GE CAPITAL

COMMENTS ON THE

DRAFT NEW CAPITAL BASEL ACCORD

Introduction

We are taking this opportunity to comment on the Consultative Document, which lays out the proposals of the Basel Committee on Banking Supervision for a New Basel Capital Accord ("the Proposals").

These comments are submitted on behalf of GE Capital International Financing Corporation Inc. ("GECIFC"). GECIFC is a US company, authorised by the State of New York Banking Department, which owns a number of banks in Europe, South America and Asia. GECIFC is owned by GE Capital Corporation, which in turn is owned by General Electric Company.

GECIFC generally supports the three pillar approach presented in the proposals and agrees with the thrust of moving to more sophisticated approaches for assessing risk when calculating capital adequacy. We also support the principle of an operational risk element in the calculation of capital adequacy.

We have confined our comments to areas we see as fundamental to the successful and effective implementation of the proposals, and have sought to avoid commenting on selfish matters of detail. The few comments outlined below are therefore intended as constructive suggestions towards ensuring that specific practicalities and appropriate business or product characteristics are given due consideration by the Committee.

Our comments are as follows:

1. Methodology Standardised approach – Risk weighting for higher risk categories

In paragraph 39, it is suggested that a 'blanket' 150% risk weighting be applied to the unsecured portion of any retail asset that is past due for more than 90 days, net of specific provisions. It is our opinion that such a blanket risk weighting is inappropriate. Our comments here relate again to a principle within the proposals that a bank, or a group of banks under common ownership, should have a common methodology for capital adequacy calculation. Cross referencing to the observations in paragraph 2, we propose that the Committee introduce to its proposals, the flexibility required for an IRB methodology to be used in respect of a retail (i.e. consumer) portfolio of homogeneous debt where it is the dominant part of that bank's business and where accurate, risk based capital calculations can be achieved (and validated) for that portfolio but where other product lines within that bank still require time and effort for the development (and validation) of a matching methodology.

While we would expect such flexibility to be linked to a timetable for commonality, we would suggest that the appropriate timetable is 3 years from first implementation.

2. Methodologies - Transitional period for moving from one approach to another

In its paragraph 159, the proposals require banking groups that will be using the IRB approach for some of its exposures to extend such approach across all exposure classes and across all significant business units "*within a reasonably short time*". GECIFC agrees with the principle that, as an ultimate goal, all businesses within a group should apply the same approach consistently. However, we would like to draw the Committee's attention to practical problems faced by diverse businesses during the implementation of a new approach.

International banking groups span countries and offer different product portfolios for different markets, using diverse IT systems and operational processes. A range of local regulators might interpret the Committee's recommendations in different ways. As a result, for each local country bank within an international group, diverse enhancements may be required to achieve commonality of capital adequacy calculation methodology. The scale of effort required to achieve that commonality could be significant and require an extended timeframe to complete.

We are concerned to know that the Committee will give due weight to this consideration when giving guidance on the interpretation of "... a reasonably short time". We feel that those businesses capable of implementing an internal rating system should be free to seek early validation of that methodology from its local regulator, and thus implement the appropriate methodology in timely manner, rather than having to move only at the pace of the sister bank requiring the greatest (and time consuming) effort. We consider that, without this flexibility, a prime objective of the proposals (i.e. incentivising those businesses capable of deploying an appropriate, more sophisticated approach) would be frustrated.

We would therefore recommend that "... a reasonably short time" be interpreted as a transitional period of up to 3 years from first implementation.

3. Off-balance sheet items

The proposals state that a 0 % conversion factor will be applied to commitments that are unconditionally cancellable or that effectively provide for automatic cancellation by the bank without prior notice.

We feel it would be helpful if the Committee were to expand the definition of "unconditionally cancellable". Our thoughts here relate to the practical distinction between an absolute legal right to cancel without notice, and the expectation, whether through compliance with a Code of Conduct or by simple 'best practice' that a brief period of notice would normally be given.

Our proposal here would be to extend the proposal by adding beyond the absolute legal right to 'unconditionally cancel' guidance to the effect that "... and notice of which will in any event have effect within no more than [21] days."

4. Disclosure

In relation to the disclosure requirements under the third pillar, paragraphs 650 to 666 of the proposals require *inter alia* detailed disclosure of a bank's internal risk methodologies, risk models and risk data. The Committee is aware that this data is extremely commercially sensitive and in specific circumstances could enable competitors to understand and subsequently abuse a bank's pricing and profitability model. We are sure that it is not the Committee's intention that the disclosure requirements put any market participant at a competitive disadvantage vis a vis other participants in the same market. A 'level playing field' is a stated supervisory objective in a number of jurisdictions.

As currently proposed, the disclosure requirements outlined in paragraphs 650-652 would put some specialised banks (i.e. those with only one or two products lines) at a disadvantage compared to those banks with a portfolio of diverse product lines. Any

proposal effectively requiring disclosure of information by a ‘single product’ bank would put that bank at an absolute disadvantage when compared to multi product banks which would be able to disguise the information within a portfolio of product lines. Such a basis of information disclosure would distort the competitive landscape and could contradict certain national and EU legislation.

GECIFC feels that public disclosure of only the actual capital adequacy ratio of each bank represents appropriate disclosure. Should the Committee remain compelled to require a greater level of disclosure, then GECIFC recommends that the following disclosure requirements should be excluded from the proposal:

- Paragraph 650 (b) point 1 (structure, management, and organisation of credit risk management)
- Paragraph 652 (b)
- Paragraph 666 (ii)

Finally, we would ask whether the Committee intends that the disclosure requirements will apply at only an in-country holding company level or if disclosure would be required from each in-country subsidiary.

Summary

We trust the Committee may find our few observations useful. In essence, they are targeted at increasing the flexibility that the proposals would afford individual banks and regulators in their implementation. The proposals will place significant demands on the resources of both the banks and their regulators, and we would wish to be satisfied that the benefits of the proposals can be satisfactorily implemented without undue risk of the adverse consequences that their radical nature could incur.

The Committee should be aware that we would readily expand on our views, or otherwise make appropriate data available, in person or by correspondence should the Committee find that helpful.