Oversea-Chinese Banking Corporation Limited
65 Chulia Street
#08-00 OCBC Centre
Singapore 049513

DID (65) 6890 3701
Tel (65) 6318 7222
Fax (65) 6533 8077
davidconner@ocbc.com
www.ocbc.com

OCBC Bank

David P. Conner
Chief Executive Officer

13 April 2010

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

BASEL COMMITTEE ON BANKING SUPERVISION
CONSULTATIVE DOCUMENTS ON CAPITAL AND LIQUIDITY

1. We refer to the Basel Committee's circular dated 17 December 2009 inviting banks to comment on the following consultative documents:

   a) Strengthening the resilience of the banking sector
   b) International framework for liquidity risk measurement, standards and monitoring

2. Oversea-Chinese Banking Corporation Limited ('OCBC Bank') welcomes the opportunity to review the consultative documents and our comments are enclosed.

3. For further clarifications, the contact persons in OCBC Bank are:

   Ms Chin Yee Goh
   Group Finance
   Tel: (65) 6530 1691
   Fax: (65) 6532 5886
   E-mail: gohcy@ocbc.com

   Dr Sanjiv Talwar
   Group Risk Management
   Tel: (65) 6722 2253
   Fax: (65) 6530 4414
   E-mail: SanjivTalwar@ocbc.com

Yours sincerely,

Copy: Mr Lee Boon Ngiap
Complex Institutions Supervision Department
Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 07911

Enc.

Co.Reg.no.: 193200032W

OCBC Bank

Comments on

Basel Committee on Banking Supervision Consultative Documents

- **Strengthening the Resilience of the Banking Sector**
- **International Framework for Liquidity Risk Measurements, Standards and Monitoring**

13 April 2010

INTRODUCTION

1. This document sets out the comments from Oversea-Chinese Banking Corporation Limited ('OCBC Bank') on the Basel Committee of Banking Supervision's consultative documents on :

   a) Strengthening the resilience of the banking sector ('the Resilience document')

   b) International framework for liquidity risk measurement, standards and monitoring ('the Liquidity document')

.

2. **ABOUT OCBC.** OCBC Bank, established in 1912, is the second largest financial services group in Southeast Asia by assets. It is among the world's highest rated banks, with a long-term credit rating of Aa1 from Moody's. OCBC Bank and its subsidiaries offer a broad array of specialist financial services, ranging from consumer, corporate, investment, private and transaction banking to treasury, insurance, asset management and stockbroking services. OCBC Bank's key markets are Singapore, Malaysia, Indonesia and Greater China. It has a network of more than 500 branches and representative offices in 15 countries and territories, including 382 branches and offices in Indonesia operated by its subsidiary, Bank OCBC NISP. OCBC Bank's insurance subsidiary, Great Eastern Holdings, is the largest insurance group in Singapore and Malaysia by assets, and its asset management subsidiary, Lion Global Investors, is one of the largest private sector asset management companies in Southeast Asia. On 29 January 2010, OCBC Bank completed the acquisition of ING Asia Private Bank and its subsidiaries (together, "IAPB"). IAPB was re-named Bank of Singapore Limited, which is now a wholly-owned subsidiary of OCBC Bank. As the only dedicated private bank that is headquartered in Singapore, Bank of Singapore aims to strengthen its position as a leading private bank in Asia offering best-in-class products and services.

