Part 6A   Calculation of counterparty credit risk

1.   For the reasons set out in item 3 of the covering letter, it is proposed to add a new §226S(2A) along the following lines:

"(2A) For the purposes of paragraph (c) in Formula 23J, if an authorized institution uses-

(a)   the IRB approach to calculate its credit risk for non-securitization exposures to the counterparty; and

(b)   the current exposure method or the methods referred to in section 10A(1)(b) for the calculation of its default risk exposures in respect of derivative contracts or SFTs, as the case may be,

it may recognise the credit risk mitigating effect of recognized collateral by applying Formula 19 and in accordance with section 160(3), and take the resulting net credit exposure (E*) as the basis for determining the EAD_i^{total} of a netting set in accordance with other applicable provisions of this section.".

2.   To maintain consistency in application of the proposed treatment, the new §226S(2A) will apply to IRB AIs, regardless of whether they adopt the foundation IRB approach or the advanced IRB approach.

3.   To ensure that there will be no double-counting of the credit risk mitigating effect in AIs' calculation of the risk-weighted amount for their exposures upon introduction of the new §226S(2A), it is proposed to replace "estimates of any of the credit risk components of the applicable risk-weight function" in §203(1A) with "calculation of the risk-weighted amount for its exposures".   The existing text of §203(1A) may not operate to restrict an AI which adopts the IRB approach for credit risk and the current exposure method for CCR from double-counting the credit risk mitigating effect in the AI's IRB calculations under Part 6 of the BCRs as the CVA calculation does not feed into the risk-weight function in the AI's IRB calculations.