FEBRABAN

Federação Brasileira de Bancos
Av. Brig. Faria Lima 1.485
Torre Norte 15º andar
01452-002 São Paulo SP Brasil
tel 55 11 3244 9800
fax 55 11 3031 4106
www.febraban.org.br

FB-0143/2015 São Paulo, February 19, 2015.

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

Ref: "Consultative paper on outstanding issues for its fundamental review of the trading book capital standards."

The Brazilian Banks Federation (FEBRABAN) is grateful for the opportunity to comment on the Basel Committee's "Consultative paper on outstanding issues for its fundamental review of the trading book capital standards". We would like to commend the Basel Committee for the very collaborative approach that was taken in developing the principles.

There is no doubt that initiatives aimed at adapting the capital allocated to an institution's sensitivity to risk are always welcome and contribute to the resilience of the global financial system.

In that sense FEBRABAN believes that adjustments to the current propose must be taken into account in order to preserve the intended purpose behind the revision of current standardized models and requires to the Committee to take into account the following points in the review:

1. Internal Risk Transfers

In our opinion, internal transfers of market risk from the Banking Book to the Trading Book, in addition to reducing institutions' operating costs, are important for the risk management process. It is our understanding that Option 2 proposed by the Committee could be enhanced so that, they would enable institutions to reap the benefits of netting and diversification when calculating capital proving the supervisor the robustness of the governance processes and documentation of these operations.

2. Base Risk

We recognize the progress of the proposal, primarily by being able to better capture the benefits created by hedge transactions. However, what concerns us most is the adoption of the Correlation method, as this would make risk calculation using the standardized model extremely complex and costly, flying in the face of the aim of simplifying this approach.

3. Curvature Risk

In the case of this issue we would like to suggest that the Committee adopt Gama, since this measure is already widely used by the institutions. The impacts in terms of systemic development would see a significant reduction and there would be no loss of quality in the manner of measurement.

FEBRABAN

Federação Brasileira de Bancos
Av. Brig. Faria Lima 1.485
Torre Norte 15° andar
01452-002 São Paulo SP Brasil
tel 55 11 3244 9800
fax 55 11 3031 4106
www.febraban.org.br

4. Buckets for FX

In our evaluation we consider it unnecessary to adopt buckets for FX exposure. The proposed practice, in our opinion, will lead to double counting, since in measuring interest rate risk the risk of these transactions has already been adequately factored in.

5. Align the liquidity horizon to the association between pairs of liquid currencies

The proposed document shows no evidence of the associative capability between pairs of liquid currencies. For example, if the US$/EUR and US$/BRL currency pairs are considered liquid in the proposed document, it would be natural that the associations between these pairs, as in the case of BRL/EUR, would also be considered as such and dealt with in the same liquidity horizon of 10 business days.

Once again, we appreciate the opportunity to comment on the "Consultative paper on outstanding issues for its fundamental review of the trading book capital standards". Should you have any questions on the issues raised in this letter, please contact the undersigned com.gestao.riscos@febraban.org.br.

Very truly yours,

Rubens Sardenberg
Prudential Regulation,
Risk and Economic Affairs Direction

Gedson Oliveira Santos
Risk Management Director