3. **OCBC'S PERFORMANCE.** Through the global financial crisis in 2008-2009, OCBC achieved good financial results and maintained a strong balance sheet and capital position, attributed to a traditional universal bank model with emphasis on small and medium-sized enterprises (SMEs) and retail banking, unlike the strong proprietary trading gains recorded by some global financial institutions. OCBC's core net profit after tax (excluding one-time gains) increased by 32% in 2009 to reach a new record of S$1,962 million, exceeding the previous high of S$1,878 million in 2007. The 2009 earnings increase was driven by higher non-interest income, lower expenses, and a slight decline in allowances. Net interest income and margin adjusted for allowances continued to show healthy trends during the financial crisis. With a robust risk management framework, prudent loan growth strategy and active monitoring of its portfolios, OCBC achieved the best asset quality and credit loss experience among the three Singapore banks. Its NPL ratio peaked at 2.1% in June 2009, compared to 1.7% in December 2007 and 1.5% in December 2008, and had improved to 1.7% by December 2009. Total allowances over total assets, and specific loan allowances over average loans, were below 30 bps in both 2008 and 2009. Allowance coverage ratios remained at healthy levels of 125% in December 2008 and 102% in December 2009. Throughout the crisis, OCBC maintained strong capital cushion, with a Tier 1 ratio of 14.9% in 2008 and 15.9% in 2009, even higher than the 11.5% in 2007. OCBC was also the only Singapore bank which did not cut its dividend per share during this period.

For more information, please visit www.ocbc.com.

4. **BASEL II IMPLEMENTATION.** OCBC Bank has implemented Monetary Authority of Singapore (MAS) Notice 637 Risk-Based Capital Adequacy Requirements for banks incorporated in Singapore with effect from 1 January 2008. For Pillar 1, OCBC has adopted the foundation internal ratings-based (F-IRB) approach and supervisory slotting criteria to calculate credit risk-weighted assets for major non-retail portfolios, and the advanced internal ratings-based (A-IRB) approach for major retail portfolios. Other credit portfolios are on the standardised approach and will be progressively migrated to the internal ratings-based approaches. For market risk and operational risk, OCBC has adopted standardised approaches, with initiatives in place to move towards Internal Model Approach for market risk and Advanced Management Approach for operational risk. Credit risk accounted for 82% of OCBC's RWA at end-2009, with the remaining from market risk (11%) and operational risk (7%). For Pillar 2, OCBC has established an Internal Capital Adequacy Assessment Process (ICAAP) since 2009. Capital adequacy assessments and plans, incorporating stress test results, are submitted annually to MAS. Pillar 3 enhanced disclosures on risk profile and capital adequacy have been incorporated into OCBC's annual reports since 2008.

5. OCBC views Basel II as a framework that fosters better risk and capital management. Over the years, the Bank has made substantial investments in skills, processes and systems to implement and continuously enhance its risk-based capital adequacy framework. The Bank welcomes this opportunity to review and comment on the Basel Committee's consultative documents.

OVERVIEW

6. The recent financial crisis saw financial institutions under severe stress in America and Europe while Asia in general had encountered minimal adverse effects. However, the Basel proposals in their entirety seem to allude to a systemic failure of the global financial system and collectively build in excess conservatism by 'raising the bar' on each of the following proposals in isolation :

   a) Re-definition of eligible regulatory capital components, and revision of minimum capital ratios towards higher levels with common equity as the predominant form of Tier 1 capital after regulatory adjustments;

   b) Revised risk metrics to increase exposure-at-default (EAD) and capital charge for counterparty credit risk;

   c) Inclusion of capital buffers to adjust for pro-cyclicality and conserve capital above minimum Pillar 1 requirement, plus an additional buffer for excessive credit growth;

   d) Addition of a minimum leverage ratio requirement; and

   e) Global minimum liquidity standards with extended 30-day liquidity coverage and stringent net stable funding requirements.

7. An aftermath of the global financial crisis is a host of imperatives to address the root causes of the crisis and strengthen the financial sector, coming not only from

regulators, but also from accounting boards and politicians. There should be a concerted effort among the various parties to work towards a global harmonized set of capital and liquidity rules, to avoid an uneven competitive playing field across jurisdictions and potential regulatory arbitrage. However, **there should not be a one-size-fits-all global minimum standard calibrated to the weakest constituents**; **instead reasonable calibration should be adopted for Pillar 1, with national regulators allowed to exercise supervisory discretions to impose additional capital requirements under Pillar 2 based on the unique profile of each bank**.

8. For internationally active banks with overseas branches and banking subsidiaries, the different entities could potentially be subject to several different capital and liquidity standards and reporting requirements at the local entity and firm-wide level. If the proposed requirements were to become harmonized global standards for capital and liquidity, there should be home-host arrangements to avoid subjecting internationally active banks to multiple sets of reporting requirements – by the home regulator and host regulators.

