetical capital requirement of a QCCP (K_{CCP}) equals:

$$K_{CCP} = \sum_{clearing member} \max_{i} (EBRM_{i} - VM_{i} - IM_{i} - DF_{i}; 0) \times RW \times 0.08$$

Where

(A) EBRM_i = the EAD for each transaction cleared through the QCCP by clearing member i, calculated using the methodology used to calculate EAD for OTC derivative contracts set forth in \$217.132(c)(5) and \$217.132.(c)(6)or the methodology used to calculate EAD for repo-style transactions set forth in \$217.132(b)(2) for repo-style transactions, provided that:

(1) For purposes of this section, when calculating the EAD, the Board-regulated institution may replace the formula provided in §217.132(c)(6)(ii) with the following formula: Anet = $(0.15 \times A_{gross}) + (0.85 \times NGR \times A_{gross})$; and

(2) For option derivative contracts that are cleared transactions, the PFE described in §217.132(c)(5) must be adjusted by multiplying the notional principal amount of the derivative contract by the appropriate conversion factor in Table 2 to §217.132 and the absolute value of the option's delta, that is, the ratio of the change in the value of the derivative contract to the corresponding change in the price of the underlying asset.

(3) For repo-style transactions, when applying §217.132(b)(2), the Board-regulated institution must use the methodology in §217.132(b)(2)(ii).

(B) VM_i = any collateral posted by clearing member i to the QCCP that it is entitled to receive from the QCCP but has not yet received, and any collateral that the QCCP has actually received from clearing member i;

(C) IM_i = the collateral posted as initial margin by clearing member i to the QCCP;

(D) DF_i = the funded portion of clearing member i's default fund contribution that will be applied to reduce the QCCP's loss upon a default by clearing member i; and

(E) RW = 20 percent, except when the Board has determined that a higher risk weight is more appropriate based on the specific characteristics of the QCCP and its clearing members; and

(F) Where a QCCP has provided its K_{CCP} , a Board-regulated institution must rely on such disclosed figure instead of calculating K_{CCP} under this paragraph (d), unless the Board-regulated institution determines that a more conservative figure is appropriate based on the nature, structure, or characteristics of the QCCP.

(ii) For a Board-regulated institution that is a clearing member of a QCCP with a default fund supported by funded commitments, K_{CM} equals:

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$$\begin{split} K_{CM_{i}} &= \left(1 + \beta \cdot \frac{N}{N - 2}\right) \cdot \frac{DF_{i}}{DF_{CM}} \cdot K_{CM}^{*} \\ K_{CM}^{*} &= \begin{cases} c_{2} \cdot \mu \cdot (K_{CCP} - DF') + c_{2} \cdot DF'_{CM} & if \quad DF' < K_{CCP} \quad (i) \\ c_{2} \cdot (K_{CCP} - DF_{CCP}) + c_{1} \cdot (DF' - K_{CCP}) & if \quad DF_{CCP} < K_{CCP} \le DF' \quad (ii) \\ c_{1} \cdot DF'_{CM} & if \quad K_{CCP} \le DF_{CCP} \quad (iii) \end{cases} \end{split}$$

Where

(A)
$$\beta = \frac{A_{Net,1} + A_{Net,2}}{\sum_{i} A_{Net,i}}$$

Subscripts 1 and 2 denote the clearing members with the two largest A_{Net} values. For purposes of this section, for cleared transactions that are derivatives, A_{Net} is defined using the definition set forth in §___.132(c)(6)(ii) and for cleared transactions that are repo-style transactions, A_{Net} is the EAD equation max {0, [($\Sigma E - \Sigma C$) + Σ ($E_s x H_s$) + Σ (Efx]} from §___.132(b)(2(i)) using the methodology in §___.132(b)(2)(ii);

(B) N = the number of clearing members in the QCCP;

(C) DF_{CCP} = the QCCP's own funds and other financial resources that would be used to cover its losses before clearing members' default fund contributions are used to cover losses;

(D) DF_{CM} = Funded default fund contributions from all clearing members and any other clearing member contributed financial resources that are available to absorb mutualized QCCP losses;

(E) $DF = DF_{CCP} + DF_{CM}$ (that is, the total funded default fund contribution);

(F) $\overline{DF_i}$ = Average $\overline{DF_i}$ = the average funded default fund contribution from an

individual clearing member;

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(G) $DF_{CM}^{'} = DF_{CM} - 2 \cdot \overline{DF_i} = \sum_i DF_i - 2 \cdot \overline{DF_i}$ (that is, the funded default fund

contribution from surviving clearing members assuming that two average clearing members have defaulted and their default fund contributions and initial margins have been used to absorb the resulting losses);

(H)
$$DF' = DF_{CCP} + DF'_{CM} = DF - 2 \cdot \overline{DF_{L}}$$

(that is, the total funded default fund contributions from the QCCP and the surviving clearing members that are available to mutualize losses, assuming that two average clearing members have defaulted);

