

**Lebanon's Banking Control Commission's Remarks  
on the Basel Committee's Consultative Document  
“Strengthening the Resilience of the Banking Sector”**

The Banking Control Commission of Lebanon (BCC) strongly supports the efforts undertaken by the Basel Committee on Banking Supervision (BCBS) to improve the Capital Adequacy Framework. The BCC has a few remarks on the Consultative Document “**Strengthening the resilience of the banking sector**”, issued in December 2009, as follows:

**1 - Unrealised gains:**

The BCC considers that Unrealised Gains are volatile and possibly lead to an unstable (and non-transparent) Capital Adequacy Ratio. In order to prevent banks from over-relying on unrealised gains as a component of equity, and given their volatility, a limit (a certain % of Tier 1 Capital) should be imposed. The BCC emphasizes that unrealised gains should be considered as a Tier 2 component and not a tier 1 component. On the other hand, unrealised losses should be fully considered as part of Tier 1.

**2- Limits:**

Given that the current limitation on Tier 2 capital will be removed, the BCC would like to know whether the BCBS removed the restriction that Subordinated Term Debt must be limited to a maximum of 50% of Tier 1 elements.

**3- Criteria for inclusion in common equity, additional Tier 1 and Tier 2 capital:**

The BCC suggests that the BCBS specifies what is meant by “Incentive to redeem” for instruments that classify as part of additional Tier 1 or Tier 2 capital.

**4- Investments in the capital of certain banking, financial and insurance entities:**

Paragraph 100: Regarding the investments in the capital of other banks and financial institutions, the thresholds mentioned are applied to holdings of common stock; we recommend that a threshold be set on Preferred Stock.

## **5- Building buffers through capital conservation:**

Paragraph 256: The BCC would like to know whether the required capital buffer to be built above the regulatory minimum capital requirement under Pillar, will be part of Pillar 2 capital buffers as mentioned under Principle 3 (Paragraph 756, “International Convergence of Capital Measurement and Capital Standards”) or not.