1. **Overriding Objective**

1.1. This Directive on Counterparty Credit Risk Management (Directive) establishes the rules and processes of counterparty credit risk management for the Asian Infrastructure Investment Bank’s (AIIB or the Bank) Treasury and IO\(^1\) Operations to ensure that AIIB adheres to sound credit risk management practices including (i) risk identification and measurement, (ii) risk monitoring, (iii) risk mitigation and (iv) risk reporting in managing counterparty credit risk.

1.2. The exercise and interpretation of this Directive shall seek to give effect to this overriding objective.

2. **General Principles**

2.1. AIIB takes counterparty credit risk in its Treasury Operations and IO risk transfer business and such risk should be managed properly for the interest of the Bank. Economic Capital (ECap) is measured for counterparty credit risk under AIIB’s capital management framework.

3. **Definitions**

3.1. **Treasury Counterparty** in the context of treasury operations may include (i) financial institutions, such as banks and insurance companies and (ii) central counterparties, which are clearing houses that interpose themselves between counterparties to contracts traded in one or more financial markets.

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\(^1\) Investment Operations Region 1 Vice Presidency, Investment Operations Region 2 Vice Presidency, Operational Services Department, Social Infrastructure Department, and Implementation Monitoring Department.
3.2. **Transactions** that give rise to treasury counterparty credit risk include but are not limited to:

(a) Bank deposits, interbank lending, bonds and other securities, including asset-backed securities, spot transactions and Securities Financing Transactions (SFT), etc.
(b) Derivatives, such as forwards, options, swaps, credit default swap, etc. and any structured products that involve one or more of the above instruments

3.3. **Other type of counterparty** in the context of IO business include insurance and reinsurance counterparts from risk transfers transactions in the form of insurance policies, guarantees or contractual agreements such as risk transfer agreements (RTAs).

4. **Responsibilities**

4.1. The Chief Risk Officer (CRO) is responsible for issuing the Administrative Guidance under this Directive.

4.2. The Risk Committee (RC) exercises its responsibilities in respect of this Directive in accordance with the RC’s Terms of Reference.

4.3. The Risk Management Department (RMD), as the second line of defense, is the central unit for assessing, monitoring and reporting counterparty credit risk. It is responsible for:

(a) Developing counterparty credit risk measurement tools and models, including exposure calculation, limit assignment, etc.
(b) Designing a counterparty credit risk monitoring scheme and conducting risk monitoring, including limit utilization monitoring; notifying relevant departments of limits approaching alert level and escalating to senior management occurrences of limit breaches.
(c) Reporting to the RC on AIIB’s counterparty credit risk status.
4.4. The Office of the Treasurer (TRE) and IO, as the first line of defense, are responsible for managing counterparty exposures within applicable limits, initiating new counterparties and carrying out due diligence for new businesses, designing transaction terms and informing all relevant departments.

4.5. The Office of the Controller (CTL) is responsible for performing centralized accounting treatment of counterparty transactions.

5. Counterparty Credit Risk Assessment

5.1. Counterparty Credit Rating

5.1.1. Credit Rating Assessment: A counterparty’s credit rating is the basis for measuring its credit quality. AIIB assesses counterparty credit risk based on the latest ratings from the following external credit assessment institutions (ECAI): S&P, Moody’s and Fitch. If no rating is available from any of these three ECAIs, the counterparty’s internal rating will be assigned by RMD using methodology approved by the CRO.

5.1.2. Eligible Rating Level: A minimum rating level is required for each eligible counterparty. Such rating level is established pursuant to AIIB’s General Investment and Financial Derivative Authority and Financial and Risk Management Policy.

5.1.3. Split Ratings: If there are multiple ratings, the following rules shall apply: (i) If there are two ratings by ECAIs and the two ratings differ, the lower rating will be applied and (ii) If there are three ECAI ratings and they are not all equivalent, the rating in the median shall be applied.

5.1.4. Whenever there is a rating change from ECAIs, the related counterparty’s rating must be updated. For any counterparty where the rating has been downgraded to below the eligible rating level as described in 5.1.2, TRE and IO, as relevant, shall submit a counterparty exit strategy and action plan to RMD and the CRO for approval.
5.2. Credit Limit Management

5.2.1. Counterparty Credit Risk (CCR) Limit Definition: The counterparty credit limit represents the maximum committed exposure AIIB could undertake with each counterparty on credit business. Each eligible counterparty must be assigned a single credit limit before any bilateral transactions with such counterparty are initiated.

5.2.2. Credit Limit Model: RMD’s limit model is used to assess a counterparty's credit limit. The limit model broadly considers the counterparty’s financial and credit status and AIIB’s investment constraints and loss tolerance to generate a reference limit, which is subject to adjustment based on other qualitative assessments.

