Take5 for business

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How to improve capital risk efficiency?

A standardized approach for counterparty credit risk

Improve risk efficiency and regulatory readiness

The standardized approach for counterparty credit risk (SA-CCR) is the new global standard for measuring counterparty credit risk (CCR) for derivatives and long-settlement transactions.

Bank Negara Malaysia's (BNM) exposure draft (ED) on the SA-CCR, issued on 28 November 2025, delivers a more risk-sensitive, netting and collateral-aware exposure framework than previous CCR methods.

For banks operating or planning to implement financial derivatives, the SA-CCR aims to provide a robust method for calculating Exposure at Default (EAD), providing the bedrock for CCR regulatory capital and related prudential metrics to improve risk efficiency.

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> As Malaysia moves forward with the SA-CCR, it can no longer be treated as a back-office exercise. Sharper calculations and better collateral recognition will define the true impact on capital and ultimately the profitability of every trade executed by the front office.

Thor Boon Lee
Associate Partner, Risk Consulting,
Ernst & Young Consulting Sdn. Bhd.

Timeline: Implementation of the SA-CCR framework in Malaysia

- **May 2025** — Quantitative Impact Study on SA-CCR issued by BNM to Malaysia's banking industry.
- **Nov 2025** — ED on Capital Adequacy Framework on CCR issued by BNM.
- **Mar 2026** — Deadline for feedback to BNM on the ED.
- **2027H1** — Finalized policy document by BNM.
- **2028** — SA-CCR requirement takes effect in 18 months post issuance.

Source: *Exposure Draft on Capital Adequacy Framework on Counterparty Credit Risk*, Bank Negara Malaysia, 2025

The SA-CCR framework: Clear, transparent and compliant

It is important for banks to view SA-CCR not merely as a capital tool, but as a strategic measure for assessing the viability of derivative trades. Leading global banks have already implemented these changes to stay ahead of the curve. Now, it is time for Malaysian banks to align and compete on a level playing field.

	Key areas of the SA-CCR	Benefits for banks in Malaysia
1	**EAD computation** Supersedes legacy methods, such as the Current Exposure Method (CEM) to derive EAD. Notably through introducing a regulatory factor (1.4) in computations.	Reflects both current and future risk, capturing the true economic risk of counterparty default.
2	**Netting and collateral recognition** Recognizes legally enforceable netting sets and collateral (variation margin, initial margin), where applicable.	Lowers capital requirements for well-structured, collateralized exposures and rewarding prudent risk management.
3	**Differentiated treatment of margined vs. unmargined trades** The SA-CCR treats margined netting sets more favorable and applies caps where margin thresholds exist.	Encourages adoption of margining and clearing practices, aligning with global best practices and improving resilience.
4	**Hedging set and offset recognition** Calculates potential future exposures (PFE) with offsets within asset classes or hedging sets and yielding more accurate (often lower) capital charges.	Avoids over-capitalization and better reflects actual risk exposures leading to more efficient capital utilization.

Snapshot: Key changes in the exposure draft

The ED builds on the existing Basel III Standardized Approach for measuring CCR exposures. It introduces key changes that reward proper margining and clearing for accurate and fair outcomes. These enhancements require several adjustments to computation and data.

Main formula

$$\text{Risk} = \text{1.4 (Alpha)} \times [\text{RC} + \text{PFE}]$$

Abbreviations: RC=Replacement cost, PFE=Potential future exposures

Current exposures

Based on today's market value minus collateral, with extra checks for margin agreements.

Margin agreements

Fully recognized. If collateral is exchanged daily, the risk or exposure level goes down.

Collateral treatment

Very detailed, considers thresholds, minimum transfer amounts and whether collateral is segregated.

Netting (offsetting trades)

More detailed definition and calculation. Splits trades into "netting sets" (transactions with a single counterparty that can be netted) and "hedging sets" (transactions within a single netting set for purpose of calculating potential future exposure).

Options and complex trades

Uses formulas to capture real risk (e.g., volatility).

