Professional Risk-Managers' International Association (PRMIA), Russian Chapter (Moscow, Russia)
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Basel Committee on Banking Supervision
Email: baselcommittee@bis.org

Dear Ladies/Gentlemen,

On behalf of The Russian Chapter of The Professional Risk-Managers' International Association (PRMIA) we would like to thank The Basel Committee on Banking Supervision for the opportunity to deliver our opinion on the Consultative Document '*Revisions to the minimum capital requirements for market risk*' issued in March 2018.

In order to deliver a fair and representative opinion of the Russian banking industry, we held a roundtable with the Bank of Russia's representative and bank risk professionals on May 24, 2018 at the premises of the National Research University Higher School of Economics (http://www.hse.ru/en/). It was attended by 87 participants working for credit institutions with total assets amount equaling ca. 75% of the Russian banking system assets.

Overall, we favor the proposed changes, particularly not introducing revision to the simplified standardized approach and the proposal to decrease risk weights for general interest rate and FX risks. We would mostly support Chi-Squared test statistics. Please find attached our additional comments below.

We hope our feedback would be helpful for shaping the future regulation of market risk.

Yours sincerely,
Ivliev Sergey
Penikas Henry

Paragraph-wise Comments

No.	Page	Par.	Original wording	Action	Proposed wording	Justification
1	3	1.3	Cliff effects caused by the approach used to calculate aggregate capital requirements	Agree	n/a	We do not see that the proposed amendments to the framework have a significant impact on curvature risk. That is why we tend to agree with the amendment.
2	3	1.3	Potential double-counting of FX curvature risk	Agree	n/a	We were unable to measure whether double-counting of FX curvature risk is material for Russian banks. Nevertheless, we share the approach to eliminate double-counting.
3	8	2.2	Non-modellable risk factors	Under Review	n/a	There are banks that may assess the impact of non-modellable risk factors, however that would require a longer time than was available during the consultation.
4	13	4	The Committee will assess the impact of these proposals by means of data collected in the end-December 2017 Basel III monitoring exercise.	To inform	n/a	We have undertaken calibration exercise with the representative part of the Russian banking community. The impact of the proposed adjustments to the current standardized approach is estimated as 1.5-2x increase in the market risk capital requirements leading to a decrease of the capital adequacy ratios of 8-20 bps.
5	19	A.6. para 75, 107	The risk weights are set as follows	Agree	[upper range]	As the decrease in risk-weights is at least 20-25% per bucket less than it was, we favor the approach for both general interest rate risk and FX risk.

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6	21	B.2. para 183	To pass the risk factor eligibility test, a risk factor must have at least 24 observable "real" prices per year (measured over the period used to calibrate the current expected shortfall model) with a maximum period of one month between two consecutive observations	Agree	n/a	We would like to point out that there were cases when liquid issues were not traded more than a month, e.g., the bonds of the largest Russian oil company Rosneft (RU000A0ZYJH7) were not traded between April 18, 2018 and May 28, 2018.
7	22	B.2. para 183	To apply the bucketing approach…	Choose Alternative 1	…banks must define the buckets they will use and meet the following requirements…	We believe that discretion should be kept for a bank going for internal models. Any prescription converges to a version of the standardized approach. The own bucket definition would also allow to reflect changing market liquidity of the financial instruments without need to revise the system-wide regulation.
8	27	II.	The P&L attribution requirements are based on two test metrics… the [Alternative 1: Kolmogorov-Smirnov, Alternative 2: Chi-Squared] test metric of the likeness between the RTPL and the HPL.	Choose Alternative 2 (Chi)	T The P&L attribution requirements are based on two test metrics… the Chi-Squared test metric of the likeness between the RTPL and the HPL.	Both alternatives have their pros and cons. Kolmogorov-Smirnov statistics helps to control for outliers whereas Chi-Squared one considers model overall. Besides, we found banks with various validation traditions. However, most of the responded are Chi-Squared proponents.
9	30	Annex C	A trading desk for the purposes of the regulatory capital charge is an unambiguously defined group of traders or trading accounts…	Change	A trading desk for the purposes of the regulatory capital charge is a group of traders or trading accounts that exercise common business model as understood in IFRS 9.	The "business model" concept appears to be a better notion of the activity segregation, as it was introduced by institutions already within the IFRS requirements (see particularly Section 4, para 4.1.2 of IFRS 9 standard).

Notes: n/a – not applicable.