

Credit Valuation Adjustment (CVA)

***1. Is a clearing member banking organization's exposure to a clearing member client from a derivative transaction subject to a CVA capital charge?**

Yes. According to paragraph 2 of the definition of a cleared transaction in section 2 of the regulatory capital rule, a clearing member banking organization's exposure to its clearing member client is not a cleared transaction. Such derivative transactions are over-the-counter derivative transactions and, thus, included in the CVA capital requirement calculation. See section 132(e) of the regulatory capital rule.

Of note, the regulatory capital rule allows a clearing member banking organization to recognize a shorter margin period of risk or holding period when calculating its exposure at default (EAD) for derivative transactions with clearing member clients. This downward adjusted EAD also enters into the CVA capital requirement calculation for the clearing member banking organization's exposures to a clearing member client. See section 132(c)(8) of the regulatory capital rule.