9. Our overall assessment is that, combined with earlier regulatory requirements, the proposals appear to be excessively conservative. We urge the Basel Committee to adopt a holistic view of banking regulation and supervisory requirements. There are interactions across the five key elements described above and care must be taken to avoid adopting conservative approaches for each element. **The proposals should be assessed cumulatively and their aggregate impact on banks globally be carefully evaluated when calibrating the revised capital minima and capital conservation buffers**. **Given the fragility of the global economy, substantial lead time to phase in implementation of the final rules should be catered for**. These regulatory standards will have far reaching implications on the competitiveness of banks vis-à-vis other financial institutions and flow-through impact on the economy, from limiting credit facilities to higher prices for banking services. The uneven playing field between the regulated banking sector and unregulated financial intermediaries may also result in capital being diverted into the shadow banking system. Such diversion could have unintended consequences for financial systems and economy at large if banks were to undertake higher risks in order to achieve decent return for shareholders.

10. Detailed observations on Captial Composition, Unexpected Loss, Countercyclical Capital Buffer, Leverage Ratio and Global Minimum Liquidity Standards are given below.

CAPITAL COMPOSITION

11. In reviewing the proposed capital standards, we go back to the fundamentals of defining ‘what is capital’ and what capital is intended to cover, i.e. unexpected loss. This then leads to defining what constitutes unexpected loss, and how much capital buffer is considered adequate under normal and stressed circumstances.

12. Capital provides protection to depositors on a going concern basis if it is able to reduce the bank’s probability of default. Consequently, good quality capital should

have the following characteristics: (a) flexibility of payment; (b) permanence; and (c) ability to absorb losses.

a) **Flexibility of Payment.** In the case of the Bank, there is no contractual obligation to make fixed payment for its non-cumulative preference shares and innovative hybrid instruments which were issued in the form of preference shares ("Hybrid Securities"). All of OCBC's preference shares and Hybrid Securities were issued with a dividend stopper and dividend payments are made at the discretion of the Board of Directors. This, coupled with the non-cumulative feature of such instruments, makes the payment feature of such instruments similar to that of common equity, as in payments can be completely skipped (as opposed to mere postponement) without triggering any event of default.

b) **Permanence.** Both the Bank's preference shares and Hybrid Securities are undated and even though callable, place no contractual obligation on the Bank to call. Even if an expectation for redemption is created at issuance in the case of Hybrid Securities, the option to redeem still rests with the issuing bank. As seen in 2009, a number of innovative hybrid instruments issued by banks with step-up dates in 2009 were not redeemed last year, thus affirming that issuing banks are not compelled to redeem on step-up date. Furthermore, regulatory approval, which is conditional on the Bank having adequate capital positions post-redemption or the replacement with capital of equal or higher quality, is required before such instruments can be called. As such, both the preference shares and Hybrid Securities should be viewed as having similar permanence characteristic as common equity, as they need not be repaid.

c) **Ability to Absorb Losses.** Given the cancellability of dividend payments and permanence of preference shares and Hybrid Securities, these instruments, which form part of the Bank's equity, would add up to stave the Bank from defaulting on its liabilities and continue as a going concern. Holders of preference shares and Hybrid Securities have no right of repayment to their capital except in liquidation, and hence would help to absorb losses on a going concern basis by supporting depleting or negative reserves. Accordingly, regulatory adjustments should be made from Tier 1 capital instead of common equity only. We also question if there are reasonable and sufficient grounds to phase out Hybrid Securities, especially when they are still better quality capital than Tier 2 instruments on all counts; instead **we urge the Basel Committee to include innovative hybrid instruments as Tier 1 Additional Going Concern Capital, given the above rationale.**

13. OCBC does recognise that Tier 2 capital instruments are inferior to common equity, preference shares and Hybrid Securities given that they are not permanent and have fixed servicing cost which cannot be waived at the issuer's option. However, we are of the view that Tier 2 capital is appropriate for some form of regulatory adjustments, given that Tier 2 capital is no less a buffer to depositors and senior debt holders upon the liquidation of a bank.

