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September 27, 2017

Basel Committee on Banking Supervision
Email: baselcommittee@bis.org

Dear Ladies/Gentlemen,

On behalf of The Russian Chapter of The Professional Risk-Managers' International Association (PRMIA) we would like to thank The Basel Committee on Banking Supervision for the opportunity to deliver our opinion on the Consultative Document '*Simplified alternative to the standardised approach to market risk capital requirements*' issued on June 29, 2017.

In order to deliver a fair and representative opinion of the Russian banking industry we held a roundtable with the Bank of Russia's representatives and bank risk professionals on September 27, 2017 at the National Research University Higher School of Economics (http://www.hse.ru/en/). It was attended by above 90 participants working for credit institutions with total assets amount equaling ca. 80% of the Russian banking system gross assets.

The proposed reduced sensitivities-based method was generally not favored by the industry representatives. Our key message is to preserve the existing approach of Basel 2.5 with its potential recalibration as a simple and viable alternative to the standardised approach for all banks except SIBs, and implement the standardised approach under the FRTB for large internationally active banks.

Please find attached additional detailed comments below.

We hope our feedback would be helpful for shaping the future regulation of market risk.

Yours sincerely,
    Ivliev Sergey
    Penikas Henry
    Smirnov Sergey

General Comments

1. The proposed simplified standardised approach (hereafter – SSA), or reduced sensitivities-based-method (hereafter – R-SbM), requires almost as much computational resources as the FRTB standardised one (hereafter – SA) does. However, a more computationally-intensive approach does not necessarily mean to produce a more "crisis-resilient" risk measure.

2. Capital requirements under the SSA estimated by some large Russian banks are considerably greater than under the SA because of the stepwise increase in risk-weights in the SSA.

3. Because of implementation costs and greater capital requirements for R-SbM, it does not appeal to the roundtable participants. Thus we have not identified any prospective volunteers to apply for R-SbM approval in future if one would be adopted in Russia. Thus the need for an alternative to the FRTB SA is still vitally needed.

4. Two principal approaches to simplification were suggested during the discussion.

   First, as banks already do market risk calculations under the existing prudential requirements as per Basel 2.5, they have an infrastructure available to reproduce it as many times as needed. That is why if the regulator would prefer to recalibrate the current market risk weights (that of Basel 2.5); banks would easily implement those adjustments. They are expected to be minor in terms of overhead cost compared to producing brand-new infrastructure for the FRTB SA or SSA calculations.

   Second, banks strongly opted for preserving the possibility granted by Basel II that foreign exchange risk may be exempted from market risk calculation subject to materiality. It was proposed to extend this option for the entire trading book if its size is not significant for a bank.

Granular Comments on Content

No.	Page	Par.	Original wording	Proposed action	Proposed wording	Justification
1	3	206	When a bank uses the R-SbM for its market risk capital calculation, no partial use is permitted between the R-SbM and SbM.	Change	"When a bank uses the R-SbM for its market risk capital calculation, partial use is permitted between the R-SbM and SbM at the discretion of the national supervisor subject to market risk exposure comprising minor part of RWA".	This is a follow up of comment to allow using R-SbM for SIFIs. When market risk exposure (or its part, e.g. FX risk) is not material, we would kindly ask allowing partial use. This would be in line with the logic of the IRB approach where partial use for credit risk is allowed.
2	3	208	The following text uses the same definitions as in the SbM. In particular, the definitions of the sensitivities are identical.	Add	Add paragraph after par. 208 as follows: "A bank doing negligible business in foreign currency and which does not take foreign exchange positions for its own account may, at the discretion of its national authority, be exempted from capital requirements on these positions provided that its overall net open position as defined in the paragraph above does not exceed 2% of its eligible capital"	When the bank's FX operations are negligible resulting in small capital consumption (e.g., it is less than 2% of capital), would suggest to preserve option of FX risk exclusion from market risk capital requirements. This option was present since 1996 amendment to Basel I on market risks and was kept in Basel II [Basel II; nov 2006; p. 182; par. 718(xlii)]. This would more incentivize banks to reduce FX risk, rather than doing extra calculations they may not do now under Basel 2.5. We expect this would be particularly of value for banks in emerging economies that are exposed to local currency devaluation risk.
3	6	220	[219. Each bucket represents an individual currency exposure to GIRR] ... Risk weight ≤ 5 years // 5% > 5 years // 5%	Change	[219. Each bucket represents an individual currency exposure to GIRR] ... Risk weight ≤ 5 years // 7% > 5 years // 3%	The calibration assuming equal weightings for short-term exposures and long-term ones is unclear. Longer-time buckets need to be assigned smaller weights to be consistent with the FRTB standardized approach.

Granular Technical Comments

No.	Page	Par.	Original wording	Proposed action	Proposed wording	Justification
4	6	224	The delta risk correlation r_{kl}	Change	The delta risk correlation ρ_{kl}	In order to align to formula in par. 210 (c) on p. 4 $$K_b = \sqrt{\sum_k WS_k^2 + \sum_k \sum_{k \neq l} \rho_{kl} WS_k WS_l}$$
5	10	245	The correlation parameter γ_{bc} that applies to the aggregation of risk positions across different buckets. γ_{bc} is set at 15%.	Change	The correlation parameter γ_{bc} that applies to the aggregation of risk positions across different buckets is set at 15%.	Exclude full stop and a repetition of the notation