STANDARD & POOR'S RATINGS SERVICES
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Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
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Dear Sir or Madam:

Standard & Poor's Ratings Services ("S&P Ratings Services") welcomes the opportunity to comment on the Basel Committee on Banking Supervision's consultative document "Fundamental review of the trading book: A revised market risk framework" ("*the consultative document*"), released in October 2013.

S&P Ratings Services believes the proposals address some of the weaknesses of the existing framework. Notably, we welcome the proposal to use an expected shortfall measure calibrated on a stressed period as the basis for the capital charge on banks. This would remove the potential for double-counting of risks that exists under the current framework through the use of a combination of value-at-risk (VaR) and stressed value-at-risk (SVaR) charges. The proposals would also better capture losses from extreme "tail risk" events. In addition, they would more clearly demark liquidity differences across underlying securities. We also believe the proposals could further smooth out differences in risk-weighting practices across the trading books of international banks, assuming that global regulators take a harmonized approach to the proposals.

Nevertheless, we believe the proposed new framework does not sufficiently address the fundamental issue of ensuring consistency of the way banks compute regulatory capital requirements worldwide. Indeed, we see a risk that the new framework may, in some instances, widen discrepancies rather than reduce them. This is largely related to the proposal to replace VaR with an expected shortfall measure at various liquidity horizons, and our concerns that the backtesting approaches outlined in the consultation paper could be relatively inefficient in assessing the accuracy of such models.

Finally, in our view, the yet-to be-determined calibration of the parameters of the reform should maintain the incentive for banks to measure risks using internal models and to use the new measures for daily risk management.

I have attached to this letter an article that S&P Ratings Services has published in response to the consultation paper, entitled "Basel's Proposed Overhaul Of Capital Requirement Calculations For Banks' Trading Risk Is Only A Step Toward Greater Consistency"

This letter and the article have been prepared by S&P Ratings Services' Financial Institutions ratings group. I trust that the comments made therein are helpful and of relevance to the Basel Committee.

S&P Ratings Services is committed to continuing its dialogue with the Basel Committee on Banking Supervision. Should you have any questions regarding the contents of this letter or the article please contact me or my colleagues listed in the article.

Yours faithfully,

Bernard de Longevialle
Managing Director
Chair, Global Financial Institutions Regulatory Task Force