14. **Regulatory Adjustments.** Given the above qualities of preference shares and Hybrid Securities, **deductions which are intended to reflect unavailable capital,**

should be made from the aggregation of common equity, preference shares and Hybrid Securities rather than from common equity alone. Furthermore, Tier 2 capital should also be considered for some form of regulatory adjustments. It appears that the Committee agrees that both Tier 1 and Tier 2 capital instruments will continue to be relevant given the proposed Total Capital Ratio requirement, and this supports our view of making deductions against other Tier 1 and Tier 2 capital as well rather than from common equity alone. We also have comments on the following adjustment items:

a) **Minority interest will not be eligibile for inclusion in the Common Equity component of Tier 1**

The proposal to exclude minority interest from the common equity of the parent bank results in an asymmetric treatment as the risk-weighted assets of the subsidiaries are fully consolidated, but the limited liability of the parent's interest in its subsidiaries is not recognized.

b) **Investment in capital of certain banking, financial and insurance entities which are outside regulatory scope of consolidation**

<u>Group Consolidated Level – Deduction of Holdings in Banking and Financial Entities Exceeding 10%.</u> At group consolidated level, shareholdings of common equity in banking, financial and insurance entities exceeding 10% and up to 50% are to be fully deducted against a bank's common equity. **By this requirement, regulators are taking the view that a bank faces a 100% probability of losing the full amount of such investments during the investment horizon. This assumption unfairly penalizes banks that seek to diversify and pursue inorganic growth strategies outside their domestic markets through strategic partnerships involving significant minority investments.** Furthermore, the ability for banks to purchase majority stakes outside their home markets is restricted by the regulations in many jurisdictions globally.

Regulators should distinguish between holdings of financial institutions within and outside home market, as overseas investment is a means for banks to grow, diversify and stabilise their earnings, thus reducing insolvency risk and lowering systemic risk in the home market. The proposed deduction of investments in overseas financial institutions from common equity could also have a perverse effect on the development of the global banking sector over the longer term. We believe the business models of the majority of banks is to grow within its means rather than seek excessive leverage through reciprocal purchase of banks' capital papers. Any such exploitation of capital rules would be more appropriately addressed through reporting requirements and monitoring by regulators rather than requiring a full deduction against common equity.

We would also appreciate getting the rationale on why shareholdings of common equity in financial institutions exceeding 10% and up to 50% should warrant a significantly punitive treatment versus shareholdings of less than 10% and those exceeding 50%, especially if the Committee is concerned with

systemic risks. In addition, we are also concerned with the inconsistency, from a principle perspective, with the existing accounting rules.

Group Consolidated Level – Deduction of Holdings in Insurance Subsidiaries. Requiring banks to fully deduct capital investments in insurance subsidiaries against common equity will disadvantage such banks vis-à-vis peers without significant insurance subsidiaries. A full deduction approach implies that a parent bank gets zero capital benefit from its ownership of an insurance subsidiary. This is not a reasonable assumption as such investments could be realised by a parent bank as a means to raise capital during stressed periods. Insurance companies that engage in conventional insurance businesses have generally performed well through the cycle, including the recent financial crisis. The market value of such investments cannot be deemed as worthless to the parent bank. **We propose that the Committee consider deducting from the bank's capital an amount based on the minimum capital requirement (plus some buffer) of an insurance subsidiary** after considering other qualifying capital resources like fund surplus. We believe this would provide comfort that the bank's capital would have excluded the amount required to support its insurance operations, while allowing the bank to recognise some value in its investments. It is also not rational and reasonable to penalise banking parents which have chosen to maintain a greater amount of capital buffer at its insurance subsidiaries, thus resulting in higher shareholders' funds, by subjecting them to greater amounts of deduction vis-à-vis banks which have chosen otherwise.

