Loan
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Association

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Secretariat of the Basel Committee on Banking Supervision,
Bank of International Settlements,
CH-4002 Basel,
Switzerland.

14th April 2010

Dear Sirs,

Re: Consultative Document - Strengthening the resilience of the banking sector

We are writing to provide our input into the above initiative, which we welcome as a constructive approach to macro and micro-prudential risk management and the creation of a more resilient financial sector.

The LMA is the trade body for the syndicated loan market and was founded in December 1996 by banks operating in that market. Its aim is to encourage liquidity and efficiency in both the primary and secondary loan markets by promoting funding depth and transparency, as well as by developing standard forms of documentation and codes of market practice, which are widely used and adopted. Membership of the LMA currently stands at over 400 across Europe and consists of banks, non-bank lenders, law firms, rating agencies and service providers. The LMA has gained substantial recognition in the market and has expanded its activities to include all aspects of the primary and secondary syndicated loan markets. It sees

its overall mission as acting as the authoritative voice of the syndicated loan market in Europe vis à vis lenders, borrowers, regulators and other interested parties.

The paper rightly recognises that mitigating pro-cyclicality and addressing challenges faced by 'systemically important' financial institutions are key issues that need to be considered. We believe that the robustness of the financial system can be strengthened by improving both the quantity and quality of capital and the liquidity regime.

In considering the policy options available, we believe it is important that the various impact-assessments scenarios concentrate on the inevitable trade-off between a tighter and more controlled financial system and the availability and cost of credit. Increasing capital requirements will impact on the ability to lend and it is important that the calibration is mindful of this if the wider economic environment is not to suffer.

Aligned to this is the time frame for implementation. Clearly, if economic recovery and sustainable economic growth are to be achieved, it is important that the timetable promotes a period of transition to meet target ratios, as immediate compliance would cause further reduction in lending, which would impact negatively on the economy. This will be particularly relevant if a leverage ratio is employed. Whilst we recognise some of the merits of a tool which stands outside a bank's individual measurement of risk and restrains unsustainable growth in balance sheet size, we are concerned that such a blunt instrument might force a bank to de-leverage in order to comply. This of course would adversely affect the availability and cost of credit.

It is important that any leverage ratio is seen as a supplementary measure to the Basel II risk-based measures and one that only looks to restrain banks that would otherwise wish to grow at unsustainable levels.

Similarly, it is necessary that risk-based measures do not act as a restraint to lending at a time when there are material corporate refinancing requirements, particularly in the area of leveraged finance (Appendix 1). Measures should not lead to a two-tier credit environment, disproportionately benefiting larger, better rated companies at the expense of the smaller and lower rated ones. Also, prudence is required in implementing any measures that might penalise the provision of longer-term project finance, which often supports socially desirable initiatives, such as public infrastructure and the development of sources of 'green' energy or waste management facilities.

Finally, it is important, given the global nature and interconnectivity of financial markets, that coordination with other regulators, supervisors and governing bodies is undertaken at both the development and implementation stages, so as to ensure clarity of message and avoid any risk of 'regulatory arbitrage'. Policy should be aligned with other regions, particularly the United States of America.

We look forward to continuing this discussion with you to assist in facilitating financial stability within the context of a growing economic environment.

In the meantime, if I can be of any further assistance I can be contacted via email at clare.dawson@lma.eu.com or by telephone on 00 44 20 7006 2216, or my colleague Nicholas Voisey by email nicholas.voisey@lma.eu.com or by telephone 00 44 20 7006 5364.

Yours sincerely

Managing Director

Loan Market Association

Appendix 1

Europe - Investment grade and leveraged loans maturity profile 2010-2015

	Investment Grade		Leveraged	
Maturity Date by Year	Deal Value $ (m)	No.	Deal Value $ (m)	No.
2010	503,080	852	98,626	439
2011	421,697	826	122,539	486
2012	698,980	934	168,108	616
2013	309,743	574	185,726	751
2014	149,093	420	221,437	851
2015	77,244	267	184,308	759

Source: Dealogic

Note: The amounts above do not account for any pre-payments or cancellations which may have been made since the date of signing the loan agreement.