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Sir,

Sub: Consultative Document on Simplified alternative to Standardized Approach Market Risk

We refer to Basel Consultative Document on Simplified alternative to Standardized Approach Market Risk, which was issued for comments by end Sept'17.

The consultative document mentions some of the challenges as under:

- Complexity of Revised Standardized approach may pose implementation challenges for some Banks which have low trading book activities.
- Some large Banks may face less complex risks and hence computation of market risk through Revised Standardized approach may be a complex exercise.
- Further, the requirements of Revised Standardized approach make the framework difficult.

In view of the above, Simplified alternative is proposed for a simpler version, intended to address implementation challenges for Banks that maintain smaller or simpler trading books. The alternative removes capital requirements for vega & curvature risks and reduction in correlation scenarios.

We hereby submit our suggestions/feedback on the same:

- Criteria of Trading book size:
  - In terms of the Consultative paper, one of the criteria for a Bank for being eligible for Simplified alternative is that Bank's total non-derivative trading book assets & liabilities plus sum of gross fair value of its trading book derivative assets & liabilities should not exceed 1 billion euro.

- Suggestions:
  - Cut-off amount of trading book size may be taken as a quarterly average of past 3 trailing years, in view of the following:

— Trading book size may fluctuate depending on market movements. In case a Bank is eligible for simplified alternative but trading book size increases marginally above the cut off mark on few days due to external factors of the economy (say quantitative easing, demonetization, lack of credit growth, etc). In such a scenario, Bank would be required to compute Capital charge for market risk based on the revised standardized approach instead of simplified alternative approach, even though trading book size of that Bank remains within the cut off mark for most of the days in the year.

- Separate limits may be prescribed for derivative trading book and non derivative trading book as some banks may have larger derivative trading book and smaller non-derivative trading book and vice versa. In case a Bank has smaller derivative trading book size, the Bank may be allowed to compute Market risk capital charge as per simplified alternative as the said approach is meant for Banks which face less complexity risk.
  - — Criteria of 1 billion Euro may be applicable for derivative trading book while for non derivative trading book maximum size may be higher (say 10 billion euro). Smallest Public Sector Bank in India (Asset size around 12 bn Euro) has a non-derivative trading book size of around 2 billion Euro.
  - — Alternatively, limit for Non-derivative trading book may be fixed as a percentage of total assets as a corollary to RWA. In India, the ratio is on an average around 10%.

Thanking you,

With warm regards,

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