Standalone Bank Basis – Deduction for Investments in Subsidiaries. Capital adequacy requirement on a standalone bank basis should not require investments in subsidiaries to be fully deducted from common equity. Similar to the above, these holdings are resources which can be realized by a bank over time and it is unreasonable to assume that banks would lose 100% of their investments in subsidiaries. **This requirement would discourage parent banks from maintaining high capital buffers at their subsidiaries**, thus may lead to practices which are contrary to regulators' expectations, e.g., minimal capital buffer at subsidiary level, expansion through branch networks instead of incorporating separate subsidiaries or cutting back on inorganic growth and diversification strategies.

In conclusion, given that capital adequacy positions are publicly disclosed, regulators should develop rules that would allow stakeholders to fairly and readily compare capital ratios across different banking groups to foster transparency. With the Committee's proposals to deduct the above holdings fully from common equity, capital demand appears to be determined to a greater extent by business structure rather than by risk profile. **To provide stakeholders with a fair and readily comparable view of individual bank's capital strength, a bank with significant minority investments, banking or insurance subsidiaries should not have significantly worse capital positions when compared to a bank without such investments and subsidiaries, given the same gross capital and asset quality**.

c) **Shortfall of the stock of provisions to expected losses**

If the shortfall of provisions to expected loss ('EL') is to be fully deducted from common equity, then EL should not be based on downturn estimates of IRB parameters (probability of default, loss given default or exposure at default). Downturn risk estimates include components of unexpected losses which are already incorporated into the computation of risk-weighted assets and considered in the maintenance of countercyclical buffers for stressed conditions. To require banks to fully deduct shortfall of provisions to EL based on downturn estimates would cause common equity after regulatory adjustments to be understated through most part of an economic cycle.

UNEXPECTED LOSS

15. The credit capital charge under the Basel II framework is meant to cover unexpected loss up to 99.9% confidence interval, with the overall capital level being relatively stable over time and yet differentiating for risk. It was with this principle in mind that the credit RWA formula was derived based on average probability for default (PD), downturn loss given default (LGD), correlation factors (R) and maturity adjustment calibrated for the entire portfolio. In the proposed framework, the asset value correlation of financial institutions (FI) will be increased and the exposure estimation method as well as PD for capital computation of counterparty credit risk will be revamped. Although the proposed changes individually seek to address some of the effects experienced during the global financial crisis, we request the Basel Committee to consider, and provide more transparency on the basis of the calibration on:

a) The potential double-counting especially on the proposed changes to counterparty credit risk;

b) The unintended bias towards off balance sheet products (e.g. derivatives, securities financing transactions) as compared to on balance sheet products with the introduction of credit valuation adjustment; and

c) The goodness-of-fit of the risk weight formulae in view of the pending changes.

16. Specifically on the proposed revised metrics relating to counterparty credit risk, our view is that the following proposals are overly conservative and potentially double count credit risk when assessed in aggregate:

a) **Capital Charge for Credit Valuation Adjustment (CVA) Losses**

The Committee is proposing to implement the "bond-equivalent of the counterparty exposure" approach to provide a capital add-on by using a bond equivalent as a proxy for CVA risk. The approach of using a hypothetical bond to proxy the CVA loss serves as a good estimate to capture the market value of credit risk due to a counterparty's failure to perform on an agreement. However, the proposed approach is conservative as it does not account for the fact that some of the exposures may be fully or partially secured. Using the longest dated transaction from a netting set of a counterparty as the Effective

Maturity of the “bond” adds additional conservatism. We propose that banks be allowed to calculate CVA at transaction level using the time-to-maturity for each transaction as the Effective Maturity.

b) **Increased Margin Period of Risk for OTC Derivatives and Securities Financing Transactions (SFTs)**

The proposal calls for an increase of the margin period from 10 days to 20 days for exposure measurement purposes. Banks should be able to select from several margin periods depending on the products (plain vanilla liquid or illiquid/complex structured) and collateral/margin arrangements (if any). A blanket 20-day margin period is stringent and does not allow for individual market conditions.

c) **Wrong-Way Risk Treatment**

The Committee is proposing to apply a capital charge for each counterparty for which there exists an explicit legal relationship that gives rise to measurable wrong-way risk. The monitoring of wrong way trades is practised at the credit analysis and limit-setting level. When analyzing counterparty’s credit quality, specific factors such as nature of the counterparty’s (and its related companies) business mode, macroeconomic factors, nature of the potential transactions with the counterparty are taken into consideration. In addition to counterparty’s credit worthiness, credit covenants and security arrangements are influenced by the types of transactions and level of credit limit that is proposed for every counterparty. As a risk mitigant, master agreements such as the ISDA are signed in order to offset trades that are nettable, etc, to reduce the overall credit exposure to a particular counterparty.

