

Adjustments to the Basel II market risk framework announced by the Basel Committee

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The Basel Committee on Banking Supervision has agreed on certain adjustments to the document [Revisions to the Basel II market risk framework](#) ^[1] (the market risk revisions). This revised market risk framework was released in July 2009 and covered the following areas:

1. Banks using internal models in the trading book must calculate a stressed value-at-risk based on historical data from a continuous 12-month period of significant financial stress;
2. Banks using internal specific risk models in the trading book must calculate an incremental risk capital charge (IRC) for credit sensitive positions which captures default and migration risk at a longer liquidity horizon;
3. Securitisation positions held in the trading book will be subject to the Basel II securitisation charges, similar to securitisation positions held in the banking book; and
4. So-called correlation trading books are exempted from the full treatment for securitisation positions, qualifying either for a revised standardised charge or a capital charge based on a comprehensive risk measure.

The adjustments announced relate to elements 3 and 4 above:

- The Committee has re-confirmed the capital charge for non-correlation trading securitisation positions, i.e. to base it on the sum of the capital charges for net long and net short positions. However, for a transition period of two years following the implementation of the market risk revisions, the charges may be based on the larger of the capital charges for net long and net short positions. During this period of transition, there is a need to ensure that there is not undue recognition of hedging between economically unrelated positions.

- In line with its announcement in paragraph 9 of the July 2009 market risk revisions that it would evaluate a floor for the correlation trading securitisation positions, the Committee agreed to set this floor at 8% of the standardised measurement method.

Furthermore, the Committee agreed to a coordinated start-date of not later than 31 December 2011 for all elements of the July 2009 trading book package. This consists of the [Revisions to the Basel II market risk framework](#) ^[1] and the [Guidelines for computing capital for incremental risk in the trading book](#) ^[2]. This coordinated start date will provide supervisors with additional flexibility that will permit more robust implementation and review of changes to market risk models. To facilitate consistency, the Committee also agreed to permit the flexibility to implement the *Revisions to Pillar 1* of the document [Enhancements to the Basel II framework](#) ^[3] (released in July 2009) at the same time as the trading book reforms.

As a result of these revisions, market risk capital requirements will increase by an estimated average of three to four times for large internationally active banks.

The changes to the respective documents are attached in the Annex to this press release.

[Annex](#)^[4]

 Tags: [Basel II](#) ^[6], [Basel III](#) ^[7], [CRDIV](#) ^[8]

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[1] <http://www.bis.org/publ/bcbs158.htm>

[2] <http://www.bis.org/publ/bcbs159.htm>

- [3] <http://www.bis.org/publ/bcbs157.htm>
- [4] <http://www.bis.org/press/p100618/annex.pdf>
- [5] <http://asymptotix.disqus.com/?url=http%3A%2F%2Fwww.asymptotix.eu%2Fcontent%2Fadjustments-basel-ii-market-risk-framework-announced-basel-committee>
- [6] <http://www.asymptotix.eu/category/topics/basel-ii>
- [7] <http://www.asymptotix.eu/category/tags/basel-iii>
- [8] <http://www.asymptotix.eu/category/topics/crdiv>