



Changes to the Revisions to the Basel II market risk framework

1. Paragraph 709(ii) of the Basel II Framework as amended by the *Revisions to the Basel II market risk framework* will be changed as follows, and a new paragraph 709(ii-1-) will be introduced. New wording is underlined.

709(ii). The minimum capital requirement is expressed in terms of two separately calculated charges, one applying to the “specific risk” of each security, whether it is a short or a long position, and the other to the interest rate risk in the portfolio (termed “general market risk”) where long and short positions in different securities or instruments can be offset. The bank must, however, determine the specific risk capital charge for the correlation trading portfolio as follows: The bank computes (i) the total specific risk capital charges that would apply just to the net long positions from the net long correlation trading exposures combined, and (ii) the total specific risk capital charges that would apply just to the net short positions from the net short correlation trading exposures combined. The larger of these total amounts is then the specific risk capital charge for the correlation trading portfolio.

709(ii-1-). During a transitional period until 31 December 2013, the bank may exclude positions in securitisation instruments which are not included in the correlation trading portfolio from the calculation according to paragraph 709(ii) and determine the specific risk capital charge as follows: The bank computes (i) the total specific risk capital charge that would apply just to the net long positions in securitisation instruments in the trading book, and (ii) the total specific risk capital charge that would apply just to the net short positions in securitisation instruments in the trading book. The larger of these total amounts is then the specific risk capital charge for the securitisation positions in the trading book. This calculation must be undertaken separately from the calculation for the correlation trading portfolio.

2. Paragraph 712(iii) of the Basel II framework which was introduced by the *Revisions to the Basel II market risk framework* will be corrected as follows. New wording is underlined, deleted wording is struck out.

712(iii). The specific risk of securitisation positions as defined in paragraphs 538 to 542 which are held in the trading book is to be calculated according to the method used for such positions in the banking book unless specified otherwise below. To that effect, the risk weight has to be calculated as specified below and applied to the net positions in securitisation instruments in the trading book. The total specific risk capital charge for n-th-to-default credit derivatives~~the correlation trading portfolio~~ is to be computed according to paragraph 718, and the total specific risk capital charge for securitisation exposures is to be computed according to paragraph 709(ii).



3. After paragraph 712(vii) of the Basel II framework, the following heading and paragraph will be introduced.

Limitation of the specific risk capital charge to the maximum possible loss

712(viii). Banks may limit the capital charge for an individual position in a credit derivative or securitisation instrument to the maximum possible loss. For a short risk position this limit could be calculated as a change in value due to the underlying names immediately becoming default risk-free. For a long risk position, the maximum possible loss could be calculated as the change in value in the event that all the underlying names were to default with zero recoveries. The maximum possible loss must be calculated for each individual position.

4. Paragraph 718(xcv) of the Basel II framework as amended by the *Revisions to the Basel II market risk framework* will be changed as follows. New wording is underlined, deleted wording is struck out.

718(xcv). Subject to supervisory approval, a bank may incorporate its correlation trading portfolio in an internally developed approach that adequately captures not only incremental default and migration risks, but all price risks (“comprehensive risk measure”). The value of such products is subject in particular to the following risks which must be adequately captured:

- the cumulative risk arising from multiple defaults, including the ordering of defaults, in tranching products;
- credit spread risk, including the gamma and cross-gamma effects;
- volatility of implied correlations, including the cross effect between spreads and correlations;
- basis risk, including both
 - the basis between the spread of an index and those of its constituent single names; and
 - the basis between the implied correlation of an index and that of bespoke portfolios;
- recovery rate volatility, as it relates to the propensity for recovery rates to affect tranche prices; and
- to the extent the comprehensive risk measure incorporates benefits from dynamic hedging, the risk of hedge slippage and the potential costs of rebalancing such hedges.

The approach must meet all of the requirements specified in paragraphs 718(xciii), 718(xcvi) and 718(xcvii). This exception only applies to banks that are active in buying and selling these products. For the exposures that the bank does incorporate in this internally developed approach, the bank will ~~not~~ be required to subject them to a capital charge equal to the higher of the capital charge according to this internally developed approach and 8% of the capital charge for specific risk according to the standardised measurement method. It will not be required to subject these exposures to ~~or~~ the treatment according to paragraph 718(xciii), ~~as~~



applicable. It must, however, incorporate them in both the value-at-risk and stressed value-at-risk measures.

5. Paragraph 13 of the *Revisions to the Basel II market risk framework* will be changed as follows.

Banks are expected to comply with the revised requirements by no later than 31 December 2011. This also applies to portfolios and products for which a bank has already received or applied for approval for using internal models for the calculation of market risk capital or specific risk model recognition before the implementation of these changes. National supervisory agencies should use the time between the announcement of this amendment and the implementation date to thoroughly validate and approve banks' internal models for calculating the incremental and comprehensive risk capital charges.

6. The first paragraph of the *Enhancements to the Basel II framework*, released in July 2009 will be changed as follows.

The proposals for enhancing the Basel II framework in the area of securitisations and more specifically for dealing with resecuritisations have been finalised. Banks are expected to comply with the revised requirements by 31 December 2011.