To apply a generic capital charge for all counterparties with ‘wrong-way’ legal relationship may be overly cautious. For example, a derivative trade which appears to have “wrong-way” characteristics in relation to a counterparty’s business or its related companies may be the counterparty’s attempt to hedge that “wrong-way” risk. Identifying wrong-way trades is particularly challenging for FI counterparties as their portfolios tend to be diversified. Unless the counterparty discloses its business or trading strategy or makes available the details of its portfolio, it is very difficult to accurately determine whether the FI counterparty is hedging or taking a proprietary position with each transaction.

Each of the three points (a) – (c) in isolation is conceptually reasonable and prudent to address specific concerns relating to the calculation and monitoring of counterparty credit exposures. However, when combined, these measures result in double-counting of credit risks.

COUNTERCYCLICAL CAPITAL BUFFER

17. We are concerned over the apparent layering of capital buffers, specifically for pro-cyclicality, capital conservation above minimum capital requirements, and an additional buffer for excessive credit growth. Instead of viewing the requirement for capital buffer for these events in isolation, **our proposed approach is to continue**

to allow banks to improve on their ICAAP by putting in place holistic assessment of their business models, risk profiles and operating environments to establish appropriate countercyclical capital buffers. In turn, regulators could assess the banks under Pillar 2 taking these factors into account. We would also like to highlight these comments for the Committee's consideration :

a) Setting capital buffer according to individual bank's risk profile will not lead to pressure on the bank to add risks to deliver return on excess capital, and will thereby allow for appropriate investment decisions by bank shareholders.

b) If a countercyclical capital buffer is to be implemented, in practice this will require an objective formula-based approach to allow banks to draw down on such buffers during periods of stress, and build up adequate buffers during benign periods.

c) While we support the current requirement under ICAAP to better link compensation to longer-term capital preservation and financial strength of the bank, total compensation level should not be capped as proposed under the capital conservation measure. Instead, it is preferable to let the market determine appropriate compensation for talented individuals, to avoid the unintended consequences of the best talents moving to the shadow banking sector.

LEVERAGE RATIO

18. **We recommend that leverage ratio be a Pillar 3 disclosure requirement instead of regulatory compliance ratio**, based on the following rationale:

a) With the proposed revisions to the risk-based capital measures, including explicit minima for Common Equity, Tier 1 Capital and Total Capital ratios as well as introduction of countercyclical capital buffers, we urge the Committee to consider whether there is a need to add a supplementary non risk-based regulatory ratio.

b) In addition, the leverage ratio does not differentiate the quality of the underlying assets, and on its own may be an overly simplistic measure which is a step back from the current Basel II risk-based framework.

GLOBAL MINIMUM LIQUIDITY STANDARDS

19. Liquidity risk should be managed via prudent and realistic risk management, taking into account each individual bank's business model and local environmental conditions. **Requiring all banks to hold substantially more liquid assets or subjecting them to potentially stringent funding and reporting requirements without considering the banks' internal risk management standards, experience and regulatory supervision environment could introduce unnecessary costs and limit banks' ability to lend thereby constraining economic growth**. As the liquidity profile for banks could differ significantly due to

their business models and respective local regulations, we urge the Committee to consider the following recommendations:

a) On the definition of liquid assets, debts issued by banks, investment or insurance firms should be allowed to qualify as liquid assets with haircuts differentiated according to credit rating, rather than total disqualification. Otherwise, this could lead to unintended effects of diverting capital from the financial sector into funding corporate debts of relatively lower credit quality.

b) In determining cash outflows/inflows, the factors and criteria should be based on individual bank's historical behavioral patterns subject to national regulator's review, and take into consideration the quality of supervisory environment. Jurisdictions which adopt relatively more stringent regulatory frameworks, such as those applied by the Monetary Authority of Singapore, should warrant less severe factors.

c) On the expectations that banks should meet liquidity needs in each currency and maintain high quality liquid assets consistent with the distribution of liquidity needs by currency, banks should be allowed to adopt a graduated approach with haircuts by currency, tenor and counterparty rating to recognize FX swap lines rather than a complete exclusion.