(I)
$$c_1 = Max \left\{ \frac{1.6\%}{(DF'/K_{CCP})^{0.3}}; 0.16\% \right\}$$

(that is, a decreasing capital factor, between 1.6 percent and .16 percent, applied

to the excess funded default funds provided by clearing members);

(J)
$$c_2 = 100$$
 percent; and

(K)
$$\mu$$
= 1.2;

(iii) For a [BANK] that is a clearing member of a QCCP with a default fund supported

by unfunded commitments, K_{CM} equals:

$$K_{CM_i} = \frac{DF_i}{DF_{CM}} \cdot K_{CM}^*$$

Where:

(A) DF_i = the Board-regulated institution's unfunded commitment to the default fund;

(B) $\rm DF_{CM}$ = the total of all clearing members' unfunded commitments to the default fund; and

(C) K^*_{CM} as defined in paragraph (d)(3)(ii) of this section.

(D) For a Board-regulated institution that is a clearing member of a QCCP with a default fund supported by unfunded commitments and that is unable to calculate K_{CM} using the methodology described above in this paragraph (d)(3)(iii), K_{CM} equals:

$$K_{CM_i} = \frac{IM_i}{IM_{CM}} \cdot K_{CM}^*$$

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Where:

(1) IM_i = the Board-regulated institution's initial margin posted to the QCCP;

(2) IM_{CM} = the total of initial margin posted to the QCCP; and

(3) K^*_{CM} as defined above in this paragraph (d)(3)(iii).

(iv) Method 2. A clearing member Board-regulated institution's riskweighted asset amount for its default fund contribution to a QCCP, RWA_{DF} , equals:

 $RWA_{DF} = Min \{12.5 * DF; 0.18 * TE\}$

Where:

(A) TE = the Board-regulated institution's trade exposure amount to the QCCP calculated according to section 133(c)(2);

(B) DF = the funded portion of the Board-regulated institution's default fund contribution to the QCCP.

(v) Total risk-weighted assets for default fund contributions. Total riskweighted assets for default fund contributions is the sum of a clearing member Board-regulated institution's risk-weighted assets for all of its default fund contributions to all CCPs of which the Board-regulated institution is a clearing member.

§217.134 Guarantees and credit derivatives: PD substitution and LGD adjustment approaches.

(a) *Scope.* (1) This section applies to wholesale exposures for which:

(i) Credit risk is fully covered by an eligible guarantee or eligible credit derivative; or

(ii) Credit risk is covered on a pro rata basis (that is, on a basis in which the Board-regulated institution and the protection provider share losses proportionately) by an eligible guarantee or eligible credit derivative.

(2) Wholesale exposures on which there is a tranching of credit risk (reflecting at least two different levels of seniority) are securitization exposures subject to §217.141 through §217.145.

(3) A Board-regulated institution may elect to recognize the credit risk mitigation benefits of an eligible guarantee or eligible credit derivative covering an exposure described in paragraph (a)(1) of this section by using the PD substitution approach or the LGD adjustment approach in paragraph (c) of this section or, if the transaction qualifies, using the double default treatment in §217.135. A Board-regulated institution's PD and LGD for the hedged exposure may not be lower than the PD and LGD floors described in §217.131(d)(2) and (d)(3).

(4) If multiple eligible guarantees or eligible credit derivatives cover a single exposure described in paragraph (a)(1) of this section, a Board-regulated institution may treat the hedged exposure as multiple separate exposures each covered by a single eligible guarantee or eligible credit derivative and may calculate a separate risk-based capital requirement for each separate exposure as described in paragraph (a)(3) of this section.

(5) If a single eligible guarantee or eligible credit derivative covers multiple hedged wholesale exposures described in paragraph (a)(1) of this section, a Board-regulated institution must treat each hedged exposure as covered by a separate eligible guarantee or eligible credit derivative and must calculate a separate risk-based capital requirement for each exposure as described in paragraph (a)(3) of this section.

(6) A Board-regulated institution must use the same risk parameters for calculating ECL as it uses for calculating the risk-based capital requirement for the exposure.

(b) *Rules of recognition*. (1) A Boardregulated institution may only recognize the credit risk mitigation benefits of eligible guarantees and eligible credit derivatives.

(2) A Board-regulated institution may only recognize the credit risk mitigation benefits of an eligible credit derivative to hedge an exposure that is different from the credit derivative's reference exposure used for determining the derivative's cash settlement value, deliverable obligation, or occurrence of a credit event if:

(i) The reference exposure ranks *pari passu* (that is, equally) with or is junior to the hedged exposure; and

(ii) The reference exposure and the hedged exposure are exposures to the same legal entity, and legally enforceable cross-default or cross-acceleration clauses are in place to assure payments