**Reg Questions**

Question 1: In 200 words or less, explain what you think the Basel Committee is trying to achieve with this regulation, pros/cons of this approach and what (if any) is the alternative?

The existing standardized approaches, CEM and SEM, have been replaced with the latest Basel rules, the SA-CCR. The new approach (SA-CCR) aims to correct the shortcomings of CEM and SEM by increasing risk sensitivity through different risk-factor volatilities and by differentiating between margined and unmargined trades while recognizing netting benefits/ achieving better recognition of collateral and hedging. The abovementioned constitute some of the advantages of this new approach. Another advantage is the addition of the PFE components that are now calibrated under a stress period. The refinement of the existing standardized approaches accounts for Basel III post-crisis reforms and aims to achieve an increased market resilience in stressed economic environments.

Despite its materialized impact, the SA-CCR yet suffers from few setbacks. These include the replacement of CEM in the leverage ratio, additional implementation cost, alpha parameter set at 1.4 by the Basel Committee in the calculation of EAD being too conservative, the understatement of the IM impact on the PFE, and an additional supervisory monitoring.

While the new approach may hinder banks from understanding how the SA-CCR will impact their capital requirements and financial planning, one intervention can focus on conducting impact analysis assessments.

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Question 2: In 100 words or less, explain, as you would to your grandmother, what the Add-On is for?

The new SA-CCR approach calculates the credit required to address the risk that a counterparty won’t meet its financial obligations. The Add-On in the new approach tries to capture the potential future increase in exposure; the exposure at default being gross exposure upon default of an obligor. The Add-On is a potential conservative increase in exposure over a one-year period time horizon from the present date. The Add-On component is calibrated under a stress period, thereby accounting for potential future economic stress periods. Thus, the AddOn reflects the potential future changes in the mark-to-market values of the swaps.

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