

A response to the The PRA's CP16/22

Chapter 7

Credit Valuation Adjustment & counter party credit risk

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UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms, we act to enhance competitiveness, support customers, and facilitate innovation.

We are pleased to respond briefly to [chapter 7](#) of the PRA's CP 16/22 on implementing Basel 3.1 in the UK, which describes its proposals to implement the Basel 3.1 standards on credit valuation adjustment (CVA) and counterparty credit risk (CCR) risk.

Our members have worked closely with ISDA in the creation of its response to chapter 7 of CP16/22. We reiterate below some key points that are of particular importance to our members, which would benefit from being further considered by the PRA:

- We welcome the introduction of **more granular risk weights** in CVA and the introduction of a **reduced alpha factor** in the SA-CCR. However, the removal of CVA exemptions and the introduction of the output floor are expected to lead to **an increase in CVA and CCR RWAs for UK banks**.
- The alpha factor should be **recalibrated to 1 for all applications of SA-CCR**: un-floored CCR RWAs, output floor CCR RWAs, Leverage Ratio and Large Exposure
- The **use of indices used to hedge CVA risk**, particularly in terms of their usage linked to the hedging of systemic credit risk should be better recognised
- The PRA should extend the pension funds risk weight sub-buckets in SA-CVA and BA-CVA to include:
 - **(1) prudentially regulated financial entities** and
 - **(2) regulated funds**.

- A **1-year M-Factor cap** should be applied for the Standardised Credit Risk, Slotting and Securitisation risk weight methodologies
- Where existing provisions for CVA exemptions for non-financial, sovereign, and pension scheme arrangement counterparties are to be removed, firms should be permitted to gradually phase-in the fully loaded CVA RWA over the proposed five-year transition period.
- The PRA should work with industry to ensure the **demanding timeline for application for SA-CVA permission** can be met

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