20 January 2014

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

Dear Sir/ Madam,

DBS Bank Limited ("DBS") is in agreement with most of the proposed revisions to the market risk regulatory capital framework, set out in the BCBS265 consultative document. However, DBS would like the Basel Committee ("the Committee") to review and consider DBS' comments on the various subjects highlighted in this letter.

1. <u>Trading Book's Presumptive List</u>

A. Accounting vis-à-vis Regulatory Capital

The Committee's clarification is sought for the following interpretive issues:

I. Should derivative hedges for banking book exposures, including those which qualify for hedge accounting under the current accounting regime, be classified as trading book exposures? Such hedges could be applied on a single hedged item or on a macro portfolio basis.

II. What would be the treatment for hedges which qualify for hedge accounting but fails the hedge effectiveness test subsequently?

III. Would all assets and liabilities measured at fair value under the impending IFRS9 accounting regime be subjected to market risk regulatory capital?

IV. Depending on intent, there may be instances where the same instrument is accounted differently within a bank. Under the revised market risk regulatory capital regime, would such instruments be allowed to follow accounting standards and receive different regulatory capital treatment?

B. Strategic Equity Investments

Banks often have long term strategic minority stakes in listed equities. DBS is of the view that a trading book classification for such investments would not be appropriate when they would either be deducted from the Bank's capital and/or attract banking book credit capital charges and should thus not be double-counted. We request the Committee to consider exempting them from the list of covered instruments.

2. <u>P&L Attribution</u>

A. Calibration of P&L Attribution Thresholds

The Committee has rightfully pointed out that the theoretical P&L can vary from the actual daily P&L for reasons other than the omission of certain risk factors from the risk management model. These could include differences in (i) valuation techniques and (ii) rate sources, adopted for financial reporting and risk management. Calibrating the P&L Attribution thresholds would be key. Having a higher threshold to accommodate the various forms of difference could have an unintended consequence of not flagging out desks which have truly omitted risk factors in their risk management model (i.e. false positive, Type I error for the hypothesis that the risk model adequately captures relevant risk factors). Trading desks with immaterial omission of risk factors could be disqualified from using internal models if the threshold set is too low (i.e. false negative, Type II error).

B. Mean Metric

One of the two P&L attribution metrics defined in the October 2013 consultative paper is:

- Mean unexplained daily P&L (i.e. theoretical P&L minus actual P&L) over the standard deviation of the actual daily P&L.

The metric's definition should 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 plus offsetting the minus in the unexplained P&L series, leading to a low ratio and reflecting inaccurately that the risk management model has included most/all the relevant risk factors. The improved definition would also be consistent with the second metric which is the variance of the unexplained P&L to variance of the actual P&L.

3. Stressed Expected Shortfall Computation

The full revaluation computation needed to support the Committee's proposed use of an "indirect" method to calculate the stressed expected shortfall would approximately be three times that based on a "direct" method. This would have a significant impact on banks' risk management infrastructure in terms of efficiency and storage. Given the above, the Committee should consider allowing banks to use the "direct" method, supplemented with controls on proxy usage, as an alternative. If the alternative is not made available to banks, the Committee would need to provide guidance on the treatment of significant risk factors which do not have a sufficiently long history dating back to 2005 and hence cannot be included in the reduced risk factor set.

4. Liquidity Horizons for FX and Interest Rate

In the revised framework, FX rate and interest rate are assigned a liquidity horizon of 20 days. The Committee should consider having more granular liquidity horizons for FX rate and interest rate, similar to equity and credit spread, as some markets continue to be very liquid even in times of stress. The Committee may assign a shorter liquidity horizon of 10 days for the highly liquid G7 currencies and reserve a liquidity horizon of 20 days for the other currencies.

5. "Real" Prices for Scenario Generation

For a risk factor to be considered modellable and included in the bank's internal models for regulatory capital, the prices have to be "real" (i.e. transacted price or obtained from committed quote). This requirement could result in many non-modellable risk factors for banks as it is not aligned to the industry's practice of sourcing prices for marking their books. We request the Committee to review the requirement and consider fair value prices used by banks for books and records purposes, to be modellable risk factors.

6. Revised Standardised Approach

The computation of standardised charges is mandatory for all banks in the revised market risk regulatory capital framework. Given its significance, sufficient lead time (approximately 12 to 18 months) should be given to banks to build the required systems and processes to firstly, support the Quantitative Impact Studies ("QIS") and subsequently, the "live" production of standardised charges computation. As the rules for standardised charges have been given a total revamp, the implementation challenges faced by banks operating on standardised rules currently are no less than those encountered by internal models based banks.

7. Inconsistencies in Draft Accord Text

To be consistent with the revised framework's intent, the following corrections to the Accord text should be made before it is codified as a final document:

I. The concept of general market risk and specific market risk is defunct in the revised framework. Hence, reference to specific risk modeling found in the Pillar 2 text should be amended. Please refer to page 113 of the BCBS265 consultative document.

II. Footnote 37 on page 80 of the BCBS265 consultative document suggests that only desks with credit risk exposure must pass a two-stage approval process. The footnote should be corrected to include all desks exposed to issuer default risk, to be consistent with the intended coverage for incremental default risk.

Yours sincerely,

Brian Lo
Head of Risk Management Group – Market & Liquidity Risk
DBS Bank Limited