

7 September 2012

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

Dear Sir/ Madam,

DBS Bank Limited (DBS) welcomes the opportunity to comment on the Basel Committee on Banking Supervision's (BCBS) consultation paper titled "Fundamental Review of the Trading Book". DBS is supportive of the BCBS's objectives to strengthen the market risk's capital standards, leveraging on the lessons learnt of the 2009 financial crisis.

1. Moving from VaR to Expected Shortfall (ES)

For internal models-based approach, the BCBS proposed the use of stressed ES to replace VaR. DBS is supportive of the proposal as ES will better capture the tail risk than VaR since it will be more sensitive to the entire tail of the loss distribution given a confidence level. We are of the belief that an ES confidence interval of 95% would be appropriate while backtesting should continue to be on the basis of VaR with a confidence interval of 99%.

2. Desk-level Internal Model Approval

DBS is supportive of the BCBS's proposal to have the model approval process starting with a more granular trading desk level. However, DBS is concerned with the operational requirements that may come with trading desk level approvals. One such onerous requirement would be the need to identify different stress periods for different trading desks or even risk factors to the extreme, to compute stressed Expected Shortfall. Identifying a stressed period using either the "direct" or "indirect" approaches prescribed in the consultative paper requires significant computational effort and to repeat the algorithm individually for all the trading desks under model approval would increase the computational burden.

The need to identify different stress periods for different trading desks would also introduce inconsistent scenarios within a bank. Different stress periods could give rise to different or even opposite risk factor movements for the same position but taken on by two different internal model approved trading desks.

Thus a single stress period, applicable for all trading desks covered under internal model approval would be desirable from both practical and conceptual soundness perspectives.

In addition, DBS proposes for the requirement to have model approval at a physical trading desk level to be applied consistently across the different jurisdictions, with no further discretion to be exercised by national supervisors. This will ensure a level playing field and mitigates the burden on international banks to maintain different cuts to satisfy potentially divergent regulatory standards.

3. P&L Attribution Metric

For P&L attribution, one metric defined in the consultative paper to determine the degree of fit between the theoretical and actual P&Ls is:

- The mean of the difference between the theoretical and actual P&L (unexplained P&L) divided by the standard deviation of the actual P&L.

The formulation of the metric can be improved by taking the mean of the absolute value of unexplained P&Ls and dividing it by the standard deviation of the actual P&L. This would prevent the offsets of the plus and minus in the unexplained P&L series, resulting in an erratic signal that is not reflective of the internal model's true performance. This would be also more consistent with the second metric which is the variance of the unexplained P&L to variance of the actual P&L.

4. Internal Model Treatment of Banking Book's FX and Commodity Risks

The extension of the P&L attribution requirement to a bank's banking book FX and commodity risks would be an issue as banks do not have daily actual P&L for such risks. One option proposed by the consultative paper to overcome this practical issue is for banks to define notional trading desks for banking book FX and commodity risk positions and construct an proxy "actual" P&L for the positions. It is not clear how banks can achieve the above in practice and the introduction of proxies could yield different results when the same position is subjected to the same accuracy test of the internal model, in different banks.

5. Conversion of Trading Desks into Risk Factor Classes

Section 4.5.3 of the consultative paper discusses two alternatives (risk factor based vs desk based) for conversion of trading desks into risk factor classes for capital calculation. DBS is of the view that grouping desks to primary risk factors (i.e. desk based) is preferred. This is because the businesses are managed on trading desk level and each trading desk mainly focuses on certain risk factors. We understood the merit of the risk factor based approach is neutral to business desk grouping and organization but for limits setting and in-use, a desk based approach which would effectively allow diversification among risk factors within the same desk is preferred as it is in line with how risk is actively managed and controlled.

The eventual approach adopted by the BCBS for internal model capital computation should be applied universally across the different jurisdictions. There should not be further discretion by national supervisors. Firstly, this will ensure a level playing field for banks and secondly, the burden on international banks to maintain different processes, systems and controls to satisfy differing regulatory standards will be mitigated.

6. Revised Standardised Approach

With respect to the two proposed approaches for the revised standardised capital computation, DBS is of the view that the partial risk factor approach will better satisfy the BCBS's objectives, described in the consultative paper. The partial risk factor approach will increase risk sensitivity while maintaining the simplicity of the standardised approach. Fuller risk factor approach on the other hand will depend heavily on the banks' internal models and therefore will lose the transparency and consistency objectives assumed for standardised approach.

Yours sincerely,



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