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By e-mail: baselcommittee@bis.org

The Secretariat
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Dear Sirs

Consultative Documents – Enhancements to the Basel II Framework, including the Capital Regime for Trading Book Positions

We refer to the above consultative documents issued by the Basel Committee on Banking Supervision (BCBS) for comment by 13 March 2009.

After having consulted all our members, we would like to set out below comments from our members on the consultative documents for the consideration of BCBS:

1. Revisions to the Basel II market risk framework

(a) Section 4(i) – Quantitative standards (page 12)

This new provision, which provides detailed requirements in the calculation of a 'stressed value-at-risk', appears to overlap with the current framework when using value-at-risk to calculate market risk capital. In fact, the existing framework has already taken stress testing into account. As required in stress testing, banks usually make references to historical stress events in developing stress scenarios. This is reviewed by regulators as part of the risk management process of banks and will affect the multiplier applied in the calculation of market risk capital of banks.

(b) Section 718 (xcxiii) – Marking to market (page 22)

The Basel Committee proposes to extend the scope of the prudent valuation guidance to all positions subject to fair value accounting (Paragraph 9 on page 2) instead of just trading book positions. Our

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members commented that it may not be practical for banks to apply mark-to-market practices on a daily basis to certain investment securities as required in section 718 (xcxiii) on page 22. This is a particular concern for investment securities which are purchased over-the-counter and the relating fair valuation is obtained from independent brokers on a manual basis. Therefore, our members suggest that appropriate amendments be made to this section to allow flexibility in this requirement.

- (c) Part B – Adjustment to the current valuation of less liquid positions (page 24)

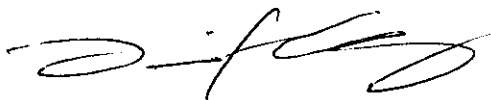
To facilitate implementation, it would be helpful to banks if further detailed guidance on the classification of liquid and less liquid positions could be provided.

2. Guidelines for computing capital for incremental risk in the trading book

Paragraph 39 on page 8 proposes that *'the specific risk charges (whether modelled or based on the standardised charges of paragraph 710) would be replaced by the applicable banking book capital requirements of the IRB, the Standardised Approach, or the securitization framework of Basel II.'* Given the relatively short-term buy/sell positions in the trading book, our members consider that the residual maturity of instruments is an important parameter on the change of market value of instruments and the associated risks, which in turn will affect the computation of specific risk capital charge. Hence, if the banking book treatment is to be applied to positions in the trading book, the residual maturity of instruments should be taken into account as well.

We hope you would find the above useful.

Yours faithfully



Jennifer Cheung
Secretary

c.c. Chief Executive of the Hong Kong Monetary Authority