Dear Sir/Madam,

I am working as a market risk manager. I would like to thank the Basel Committee for the opportunity to comment on the BCBS consultation on ‘Fundamental review of the trading book: outstanding issues’.

Kindly find my detailed comments in the Annexure.

Thank you for considering my comments.

Sincerely yours,

Karan Ahluwalia

Annexure

1. **Section 2.6.2, Page 14:**

The section states that in order to address concerns regarding the capitalisation of cross-currency swaps (when notional is exchanged at inception date and at maturity date), the Committee has decided to retain the three-maturity band structure for this type of instrument. My understanding is that in a cross currency swap (say EUR/USD) there are three risks i.e. exchange rate risk of EUR/USD, the interest rate risk of EUR and USD currencies respectively. Since the interest rate risk of EUR and USD would already get capitalized by the general interest rate risk (GIRR) framework hence I believe that the three maturity band structure for forex risk would lead to double counting of capital as compared to the single maturity band that was there in the QIS and is already in existence in the existing standardized measurement approach (SMM).

I give below an example to illustrate the point. Consider an Fx Swap deal with the following specifications:

Instrument	EUR/USD Fx Swap
First maturity	2-Jan-15
EUR Sell	5,000,000
USD Buy	5,811,000
Second maturity	1-Oct-17
EUR Buy	5,000,000
USD Sell	5,997,960
Current Date	18-Feb-15

Consider the following market parameters:

Exchange rate: 1.13405

EUR interest rate for the duration of the deal (i.e. 1-Oct-17): 0.15%

USD interest rate for the duration of the deal (i.e. 1-Oct-17): 1.17%

The deal has the following sensitivities:

EUR PV01: USD (1,478)

USD PV01: USD 1,524

EUR/USD exchange rate sensitivity (for 1% change of the Fx rate): USD (22,872)

The sensitivity to EUR and USD interest rates would get covered under the GIRR framework and the exchange rate sensitivity would be covered under the forex risk framework (single bucket structure). Thus it's not clear what risk is getting captured using separate buckets for foreign exchange risk since interest rate risk is getting captured elsewhere. The Committee may thus consider reverting to the existing methodology for foreign exchange risk i.e. no separate term buckets.