5.2.3. The Credit Limit Management Cycle includes the following: (i) requests for limit assignment and information collection; (ii) counterparty assessment, limit calculation and submission for approval; (iii) limit approval; (iv) limit utilization and monitoring and (v) limit review and adjustment.

5.2.4. The CRO is responsible for approving a counterparty's credit limit subject to the result of the Credit Limit Model. The RC must approve an individual counterparty's credit limit if such limit exceeds the model result.

5.2.5. RMD will monitor the counterparty credit limit against the net credit risk exposure.

5.2.6. A counterparty's limit is revolving and various credit and derivative products specified in paragraph 3.3 share the limit for transactions with the same counterparty. When a transaction is initiated, the net credit exposure shall be booked under its limit until the closure or replacement of the transaction, whereby the limit utilized shall be released.

5.2.7. The Administrative Guidance shall provide a detailed methodology for counterparty limit setting.
5.3. **Exposure Calculation**

5.3.1. **Derivatives Exposure:** AIIB adopts the standardized approach for counterparty credit risk\(^2\) to measure counterparty-level Exposure at Default (EAD). Provided that robust netting and collateral documentation has been put in place, EAD is calculated as the net exposure, considering the discount of mark to market collateral value as well as cash margin deduction. For margined exposures, EAD will be capped at EAD as calculated for unmargined exposures.

5.3.2. **SFT Exposure:** The exposure of SFT should be the financing amount net of collaterals, floored at zero.

5.3.3. **Other Exposure:** (i) For on-balance-sheet items such as interbank lending, exposure is measured as the transaction’s notional amount; (ii) For off-balance-sheet items, the exposure will be converted to credit exposure equivalents.

5.3.4. The Administrative Guidance shall provide a detailed methodology for counterparty exposure calculation.

6. **Counterparty Exposure Monitoring**

6.1. RMD will conduct counterparty exposures monitoring (at least on a weekly basis) and inform TRE and IO of the latest limit utilization status.

6.2. TRE and IO shall check the limit utilization status before any new trade and make certain trade information and data available to RMD to conduct monitoring.

6.3. For any limit breach due to market fluctuations, the excess limit shall be reported to RMD and approved by the CRO, with the RC kept informed. TRE and IO shall perform risk mitigation actions accordingly in a timely manner.

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\(^2\) The standardized approach for measuring counterparty credit risk exposures, Basel Committee on Banking Supervision. [https://www.bis.org/publ/bcbs279.pdf](https://www.bis.org/publ/bcbs279.pdf)
7. Risk Mitigation and Control

7.1. Over-the-counter derivatives may only be traded with a counterparty with whom an appropriate and up-to-date netting master agreement and collateral documentation have been signed.

7.2. AIIB shall actively manage collateral and margin based on the terms stipulated in the collateral documentation: (i) Upon receiving the margin or collateral from a counterparty, TRE shall check the transaction as well as valuation details, confirming that the margin or collateral meets requirements; (ii) TRE shall periodically check positions and valuation results with counterparty, and, in the event of valuation difference, TRE shall work with the counterparty to reconcile these differences and (iii) TRE shall ensure timely calls for variation margin or provision for collaterals, and call back the AIIB-provided collaterals or margin when necessary.

7.3. RMD, with the support of TRE and IO, shall perform ongoing active monitoring on counterparty group level to alert AIIB to any downside risk such as credit rating migration, key financial performance deterioration, potential event on cross default, etc. Early actions such as limit adjustment and collateral monitoring shall be taken.

7.4. In case of an event of default, RMD’s Restructuring and Workout function shall be involved to manage the Bank’s relationship with the counterparty in distress. RMD, along with TRE or IO, Legal Department, CTL and other departments as necessary, shall design a timely workout plan, including any necessary recovery actions.

8. Risk Reporting

8.1. RMD is responsible for reporting to the RC AIIB’s CCR status.

8.2. The CCR report shall include but not be limited to the following:

(a) The overall CCR rating and exposure, including exposure to central counterparties.
(b) Exposure concentrations and credit status of counterparties with the largest exposures.

(c) Credit limit utilization.

9. Information Disclosure by AIIB

9.1. AIIB’s Policy on Public Information and its related Directive and Administrative Guidance govern the disclosure of all information in AIIB’s possession, including this Directive.

10. Implementation

10.1. The CRO shall oversee this Directive, introduce any related Administrative Guidance, and provide adequate resources to ensure the efficient and accurate implementation of this Directive and any related Administrative Guidance.

10.2. This Directive revokes and replaces the Directive on Counterparty Credit Risk Management of July 2020.

11. Authority

11.1. The CRO shall make all final decisions regarding the application of this Directive.