



Jersey Financial Services Commission

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel
Switzerland

Our Ref.: BCBS/DF-MS

12 March 2009

Dear Sir or Madam

Guidelines for computing capital for incremental risk in the trading book (the "Paper")
Jersey Financial Services Commission (the "Commission")

The Commission has not been involved in significant negotiations with banks in relation to internal models approaches for specific market risk as Jersey incorporated banks have only very limited trading activity and predominantly use the standardised approach in respect of specific market risk. However, the Commission has considered the proposals set out within the Paper in relation to the incremental charge and is broadly supportive of this approach, particularly in regard to the use of banking book rules for securitisation exposures and the proposals that would further align the trading book and banking book capital requirements, especially in respect of illiquid positions.

However, the current proposals to limit the opportunity for arbitrage between the two treatments may not fully address the issue and it may be appropriate to consider, in addition:

- Providing further guidance on the definition of the trading book with the aim of restricting firms flexibility to choose where to book investments; and
- Providing further guidance on the treatment of fair value gains/losses to minimise the difference in the treatment of losses when determining capital for prudential purposes.

In respect of the latter, many regulators, including the Commission, currently allow available for sale banking book fair value reserves to be included within tier 1 capital, whereas similar trading book fair value losses are deducted from capital. Whilst the Commission could address this issue in respect of Jersey incorporated companies, further guidance from the Basel Committee would be useful in ensuring similar treatment internationally.

Yours sincerely

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