20. Also, banks with overseas branches could potentially be subject to several different liquidity and reporting requirements at both the local branch and firm-wide level, especially if host regulators also require the head office to comply with the local regulatory requirements which may be different from the home regulatory requirements. In this regard, host regulators should be able to rely on the home regulator's supervision of the whole firm at the head office level and not subject the bank to potentially multiple sets of requirements – one for the home regulator and another for the host regulator. The requirement for banks' overseas operations should therefore be minimal, especially if the home regulator has been assessed to be broadly equivalent to that of the host regulator in terms of regulatory standards.

CONCLUDING REMARKS

21. **Strengthening the resilience of the banking sector need not necessarily come from raising regulatory requirements in capital and liquidity standards, which may lead to unintentional consequences of banks taking on higher risks to earn acceptable return on excess capital levels, economies being impacted by credit constraints and higher prices for banking services.** Instead, a preferred approach is for banks to go back to the basics of sound lending and liquidity management principles, with regulators imposing additional capital requirements under Pillar 2 according to each individual bank's risk profile and governance practices, and enhancing risk disclosure under Pillar 3. Stringent standards aimed at curing the ills of financial systems which were severely impacted by the recent financial crisis will be unfairly punitive to banks, including OCBC, that have shown resilient performances during the financial crisis, and to countries that have prudent regulatory regimes. In Singapore, for example, macroprudential measures are proactively applied to prevent any potential build-up

of property bubbles, e.g. through capping loan-to-value for real estate financing, introduction of stamp duties for sellers and the government's release of land sales.

22. OCBC's specific comments on the consultation papers are available in Appendix 1 and financial highlights on OCBC are presented in Appendix 2.

APPENDIX 1

Comments on the BCBS Consultative Documents:

- Strengthening the Resilience of the Banking Sector (‘**the Resilience document’**)
- International Framework for Liquidity Risk Measurement, Standards and Monitoring (‘**the Liquidity document’**)

S/No	Para	BCBS Proposals	OCBC's Comments
Strengthening the Resilience of the Banking Sector			
1. Raising the quality, consistency and transparency of the capital base			
1.1	85	**Elements of capital** Total regulatory capital will consist of the sum of the following elements: 1. Tier 1 Capital (going-concern capital) a. Common Equity[17] b. Additional Going-Concern Capital 2. Tier 2 Capital (gone-concern capital) For each of the three categories above (1a, 1b and 2) there will be a single set of criteria which instruments are required to meet before inclusion in the relevant category. **Limits and minima** All elements above are net of regulatory adjustments and are subject to the following restrictions: • Common Equity, Tier 1 Capital and Total Capital must always exceed explicit minima of x%, y% and z% of risk-weighted assets, respectively, to be calibrated following the impact assessment. • The predominant form of Tier 1 Capital must be Common Equity [17] Throughout this section the term "Common Equity" means common shares (or the equivalent for non-joint stock companies)	Capital provides protection to depositors on a going concern basis if it is able to reduce the bank's probability of default. Consequently, good quality capital should have the following characteristics: (i) permanence; (ii) ability to absorb losses; and (iii) flexibility of payment. There is no obligation by the bank to make fixed payments for its non-cumulative preference shares and innovative hybrid instruments ("Hybrid Securities") even though most preference shares and Hybrid Securities are structured with a fixed dividend rate. All of our preference shares and Hybrid Securities are issued with a dividend stopper and dividend payments are made at the absolute discretion of directors. This, coupled with the non-cumulative feature of such instruments, makes them very similar to common equity, in the sense that when our board decides not to distribute any dividend to our ordinary shareholders, the bank would have full discretion over payment of dividends on our outstanding preference shares and Hybrid Securities. In other words, fixed payments on the bank's preference shares and Hybrid Securities can be skipped without triggering any event of default. Preference shares have no maturity date and even though callable, can be redeemed only at the option of the bank, after obtaining prior regulatory approval. As such, proceeds from preference shares will never be repaid to investors as long as the optional redemption is not exercised by the bank or approved by our regulator, and thus are no less permanent than common equity from the bank's perspective. The above features, together with payments which are fully discretionary and non-cumulative would render preference shares as loss absorbent.

