

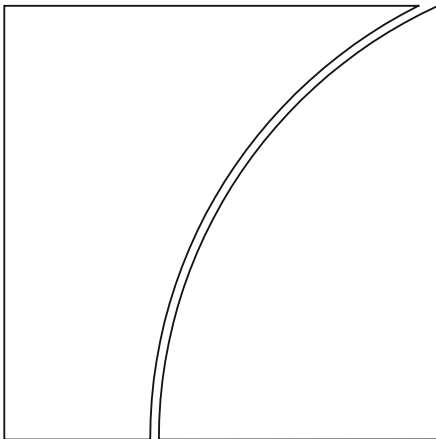
Basel Committee on Banking Supervision

Technical Amendment

Minimum haircut floors for securities financing transactions

Issued for comment by 31 March 2021

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Introduction

To promote a consistent global implementation of the Basel Framework, the Basel Committee on Banking Supervision¹ regularly monitors and reviews issues that arise from the implementation of its standards. Where necessary, it publishes clarifications and interpretative guidance. In some instances, implementation issues can be clarified in the form of answers to frequently asked questions (FAQs), without any changes to the standard. On other occasions, the issue, though minor in effect, cannot be resolved unambiguously without an amendment to the text of the standard itself. In these cases, the Committee has decided to publish the clarification as a proposed technical amendment. Such amendments will be published for a short consultation period, typically for 45 calendar days.

The following two technical amendments both relate to chapter CRE56 of the consolidated Basel Framework. CRE56 is the chapter that sets out the calculation of minimum haircut floors on securities financing transactions (SFTs). The Committee invites comments on the proposed amendments by 31 March 2021.

CRE56.5: Collateral upgrade transactions

CRE56 requires banks to check that the haircuts applied to collateral in their SFTs comply with a set of minimum floors. The chapter gives effect to a set of requirements developed by the Financial Stability Board.² CRE56 includes certain exemptions from the haircut floor requirements. For cash-collateralised securities lending transactions, ie where the bank lends cash and receives a security from a counterparty, CRE56.4 includes an exemption if the counterparty that receives the cash from the bank reinvests it in a way that meets certain specified minimum standards.

For collateral upgrade transactions, ie where the bank lends a higher quality security and receives a lower quality security, CRE56.5 specifies the following exemption [emphasis added]:

*Banks that lend securities are exempted from the haircut floors on collateral upgrade transactions if **they** are unable to re-use, or provide representations that they do not and will not re-use, the securities received as collateral against the securities lent.*

CRE56.5 is open to misinterpretation as it implies that the bank itself is subject to the restrictions on reuse of the collateral, which would be inconsistent with the treatment of cash collateralised transactions set out in CRE56.4 where it is the bank's counterparty that is subject to the restrictions. To avoid misinterpretation, the Committee proposes to replace CRE56.5 with the following paragraph:

Banks that borrow (or lend) securities are exempted from the haircut floors on collateral upgrade transactions if the recipient of the securities that the bank has delivered as collateral (or lent) is either (i) unable to re-use the securities (for example, because the securities have been provided under a pledge arrangement), or (ii) provides representations to the bank that they do not and will not re-use the securities.

¹ The Basel Committee on Banking Supervision (Basel Committee) is the primary global standard setter for the prudential regulation of banks, as well as providing a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability.

² See *Regulatory framework for haircuts on non-centrally cleared securities financing transactions* available here: www.fsb.org/wp-content/uploads/P261119-1.pdf

CRE56.10: Formula for netting sets of SFTs

CRE56.10 sets out the following formula for the calculation of the “portfolio” haircut floor for a netting set of SFTs:

$$f_{\text{Portfolio}} = \left[\left(\frac{\sum_s E_s}{\sum_s E_s \times (1 + f_s)} \right) / \left(\frac{\sum_t C_t}{\sum_t C_t \times (1 + f_t)} \right) \right]^{-1}$$

E_s is the net position in each security (or cash) s that is net lent;

C_t the net position that is net borrowed; and

f_s and f_t are the haircut floors for the securities that are net lent and net borrowed respectively.

The footnote to CRE56.10 explains that this formula is intended to be a weighted average floor of the portfolio. More precisely, the formula is intended to be the exposure-weighted average haircut amount for net-lent securities divided by the exposure-weighted average haircut amount for net-received securities. However, the formula that was developed was oversimplified before publication. The Committee proposes to replace the formula in CRE56.10 with the following corrected formula:

$$f_{\text{Portfolio}} = \left[\left(\frac{\sum_s \left(\frac{E_s}{1 + f_s} \right)}{\sum_s E_s} \right) / \left(\frac{\sum_t \left(\frac{C_t}{1 + f_t} \right)}{\sum_t C_t} \right) \right]^{-1}$$

The worked example contained in CRE56.13 will be updated to reflect the correction of the formula in CRE56.10.