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Secretariat of the Basel Committee
on Banking Supervision (BCBS)
Bank For International Settlements
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Dear Sirs

Re: Simplified Alternative to the Standardised Approach to Market Risk Capital Requirements

We thank you for the opportunity to comment on the above consultative document issued on 29 June 2017.

We note the following:

The objectives of seeking to develop a framework which can be used in certain jurisdictions without significant investment is supported.	South African banks are currently in the process of adopting Basel III requirements while a number of our trading counterparts in the African region are still on Basel I and are still in the early stages of trading certain financial instruments such as forwards, futures and the capability to go short in interest rate or equity instruments. An additional complexity to prevent development of these products for clients will contribute to further delays in the benefits to all stakeholders.
Although the Simplified Approach does provide a less complex alternative to the calculation of sensitivities based method, its implementation still requires a level of sophistication that may be operationally too challenging and disproportionately cumbersome for a small bank with immaterial market risk.	In the absence of an interbank forward or futures market, the level of complexity increases significantly if other interest rate instruments are used versus the current standardised approach which have only more recently commenced being adopted in certain countries.
The imposition of the normal RSA on D-SIBs does not consider the limited complexity of undeveloped markets. A bank may be a D-SIB in a small undeveloped market, but still have	It is suggested that this criterion be removed as it does not reflect the nature, size or complexity of market risk in the bank.

immaterial market risk exposure due to the nature of the market.	
Small banks will have a low base for measuring the materiality of market risk. This means that a single transaction for a short period of time could temporarily cause a breach in the criteria for eligibility.	It is proposed that instead of a point-in-time assessment on a quarterly basis, an entity should rather be required to move to the RSA when it has been outside the criteria for at least a full quarter. In this way a trend of more complex or material trading activities will drive the change in methodology rather than a once-off event.
It is not entirely clear whether the eligibility criteria are enforced at group level or at a subsidiary level of a group, i.e. can subsidiaries apply the Simplified Approach while certain desks at a group level use internal models?	Greater clarification or guidance of the treatment of subsidiaries and/or branches to whom the standard may be applicable and the application requirements of the simplified approach into a consolidated structure (i.e. does the approach apply at a group or entity level?; If the parent entity does not qualify for the simplified approach, does this mean subsidiaries/branches also do not qualify or can they be capitalised under this method?; Can we have a mixture of approaches that include the simplified method for certain entities and the standardised/IMA method for others?)
The qualitative and quantitative criteria imposed by the proposed simplified approach already limit, to a large extent, the complexity and materiality of trading operations of an entity that may consider applying this approach.	Given the restrictions of trading activity that will make the bank eligible, the substantial increase in required capital compared to current regulations, appears very punitive.
The requirement around 'written options' being a specific exclusionary prerequisite in the approach (i.e. no entities who write/sell options can apply the R-SBA standard) should be extended to the more general case of any option trading activity (including buys and sells) not conducted on a back to back basis.	Whilst written options certainly present a more risky position in these non-linear products, severe mark-to-market losses can occur on purchased option positions which should not be run (in our opinion) by a bank on a simplified approach.
The Regulations do not distinguish between sophisticated and unsophisticated markets. A market can be considered sophisticated if the country regulator adopts the new Fundamental Review of the Trading Book regulations and some banks model market risks	It is proposed that the simplified approach under FRTB is applied to small banks with immaterial market risks in a sophisticated market.

based on the Internal Model Approval methodology.	
As to the question on the preference between the simplified alternative to the standardised approach relative to a recalibrated Basel II.5 standardised model	It is suggested to allow both the R-SBA approach as well as a re-calibrated Basel II.5 model as viable simplified standards for banks with relatively small trading books. The rationale for this dual simplified option is to allow banks who have the ability to calculate basic sensitivities to employ the R-SBA model (providing closer alignment to the overall FRTB framework) where possible, whilst allowing banks in regions still operating under a Basel I framework a practical path towards FRTB compliance. This approach is cognisant of the fact that many smaller jurisdictions are unlikely to adopt FRTB in the short term, given the material change in the framework which would represent a quantum jump in regulation – a more staggered and practical path is envisaged.

Yours sincerely

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