8th July, 2014

Ms. Norah Barger and Mr. Karl Cordewener, Co-Chairs, Trading Book Group
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2, CH-4002 Basel, SWITZERLAND

Sent by email to: norah.barger@frb.gov; karl.cordewener@bis.org; Juquan.Tan@bis.org; baselcommittee@bis.org

Re: Second Consultative Document Fundamental Review of the Trading Book[1] (CP2) – BCBS 265 – Quantitative Impact Study instructions - Preliminary response

Dear Ms. Barger and Mr. Cordewener,

The Associations[2] welcome the opportunity to provide feedback to the instructions for the quantitative impact study ("QIS"), launched by the Basel Committee on Banking Supervision ("BCBS") on the Fundamental Review of the Trading Book ("FRTB") received on 23rd June 2014. Please consider this letter as a preliminary response to the QIS instructions which we hope that you find useful and informative ahead of the BCBS Trading Book Group meeting scheduled for 9th July 2014.

It is important to re-iterate that our members stand supportive of the FRTB initiative and the development process involving iterative QISs. Furthermore, the changes made to simplify the implementation of differing liquidity horizons were almost universally welcomed by our members while dropping the complex cash flow approach as an option for standard rules methodology has been widely praised.

Member banks have actively engaged the resources available and mapped out the capabilities of their internal risk infrastructures in order to provide meaningful inputs into the QIS and calibration of the final framework. However, despite their best intention to participate in the current QIS, they wish to emphasize the difficulty in carrying out the full scope QIS at this stage. In this context, many of our members have noted that reducing the number of days (where multiple reference dates are required) for the QIS calculations would significantly alleviate the operational complexity and is highly recommended.

Furthermore, the current timeline is bound to lead institutions to making significant assumptions, simplifications and shortcuts and as a result, these approximations will impact the numbers that banks report, potentially shifting the mean and almost certainly exaggerating the variance across banks. Overall the QIS is trying to achieve too much at the same time, applying new and untested methodologies to bigger portfolios than before which is prone to fail due to the complexity introduced.

[1] Basel Committee on Banking Supervision, October 2013
[2] The International Swaps and Derivatives Association, Inc. ("ISDA"), the Global Financial Markets Association ("GFMA") and the Institute of International Finance ("IIF")

In order to minimize the variance in assumptions, while maximizing the utility of the output, member banks have proposed some modifications to the QIS exercise:

1. **Reporting date of June 30th**: Banks expect the final QIS instructions to be sent at the end of July. It will be extremely difficult for some banks to calculate the information, as specified in the final instructions, with an as-of-date of a month earlier. Our members request that the as-of-date for a QIS always be set to a date after the final instructions are issued in order to allow time to both clarify the trade term sheets and organize the exercise internally so as to control operational risks. Further, it would be operationally beneficial if that date was either end-of-month or end-of-quarter.

2. **Trading book / banking book ("TB/BB") boundary**: The scenario that assumes that there are no deviations from the presumptive list in the consultation paper is both unrealistic and unnecessary for the calibration of the FRTB framework. The prescribed QIS timeline is prohibitive in re-defining the TB/BB boundary and, in any case, the benefit of doing so is expected to be limited, given that most banks expect little divergence from their existing TB boundary. At the same time, the presumptive list still contains unresolved issues that have been raised by the industry in previous responses[3]. Therefore our members propose completing the QIS based on the current boundary definition only.

3. **P&L attribution and back testing**: These are aspects that require substantial resources and time. Banks recognize that this exercise is critical for ascertaining realistic thresholds for the P&L attribution and back-testing requirements for desk approval, but they are not a direct component of either the IMA or SBA method for calculating regulatory capital. For the majority of banks the provision of theoretical P&L is contingent on the development of new systems, which will take infrastructure investment and development beyond the timelines of this exercise. Consequently, banks propose that the calibration of P&L attribution and back testing be postponed to a later QIS.

4. **Jump in liquidity premium**: The work required to complete this section materially increases the scope of the exercise and should be de-scoped or significantly simplified. This risk parameter is still in its development phase and not directly related to the FRTB framework calibration

5. **Non-Modellable Risk Factors**: As previously raised with the TBG in the recently submitted discussion paper[4], the lack of clarity on the definition of non-modellable risk factors is significant. At this time, banks do not possess the ability to calculate this charge at the trading desk level.

[3] http://www2.isda.org/attachment/NjI0MQ==/Industry%20Letter%20to%20the%20TBG%20-%20BCBS%20265%20Alternative%20Industry%20Proposals%20-%2020%2001%2014.pdf, January 19th 2014
[4] http://www2.isda.org/attachment/NjU1NA==/BCBS_FRTB_Non%20modellable%20risk%20factors_Final.pdf

6. **Non-linear factors in the Standardized Approach**: In the standardized approach, TBG has introduced non-linear factors in the capital calculation, deviating materially from the methodology tested in the previous hypothetical portfolio exercise ("HPE") earlier this year. Although the banks welcome the introduction of risk sensitive attributes in the standardized approach, the efforts and resources required to develop and test the system capability are substantial and it will be very difficult to complete the data request within the allocated QIS timeframe. Calculation of non-linear risk factors for the purpose of the QIS will therefore, inevitably, increase the degree of estimation at a firm level - introducing further variability in the QIS results.

7. **Incremental Default Risk ("IDR")**: Given that the final methodology is not yet finalized at the BCBS level, banks have expressed concerns about including the IDR in the scope of the exercise. Indeed, this represents a significant amount of work, the output will not enable a proper calibration of the IDR and, ultimately, the exercise will have to be rerun once the correlation structure across obligors is defined. Consequently, we would recommend that the impact study on IDR is postponed until a more mature methodology is published.

Overall industry sentiment is that the scope of the QIS is very wide and that it is, effectively, aiming to provide analysis into numerous aspects of the proposed concepts within the FRTB. The Associations fully appreciate the TBG's ultimate aim of assessing the impact of FRTB in real portfolios, however we strongly believe that the study needs to be scoped down and re-structured into smaller separate exercises to avoid contaminating the results with noisy, error-prone data that would result from thinly stretched resources of the participating banks. This point is further reinforced by the timing of the current QIS exercise, in which banks are faced with competing mandatory regulatory initiatives that involve the same resources as the current FRTB QIS.

The Associations will submit detailed comments to the TBG on the QIS by 17th July, as requested by the TBG secretariat. However, we would appreciate if at this stage, and particularly during the July 9th meeting, the points raised in this letter are carefully considered by the BCBS.

We and the industry remain available to discuss these matters in more detail. In particular, the Associations believe that it would be highly beneficial to have an in-depth discussion between the TBG and industry participants on the issues raised in this letter, as well as any other FRTB topics deemed important. In this context, we stand ready to facilitate such a meeting at your earliest convenience.

Yours faithfully,

Mark Gheerbrant	David Strongin	Andres Portilla
Head of Risk and Capital	Executive Director	Director, Regulatory Affairs
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c.c. Ju Quan Tan, Member of Secretariat, Basel Committee