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Subject: Consultative Document **bcbs149** - Guidelines for
computing capital for incremental risk in the trading book

Dear Sir, Madam,

The NVB welcomes the consultative document "Guidelines for computing capital for incremental risk in the trading book" of the Basel Committee on Banking Supervision (bcbs) and appreciates the changes compared to the consultative document bcbs 141.

General

We hold a positive view towards the initiatives the Basel Committee has undertaken. We would like to draw your attention towards the significant implementation efforts required, especially when several consultations are implemented synchronously.

In paragraph 12 reference is made to the "underlying objectives of the Committee to achieve broad consistency between capital charges for similar positions (adjusted for illiquidity) held in the banking and trading books".

We fully support this objective. We think however that these underlying objectives are not completely met with the introduction of stressed VaR and IRC. We detect a tendency towards heavier capital charges in the trading book as compared to the banking book for similar positions. As this can lead to an arbitrage from the trading to the banking book and less risk control, we would like to recommend a close look on this issue in the evaluation of the QIS results.

We support the suggested QIS in 2009, so the impact of all current consultative documents on the total capital charge can be viewed in the light of the recent developments and in the light of the underlying objectives (as mentioned above).

Deadlines

Having read the consultative documents, we presume that the implementation date will be 1-1-2011, as bcbs 140 (former version of revisions to the market risk framework) indicates that banks with approval for using internal models do not have to comply with the revised requirements until 31-12-2010.

Further, for the part that the Basel Committee can control, we would appreciate full alignment of final Basel and final CRD regulation for matters of transparency and to reduce the workload for banks.

Intra obligor hedging (paragraph 28)

We would appreciate more clarification on the intention of this paragraph and what exactly is (not) allowed. We understand that for example the basis risk in intra obligor hedges needs to be dealt with.

We would however like to ask you to reconsider paragraph 28 in the section 6 'risk mitigation and diversification effects' regarding the statement that netting is only allowed when short and long positions occur for the same instruments. Also the modelling of separate instruments (versus the modelling of obligors) does not fit in the IRC framework as it stands. Perhaps more serious, by modelling instruments for the same issuer separately, we are not able to correctly assess the aggregated risk of this issuer.

Differences in maturity and liquidity horizons (paragraph 30)

We would welcome further explanation of this paragraph (in particular, is the remark on maturities contractually not assured to be understood as applying to all products with the possible early termination, e.g. all products with callability or early exercise features).

Liquidity floor

Where the liquidity horizon still plays a role, the proposed floors can give a lack of risk differentiation and reduces the incentive to invest in more liquid positions. In addition the approach is not an adequate reflection of risk capital, as the more liquid positions will be floored. We think this floor does not stimulate the sensitivity of the risk management process. Therefore the NVB suggests to leave out the floors and publish guidance regarding the average liquidity horizons for the product categories.

Double counting

Although the new proposal to a large extent mitigates the double counting problem identified in the earlier proposal, we would emphasize the view that there still is double counting present. These could show itself in the IRC as well as in the stressed VaR. We would suggest that banks are allowed to adjust for this after approval from the national supervisor.

IRC outcomes

Further to this, we would like to draw your attention with regard to the coming QIS that the IRC can exceed IRB (whereby not even considering general VaR and specific VaR). We think that this gives the wrong incentives. I.e. banks can choose to hold positions in the banking book which are not routinely risk-managed on a day-to-day basis. In general, we support an increase of capital of the trading books, however we should prevent that capital becomes so high that it leads to less risk control (in case of arbitrage from the trading book to the banking book).

Paragraph 40

We would at first sight accept an alternative approach and possibly use IRB as a cap to the total market risk capital regarding credit related positions. Most important to our opinion is that it is indeed an alternative approach which leaves organisations a choice. Still we do not think the credit risk in the trading book based on IRB is an adequate approach. The day to day practises of risk management in trading books are not supported properly by an IRB approach.

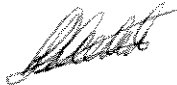
Paragraph 41

We think that we cannot incorporate short positions in the IRB approach and do not see an alternative way for allowing somehow a benefit stemming from short positions, within the framework of the IRB, as this requires a Monte Carlo simulation type of approach. In case of short (and long) positions for the same name, we can easily enter the net exposure as an input in the IRB formula in order to allow the benefit from having short positions.

Paragraph 42

We would like to refer to the statements the IBFed has made regarding this subject in their response to this consultative document. We agree with the opinion stated therein that this would not be a good idea, and that indeed liquidity isn't a fixed status in time of an instrument.

Kind regards,



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