



Counterparty Credit Risk (CCR)

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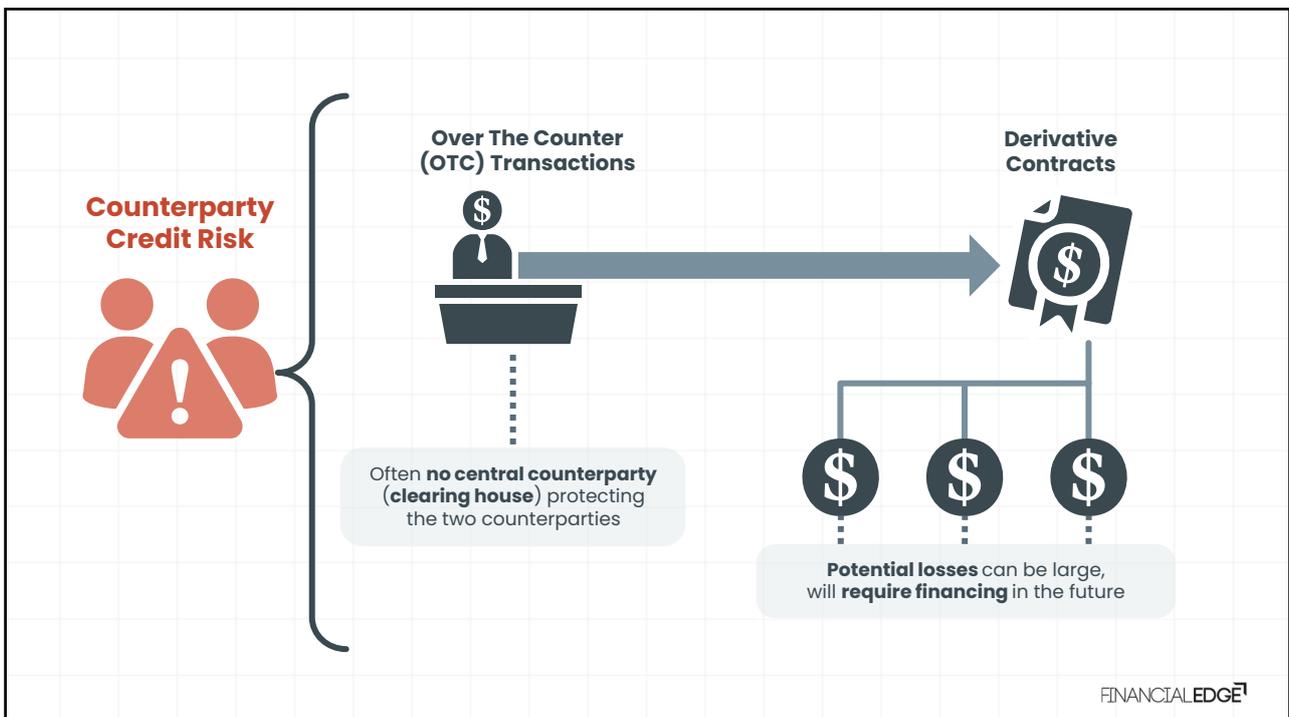
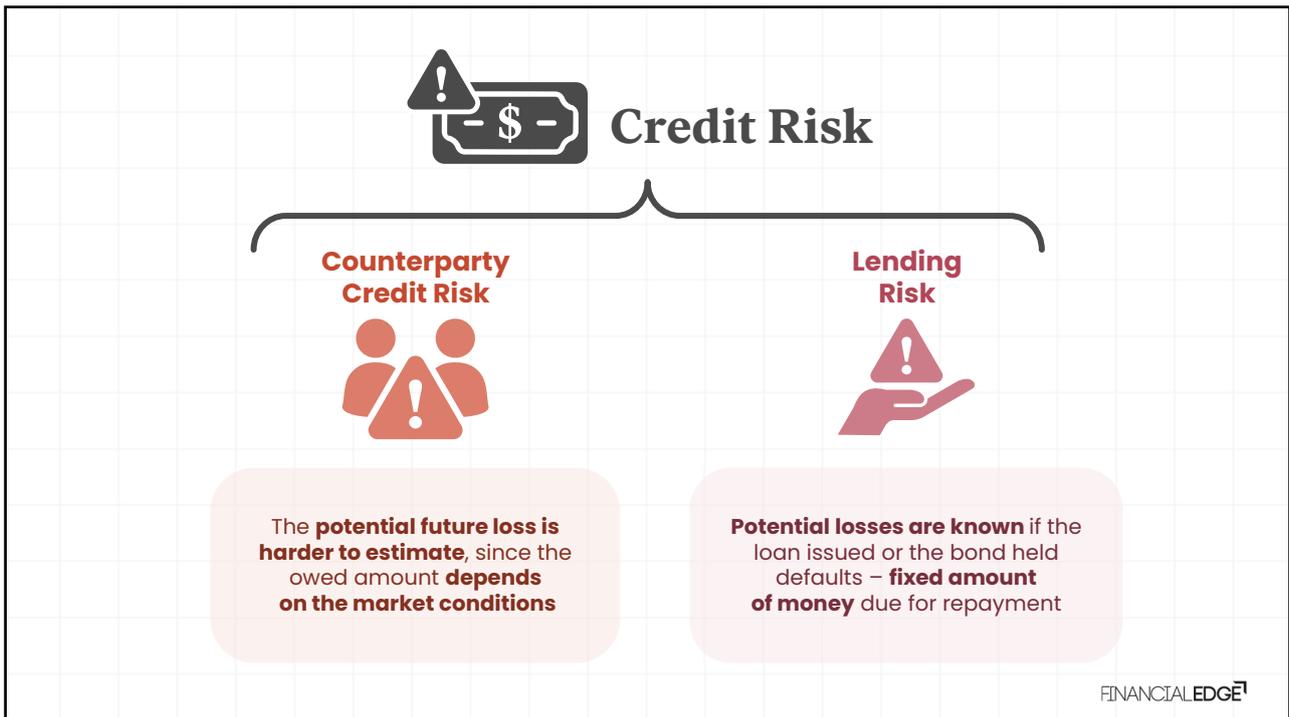
Credit Risk

