February 20, 2015

Mr. William Coen
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2, CH-4002 Basel
Switzerland

Subject: Request to rebalance the timing for finalizing the FRTB framework and the calibration period to include additional data and a macro-economic evaluation

Dear Secretary General Coen,

The undersigned Associations write to bring to your attention concerns about the timeline announced in the third consultation paper ("CP3") to complete the Fundamental Review of the Trading Book ("FRTB") framework prior to calibration of the framework in 2016 and beyond. This letter follows our earlier communications with the Trading Book Group ("TBG") and the wider Basel Committee, reflecting the magnitude of changes and the amount of work still required to complete the overall framework design. Consequently, we would like to request that the QIS on June 2015 month end data ("QIS4") be also taken into consideration for the development of the final policy framework in order to better balance the allocated time between the framework build and the calibration periods.

We continue to be supportive of the TBG's objectives and we view the FRTB as an important opportunity to review and strengthen the methods used to define minimum regulatory capital requirements for traded market risk. We also very much appreciate the interactive approach taken by the TBG, which has led to improvements in risk sensitivity in many areas of the framework.

The current CP3 incorporates into the framework a number of methodological changes and new approaches. These are reflective of the active technical engagement and fruitful discussions between the TBG and industry. We would like to note that we are highly supportive of the TBG's decision to reduce the scope of the current QIS3, by excluding areas where the TBG has not had sufficient time to develop the framework. In particular, we support TBG's approach to exclude securitizations from the QIS3 because the capital calculation methodology is still under review. We also support assessing the impacts in a separate QIS, as noted in the QIS instructions.

However, despite some of the improvements to the FRTB that have been achieved through this process, there are important topics and changes that are yet to be addressed and/or tested. Therefore, we strongly recommend that the current QIS ("QIS3") should not be the last QIS data to be considered in the formulation of the FRTB framework, as communicated in the CP3.

With regards to the wider QIS process, we would like to underscore a number of factors that affected the quality of the data produced. In particular, it should be noted that our members had significant difficulties with the overall process because of the lack of sufficient time to build the systems that were needed to produce the necessary data. The process also lacked of necessary methodological clarifications and specifications needed to deliver a high quality submission. Consequently the data quality was generally poor, resulting in significant RWA increase for many business lines.

Thus, in the broader context of the overall framework, finalizing its design based on QIS3 while there still is an ongoing consultation and many of the technical details and methodologies are yet to be finalized may become problematic. It will mean that any revisions made after the QIS3 will not be fully tested and therefore make the calibration phase much more challenging. If significant issues are unearthed during the calibration period, it will be difficult to resolve these problems without reopening the already completed framework.

In order to avoid the materialization of such scenarios, and for the Basel Committee to have access to stronger data to support the policy making process, we would like to request that the QIS4 be also taken into account in the deliberations on the final policy framework. We believe that making use of QIS4, in particular with targeted templates to finalize those elements of the policy framework which are still subject to change, would vastly increase the quality of the output while potentially extending the timeline for completing the design of the framework by six months at most.

We are aware of the year-end 2015 deadline for completion of the policy framework set by the Basel Committee. We also understand from the TBG that the implementation of the framework will be no earlier than 1 January 2018, and that there will be a two-year calibration period commencing from the end of this year. Within this overall timeframe there is enough flexibility available to extend the policy finalization into 2016, even if that be at the expense of a small part of the planned calibration phase. We believe that the overall objective for implementation of the revised rules will be enhanced, rather than compromised, as a result.

Also, importantly, we believe that the impact that the revised framework will have on the economy should be carefully considered before it is finalized, through a separate macro-economic impact study and a cost benefit analysis. We believe this is necessary because there appear to be significant potential impacts on many products. In particular, given the importance of sound and efficient capital markets not only to banks but also to their clients who rely on financial markets for funding and hedging activities, we consider it critical that the Basel Committee consider the impact of the FRTB framework on market liquidity. We are concerned that certain aspects of the current proposals may exacerbate existing trends of reduced market liquidity, ultimately leading to greater volatility and financial instability.

In more generic terms and reflecting on the various changes to the wider capital framework, it is important to ensure that the efforts to maintain risk sensitivity in the FRTB are not hampered by additional floors elsewhere in the framework. In our view, it is important to fully review the interplay of different measures impacting bank business lines and limit duplication of competing regulatory measures/backstops. In this context, we note that the Basel Committee has recently published important consultations on both Standardised Capital Floors and "Criteria for identifying simple, transparent and comparable securitizations." With regard to the latter, the Basel Committee has stated[1] that in 2015 it "will consider how to incorporate such criteria into the securitization capital framework". Also, the FSB proposals for TLAC are now incorporated into the Basel QIS templates and we expect that the BCBS will soon be reviewing the calibration of the leverage ratio. We believe that these initiatives – which are likely to have relevance to the risk sensitivity of the overall market risk framework – need to be carefully considered in conjunction with the FRTB. The industry is concerned that without a more holistic view of the interplay of these regulatory agenda items, there may be adverse impacts on market liquidity which risk fundamentally changing the economics of key capital markets products creating knock-on adverse effects in the real economy. We encourage the Basel Committee to ensure that these issues are taken into account when it assesses the interaction, coherence and overall calibration of the framework, as mandated in its work programme for 2015 and 2016.

The industry appreciates your consideration of this request and we reiterate our commitment to a constructive dialogue with the BCBS and the TBG. We stand ready to contribute to the debate and the overall process with our views, technical input and necessary data. The Associations would appreciate the opportunity to discuss this and other policy-related FRTB issues with you in person and look forward to your feedback.

Sincerely,

Scott O'Malia	Kenneth E. Bentsen, Jr	Timothy D. Adams
CEO	CEO	CEO
ISDA	GFMA	IIF

C.C. Norah Barger, Philippe Durand, Ju Quan Tan

[1] "Revisions to the securitization framework", 11th December 2014, page 1.