中国银行业协会
CHINA BANKING ASSOCIATION

地址：北京市西城区金融大街20号
交通银行大厦B座11—12层
邮编：100033
电话：（010）66291132
传真：（010）66553356

Secretariat of the Basel Committee on Banking Supervision

Bank for International Settlements

CH-4002 Basel

Switzerland

baselcommittee@bis.org

June 20, 2018

Recommendations from China Banking Association on the Consultative Document "Revisions to the minimum capital requirements for market risk"

The China Banking Association[1] (CBA) appreciates the opportunity to comment on the BCBS consultative document on market risk framework and highly values the related arduous efforts the BCBS has made over the past years.

We developed the response after several rounds of discussion with our members representing both large and medium-sized commercial banks. Based on their feedback, we would like to raise some main issues as below. We respectfully expect that our recommendations will be conducive to the finalization of this framework.

I. General comments

The new market risk framework involves great implementation difficulty, and is not fully reflective of the current simple status of the trading book transactions of banks in most developing countries. Therefore, we suggest allowing more national discretion to appropriately simplify measurement rules and recalibrate certain parameters within reasonable scope, based on domestic market environment, market data and product characteristics.

[1] The China Banking Association is a nationwide non-profit self-regulation organization of China's banking sector, representing 656 member banks and other financial institutions in China.

II. Comments on the standardized approach

1. Proportional treatment for complex transactions

The measurement for complex transactions involves complicated calculation, e.g. Vega and Curvature risks for options. This will cause unreasonably high costs for banks with very few positions in such products. We suggest setting certain threshold, and banks with positions of complex transactions under the threshold should be exempted from calculating Vega and Curvature risks.

2. Further recalibration of risk weights

According to the QIS, the new SA approach results in much higher minimum capital requirements than the new IMA approach. Although the CD proposes lower risk weights for certain risk classes, we still suggest further adjustments as follows:

(a) About the Delta CSR risk weights. The new SA approach assigns a risk weight of 5% for financials (including government-backed financials) with investment grade. In our view, this is too high for Chinese policy banks comparing with their actual credit risk status. We suggest further divide the "financial bucket" into sub-sectors, and reduce risk weights for policy banks.

(b) About FX risk weights. The new SA approach assigns 21% and 30% risk weights for FX risk, which is a substantial increase from the current 8%. This is not consistent with the actual risk of FX. We suggest further reduce the risk weight for FX risk class. Considering the fact that actual volatility of different currencies varies greatly, we suggest that national discretion should be allowed to set risk weight based on actual historical volatilities of each currency, under some agreed principles.

(c) About FX correlation coefficients. According to market data, the correlation between CNY and major international currencies (USD\GBP\EUR\JPY\NZD\THB\ARS etc.) or other currencies are generally lower than 50%, with some even lower than 20%. This is less than the 60% set under the base scenario of SA approach, and much less than 75% (60%*1.25) under the "high correlation" scenario. Therefore, we suggest lower correlation coefficient for FX risk factor based on actual market data.

(d) About the treatment of gold. Under current approach, gold is treated as FX. It is subject to a risk weight of 8%, and netting is allowed for hedged position. But under the new SA approach, gold is treated as commodity, and subject to a risk weight of 20%. Furthermore, risk positions are aggregated according to some correlation matrix based on type and tenor etc. According to QIS, for Chinese banks, the capital requirement for gold under new SA is 2.5 times of that under current approach for unhedged positions. For fully hedged position, there is zero capital requirements under the current approach, but under new SA approach, the capital requirements for fully hedged position is only 28% lower than unhedged ones. This is inconsistent with the actual situation. Therefore, we suggest either still treat the gold as FX as is now, or remove the time to maturity dimension for the commodity risk class, and allow spot and forward positions of same commodity, same grade and same delivery location be fully hedged.

III. Comments on the IMA approach

1. About Default risk charge

Under the current market risk IMA, IMA banks are allowed to use standardized approach to calculate specific market risk, which covers default risk, in case they do not have the approval of using IMA approach for those risk. We suggest that the new IMA approach also allow IMA banks to use standardized approach for default risk charge, in case they cannot have the approval to use IMA approach for DRC.

2. About the frequency of model validation test

The consultation document has reduced the frequency of PLA test from monthly to quarterly. We recommend that the frequency for backtesting and Risk Factor Eligibility Test (RFET) also be reduced to quarterly, in order to keep consistency and to reduce implementation cost.

3. About P&L attribution test

We suggest removing the P&L attribution test requirements for trading desks that involves only simple financial products such as vanilla bonds, FX spots or forwards, IR swaps etc. For these trading desks, the risk models are almost identical with the front office models for daily P&L measurement.

4. About banking book FX positions

The CD requires the banking book FX positions be treated as a single trading desk. However, the banking book FX positions are not managed as the trading book desk, and do not calculate the daily P&L. Therefore, we recommend appropriately relax the measurement and model validation requirements for the virtue desk of these banking book FX positions.

IV. Other comments

1. About the structural FX exposures

Different interpretation of structural FX exposures is one of the causes for the variation of market risk capital requirement. We suggest further clarification of the scope for structural FX exposures, and list examples for foreign currency equity investments that are (or are not) qualified for structural FX exposures.

1. 2. About FX Quotation method

The CD uses the indirect quotation method for the measurement of FX risks. This is inconsistent with the current practice in many jurisdictions including China, which adopts the direct quotation method. We suggest using the direct method to be consistent with pricing practices.

3. About the definition of the trading book

According to paragraph 16 to 17 of Annex E in the CD, "instruments held as accounting trading assets or liabilities" are trading book instruments. Bank can only treat them as banking book instruments, if it submits a request to its supervisor and receives explicit approval. However, the IFRS rules for trading asset/liability are not fully consistent with the requirements in the CD (i.e. paragraph 12 of D352, the trading instruments designated as trading book instruments). Therefore, we suggest that "instruments held as accounting trading assets or liabilities" be a reference but not a requirement when the scope of the trading book are determined, and bank should report to the supervisor but not get approval from supervisor if it intends to deviate these instruments from trading book.

PAN Guangwei
Chief Executive Officer
China Banking Association