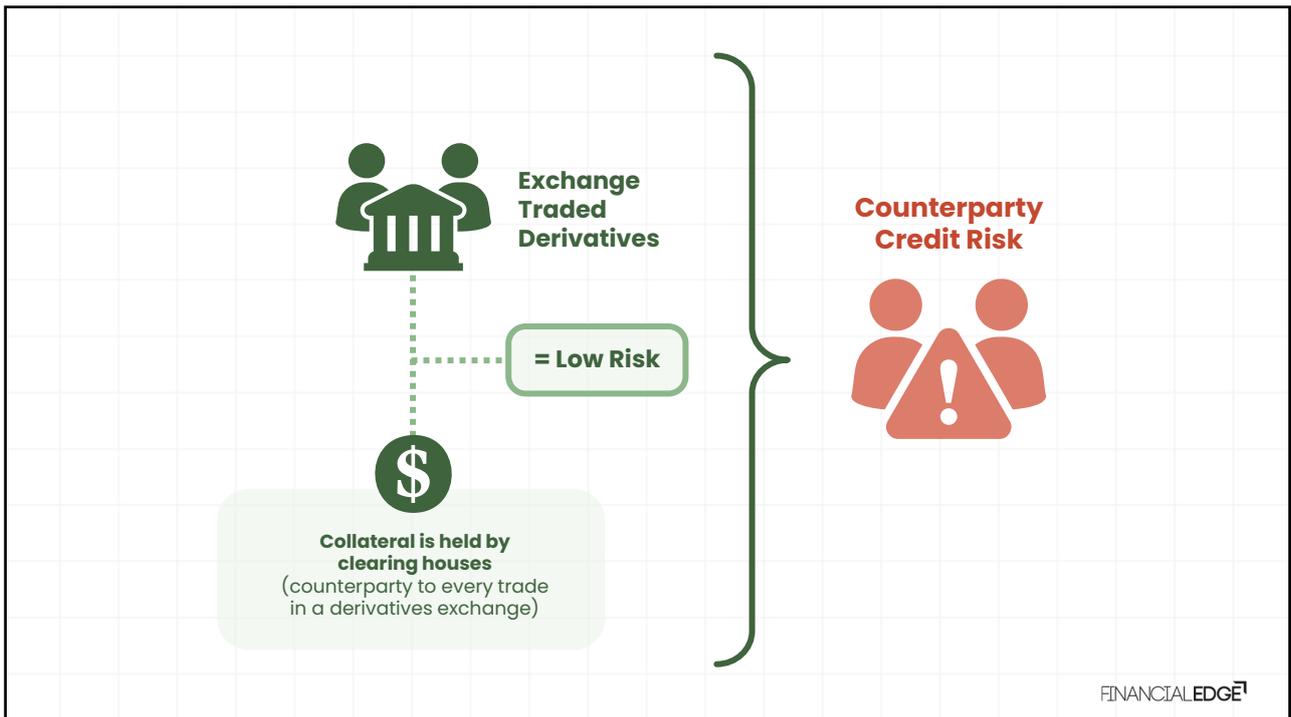
**Counterparty
Credit Risk**

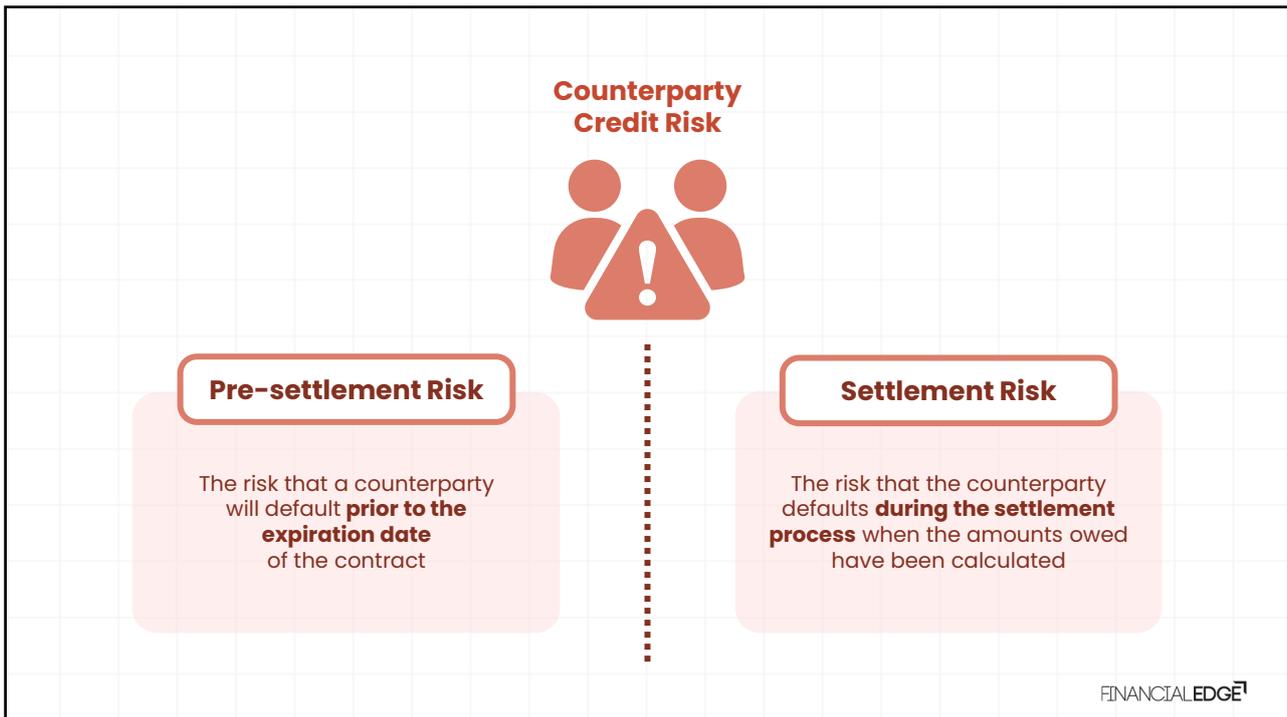


Risk of loss from one party not meeting their obligations to the other party (or counterparty) in