Chapter 13

The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

13.8 Securities financing transactions

Purpose

13.8.1 G BIPRU 13.8 summarises the treatment for *securities financing transactions*.

Calculation of exposure value for SFTs

13.8.2 R Subject to BIPRU 13.8.3 R, in respect of a *securities financing transaction*, if a *firm*:

(1) has a *CCR internal model method permission* which covers the transaction; or

(2) has a *master netting agreement internal models approach permission* which covers the transaction;

then the *firm* must use the *CCR internal model method approach* or the *master netting agreement internal models approach*, as applicable, to calculate the *exposure* value for that transaction unless an exception in BIPRU 13 or BIPRU 5 allows the *firm* to use another method.

[**Note**: *BCD* Article 78(2), second sentence, in respect of *SFTs*]

13.8.3 R If a *firm* has a *CCR internal model method permission* and a *master netting agreement internal models approach permission*, and both cover a *securities financing transaction*, then the *firm* may choose which of those approaches it wishes to use to calculate the *exposure* value for that transaction.

13.8.4 R Where BIPRU 13.8.2 R does not apply, a *firm* must use one of the following approaches to determine the *exposure* value of a *securities financing transaction*, as appropriate:

(1) if the transaction is covered by a master netting agreement which satisfies the requirements for recognition set out in BIPRU 5.6.1 R to BIPRU 5.6.3 R, a *firm* may calculate the *exposure* value under the master netting agreement method set out in BIPRU 5.6.5 R to BIPRU 5.6.11 R (Calculation of the fully adjusted exposure value: the supervisory volatility adjustments approach and the own estimates of volatility adjustments approach);

(2) otherwise, a *firm* must calculate the *exposure* value of the transaction as its on-balance sheet value.

13.8.5 G A *firm* calculating *risk weighted exposure amounts* under the *standardised approach* to credit risk will not be eligible to use the approach in BIPRU 13.8.4 R (1) if it is using the *financial collateral simple method* to determine the effects of *credit risk mitigation*, as set out in BIPRU 5.4.16 R.

13.8.6 G If a *firm* calculates the *exposure* value of a *securities financing transaction* as its on-balance sheet value, in accordance with BIPRU 13.8.4 R (2), it may recognise the effects of financial collateral in the same way as for its other exposures, for example by using either the *financial collateral simple method* or the *financial collateral comprehensive method*. However *firms* should note that the *financial collateral simple method* is not available:

(1) to a *firm* using the *IRB approach* (BIPRU 5.4.16 R); or

(2) for *securities financing transactions* in the *trading book* (BIPRU 14.2.11 R).

Exposure to a central counterparty

13.8.7 R Notwithstanding BIPRU 13.8.2 R, a *firm* must determine the *exposure* value of a credit risk *exposure* outstanding with a *central counterparty* in accordance with BIPRU 13.8.8 R, provided that the *central counterparty's counterparty credit risk exposures* with all participants in its arrangements are fully collateralised on a daily basis.

[**Note**: *BCD* Article 78(4) in respect of *SFTs*]

13.8.8 R A *firm* may attribute an *exposure* value of zero for *CCR* to a *securities financing transaction* or to any other *exposures* in respect of that transaction (but excluding an *exposure* arising from collateral held to mitigate losses in the event of the default of other participants in the *central counterparty's* arrangements) which is outstanding with a *central counterparty* and has not been rejected by the *central counterparty*.

[**Note**: *BCD* Annex III Part 2 point 6 in respect of *SFTs*]