



Jersey Financial Services Commission

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel
Switzerland

Our Ref.: BCBS/DF-MS

12 March 2009

Dear Sir or Madam

Revisions to the Basel II market risk framework (the "Paper")
Jersey Financial Services Commission (the "Commission")

The Commission has only been involved in limited negotiations with banks in relation to the internal models approach ("IMA") to general market risk, as Jersey incorporated banks have only very limited trading activity. However, the Commission has considered the proposals set out within the Paper in relation to the calculation of the market risk capital requirement and is broadly supportive of this approach, particularly in regard to the increase in the capital required in respect of re-securitisation exposures. However, the Commission considers that a stressed capital charge in respect of general market risk should be subject to national discretion within Pillar 1, providing that such a charge is established under Pillar 2.

The Paper states that additional capital should be held in respect of a 12 month period relating to significant losses in 2007/2008 that is considered to be a period of stress, although it allows banks to use other stressed periods, subject to regulatory approval. The Commission considers that the use of such a specific stress would engender a capital charge that was overly focussed on the risks that arose in the period chosen, possibly to the detriment of the consideration of a wider range of stressed periods, both before and after these dates.

Additionally, banks may be influenced to adopt risk modelling that reflects the relationships that held true during that period, especially where historical simulation models are used. This may lead to an underestimation of risks.

For example, foreign exchange positions in Icelandic Krona would be impacted if banks had to take into account the worst 10-day holding period in 2008 but banks could continue to consider other managed currencies to be very low risk even if similar scale devaluation had happened in an earlier period or was thought by the bank to be probable in the next 12 months.

As an alternative, it is proposed that the use of IMA for general market risk should be restricted to those banks that are able to present a comprehensive range of stress tests that cover both the 2007/2008 events and other actual and potential scenarios, with capital calculated according to the standard 99.9th percentile confidence interval. Banks that are unable to present such stress testing in relation to a particular risk position should be required to use the standardised approach capital requirement for that position as an add-on to the IMA general risk model result.

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It is therefore suggested that the proposed stressed capital charge is subject to national discretion where an alternative approach, such as that outlined above, is in place.

Yours sincerely

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