a financial markets transaction

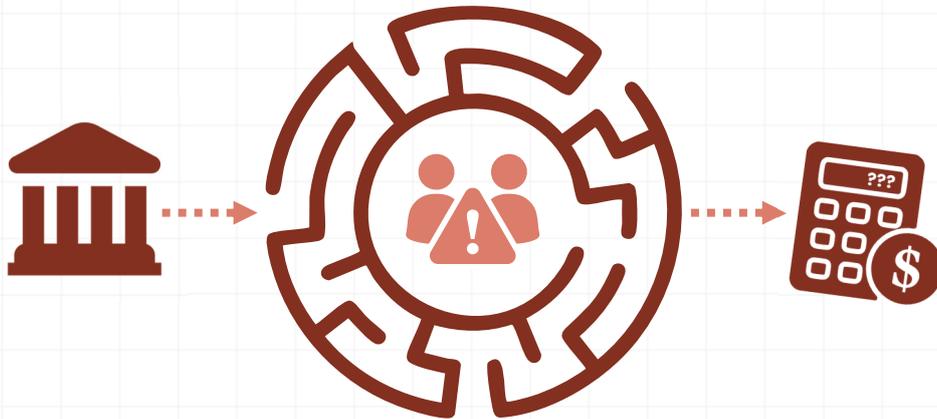
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Counterparty credit risk is a complex risk to measure and quantify



