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Mr Andrew Bulley  
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Dear Andrew

**Standard Life Bank Formal Response To The Contents Of The New Basel Capital Accord**

I believe the process for formal response to the above is through our direct supervisor and also directly to the Basel Committee.

Standard Life Bank (SLB) wishes to comment on only two areas of the Capital Accord as detailed below.

**(1) Flexibility Of Pillar 1 Approach**

As a bank with a relatively simple balance sheet structure, being essentially a mortgage bank, SLB has concerns that the use of the Advanced IRB approach for one asset class automatically means that it has to be used for all asset classes.

SLB would intend to move as quickly as possible to the Advanced IRB approach in assessing capital requirements for retail exposures (currently mortgages only for SLB) and are happy to comply with the requirements of Pillar 1 of the accord in respect of these exposures.

However as the Accord currently stands this would mean moving to the Advanced approach to assess all other assets. SLB's remaining non retail assets consist mainly of a liquidity book of very highly rated bank deposits, UK government gilts and eligible bills (i.e. bank and sovereign exposures only). It would potentially be extremely onerous and indeed problematic for SLB to develop an internal approach to rate these exposures. We would for example be very surprised to have experienced any form of default whatsoever under any of these wholesale exposures from the inception of SLB to implementation of the Accord in 2004. Given the nature of our highly rated wholesale exposures it is somewhat doubtful whether any internally generated models will provide more information than external rating information. We would therefore ask for some flexibility to be introduced into the Accord allowing these exposures to be rated using external information.

**(2) Pillar 3 Disclosure**

SLB consider the disclosure requirements outlined in Pillar 3 of the accord to be overly onerous (especially in regard to Risk Exposure and Assessment). Although the information being disclosed will be captured under the provisions of Pillar 1, the mass disclosures under Pillar 3 will be expensive and time consuming to implement. There may also be a danger of information

overload as the industry will be unable to digest the amount of information being produced and key messages may be blurred.

The frequency of disclosure (i.e. some items quarterly, some semi-annually and also annually) on top of existing regulatory reporting requirements will place increased pressure on the reporting functions of banks. Method of disclosure is also problematic - currently the only report SLB produces publicly is the annual report and accounts. We have concerns over the costs and resource implications of producing publicly available quarterly and semi-annual reports in addition, in different formats and containing different information.

We would therefore ask that reporting requirements for less complex banks could be subsumed in the annual report and accounts. The volume of disclosure should be governed by a sensible level of materiality reflecting the level of risk being run by the bank.

Yours sincerely

**John Gill**  
Finance Director

c.c. Basel Committee on Banking Supervision, Bank for International Settlements, CH-4002  
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