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Sao Paulo, September 27, th 2017.

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

Ref: "Simplified alternative to the standardised approach to market risk capital requirements"

The Brazilian Federation of Banks (FEBRABAN) is grateful for the opportunity to comment on the Basel Committee's "Simplified alternative to the standardised approach to market risk capital requirements - consultative document". We would like to commend the Basel Committee for the very collaborative approach taken in reviewing the framework.

The publication of a simplified model for measuring the market risk of trading portfolios (S-RbM) is excellent news and is a step in the right direction for proportional application and for adjusting the regulatory framework to the systemic importance, size and complexity of the institutions. However, proposed criteria bring some important concerns, primarily for smaller institutions.

In that sense, FEBRABAN believes that few considerations to current proposal should be considered in order to preserve the intended objective behind this revision **and FEBRABAN would suggest that Committee take into account the following points in the review:**

- **The quantitative eligibility criteria for using the S-RbM should be excluded;**
- **In the case of eligible institutions, the local regulator could have the discretionary to apply the appropriate methodology to establish market risk capital, according to transactions complexity in which the financial institution (FI) has engaged, as well as FI´s size and systemic importance;**

In February 2017, the Central Bank of Brazil implemented a system for segmenting the Brazilian Financial System, based on those parameters (complexity, size and risk). Five segments were defined. The first bucket consists of six banks, systemically important at a domestic level (D-SIB) and internationally active. The second bucket consists of seven mid-size banks with some systemic relevance. The remaining three buckets contain a hundred of FIs whose assets are less than 1% of GDP, in other words, very small, of low complexity and with very low systemic risk.

Brazilian Segmentation rules for the National Financial System

Segment	TOTAL FIs	Banks	Other	Size % of Financial System		Size % of GDP		International Activity
				Individual	Accum.	Individual	Accum.	% of total
S1	6	6	0	69,4%	69,4%	93,8%	93,8%	95,5%
S2	7	7	0	18,8%	88,2%	25,4%	119,2%	3,1%
S3	39	36	3	7,3%	95,5%	9,9%	129,1%	1,3%
S4	419	85	334	3,4%	99,0%	4,6%	133,8%	0,1%
S5	983	0	983	1,0%	100,0%	1,4%	135,2%	0,0%

Source: Brazilian Central Bank

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Brazil has five institutions rated as D-SIB, for whom full implementation of the Basel rules is mandatory. These banks are responsible for almost 70% of the system's assets. In turn, the thirteen largest institutions (S1 + S2 buckets) account for around 90% of the system's assets. In other words, the quantitative criteria of the S-RbM seem unreasonable and appear out of step with the objective of providing simpler treatment for smaller FIs that are less complex and have no systemic risk.

Therefore, so as not to conflict with the Brazilin rules on segmentation, while making regulatory implementation proportional and efficient, responsibility for defining the applicability of the standardized and simplified models for market risk should rest with the local regulator.

The proposed quantitative criteria of size and exposure to market risk for eligibility to use the R-SbM are somewhat restrictive and exclude very small institutions in specific, non-credit niches, such as brokerage houses and securities and currency dealers, investment banks and trade finance, among others. These institutions represent negligible systemic risk for the market, but they will not be eligible for the simplified model, rather they will be forced to adopt the much more complex standardized model.

More specifically:

i) **the criterion of the proposed limit of 5% of Market Risk RWA /Total RWA will exclude 43% of the 134 Brazilian banks, in addition to hundreds of small financial institutions;**

ii) **the quantitative criterion for eligibility, where the sum of trading assets and liabilities + the gross amount of derivatives must be less than 1 billion euros will exclude an important number of smaller Brazilian banks.**

In addition to the points mentioned above, the proposed simplification increases the weighting factors and will substantially raise the capital requirement for the institutions in relation to the current model. While the industry accepts that the trade-off for simplification of the Standardized Approach is an increase in the capital requirements, such an approach needs to be proportionate and retain some sensitivity to risk. FEBRABAN believes that the proposed calibration of the R-SbM is very conservative. The new market risk capital requirements could more than double of the actual market risk capital for such small institutions and we recommend that the proposed framework be recalibrated to more appropriate levels.

In that sense, a quantitative impact study (QIS) is desired, prior to finalizing the calibration of the standard.

Trading Book Review:

FEBRABAN would also like to mention the concern with the deadlines for implementing the entire regulatory framework for market risk on Trading Portfolios (FTRB).
As the Brazilian industry sees it, as was the case with credit and operating risks, the implementation dates should be postponed until 2021.

This conclusion is based on the following aspects:

1- the need for considerable implementation of systems for the new methodologies, including the intra-day risk overview and ascertainment of results;

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2- credit factors, which in emerging countries require a major effort in the development of methodologies;

3- use of the new methodologies in bank management, which requires a sufficient maturity period to understand how these models behave, in addition to the amount of capital required to support this.

4- adaptation to the impacts by smaller financial institutions in terms of capital requirement, bearing in mind the proposed methodology; likely, final document will be published by the BIS in the end of first quarter of 2018 and by the Central Bank in Brazil not before the third quarter of 2018, that will provide a reduced learning/adaptation deadline; FEBRABAN is talking about hundreds of small institutions;

There is no doubt that initiatives aimed at adapting the regulatory framework are always welcome and contribute to global financial system resilience. However, it is understood that different stages of regulatory requirement standards and some aspects among nations prevent a single framework from taking into account the particular features of a given jurisdiction.

Once again, FEBRABAN appreciates having had the opportunity to comment on the "Simplified alternative to the standardised approach to market risk capital requirements - consultative document". In case you have any questions on the issues raised in this letter, please contact the undersigned com.gestao.riscos@febraban.org.br

Best Regards,

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Director of Prudential Regulation, Risks and Economic Affairs