From:	Arun Duggal
To:	Basel Committee, Service
Subject:	Strengthening the Resilience of Banking Sector
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Attachments:	ad bio.doc

The Basel Committee in Banking Supervision

Bank of International Settlements,
CH-4002 Basel, Switzerland.
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Gentlemen,

This refers to your Consultative Document dated 17th December 2009 for 'Strengthening the Resilience of Banking Sector'.

I am a retired banker (Bio enclosed) and would like to submit the following comments for your kind consideration.

While the focus of this initiative is for strengthening the Banking Sector, some aspects of the other segments of the total Financial System such as Rating Agencies, Securities firms, State Sponsored Enterprises, Deposit Insurance, etc also need to be strengthened as these segments are very closely linked with the Banking Sector. Without close attention to these segments the Banking Sector will remain vulnerable to excesses & crises.

Therefore in my comments I am including suggestions for both the Banking Sector and other relevant segments of Financial System.

1.) All off Balance Sheet Liabilities of the Banks should be taken into account while determining the 'Leverage Ratio' for the Banks. All Special Purpose Vehicles where the Bank carries direct, indirect or moral exposure should also be included in the Leverage Ratio.

2.) Other Financial Institutions such as Investment Banks, Insurance Companies, Credit Guarantee Companies, State Sponsored Financial Enterprises should also conform to prudent Leverage Ratios.

3.) International Banks should operate as subsidiaries (not as branches) outside their home country. This will ensure that the operating subsidiary in each country of operation has a sound capital base and financial structure on a free standing basis. These should be governed by the local Board of Directors and supervised by the local Regulator at par with and as closely as the domestically owned banks.

This will minimize the possibility of Regulatory arbitrage and reduce transmission of financial shock to other countries should the parent bank or operation of subsidiary bank in one country get into difficulty.

4.) Banks (and Investment Banks) who originate, structure and distribute loans and other securities to investors, should keep atleast 20% of these assets on their books for the life of the loan/security. They should not be allowed to 'short' the securities distributed by them as was done by Goldman Sachs and others in 2007.

This will ensure that the Banks and Investment Banks fully understand and monitor the Credit Risk of the securities distributed by them and act more responsibly in looking after the interest of their investor customers.

5.) Deposit Insurance Corporations in all countries (DIC) should be further strengthened. Their capital base should be increased many fold over the next ten years by increasing the

deposit insurance fee significantly depending upon the capital level of DIC in different countries. In addition Deposit Insurance requirement should be extended to all other (non-Bank) Financial Institutions accepting public deposits.

The possibility of a Global Deposit Insurance Corporation (GDIC) should examined which will have all country DIC's as members and capital contributions. GDIC will be able to extend temporary financing to member DIC's incase of a particular country's banking system undergoing stress. This will limit the problem at the country level and prevent it from being transmitted to other countries and contagion.

6.) The Capital Adequacy requirements (and Leverage Ratio) for (I) large systemically significant Banks and (II) Banks with International Operations should be more conservative than smaller/local banks and be made severe as the size and scope of the Banks' increases.

7.) Rating Agencies and Bank Regulators should review and modify their risk assessment methodology such as for CAMEL in light of the recent financial crises. Particularly, portfolio structure, off balance sheet liabilities, Counter party risks, treatment of non-funded facilities such as Guarantees, derivative risks, counter party risks, etc need to be reconsidered more thoroughly. The Governance structure of the Banks including the role of the Board of Directors, Risk/Credit Committee, Audit committee, etc as well as Incentive compensation structure for Bank Management should be factored in assessing the soundness of Banks.

I hope you will find the above suggestions of interest. I will be happy to discuss them further over phone or in a meeting. My contact information is as below :

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