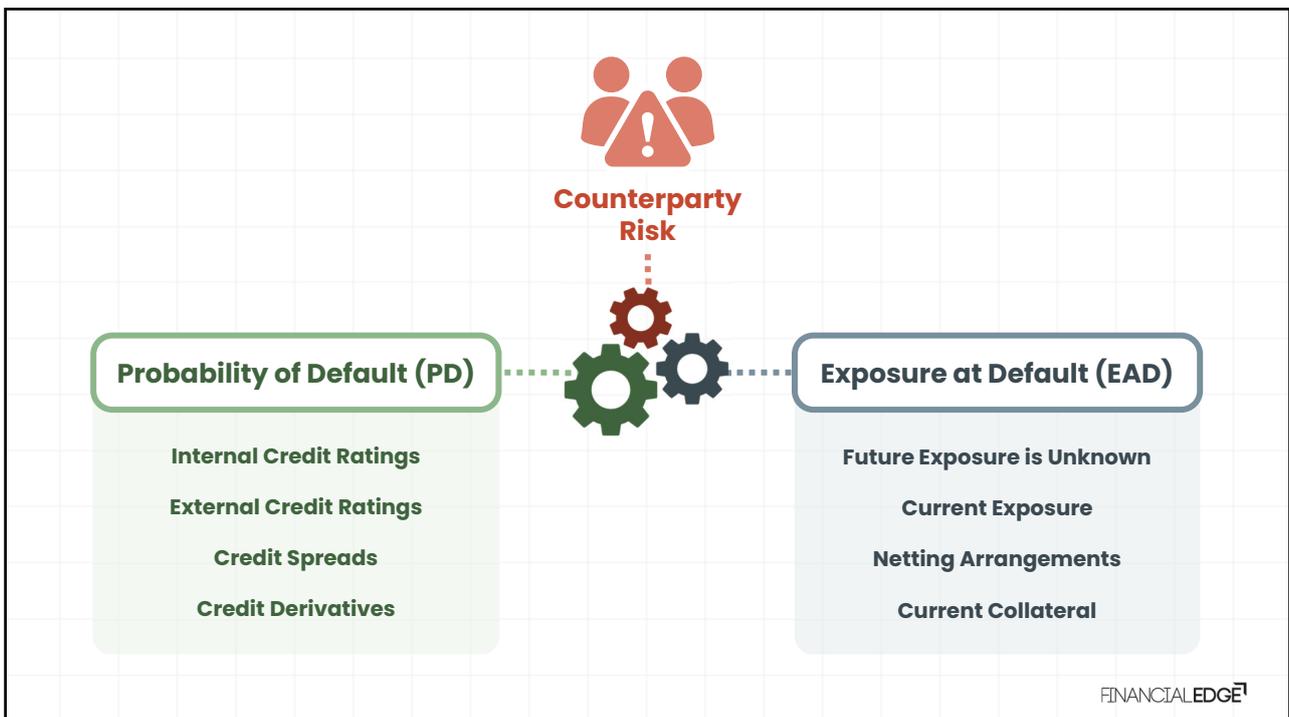
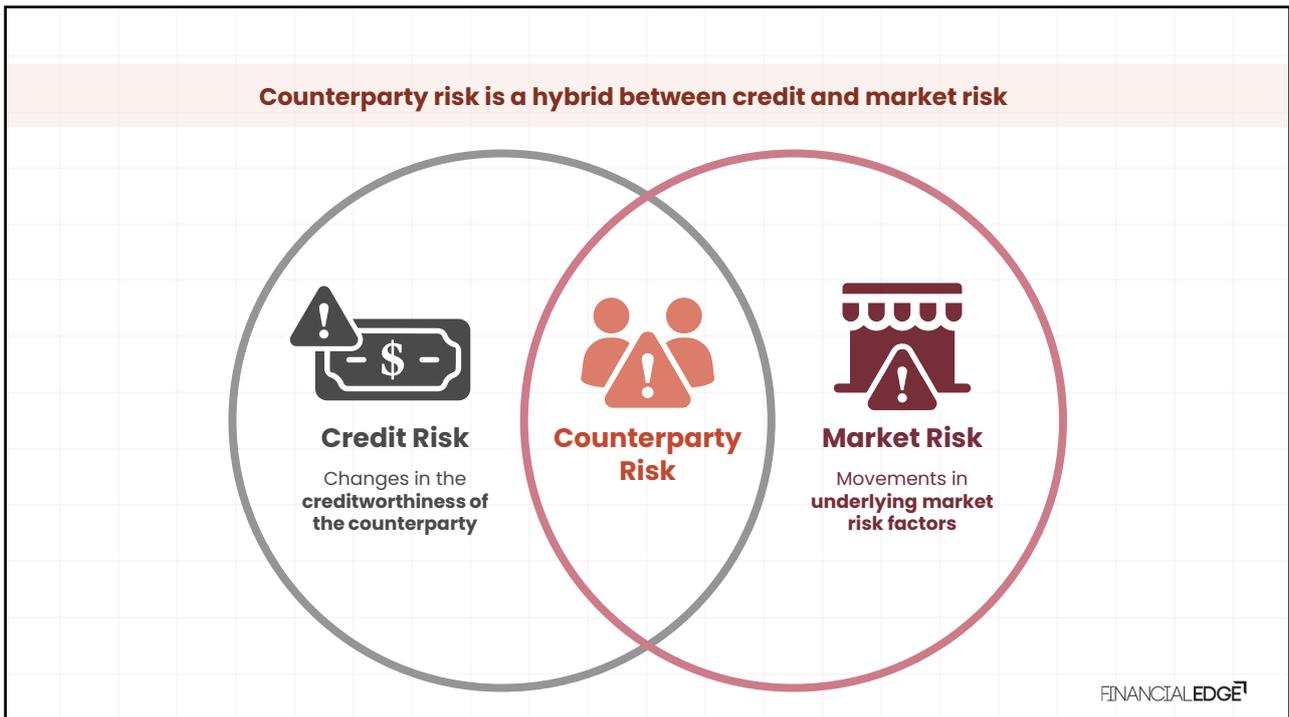
Counterparty 1 winning from the contract
 Risk of not being paid what they are owed in future
 (Counterparty Credit Risk)

