

Press release

18 September 2020

ECB finalises guide to assessing how banks calculate counterparty credit risk

- Guide shows how ECB assesses compliance of banks' counterparty credit risk models with regulatory requirements.
- Final publication follows public consultation in February and March 2020

The European Central Bank (ECB) today published the finalised [guide](#) outlining the methodology it uses to assess how euro area banks calculate their exposure to counterparty credit risk (CCR) and advanced credit valuation adjustment (CVA) risk, following a [public consultation](#) which ended on 18 March 2020.

These two risk types arise in derivatives trading and in transactions where securities are used to borrow or lend cash, such as repurchase agreements. Both activities entail the possibility that the counterparty may default. The global financial crisis has shown this to be one of the key financial risks a bank faces, since counterparty defaults can unleash systemic effects.

Under European Union law, banks are allowed to use internal models to calculate the value of their exposures to CCR and CVA risk as long as these models meet regulatory requirements. The guide published today explains the methodology the ECB uses to assess the validity of such models, especially in internal model investigations.

The text is also relevant when banks apply to extend or make changes to their models as well as for the ECB's ongoing monitoring of such models.

The guide should not be construed as going beyond the currently applicable European Union and national laws and is therefore not intended to replace, overrule or affect said laws.

The ECB has given due consideration to all comments received during the consultation period and has published a [feedback statement](#) on its banking supervision website.

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