PRESS RELEASE

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Basel III capital charges for FX

Basel III's impact on Fixed income products is expected to be more massive than for FX products.
FX Swaps and FX Forwards aren't considered Derivative products

London, 22 April 2013 – Speaking at a Marcus Evans conference held in London Manfred Wiebogen, Hon Pres ACI, and Stephane Malrait, Chair of the ACI FX Committee, discussed at the "FX trading and Settlement operation" about the impact on CVA calculation in the Basel III environment. In general, the cost of capital associated with CVA and the volatility of the CVA will be two to three times higher than in the previous regulatory environment. The European Union has just passed the Capital Requirement Regulation ("CRR"), the translation of Basel III in European law. In CRR, banks are exempted from CVA risk capital charge when dealing OTC derivatives with non financial counterparties (provided they are below the EMIR clearing thresholds), sovereigns and pension funds (on a temporary basis for the latter). They discussed the importance for the financial sector to be informed of the changes and impact due to the implementation of Basel III. An open debate with market experts at the event was around the possible financial impact on long dated transactions for non financial counterparties who are above the EMIR clearing thresholds and for financial institutions without CSA. They expect that financial institutions with CSA in place will be less hurt. However, they do see greater risk for those operating with no such agreement with potential adverse impact on volumes. The presentation also covered the impact on the sell side for pricing derivative products and the possible increased usage of cleared product by the buy side.

Furthermore the debaters clearly stated they do not consider FX Swaps and Forwards as being derivative products. At deal entry and during the whole period of live until its settlement of such a transaction there are no 'unknowns' cash flows.

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