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Secretariat of the Basel Committee on Banking Supervision

Bank for International Settlements

CH-4002 Basel, Switzerland

Re : Consultation Paper on Enhancements to the Basel II Capital Framework

Dear Sirs/Madames

DGB appreciates the opportunity to join this QIS and comment on the proposal to strengthen the Basel II capital framework.

Daegu Bank(DGB henceforth) is the first regional bank in Korea, established in 1967, which has been operated based on/in Daegu(the third major metropolitan city in Korea) and surrounding Gyeongsangbuk-do province. Its total asset is KRW 31.5tr., and it is still growing every year and expanding its business areas. DGB currently provides comprehensive services to approximately 3.5 million customers through its headquarter as well as almost 300 branch offices and 2,500 ATMs located throughout Daegu-Gyeongbuk region.

DGB has adopted the Basel II framework since 2008 : the standard approach for credit risk, the standard measurement method for market risk and the basic indicator approach for operational risk under the Pillar 1; and some quantification methodologies for interest rate risk, stress testing(stand-alone and integrated), (credit) concentration risk etc. under the Pillar 2. And, it is currently heading for the internal ratings-based approach for credit risk, the internal model method for market risk, and the advanced measurement method for operational risk.

DGB understands that the newly proposed enhancements are intended to ensure stability of financial institutions and whole financial system. Simultaneously, however, it recognizes the new proposals have some aspects that individual banks do not agree or cannot implement fully.

When introducing new ratios for regulation purposes, there should be common standard between banks which can be an explicit benchmark. As for liquidity risk, Paragraph below 41, it seperates "**stable**" and "**less stable**" deposits. According to it, they are recognized stable when there are "established relationships" or they are "transactional accounts". Each bank, however, has its own standard to measure "relationship" or "transactional". DGB concerns that It cannot be standardized across every banks. It is expected to be critical to define how to measure those concepts.

Requirements to stress testing on potential liquidity exposure of derivatives can also provoke some arguing. In addition scenarios can be different by the testers, the structure of derivatives banks possess can be varied on a case-by-case basis. In this environment, setting-up a standard scenario can be impossible or at least difficult, and even same scenario will be able to affect differently on individaual banks.

It is considered reasonable that securities issued by PSE should be recognized as **high quality liquid assets**(henceforth HQLA). While it recognizes AA or A- rated corporate bonds as HQLA In the new proposal, it excludes securities issued by banks(paragraph 34~36). However, in emerging market countries, there are banks whose risk weights are 0% under the credit standard approach, because they are belonged to PSE. In Korea, for example, Korea Development Bank(KDB), Industiral Bank of Korea(IBK) etc. are the cases. Since they are supposed to be injected in case of deficit by the sovereign according to the law, they are recognized as PSEs though its securities themselves do not have any guarantee by the sovereign. PSE's risk weight is 0%, but AA's and A-'s risk weight is greater than 0%, under the credit standard approach.

Again, DGB appreciates the opportunity to comment on this QIS and the proposed enhancements. Please do not hesitate to contact me if you have any questions and/or wish to discuss about DGB or regional/small bank's view.

Very truly yours,

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