



# Basel for Funds – Credit Risk Mitigation

Managed Service for Assessing Funds as Eligible Collateral under Standardized Approach

Rely on a dedicated SIX Flex® Managed Package to unlock the unrealized potential of funds as eligible collateral in line with Basel IV credit risk mitigation rules.

## The Challenge

Banks can significantly reduce capital requirements and enhance profitability by using collateral, including non-cash securities, for secured loans like Lombard credit and securities financing activities. Acceptable collateral includes liquid assets such as high-quality debt, stocks, and daily-valued holdings in fund instruments like UCITS, mutual funds, and ETFs. By offsetting the value of collateral against counterparty credit risk, banks can lower asset risk weights, ultimately freeing up capital for further lending and investment.

The eligibility of collateral for capital relief is governed by Basel Committee standards, which are implemented through regional and national regulations. While the use of fund units as collateral is permitted, it remains underutilized due to complex regulatory requirements. The most capital-efficient method for assessing funds is the Look-Through Approach (LTA), which treats each underlying asset as a direct investment held by the bank. This approach determines the overall fund haircut by evaluating each position individually. However, it is a data-intensive process requiring normalization of granular fund composition from multiple Asset Managers, significantly impacting IT resources and operational costs.

While funds are less commonly used as collateral due to operational challenges, banks that accept them can

further reduce risk-weighted assets, lower capital charges, and expand business within credit risk limits.

A shift in market dynamics, driven by Basel III final regulations, has accelerated the trend toward using non-cash collateral. This evolution increases the need for comprehensive data and automation to assess how higher risk-weighted assets (RWA) will affect individual business lines and overall capital charges.

## Our Offering

The Basel proposition from SIX enables banks the opportunity to leverage the risk-reducing effect of collateralized transactions, freeing up capital for unrealized lending opportunities and increase revenues.

Our solution provides directly sourced fund composition data and weights:

- Automatic assessment of the fund share class based on the underlying positions, in line with collateral eligibility criteria and,
- Calculation of the overall volatility adjustment (haircut) to determine collateral value.

As such SIX supports the end-to-end granular data sourcing, enrichment, and delivery to ensure holdings in funds are eligible for credit risk mitigation, under articles 197 & 198 of the (Basel IV) Capital Requirements Regulation (CRR).

## Key Features

Basel for Funds – Credit Risk Mitigation combines capabilities of SIX funds full holdings and Basel credit risk mitigation comprising approximately 90 data points supporting daily calculations (based on fund composition updates):

- **Full Value Chain Support**  
Fully automated end-to-end sourcing, enrichment, and delivery
- **Funds Decomposition & Weighting**  
Detailed breakdown of fund holdings, including full component-level transparency & weights sourced directly from Asset Managers
- **Basel enrichment data**  
Assessment of fund based on underlying positions as eligible collateral, applying risk-based haircuts
- **Fund Haircut Calculation**  
Calculation of the overall fund haircut percentage based on individual position weights
- **Flexible Data Delivery**  
Seamless delivery through the FLEX platform for efficient integration

## Key Benefits

- ☆ **Optimize the bank's capital**  
Leverage the risk-reducing effect of holdings in funds as collateral to lower RWAs and free up capital for additional lending
- ☆ **Automate funds decomposition & assessment**  
Full value chain sourcing, enrichment and delivery of funds composition data & weights reduces costs & manual processing
- ☆ **Regulatory accuracy & provenance**  
SIX regulatory data sets support "audit ready" data sets required to satisfy auditors & regulators

## Why SIX?

SIX has over 95 years of expertise in the provision of high quality market and reference data. SIX data supports calculation of credit, market and liquidity risks, analytics, scenario analysis and regulatory compliance:



**Comprehensive data solution developed in line with local transpositions of BCBS rules**



**Cross asset-class coverage**



**Proven track record implementing risk & regulatory solutions**



**Complimentary to established SIX Tax & regulatory services**

### Need...

- Regulatory rule sets integrated with core data offering for consistency and provenance
- Flexible data delivery options to support automation & straight-through processing
- Transparent, explainable rule sets supporting derived values

### To enable...

- ⚙️ Automation of essential business processes
- 💡 Comprehensive data powering intelligent decisions
- 🔍 Support business and operational efficiency
- 📄 Reliable, trusted and granular data to support risk & compliance

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