Relevance for Malaysian banks: BNM Basel III readiness

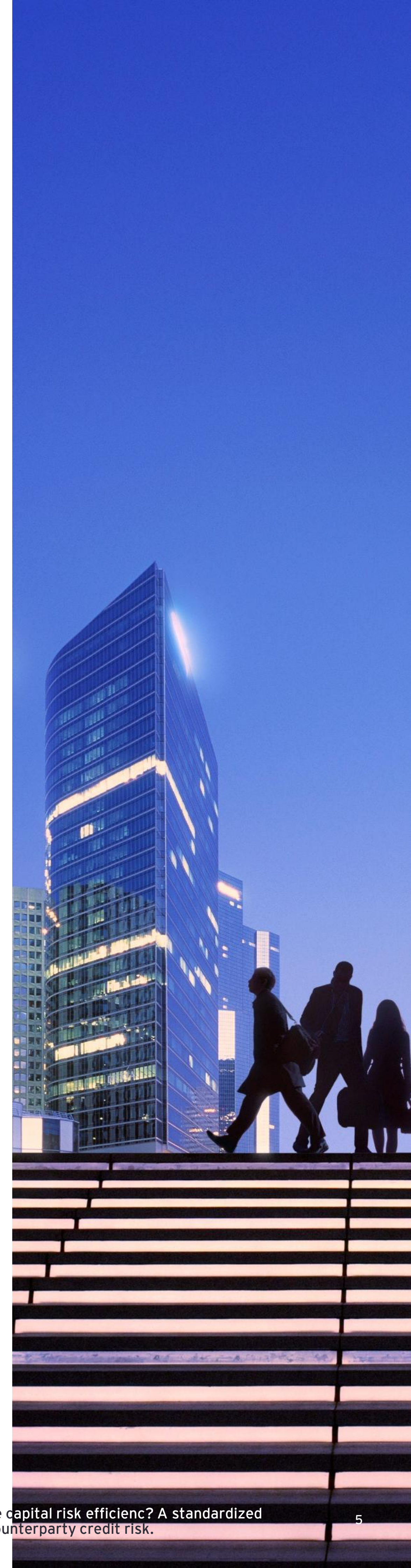
Why is the SA-CCR relevant

The SA-CCR is a critical component of Malaysia's Basel III readiness, enabling more accurate and risk-sensitive exposure calculations that impact trade pricing, collateral management and profitability. Its adoption provides a level playing field for banks locally and globally.

How can Malaysian banks benefit

As Malaysia transitions under the revised capital adequacy framework, aligning with global norms, an increasing number of regulators are expected to recommend or mandate the SA-CCR for counterparty exposures.

- There is a need to balance risks and returns and the SA-CCR has positioned this well for banks to move forward.
- Early adoption of the SA-CCR places your bank ahead of the curve — enabling smoother regulatory compliance, better capital planning and improved risk governance — especially for banks active in derivatives, commodities or complex structured transactions.
- Institutions with limited internal modeling capacity or those that prefer a standardized non-modeled approach, benefit from the simplicity, transparency and regulatory acceptance of the SA-CCR.



Our consulting offer: The SA-CCR implementation advisory

EY teams offer a full-service SA-CCR advisory package tailored to Malaysian banks as follows:

1

Gap assessment readiness review

- Evaluate current counterparty credit risk practices (netting agreements, collateral, trade capture, collateral management) vs. SA-CCR requirements.
- Identify system, data or process gaps and recommend remediation roadmap.

2

Documentation advisory

- Assess master netting agreements (ISDA* or industry equivalents) for regulatory recognition.
- Advise on collateral or margin frameworks (variation margin, initial margin, legal enforceability, segregation) for optimal capital benefit.

3

EAD capital impact assessment

- Build SA-CCR calculators for RC and PFE elements, for existing portfolios.
- Project capital requirements under the SA-CCR vs. legacy approaches and quantify capital savings or increases.

4

Governance, risk limit framework design

- Help define counterparty-limit policies, risk appetite, netting-set definitions, reporting and monitoring aligned with best practices.

5

Pillar 3 disclosure preparation

- Prepare draft templates for CCR exposure reporting under the SA-CCR.
- Assist in CCR strategy, risk mitigation and capital position for supervisory submissions.

6

Validation and knowledge transfer

- Validate the adoption of the SA-CCR so that the computation is accurate, complete and timely.
- Carry out training for the team so that the team is up to speed, including the third line of defense – internal audit.

