November 8, 2013

Wayne Byres, Secretary General, Basel Committee on Banking Supervision
Norah Barger & Alan Adkins, Co-Chairs, Trading Book Group
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Sent by email to: wayne.byres@bis.org; alan.adkins@bankofengland.co.uk; norah.barger@frb.gov; Juquan.Tan@bis.org; baselcommittee@bis.org

Re: Second Consultative Document Fundamental Review of the Trading Book[1] - BCBS 265 – Quantitative Impact Study Feasibility

Dear Mr. Byres, Ms. Barger and Mr. Adkins,

This letter contains initial comments from the International Swaps and Derivatives Association, Inc ("ISDA"), the Global Financial Markets Association ("GFMA") and the Institute of International Finance (together "the Associations"), on the Quantitative Impact Study ("QIS") of the Basel Committee on Banking Supervision ("BCBS") Second Consultative Document *Fundamental Review of the Trading Book* dated October 2013 ("Fundamental Review" or "FRTB"). We believe it is appropriate to communicate early our concerns ahead of a more detailed submission.

Please be assured that the Associations very much appreciate the opportunity to comment on the Fundamental Review and to participate in its related QIS and we will provide full and detailed comments in due course. Based on our initial reading of the Fundamental Review, we anticipate that the QIS will involve a highly significant amount of computation and resource, via an extensive change to existing risk and regulatory capital infrastructures. Furthermore, given the importance of the proposals and the fundamental re-writing of the market risk framework, we believe the Consultation Paper and the QIS should follow an iterative process whereby findings revealed through the performance of the detailed calculations are allowed to inform the development of policy. We therefore request that further comments can be provided after the deadline to allow for such an iterative process, also taking into account the time needed by firms to prepare for the QIS itself.

To elaborate further, estimating the impact of the proposals on banks, or on portfolios, as we assume will be required in a QIS exercise, will require the development of an entirely new risk and regulatory capital infrastructures, involving complex calculations and new datasets, for both the revised standardized approach and the revised internal model approach ("IMA"). After discussion with our member banks it has become apparent that banks will need time to build the new infrastructure, particularly given that firms in many jurisdictions are completing development and implementation work to comply with the new Basel III framework in time for Jan 1, 2014, as well as other regulatory-driven initiatives such as stress testing exercises in certain jurisdictions. In addition to reviewing the details within the FRTB and related QIS instructions (once published), banks will need to assess several aspects of the proposals and adjust their current risk measurement and regulatory capital infrastructures for example to deal with a new trading book / banking book boundary. Furthermore, firms will need to alter their IMA processes to incorporate liquidity horizons, a revised default risk model and migration to expected shortfall. Finally, the revised standardized approach will be particularly time consuming to implement given how substantially different it is from both the existing standardized approach and from the IMA. Firms will need to develop an entirely new infrastructure in order to incorporate the numerous variations of product-specific notional positions, cash-flow discounting, and time bucketing.

[1] Basel Committee on Banking Supervision, October 2013

The industry thinks that, in order to allow firms to develop the required infrastructure, the QIS should not start until firms are able to develop the necessary infrastructure to produce robust QIS results.

As an alternative to a full delay we think that the QIS could be structured in various stages, starting with those parts where no new infrastructure is required and then moving to those more complex parts as the necessary systems are developed. We suggest that initiating the QIS with hypothetical portfolios applied to the revised IMA, followed with the revised standardized approach, progressively moving toward actual firms' portfolios, would form the optimal sequence.

The QIS exercise, whether sequenced or not, will be resource intensive as it will often be the same individuals that will be involved in the development of the new data and in the review of the data that would be required in the initial build. From a resource perspective we would therefore prefer if firms could focus on developing the new systems, and to commence the QIS itself over a reasonable timeframe.

The sequencing should also allow findings revealed in the QIS exercise to inform the development of policy. To this end, we feel it is important that the consultation period is extended beyond the January 31 deadline, and in addition, that the process allows for additional commentary over the QIS period, to help refine final policy.

In addition to our concerns regarding the necessary time to develop an entirely new risk infrastructure, the industry is also very concerned with the lack of clarity on the details of the revised standardized approach and the revised IMA presented in the Fundamental Review. Clarification would need to be obtained on many technical points to ensure firms are implementing approaches correctly and consistently when running QIS calculations. Receiving early drafts and worked examples of the QIS requirements would be very helpful in allowing the industry to understand what is expected from the QIS. In order to provide the BCBS with clarity on where the QIS would specifically pose issues, the Associations will survey their member firms on the areas where additional clarity is needed or where specific feasibility concerns are identified. We reiterate however that additional detailed items may emerge as the QIS is performed and ask that the BCBS remains open to receive any further such items as these are raised.

We stress again our commitment to participate constructively in the QIS process. We would very much welcome the opportunity to organize a call with the Trading Book Group at its convenience to discuss our suggestions as to how to structure the QIS in the most optimal way. We do sincerely hope you find our initial remarks helpful.

Yours faithfully,

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