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By post and e-mail: baselcommittee@bis.org

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Sirs

Consultative Document: 'Guidelines for Computing Capital for Incremental Risk in the Trading Book'

In response to the public consultation on the above, we would like to provide the following comments for your consideration:

1. Double-counting adjustments (page 11)

Banks must capture all material risks irrespective of whether they are incorporated into their existing 10-day VaR model, e.g., IRC captures price risk due to movements in equity indexes, even though such price risks are captured in VaR. However, banks may model equity risk, including general market risk and specific risk using individual stock price. Hence, price risks due to movements in general market index as well as specific risk of the stock would be captured in the 10-day 99% VaR, resulting in significant double-counting of the risk. As such, the 'IRC', using a confidence interval of 99.9% and 1-monthly liquidity horizon, seems no longer an 'incremental' risk charge for those risks incremental to VaR, but double counts some of the risks involved. In particular, equity price movements are not having loss distribution as fat-tailed as default. Hence regulatory authority should consider allowing adjustment for double-counting and issuing detailed guidance on how to qualify for such adjustment.

2. General versus specific risks (page 11)

As mentioned above, there appears to be no clear differences made amongst general market risk, specific risk and IRC. Basel defines 'general market risk for equity' as 'long or short position in the market as a whole'. While equity indexes are generally used to represent a 'market', the charging of price movements due



to equity indexes in IRC makes it confused with general market risk. In particular, when the movement of general market index is included as IRC, it is difficult to distinguish 'event risk' of a particular issuer from the risk due to general market environment.

3. Scope and coverage (page 11)

Given the issues as explained above, it may not be recommendable to expand the scope and coverage of IRC to other risk factors as suggested in the consultative document, pending a clear segregation between general and specific risks, as well as a sound treatment to cater for double-counting adjustments.

We hope you would find the above useful.

Yours faithfully,

Eva Wong
Secretary

cc: Ms. Karen Kemp, Executive Director (Banking Policy), Hong Kong Monetary Authority