



Insights

Basel Committee Issues Final Large Exposures Framework

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The Basel Committee on Banking Supervision released its final Supervisory Framework for Measuring and Controlling Large Exposures (Large Exposures Framework) today. Under the Large Exposures Framework, a bank may assign the exposure amount to the structure itself as a distinct counterparty if it can demonstrate that the bank's exposure amount to each underlying asset of the structure is smaller than 0.25% of its eligible capital base.

If any exposure in a securitization is equal to or above 0.25% of a bank's capital base, a bank must look through the structure to identify the counterparty for those exposures. The counterparty corresponding to each of those underlying exposures must be identified and the underlying exposures added to any other direct or indirect exposure to the same counterparty. The bank's exposure amount to the underlying assets that are below 0.25% of the bank's eligible capital base may be assigned to the structure itself.

If a bank is unable to identify the underlying assets of a structure:

- If the total amount of its exposure does not exceed 0.25% of its eligible capital base, the bank must assign the total exposure amount of its investment to the structure;
- Otherwise, it must assign the total exposure amount (and all other such exposure amounts in other transactions) to a single "unknown client."

The Large Exposure Framework also requires banks to identify third parties that may constitute additional risk factors inherent in a structure. Cited examples of such third parties include originators, fund managers, liquidity providers and credit protection providers. Banks are required to aggregate their investments in structures with a common risk factor to form a group of connected counterparties resulting in a single counterparty exposure. Banks must also make a case-by-case determination as to whether to add their investments in a set of structures associated with a third party that constitutes a common risk factor to other exposures (such as a loan) it has to that third party.

For a copy of the Final Large Exposures Framework, please [click here](#).