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

Dear Sirs

APPLICATION OF OWN CREDIT RISK ADJUSTMENTS TO DERIVATIVES

FirstRand Limited (FirstRand) welcomes the Basel Committee's consultative document titled "Application of own credit risk adjustments to derivatives" and the possible implications for the treatment of fair valued derivatives. FirstRand is broadly supportive of the proposal; however, further consideration in relation to the following aspects would be greatly appreciated:

1. FirstRand recognises the complexity in isolating the impact of DVA when fair valuing OTC derivatives and would appreciate a coordinated effort between the Basel Committee through its guidelines provided, and the IFRS accounting standards to ensure consistency between accounting and regulatory capital treatment. It is important to prevent any unintended consequences arising from differentiated CVA and DVA treatment across capital and accounting.

2. It is uncertain what the impact on the proposed "Leverage" calculation will be. As the adjustment is made against Core Tier 1, the Tier 1 number (used in the leverage calculation) will also be impacted (negatively). Is it the intention to re-visit/recalibrate the proposed minimum level of 3%?

3. The measurement of DVA for derivatives liabilities is acknowledged in the consultative document to be difficult and complex. In addition, the DVA spread on a bank's issued debt is also difficult and complex, particularly as it relates to separating out a supply and demand premium for bank paper in general, and the portion of the spread that relates to the banks own credit. The banking industry in general would benefit from clarity on the topic and standardisation of the major principles applying.

4. It is proposed that the Basel Committee considers the possibility of different approaches to the DVA treatment for banks' liabilities constituting issued debt, and derivatives liabilities. Specifically, we concur that in all instances adjustments from own issued debt should be excluded from qualifying capital using regulatory filters or a similar mechanism. However, we recommend that one considers additional complexity of DVA adjustments for derivatives to ensure that a consistent treatment is achieved between the unilateral CVA capital that is required on derivative assets, and the instances where adjustments are made for DVA to avoid double counting of adjustments.

Please contact Frederik Kleinhans on +27 11 282 1290 should you require further information on the issues raised in this letter.

Yours sincerely

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