Counterparty 1 losing position from the contract
 No longer owed any money
 (no longer face Counterparty Credit Risk)

Risk exposure transferred to Counterparty 2
 Now owed money
 (Counterparty Credit Risk)



You need to be winning from a trade to face counterparty risk





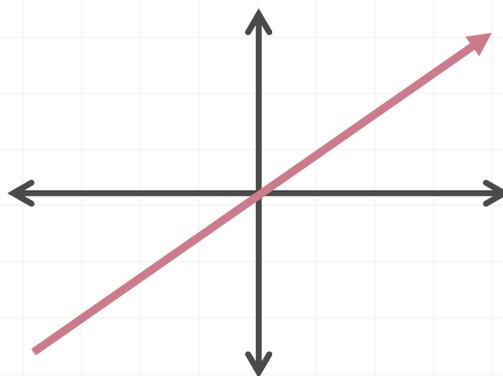
Wrong Way Risk

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Wrong Way Risk (WWR)

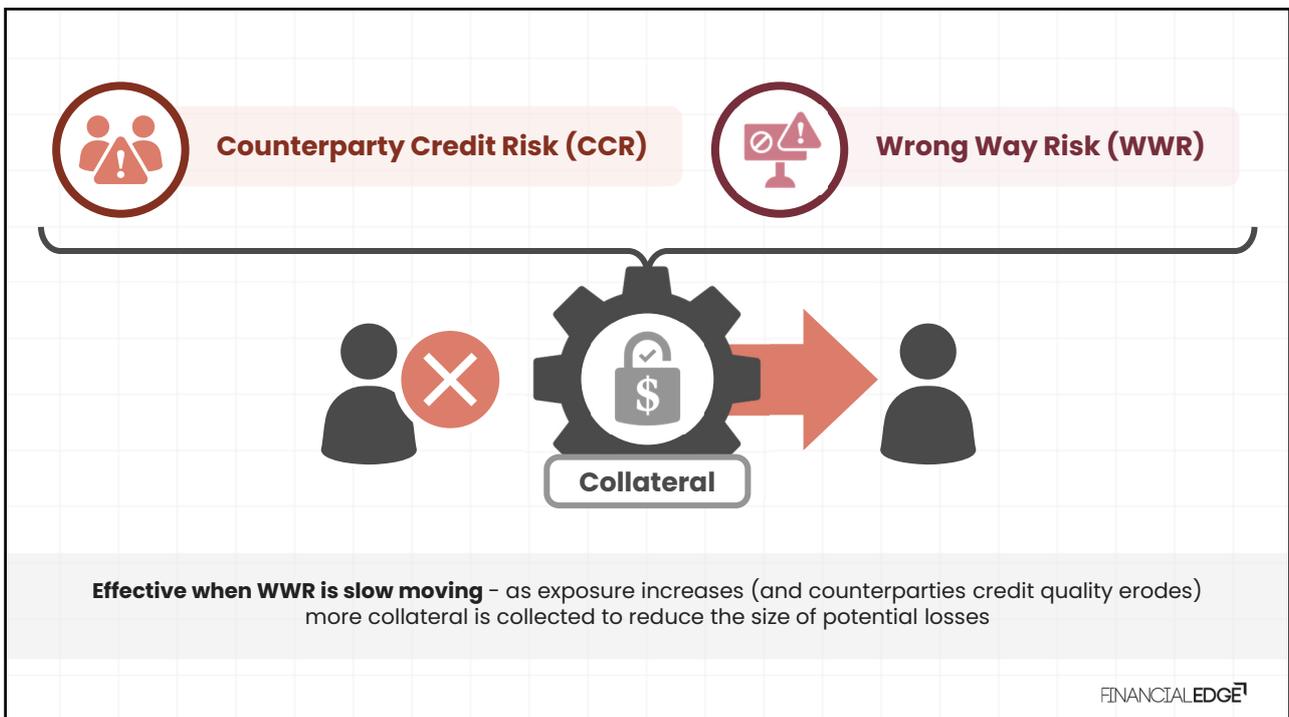
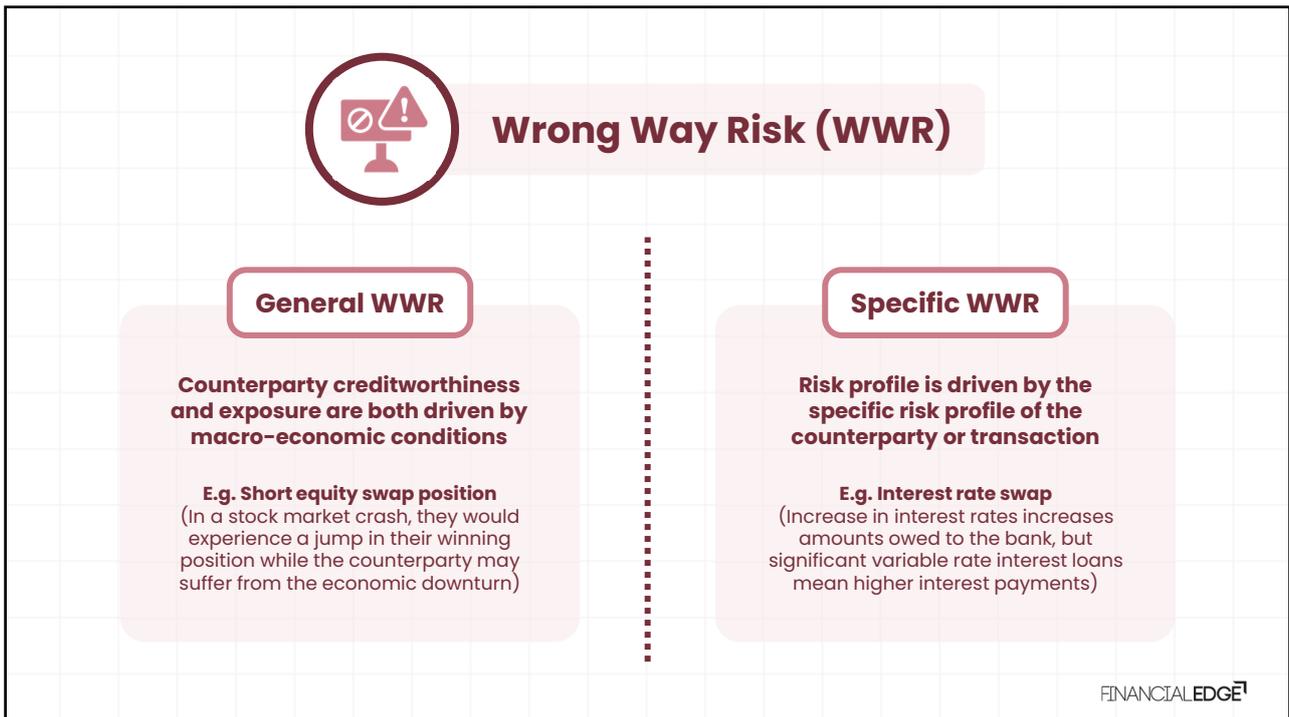
Probability of Default (PD)

