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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: Proposed Revisions to the Basel II Market Risk Framework

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

Prudent valuation guidance

Although general guidance on valuation is provided in the consultative documents, it seems currently there is no common industry practice in this area. There is scope for the regulators to issue more specific guidelines on whether and how these requirements are to be applied.

1. Definitions of 'less liquid' or 'illiquid' position (page 18, paragraph 700)

'Less liquid' or 'illiquid' position, and relevant policies, including valuation practices and adjustments, are not clearly defined or explained and there is no common industry practice in classifying certain instruments or positions as 'less liquid' or 'illiquid'. Thus, it may not be easy and straight forward to make a judgment where the market as a whole is not that liquid, for example, for some structured investment products or when the bank is making the market in offering some products to customers.

2. Determination of appropriate adjustment amount (page 18, paragraph 700)

We would appreciate further guidance on the factors to be considered for a position and the amount to be determined for each factor.

Chairman Bank of China (Hong Kong) Ltd
Vice Chairmen Standard Chartered Bank (Hong Kong) Ltd
The Hongkong and Shanghai Banking Corporation Ltd
Secretary Eva Wong Mei Seong

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3. The use of bid/offer valuation in the following context needs further elaboration:

It is not clear whether the bid/offer valuation should be applied to the market parameters used in marking-to-model valuation or whether liquidity should be generally handled by a valuation adjustment to model valuation. It would be complicated to apply the bid/offer in the valuation of derivatives portfolio, e.g. whether the bid/offer should be applied to net or gross positions.

4. Availability of information

Given the lack of market data and idiosyncratic nature of different products or activities, it would be a challenge for banks to assign liquidity charges in product pricing/valuation. We support the Basel Committee to consider further specific guidance on the approach or methodology that may be adopted by banks in adhering to this principle. The detailed guidance would help banks overcome the significant challenges of quantification and attribution of such risks caused by the lack of relevant market data and idiosyncratic nature of different products or business activities.

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