

**1.1.2 OSC Staff Notice 11-747 - IOSCO and Basel Committee Publish Consultation Document on the Application of Basel II to Trading Activities and the Treatment of Double Default Effects**

**OSC STAFF NOTICE 11-747**

**IOSCO AND BASEL COMMITTEE PUBLISH CONSULTATION DOCUMENT ON THE APPLICATION OF BASEL II TO TRADING ACTIVITIES AND THE TREATMENT OF DOUBLE DEFAULT EFFECTS**

On April 11, 2005, the Technical Committee of the International Organization of Securities Commissions (IOSCO)<sup>1</sup> and the Basel Committee on Banking Supervision (Basel Committee) published for public comment a Consultation Paper, *The application of Basel II to trading activities and the treatment of double default effects*.

The paper outlines proposed capital requirements for banks' exposures to certain trading-related activities. This includes a treatment for counterparty credit risk. The proposals also contain a solution for double default effects, or the risk that both a borrower and guarantor default on the same obligation. The proposals are intended to improve the sensitivity of the capital rules to the underlying economic risks associated with such exposures in a manner that is compatible with the Basel Committee's revised capital framework for banking organizations. That framework, also known as "Basel II," was endorsed by the central bank governors and the heads of bank supervisory authorities in the Group of Ten countries in June 2004.

As part of the same project, IOSCO and the Basel Committee also published a *Trading Book Survey: Summary of Responses*, which sets out the results of a survey of banks' and investment firms' trading books carried out by IOSCO and the Basel Committee. The Consultation Paper and Trading Book Survey can be downloaded from IOSCO's website at [www.iosco.org](http://www.iosco.org) (Library – Public Documents #196 and 195, respectively) and the Basel Committee's website at [www.bis.org](http://www.bis.org) (Basel Committee – Publications). They also can be downloaded from the Ontario Securities Commission's website at [www.osc.gov.on.ca](http://www.osc.gov.on.ca) (International Affairs – Current Consultations) until after the proposals in the Consultation Paper are finalized.

The comment period will remain open until May 27, 2005. Comments can be submitted by e-mail both to [mail@oicv.iosco.org](mailto:mail@oicv.iosco.org) and [baselcommittee@bis.org](mailto:baselcommittee@bis.org). Please include in the subject line of each email "Public Comment on Consultation Paper, *The application of Basel II to trading activities and the treatment of double default effects*". Additional instructions for sending comments by mail or fax are included in the Consultation Paper.

Please do not submit comments to the Commission.

April 22, 2005

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<sup>1</sup> The Commission is a member of IOSCO and the Technical Committee. More information about IOSCO and the Commission's participation in IOSCO can be found on the Commission's website at [www.osc.gov.on.ca](http://www.osc.gov.on.ca) (International Affairs – Who's Who).