Strengthening the resilience of the banking sector

1. Even in one country, banks have a different sensitivity and time lag in economic cycle due to their characteristic of asset portfolio such as industry category, firm size, corp. vs. retail. Therefore, it is needed to review whether the macro-economic variables are adjusted and how it might be reformed.

2. If we apply the concept of TTC or downturn in PD, credit analysis officers should perform credit rating analysis according to this concept. However, in practice credit analysis officers tend to downgrade the credit ratings in recession. Because TTC or downturn PD already reflects economic downturn circumstances, there is a possibility to reflect economic downturn twice by applying TTC or downturn PD. Therefore, it is needed to have cautious approach

because the duplication will cause to amplify procyclicality more. Although it's not clear before conducting QIS, if we calculate Regulatory Capital using Downturn PD, banks should take more capital. As a result, customers might be enforced to take higher financial cost, which in turn could increase the effect of procyclicality.

3. It is unrealistic for banks to make internal ratings for securitization exposures in position of investor or credit enhancement entity, not originator, because the underlying assets don’t belong to the banks.

International framework for liquidity risk measurement, standards and monitoring

- National discretion

  - The impact of implementation and the improvement effect of real liquidity risk management would show huge discrepancies because of the differences in financial and capital market among countries (the magnitude of government debt market, the growth of direct financing, etc.).

  - Therefore, it is needed to give national discretion in applying ① the target ratio ② the criteria for classification in customer/commodity/maturity/source of fund ③ weight of each item, level of deviation.