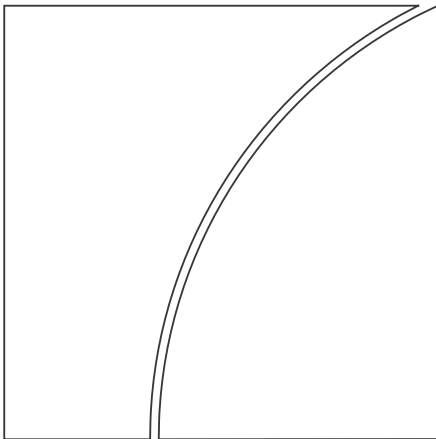


# Basel Committee on Banking Supervision

## Technical Amendment

### Minimum haircut floors for securities financing transactions



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## Introduction

To promote a consistent global implementation of the Basel Framework, the Basel Committee on Banking Supervision<sup>1</sup> regularly monitors and reviews issues that arise from the implementation of its standards. Where necessary, it publishes clarifications and interpretative guidance. In January 2021, the Committee issued for consultation two proposed technical amendments to the Basel Framework<sup>2</sup> which relate to chapter CRE56 of the Basel Framework. CRE56 is the chapter that sets out the calculation of minimum haircut floors on securities financing transactions (SFTs). After considering the comments received in response to the consultation, the Committee agreed to finalise the amendments as originally proposed. The specific amendments to CRE56 have been made in the Basel Framework and are described below.

The Committee also received various comments from respondents to the consultation that are related to the policy set out in CRE56 but that are beyond the scope of the specific proposed amendments. The Committee will continue to reflect on these wider issues raised by respondents.

### 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.<sup>3</sup> 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 specified the following exemption [emphasis added]:

*CRE56.5 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 was open to misinterpretation as it implied 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 has replaced CRE56.5 with the following paragraph:

*CRE56.5 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.*

<sup>1</sup> 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.

<sup>2</sup> For the consultation document see: [www.bis.org/bcbs/publ/d514.htm](http://www.bis.org/bcbs/publ/d514.htm).

<sup>3</sup> See *Regulatory framework for haircuts on non-centrally cleared securities financing transactions* available here: [www.fsb.org/wp-content/uploads/P261119-1.pdf](http://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 explained that this formula was intended to be a weighted average floor of the portfolio. More precisely, the formula was 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. To correct this, the Committee has replaced 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 has been updated to reflect the correction of the formula in CRE56.10.