



THE ASSOCIATION OF RUSSIAN BANKS

(Moscow, Russia)

URL: <http://arb.ru/>

January 31, 2014

The Basel Committee on Banking Supervision

Email: baselcommittee@bis.org

Dear Sirs,

**The Basel Committee on Banking Supervision
Consultative Document «Fundamental review of the trading book:
A revised market risk framework»**

On behalf of the Association of Russian Banks (ARB), and particularly the ARB Committee on standards of Basel II and Risk Management, we would like to thank the Basel Committee on Banking Supervision for the opportunity to deliver our opinion on the Consultative Document «Fundamental review of the trading book: A revised market risk framework» published by the Basel Committee on Banking Supervision on October 31, 2013 at <http://www.bis.org/publ/bcbs265.htm>.

We would like to notice that the results of this Review result in necessity of significant changes for banks related to model development and IT infrastructure for support. We hope our comments would be of use for further development of the prudent international regulatory framework and stimulate its implementation.

We would like to thank Elizaveta Rozanova and Oksana Zhdanova, members of the ARB Committee on standards of Basel II and Risk Management, for their considerable contribution to preparing these comments enclosed (annex on 2 pages).

In case of further questions, please, do not hesitate to get in touch with us through e-mail (z.adam@arb.ru or arb@arb.ru), telephone (+7.495.690.30.00) or fax (+7.495.690.31.38).

Zeyn ADAM

Co-Chairman of the Committee on
Basel II and Risk Management
The Association of Russian Banks

Henry PENIKAS, PhD.

Head of Standing Group on
Basel III within the Committee
The Association of Russian Banks

№	Section	Consultative question / suggestion
1	Treatment of credit	Since a different approach to securitization and non-securitization exposures has been agreed, we suggest to specify what should be included in <u>correlation trading activities</u> and non-securitization credit positions subjected to a separate Incremental Default Risk charge.
2	Approach to risk management	We suggest to state in detail the requirements for stress calibration relating to a period of significant financial market stress and a level of its significance to be considered. We also suggest to clarify the reasons of 97.5% ES usage for the internal model-based approach.
3	A comprehensive incorporation of the risk of market illiquidity	We suggest to specify the linkage between five proposed liquidity horizon categories and categories of related risk factors. At the same time additional risk assessment tool for desk proposed to be introduced should be clarified and defined in more detail.
4	Relationship between internal models-based and standardized approaches	Since the Committee has been also considering the metrics of introducing the standardized approach as a floor or surcharge to the models-based approach, we would like to notice that at the moment within various of banks in developing economies, including Russia, there are no incentives to develop new models due to risk management difficulties to oppose the business and get the budget. We suggest to keep this point in mind and probably consider a separate treatment of this issue for general purposes and developing economies or to consider time-phased implementation.
5	Revised models-based approach	We suggest to specify which risk factors should be captured and assessed during P&L attribution process
6	Revised standardized approach	Since the standardized approach has been agreed to be the only method used to capture the risk of securitization, the linkage between these paragraphs and draft version of revised securitization framework should be stated. <u>The reasons for usage of a higher correlation when the risk positions have the same signs and a lower correlation if their signs differ should be clarified and checked.</u>

№	Section	Consultative question / suggestion
		We also suggest to specify the appropriate treatment for generalized interest rate risk in more detail.
7	Section 1: Overall revisions to the market risk framework 1.1.The trading book / banking book boundary	Since any instruments leading to a net short risk position in an equity in the banking book must assigned to the trading book, we suggest to specify these types of instruments. We also suggest to clarify the definition of “ <u>stale positions</u> ” and the definition of instruments resulting from under writing activities.
8	Section 1: Overall revisions to the market risk framework 1.2. Treatment of credit	We propose to allow either 95% confidence level for ES or the level defined in bank’s own risk-appetite framework, but not less than 95%. Key concern for 97,5% is the lack of numerous observations above the threshold. Using 95% level would at least double the number of observations potentially. We also suggest to provide a reference for the statement than default correlations must be based on listed equity prices.