CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

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

15 April 2010

Dear Sirs

Strengthening the Resilience of Banking Sector

Please find attached the contribution of the Chartered Institute for Securities & Investment (CISI) Risk Forum to the above consultative document.

CISI is the leading professional body for those members who work in the securities and investment industry and currently has over 40,000 members. The Risk Forum, one of six professional interest networking forums run by the CISI for its members, consists of some 400 buy and sell side risk specialists and is based in London.

This response has been endorsed by the Committee of the Risk Forum and is the product of a round table discussion group attended by members. It has been approved by the Executive Management of the CISI.

If you would like to contact the forum please email riskforum@cisi.org

Yours faithfully

R. Bennett

RB Dennis Cox FCSI
Chairman, CISI Risk Forum

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CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

CISI Risk Forum

Response to Consultative Document: Strengthening the resilience of the banking sector

General Comments

The Risk Forum of the Chartered Institute for Securities and Investments has received this paper and, whilst agreeing with the overall direction has significant concerns with much of the content. In this response we are restricting ourselves to certain key issues, although we would be happy to provide additional views and clarification if this would be helpful.

The Risk Forum membership was concerned at the difficult and unnecessarily complex nature of the paper. Generally the Forum considers that Basel papers should be written in plain English, avoiding jargon. We found this paper in particular difficult to understand.

There is accordingly real concern that many global regulators will not understand these new rules and that whilst they are well intentioned, they are poorly conceived. We note that in some areas high level principles are included whereas in other cases an inappropriate level of detail is provided.

There is also a concern that many of the changes recommended will essentially be cosmetic and are actually nothing to do with the crisis. We do not see evidence that the suggestions have been properly analysed to see what their impacts would be and whether they would have assisted with the crisis. The difficulty of maintaining crisis liquidity throughout the cycle appears to be an objective poorly documented here. The Risk Forum does not generally support capital as being the only answer in terms of crisis. The Forum also wonders whether a business impact analysis has in fact been conducted.

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CISI Risk Forum

Response to Consultative Document: Strengthening the resilience of the banking sector

Specific Issues

1. Capital Structure (Para 85 page 17)

   There was concern about the "one size fits all" approach, the dominance of equity and the overly complicated nature of the rules.

   The forum is generally in agreement with maintaining capital buffers but has reservations about maintaining gone-concern capital.

2. Counterparty Credit Risk (Para 116)

   The forum unanimously does not agree with the approach adopted. The use of multipliers (e.g. the 1.25 factor) and size criteria ($25bn, 5,000 trades, 20 days etc) were all considered inappropriate, unsupportable and unrelated to the underlying risk.

   The rules appear to be vague, yet over complex at the same time. The concerns expressed included the inadequacy of the numbers were a major failure to occur.

3. Bond Equivalent Approach (Para 125)

   This was not supported and its underlying objective appears wrong in principal. Again the inappropriate size criteria were raised as a concern.

4. Margin Periods of Risk (para 153)

   The seemingly arbitrary nature of both 10 and 20 days and the 5,000 trades rule concerns us. The inclusion of a requirement for a daily revaluation at a higher confidence level might be considered as more appropriate.

   The increase in transaction costs which would result from the imposition of this rule as currently drafted was not considered commensurate with the benefits.

5. Downgrade Triggers in EAD (Para 156)

   As stated this currently appears confusing. Clearly the downgrade triggers impact PD and collateral downgrades LGD. Neither in the opinion of the Forum impact upon EAD.

6. Stress Testing (Para 173)

Generally both stress testing and reverse stress testing were considered appropriate and the current rules were in need of enhancement. However the absence of any size criteria to enable the work conducted to be commensurate with the risk was a concern. Also the qualitative issues are not well addressed here.

It is recognised that the key risk is the impact of a failure of one counterparty on another counterparty - yet the data is unlikely to be available to enable this to be conducted. Consequently the real stress events will not be captured by these rules.

We were concerned at the suggestion of day-to-day scenario modelling at high probability and wonder how this differs from general portfolio monitoring.