CENTRAL BANK OF THE U.A.E.

مصرف الإمارات العربية المتحدة المركزي

Date : 31.05.2001

Ref. : 13/1416/01

Fax No. : 0041 61280 9100

Mr. Daniele Novy
Basel Committee on Banking Supervision
Central Bahn Platz 2 – CH-4082
Basel
Switzerland

Dear Mr. Novy,

Re : New Basel Capital Accord

We have carefully gone through the consultative paper issued by the Basel Committee. All the banks in our system participated in joint discussions on different occasions. We do appreciate the efforts put in by the Committee to bring a "three pillars" approach to measure capital. We have assembled all the comments received from the banks in our system and would like to put forward the following for the committee's consideration.

1. The lower weight attached to the un-rated exposures as compared to the exposures rated below B- appears to be arbitrary. This may actually discourage weak corporates and banks from getting rated.

2. Claims secured by mortgage of residential property have been given relief (50% risk weight) as compared to 100% risk weight on claims secured by mortgage of commercial property. Our experience is that, whereas in loans secured by mortgage of commercial property there is a regular return from the mortgaged property, assigned in favour of the lending bank, in the case of loans against residential property, there is no specific return on the security. We feel that all claims secured by mortgages of property (residential or commercial) should be weighted at 50%.

3. In respect of eligible collaterals, certain Undertaking for Collective Investment and Transferable Securities (UCITS) and mutual funds are also eligible. For such types of securities daily public price quotes is quite onerous, as many such vehicles calculate and publish their NAV less frequently than daily. The requirement should be for monthly price quotes.

أبوظبي – ص.ب: ٨٥٤ – تلفون: ٦٦٥٢٢٢٠ – فاكس: ٦٦٥٢٥٠٤ (٠٢) – تلكس الادارة العامة / العمليات المصرفية: ٢٢٣٩٦ / ٢٢٥٧٧ – الخزانة: ٢٣٣١٦ / ٢٢٣٣٠ هواتف الفروع دبي: ٣٩٣٩٧٧٧
ABU DHABI- P.O. BOX: 854-Telephone: 6652220-Fax: (02) 6652504 - Tlx.: Management /Banking Operations 22396 / 22577, Treasury: 22330 / 23316
Branches Telephones:Dubai: 3939777, SHJ: 5592592, RAK: 2284444, AL Ain: 7656656, FUJ: 2224040 الشارقة: ٥٥٩٢٥٩٢ رأس الخيمة: ٢٢٨٤٤٤٤ ، العين: ٧٦٥٦٦٥٦ ، الفجيرة: ٢٢٢٤٠٤٠

4. The proposals in the IRB approach contain a significant element of double counting between expected losses (EL) and unexpected losses (UL). This will promote competitive distortions with the standardized approach.

5. The proposed risk weight of 100% for retail exposures under the standardized approach appears arbitrary and excessive for high volume, low value exposures, where the expected loss element is normally provisioned under a predefined formula and as such, the expected loss is minimum (in personal consumer loans our experience indicates a loss rate of 0.037% to 0.070%). The risk weight, therefore, should be 50%.

6. As regards disclosures, it is felt that too much will flood the market with some information that may hide the key ones i.e. we need to be more selective and specific.

7. Eligible collaterals inter alia include equities on the main Index. National Supervisors should have discretion of declaring as eligible collateral, securities listed on counrty's official stock exchanges, subject of course, to appropriate margins.

8. Operational Risk should be more clearly defined as some times it is difficult to segregate Operational Risk from Credit Risk. Operational risk capital charge may be left to the discretion of the national supervisor and should be based not only on quantitative factors, but should also take cognisance of qualitative factors assessed after analysis of the operational risk and evaluation of the Internal Audit reports of the particular Bank on the subject. This would allow weightage to qualitative factors related to procedures, internal and external controls, operating environment etc. for determining the operational risk capital charge.

We are looking forward to the outcome of further deliberations by the Committee on this all important subject.

We thank you for giving us the opportunity to present our views.

Regards.

Yours faithfully,

for **Executive Director**
Banking Supervision and Examination Department

VMS/gm
com:Baselaccord/Fax-Basel