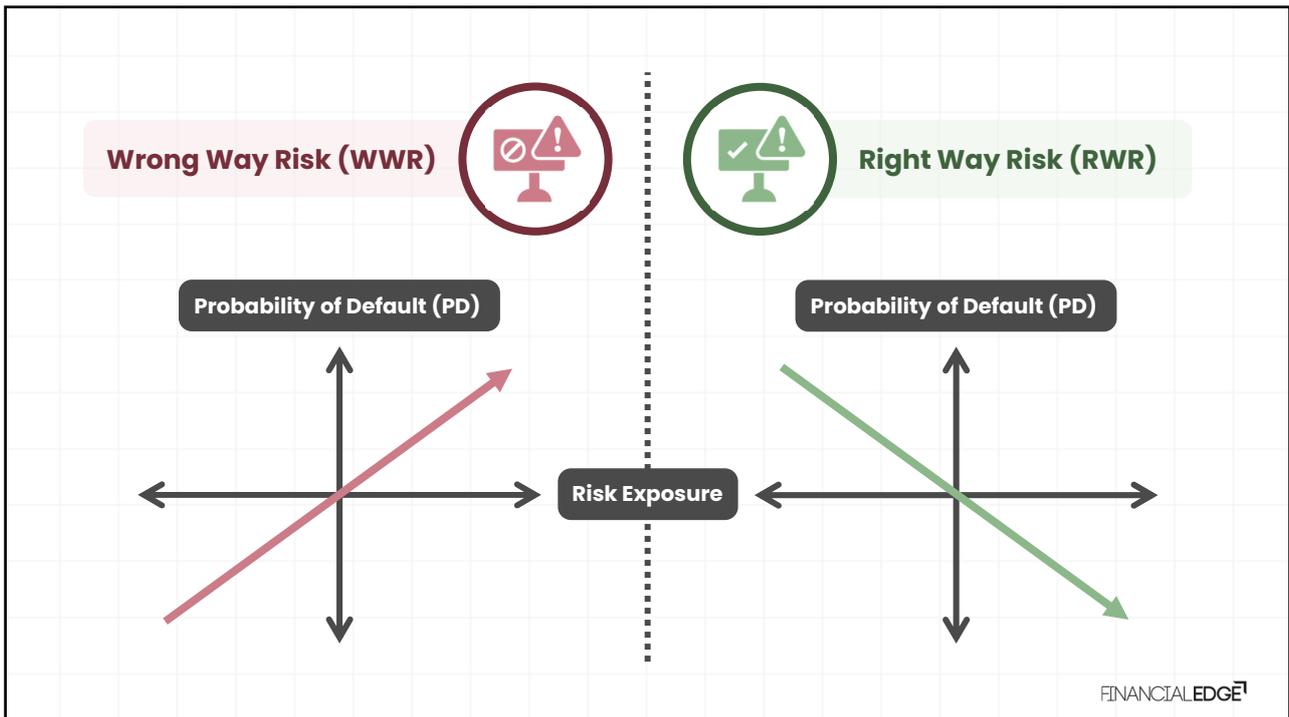
Risk Exposure

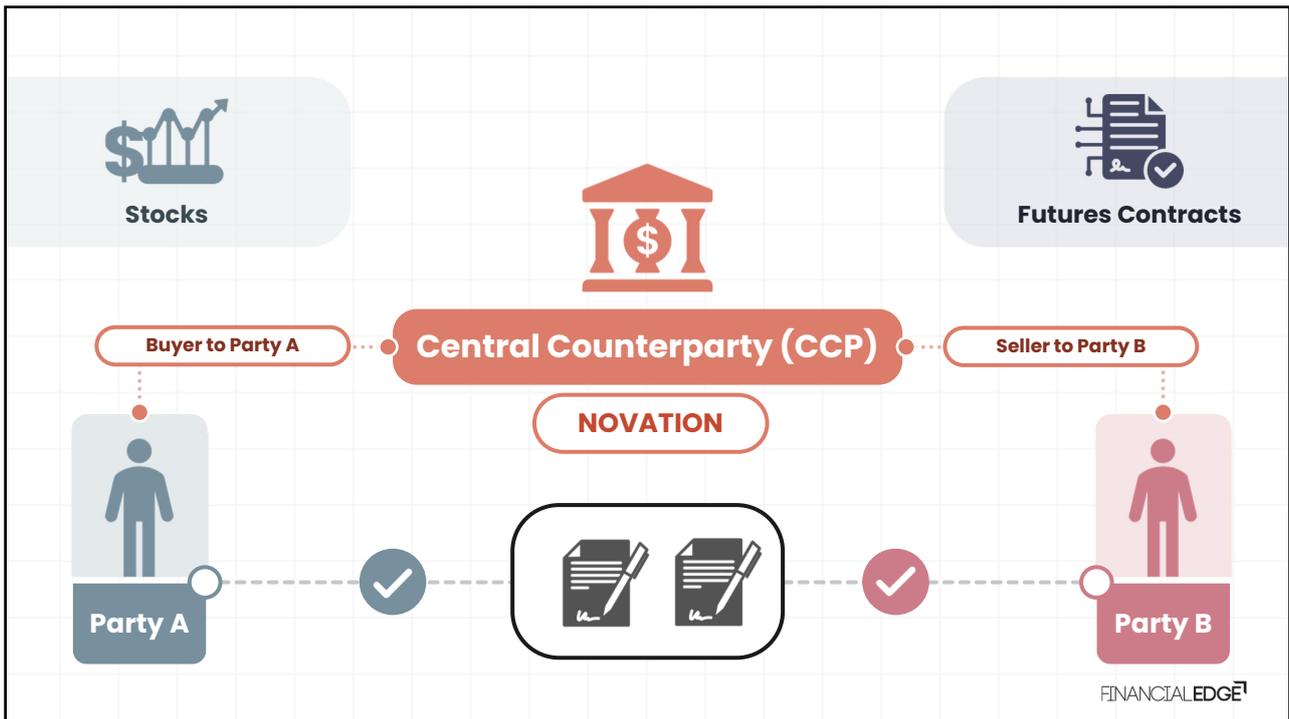


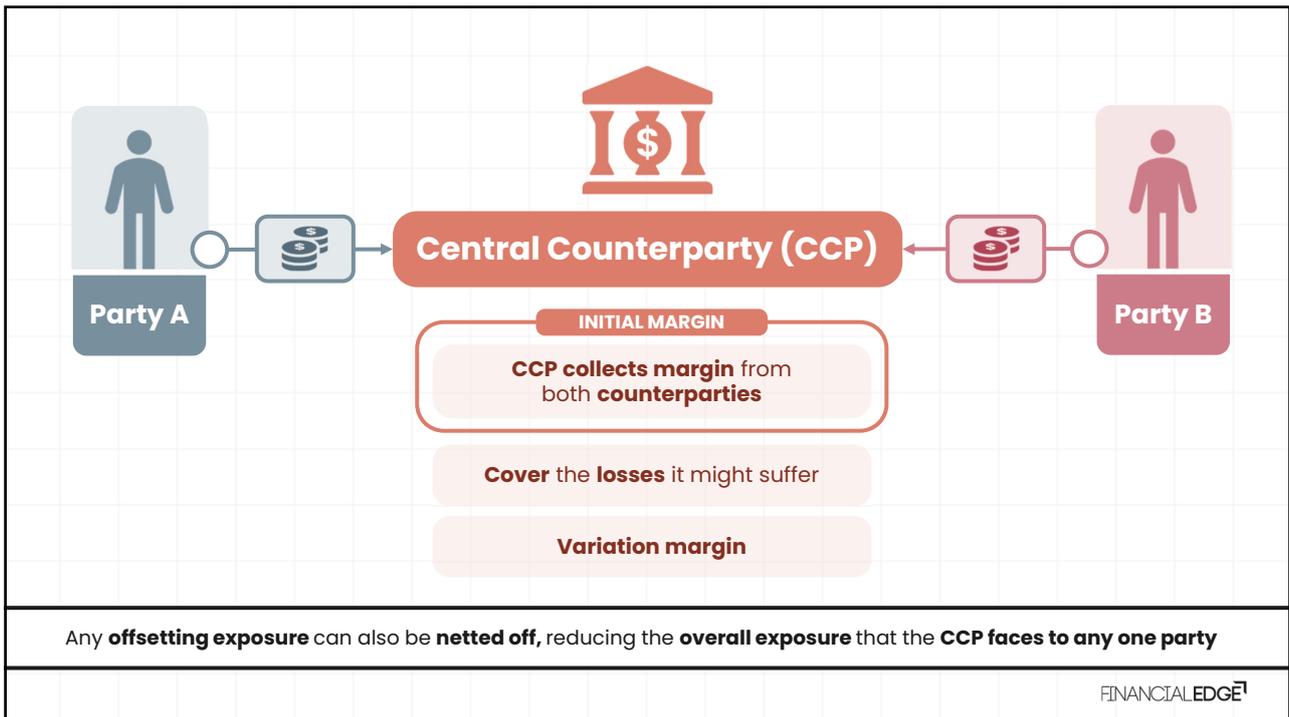
The more money
**owed by the
counterparty**, the
greater chance
the **counterparty**
will default

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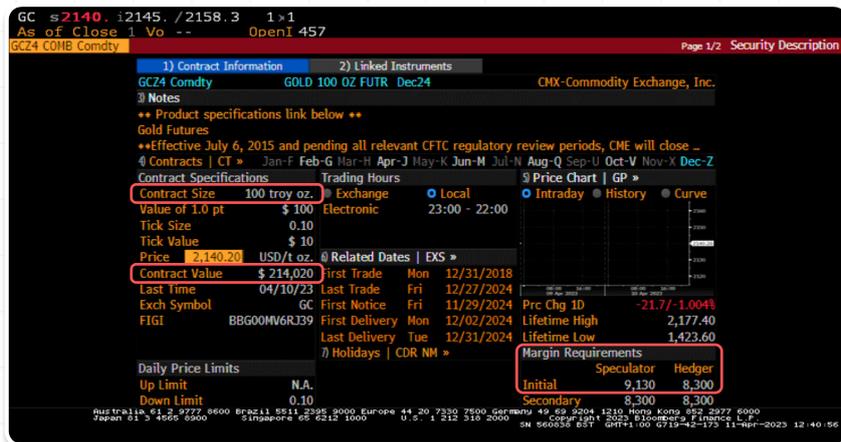




Initial margin requirements

9,130 for a speculator

8,300 for a hedger



Trade

\$214,000 worth of gold

Speculator would need to pay the **exchange \$9,130**

Equating to just over 4% of the contracts' value



Mitigating Counterparty Risk



High-quality Counterparties



Netting & Marking to Market



