October 15, 2008

# Comments on "Guidelines for Computing Capital for Incremental Risk in the Trading Book" and "Proposed revisions to the Basel II market risk framework" for the Consultation Document from the Basel Committee on Banking Supervision

Japanese Bankers Association

The Japanese Bankers Association would like to express its thanks for this opportunity to comment on "Guidelines for Computing Capital for Incremental Risk in the Trading Book" and "Proposed revisions to the Basel II market risk framework" published by the Basel Committee on Banking Supervision on July 22 this year as consultation documents.

We understand the purpose of the consultation documents is to address the recent financial turmoil and we principally agree to the purpose and the content of these papers.

However, we would like to confirm and request the following points in the paper of "Proposed revisions to the Basel II market risk framework."

## *"Proposed revisions to the Basel II market risk framework"*

At first, concerning "(iii) Valuation adjustments" referred in paragraph 698, we understand that banks are required to calculate the amount of valuation adjustments. Here, we would like to confirm that this adjustment is allowed not only on an individual basis for fair value of individual transactions but also on a portfolio basis.

Next, in this consultation document, though a word of "reserve" is deleted, we would like to make sure that a reserve method as well as a markdown adjustment method is allowed. In order to clarify this, we would like to request to restore the expression to the original one (for example, "adjustments/reserves" or "adjustments or reserves").

Our understanding is that the Basel II framework (Revised international capital framework) allows two approaches for reflecting adjustments in valuations, as above mentioned : 1) markdown adjustment method and 2) reserve method (without adjusting the market prices of individual financial instruments). If in this framework the markdown adjustment method is only allowed, we see that the adjustment of valuations is required for individual transactions rather than at the portfolio level. In this case, banks that make use of 2) reserve method in their financial accounting etc. will need to retain separately regulatory valuation data in addition to the market price data used in their financial accounting etc., which will place significant burdens on them for the creation of new infrastructure and the processing of valuations. We do not consider this to be desirable from the perspective of costs versus benefits.

In addition, from the perspective of reflecting regulatory capital (numerator), we would note that the effect is the same whether one uses the above 1) markdown adjustment method or 2) reserve method. In light of this, we find no rational reason for excluding the reserve method. Therefore, the original expression ("adjustments/ reserves" or "adjustments or reserves") should be restored.

It is hoped that the comments above will assist the Basel Committee as it works to finalize the documents for clarification.

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