

Comment from Mr Yuji Doi on the QIS for the revised Market Risk Framework

Overall

- With regard to the calculation of repurchase agreement & reverse repo described in paragraph 68 and 69, sold positions should not incur additional risk because they are already collateralized by Cash or a substitute. Please clarify the background and how the calculation method that sold positions for Repurchase agreement and Reverse repurchase agreement should be placed into the appropriate risk bucket.

- The formula of

$$K_b = \sqrt{\sum_i RW_i^2 MV_i^2 + \sum_i \sum_{i \neq j} \rho_{ij} RW_i MV_i RW_j MV_j}$$

is often observed throughout the document. (i.e. para 108, 128,...) Assuming the case of holding only item X and Y, it should be:

$$K_b = \sqrt{\sum_i RW_i^2 X_i^2 + \sum_j RW_j^2 Y_j^2 + \sum_i \sum_j 2\rho_{XY}}$$

However, the correlation matrix in the document is lacking those figures in the upper right half where it looks $1\rho_{XY}$ is enough instead of $2\rho_{XY}$. (i.e. para 99, 110, 130,...) If my understanding is correct, I come up with this question: what is the background of using not $2\rho_{XY}$, but $1\rho_{XY}$?

- The correlation matrix is not used in para 109 or 129. In those cases, do we have to calculate 2 times as ρ_{XY} (=2 ρ_{XY})?
- What does the difference of those formulas in para 100 and 110 or 130 imply? Is there a specific difference in between? Please ignore the impact of K (residual).

(Example)

Para 110

$$CSR\ Capital = \sqrt{\sum_{b=1}^B K_b^2 + \sum_{b=1}^B \sum_{c \neq b}^B \gamma_{bc} S_b S_c} + K_{residual}$$

Para 99

$$GIRR\ Capital = \sqrt{\sum_{b=1}^B K_b^2 + \sum_{b=1}^B \sum_{c \neq b}^B \gamma_{bc} K_b K_c}$$

General Interest Rate Risk

- In relation to paragraph 7 in (1) General interest rate risk, 3.4 Proposed treatments by asset class, Section 3: Revised standardized approach, we assume that Interest Rate sensitivity can be used when we calculate GIRR because ~~almost~~ many companies use it for internal risk management. It is important for both sides to use market risk calculation method in the same way with respect to comprehensive risk management by authority.

- In relation to paragraph 72 in Annex1, the decomposing different type for Cash borrowing, it is required to add Cash borrowings to GIRR, while it is not required to add Cash lending to GIRR. We would like to know why only Cash borrowing is taken account into GIRR.
- In relation to paragraph 71 and 72 in Annex1, which is referred to decomposing different type for Deposit and Cash borrowing, please clarify the products which don't have maturity date (e.g. Deposit for settlement or perpetual subordinate debt etc.) belong to which vertex.
- In relation to paragraph 97 in Annex1, which is referred to capitalisation of market risk for GIRR, please elaborate the way of taking account for basis risk.

Credit Spread Risk

- In relation to paragraph 102 in Annex1, which is referred to offset positions in identical instruments, please elaborate the extent to offset (i.e. exact math or not).

Default Risk

- In relation to paragraph 150 in Annex1, which is referred to sum the loss risk-weighted positions for short positions, please clarify how to determine the term of the capital horizon.

Options non-delta Risk

- With regard to the calculation of options non-delta risk in (9) Options non-delta risk, 3.4 Proposed treatments by asset class, Section 3: Revised standardized approach, we think risk sensitivity can be used when we calculate Option non-delta risk because almost company uses it for internal Risk management. It is important for both sides to use market risk calculation method in same way with respect to comprehensive risk management by authority.