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Secretariat
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Dear Sir

Subject: Comments on BCBS Consultative Documents

With reference to BCBS Consultative Documents on International framework for liquidity risk measurement, standards and monitoring and on Strengthening the resilience of the banking sector. Please find enclosed the Bank of Thailand' overall and specific comments on both documents for your consideration

Yours sincerely,

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Bank of Thailand ' views on the BCBS proposed reform package ; "Strengthening the Resilience of the Banking Sector" and "International Framework for Liquidity Risk Measurement, Standards and Monitoring"

Overall comments

- We are broadly supportive of BCBC's proposals, but are concerned about the aggregate impact of these changes on the banking sector and the wider economy as well as the implementation issues.
- We feel that the proposals do not address the underlying root causes of the financial crisis, including inadequate balance sheet and liquidity management, poor risk management practices and ineffective regulatory oversight. Priority should also be put on these issues.
- It is important to make sure that the pendulum will not swing too fast and too much towards the other end and financial institutions will not be able to play their roles as financial intermediaries which are crucial for the countries where capital markets are not yet well developed. This will directly impact the overall performance of the economy. To recognise the different stage of financial markets

development and different business model of banks, it is necessary to allow reasonable range of national discretions in some of the measures.

- There would be a crowd in effect to banking sectors due to the same implementation onset of many critical standards e.g. IFRS 9 by the beginning of 2013 and these proposals tentatively by the end of 2012. The implementation of these standards would not only affect banking sector but also affect capital market and overall economy due to crowd out in fund raising , liquidity adjustment which could lead to higher funding costs and higher volatility in the global financial markets.

Specific comments

Definition of Capital

- Transitional arrangement and grandfathering of existing instruments should be addressed clearly.
- OCI such as gain on asset revaluation might not be qualified as Common Equity comparing to common shares and retained earnings as it does not have the same capability of loss absorbtions on going concern basis. Counting such gains as Tier 2 Capital might be more appropriate.
- Consultative document proposed that the innovative hybrid capital instruments with an incentive to redeem through

features like step-up clauses will be phased out. This will definitely increase bank's cost of funds.

Leverage Ratio

- The implementation of leverage ratio is not clear. If the intention is to monitor the leverage condition and reduce bank'activities if threshold is triggered , it should be part of Pillar 2 and should be designed as early warning or soft limit on exposure expansion, so leverage ratio trigger should be hit before BIS ratio. Factors indicating the over-leverage condition should be determined by supervisors as they differ from one jurisdiction to the other.

Procyclicality

- We broadly support the proposal on capital buffer. However, the concern is on the restriction of distribution especially dividend payment as it would be more difficult for banks to raise fund due to higher return uncertainty. Thus, for jurisdiction that already has policy on dividend payment, this capital buffer concept should be introduced as an alternative measure rather than a compulsory one.

Risk Coverage

- The new proposal may discourage banks from implementing Internal Ratings-based Approach and Internal Model Method. The new proposal clearly creates additional disadvantages for banks applying IRB and IMM. We believe that the magnitude of impact may create extra costs which may surpass their benefits over simple or standardised approaches. As a result, more banks will likely to rethink about implementing advanced approaches; even worse, some banks may start to negotiate with supervisors on reverting from using advanced approaches to simpler ones.
- Additional criteria other than asset size should be applied to determine which financial firms to receive higher AVC under IRB .
  BCBS might consider alternative criteria which better reflect the level of correlation than asset size; for example, an indicator that reflect the complexity of transactions undertaken by financial firms. In any case, national discretion for setting additional criteria should be allowed.
- More simplified approach for calculating CVA capital charge should be prescribed.
  The credit spreads for counterparties in emerging markets may not truly reflect their credit worthiness. Therefore, the proposed bond equivalent approach may inaccurately estimate their CVA capital requirements. Since the capital

requirement will at best be a rough estimation, it is more efficient (in terms of implementation cost and effort) to prescribe a simpler method, e.g. increasing the CCF under CEM or directly applying a multiplicative factor to the EAD amount.

Liquidity Coverage Ratio

- The definition of high quality liquid assets is too narrow and implementation of such ratio may create unintended volatility in bond market as well as distortion in bond yields , especially if supply of government bonds is much less than demand. This will also post concentration risk to banks
- Liquidity coverage ratio requires all banks to hold sufficient high quality liquid assets to meet the net cash outflows in 30 days under an acute liquidity stress scenario. For traditional commercial banking business , the scenario proposed in the consultative document such as a 3-notch downgrade in the bank's credit rating ,high percentage of retail deposit run-off, loss of secured short-term financing as well as asymmetric treatment of facilities provided and received (para 22) are not realistic. The requirement will put much higher cost to the banking industry and the economy as a whole.

Net Stable Funding Ratio

- The implementation of NSFR may be able to address liquidity risk but it will post repricing risk to financial institutions. The concept of maturity matching between assets and liabilities,banking business model as well as different clients' behavior in each jurisdiction should also be taken into consideration.

Public disclosure

- Timely disclosure of liquidity information would be crucial in assessing liquidity risk so it is better to require bank to disclose only those sufficient to assessing risk but disclose them with less lagged time.

Bank of Thailand

April 12,2010