



From : Saudi Arabian Monetary Agency

To : All Banks

Attention: Managing Directors, Chief Executive Officers and General Managers

Subject : **Review of the Credit Valuation Adjustment (CVA) Risk Framework**

The Basel III capital framework establishes a minimum capital charge to capture the potential mark-to-market losses faced by a bank from the deterioration in a counterparty's creditworthiness. This capital treatment addresses any variability in CVA that arises due to changes in credit spreads but does not take account of variability arising from daily changes in market risk factors (i.e. account exposure variability). A Review of the Credit Valuation Adjustment Risk Framework is being undertaken by the Basel Committee with an objective to:

- (i) Ensure that all important drivers of CVA risk and CVA hedges are covered in the Basel regulatory capital standard;
- (ii) Align the capital standard with the fair value measurement of CVA employed under various accounting regimes; and
- (iii) Ensure consistency with the proposed revisions to the market risk framework under the Basel Committee's Fundamental Review of the Trading Book Regime (FRTB).

This consultative paper proposes a CVA risk framework that takes into account the market risk exposure component of CVA along with its associated hedges. The regulatory capital requirement for CVA risk would be based on exposure models that banks also use to determine their accounting CVA, subject to certain conditions. The consultative paper proposes three approaches:

- (i) An internal models approach (adapted from FRTB)
- (ii) A standardised approach for CVA risk (adapted from FRTB)
- (iii) A basic approach for CVA risk for banks that are less likely to regularly compute CVA sensitivities to a large set of market risk factors, owing to the nature of their trading operations.

The banks should access the BCBS document from BIS website www.bis.org and are expected to review it and provide their comments to SAMA by 6 September 2015.

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