FACT SHEET | Standardized Approach for Calculating the Exposure Amount of Derivative Contracts

The Federal Deposit Insurance Corporation, Federal Reserve Board, and Office of the Comptroller of the Currency published a final rule that updates how the largest banks are required to measure counterparty credit risk for derivative contracts under the regulatory capital rule.

IMPROVES CALIBRATION AND RISK-SENSITIVITY: The rule establishes a new standardized approach for measuring counterparty credit risk (SA-CCR) exposure with respect to derivative contracts. This standard will be mandatory for advanced banking organizations and optional for other banking organizations.

- The implementation of this internationally agreed-upon standard for advanced approach organizations addresses concerns that the current exposure methodology (CEM), which the agencies initially adopted in 1989, has not kept pace with the practices of more complex banking organizations.

- SA-CCR improves risk-sensitivity relative to CEM and generally more accurately reflects actual risks associated with derivative contracts.

ENABLES COMMERCIAL END-USERS TO MANAGE RISK: The rule better aligns the regulatory capital treatment of derivative contracts with commercial end-users with congressional and other regulatory actions designed to mitigate the effect that post-crisis derivatives market reforms have on the ability of these parties to enter into derivative contracts to manage commercial risks.

- The rule improves the calibration of SA-CCR by removing the “alpha factor” of 1.4 for derivative contracts with commercial end-users that use such contracts to hedge or mitigate commercial risks.

- This treatment is consistent with congressional and regulatory efforts to facilitate the ability of commercial end-users to manage commercial risks, including the statutory exemptions for commercial end-users from mandatory clearing and margin requirements.

RECOGNIZES RISK-REDUCING EFFECT OF CLIENT COLLATERAL: The rule allows banks to recognize client initial margin in determining the exposure amount of derivative contracts for purposes of the supplementary leverage ratio (SLR).

- This treatment is consistent with the Basel Committee's standards regarding the calculation of exposure amount for cleared derivatives in the SLR. In addition, the treatment is consistent with the G20 mandate to establish policies that support the use of central clearing and it maintains capital levels consistent with safe and sound operations for banks engaged in clearing activities.

MAINTAINS STRONG CAPITAL REQUIREMENTS: The agencies do not expect the rule to materially change the amount of capital in the banking system.

- Any change in a particular bank's capital requirements would reflect the enhanced risk sensitivity of SA-CCR relative to CEM, as well as market conditions.

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