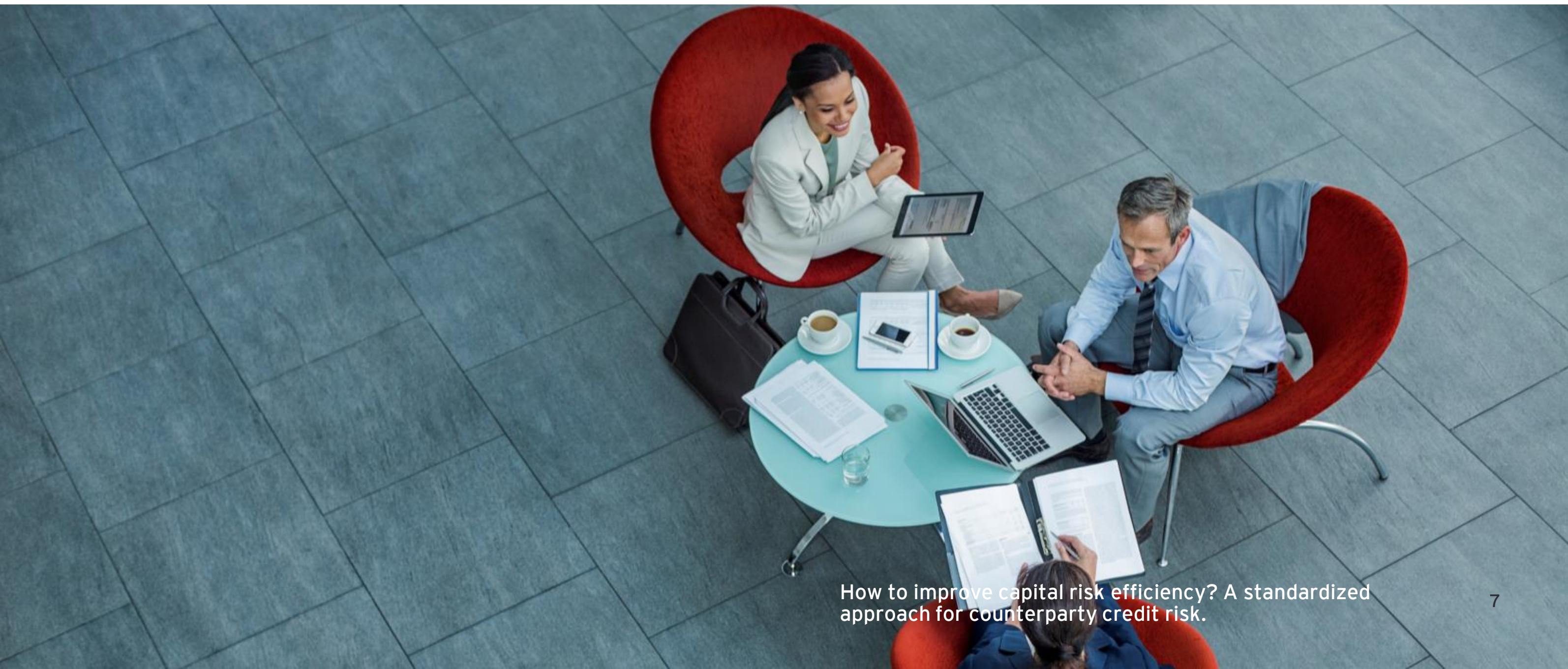
Notes: *International Swaps and Derivatives Association

Why collaborate with EY

1 We combine deep understanding of international best practices (SA-CCR, Basel frameworks) with local knowledge of the Malaysian regulatory environment and the impact of transitional reforms under BNM.

2 We help banks optimize capital costs where prudent (via netting and collateral), advising on regulatory compliance and risk governance requirements.

3 Our team brings hands-on experience in CCR capital calculation, collateral and netting documentation, system build or data design — delivering pragmatic, actionable, bank-ready solutions.



Contacts

Dato' Abdul Rauf Rashid
Malaysia Managing Partner,
EY Malaysia

abdul-rauf.rashid@my.ey.com

Shankar Kanabiran
Malaysia Consulting Leader;
and Partner,
Ernst & Young Consulting Sdn. Bhd.

shankar.kanabiran@my.ey.com

Ling Kay Yeow
Malaysia Financial Services Consulting
Leader; and Partner,
Ernst & Young Consulting Sdn. Bhd.

kay-yeow.ling@my.ey.com

Joazral Yusof
Malaysia Risk Consulting Leader;
and Partner,
Ernst & Young Consulting Sdn. Bhd.

joazral.yusof@my.ey.com

Thor Boon Lee
Associate Partner, Risk Consulting,
Ernst & Young Consulting Sdn. Bhd.

boon.lee.thor@my.ey.com

Cindy Lim
Senior Manager, Risk Consulting,
Ernst & Young Consulting Sdn. Bhd.

cindy.lim@my.ey.com

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