

Singel 236
Postbus 3543
1001 AH Amsterdam
T +31 20 55 02 888
www.nvb.nl

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

By email: baselcommittee@bis.org

Christel van Maarseveen
T +31 – 20 5502 816
M +31 – 6 16 58 28 07
E mail maarseveen@nvb.nl

Date: 13 March 2009
Reference: BR892\7

Regarding: Consultative Document (**bcbs 148**) - Revisions to the
market risk framework

Dear Sir, Madam,

The NVB welcomes the consultative document "Revisions to the market risk framework" of the Basel Committee on Banking Supervision (bcbs) and appreciates the changes compared to the consultative document bcbs 140. The NVB supports the response to the consultation document from ISDA, LIBA, IIF and IBfed.

We would like to bring a number of issues to your attention as stated underneath.

Banking book and Trading book - QIS

In the consultative document bcbs 149 (guidelines for computing capital for incremental risk in the trading book) reference is made to the "underlying objectives of the Committee to achieve broad consistency between capital charges for similar positions (adjusted for illiquidity) held in the banking and trading books" (paragraph 12). We think however that these underlying objectives are not completely met, we detect a tendency towards heavier capital charges in the trading book as in the banking book.

As this can lead to an arbitrage from the trading to the banking book and less risks control, we support the suggested QIS in 2009 and would like to ask a closely consideration of the outcome, so the impact of all current consultative documents on the total capital charge can be viewed in the light of the recent developments and in the light of the underlying objectives (as mentioned above).

Quantitative standards 718 (LXXVi) – (j), (k)

We support the more practical proposal by introducing the 'stressed VaR' and limiting IRC to default and migration risk.

But also we would like to express our concern that (the multiplication of) stressed VaR and IRC are added to the (the multiplication of) normal VaR for the solvency calculation. This can lead to higher capital in the trading book compared to the capital in the banking book for similar positions. This gives the wrong incentives and leads to less risk control (no day to day risk management). We highly recommend to take this issue up as part of the QIS.

Further, we recommend the usage of the maximum of the multiplication of normal VaR and the multiplication of the stressed-VaR to solve the following items:

1. We do not assess the same risk twice (as will effectively happen if using the consultative Basel regulation today and in other severe economic downturns). The proposed market risk framework where solvency is the result of a simple sum of three to certain extent overlapping components, is not perceived as a conceptual sound framework.
2. The new formula proposed above does not lead to procyclicality. The Basel proposal will still lead to fluctuation of capital results, as it still uses the normal VaR which can be highly volatile.
3. We think that the proposed Basel formula is very conservative, amongst other caused by the incorporation of IRC. Initial calculations by some banks show that the trading book capital can exceed the banking book capital for similar positions. As a result, there may be an incentive to move positions to the banking book out of reach of day to day risk management.

Stressed VaR

There are a number of considerations regarding the stressed VaR which we would like to bring forward.

- We would welcome some clarification whether the stressed VaR should include general market risk or also include specific risk.
- *Practical implications:* New products may enter the market. If using a one-year historical period between 2007 and 2008, this period may not include historical information for the new products. As a result, this could result in an operational burden to add the respective market data for this period, or the stressed VaR cannot be calculated for these new products.
- *Level playing field:* Banks may decide for a different historical stressed period to determine the stressed VaR for the same portfolio. As a result, banks that are exposed to the same economic risk may calculate a different solvency. Where we normally appreciate the allowed room for establishing internal models, we would support a level playing field regarding the adoption of a uniform stressed VaR period for banks that trade similar products.

Deadlines

Having read the consultative documents, we presume that the implementation date will be 1-1-2011, as bcbs 140 indicates that banks with approval for using internal models do not have to comply with the revised requirements until 31-12-2010.

Further, for the part that Basel can control, we would appreciate full alignment of final Basel and final CRD regulation for matters of transparency and to reduce the workload for banks.

Implementation

We hold a positive view towards the initiatives the Basel Committee has undertaken, as it is more practical relative to the previous consultative market risk documentation. Still, we would like to draw your attention that there remain the significant implementation efforts, especially when several consultations will be implemented synchronously. For this reason, the NVB recommends that the final Basel regulation is due the latest September 2009.

Intermediate solutions

We would also recommend clarity on the following items on short notice:

- As per the current regulation, the specific risk factor 4 will be reduced to a factor 3 in January 2010. However, this was linked to the implementation of incremental default risk. We appreciate clarity when this becomes due. We would also welcome more guidance for an intermediate regime for banks that already have internal model recognition under the original BIS framework and clarification on which aspects need to be in place by January 2010 and which aspects by January 2011.
- We would like to inform the Committee that the consultative CRD prescribes the compliance with default risk calculation per 1-1-2010. We look forward to learn that this is not a requirement anymore and whether a placeholder should be considered per 1-1-2010 with regard to default risk. We would like to notify the Committee of this issue, but do understand that this is not within your scope.

Backtesting

Backtesting results will impact the plus factor for the multiplier of the VaR. We would like to highlight that there could be situations where an outlier is the result of defaults, migrations or extreme market events that are captured in the Incremental Risk and/or stressed VaR. These will not indicate model issues with the VaR model. We would therefore propose that these type of outliers will not have an impact on the multiplier of VaR.

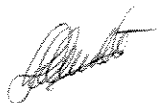
Hedges

We understand that securitization positions should be treated under the banking book approach plus general market risk plus specific risk (the latest depending on the banks own decision). With regard to hedges of securitization positions, it was not clear how this should be treated under the banking book approach. Our strong recommendation is to recognise hedges.

Accounting

We fully agree with the points of view stated in the reaction of the IBfed on this consultative document bcbs 148, especially those regarding the gap between valuation principles in financial reporting and regulatory capital calculations. We would like to recommend this remark to your attention.

Kind regards,



S. Lelieveldt
Head Supervision & Financial Markets
Netherlands Banking Association (NVB)