Collateralization



Hedging with Derivative Contracts



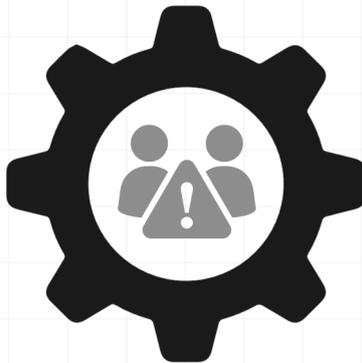
Counterparty Diversification



Standardized Documentation



Centralized Clearing Where Possible



Tools to help mitigate Counterparty Risk

 High-quality Counterparties	 Netting & Marking to Market	 Collateralization	 Hedging with Derivative Contracts	 Counterparty Diversification	 Standardized Documentation	 Centralized Clearing Where Possible
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Trade with high-quality counterparties with strong credit ratings

Having **exposures** to counterparties who are **less likely to default**

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 High-quality Counterparties	 Netting & Marking to Market	 Collateralization	 Hedging with Derivative Contracts	 Counterparty Diversification	 Standardized Documentation	 Centralized Clearing Where Possible
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Participants in the wholesale financial markets will have multiple **open trades** with **many counterparties**



Marking-to-market regularly

Determined and analyzed so that the bank is fully aware of the **true exposure that they face**



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