S/No	Para	BCBS Proposals	OCBC's Comments
		plus retained earnings and other comprehensive income net of the associated regulatory adjustments. The treatment of unrealised gains will be reviewed by the Basel Committee during 2010.	Hybrid Securities like preference shares have no maturity date and have fully discretionary non-cumulative payments, and differ from preference shares only in terms of the step-up feature. Even if an expectation for redemption is created at issuance in the case of Hybrid Securities, the option to redeem is with the issuing bank and subject to regulator's approval. As such, it is unconvincing that the step-up feature of innovative hybrid instruments would exacerbate a bank's conditions in a crisis. In 2009, a number of banks which issued innovative hybrid tier 1 into the international capital markets with step-up dates in 2009 did not redeem their outstanding innovative hybrid tier 1 due to market conditions, affirming that the right to exercise call option on step-up date rests with the issuing bank. The events in 2009 have also shown that issuing banks do not have to exercise the call on their capital instrument unless it was in their own economic interest to do so. Hence, Hybrid Securities should be viewed as permanent capital. Given the cancellability of dividend payments and permanence of preference shares and Hybrid Securities, these instruments, which form part of the Bank's equity, would add up to stave the Bank from defaulting on its liabilities and continue as a going concern. Holders of preference shares and Hybrid Securities have no right of repayment to their capital except in liquidation, and hence would help to absorb losses on a going concern basis by supporting depleting or negative reserves. Given the above qualities of preference shares and Hybrid Securities, deductions which are intended to reflect unavailable capital, should be made from the aggregate of common equity, preference shares and Hybrid Securities rather than from common equity alone. We also question if there are reasonable and sufficient grounds to phase out Hybrid Securities, especially when they are still better quality capital than Tier 2 instruments on all counts; instead we urge the Basel Committee to review the requirements for innovative hybrid instruments to enhance their loss absorbency on a going concern basis. While we recognise that Tier 2 capital instruments are inferior to common equity, preference shares and Hybrid Securities because they are not permanent and have fixed servicing cost which cannot be waived at the issuer's option, we are of the view that Tier 2 capital should be considered for some form of regulatory adjustments, given that Tier 2 capital is no less a buffer to depositors and senior debt holders upon the liquidation of a bank. It

S/No	Para	BCBS Proposals	OCBC's Comments
			appears that the Committee agrees that both Tier 1 and Tier 2 capital instruments will continue to be relevant given the proposed Total Capital Ratio requirement, and this supports our view of making deductions against other Tier 1 and Tier 2 capital as well rather than from common equity alone. The Committee should take a balanced approach when considering the benefits of banks relying predominantly on common equity versus the costs for the society at large, as the higher costs imposed by the Committee's rules could eventually find their way back to the man in the street. For Common Equity to be the predominant form of Tier 1 capital, common equity would have to be more than predominant if all regulatory adjustments are to be made against common equity. Preference shares and Hybrid Securities are critical in providing banks with alternative sources of cost efficient capital which affects the cost of borrowing for the consumers and businesses in the broader economy. Furthermore, the length of the phase-in period after implementation should be relatively sufficient, taking into consideration the extent and impact of the proposed changes on the banking industry as a whole as well as for individual banks, and the prevailing economic conditions.
1.2	89	**Criteria for inclusion in Tier 1 Additional Going Concern Capital** 7. Dividend/coupon discretion: a. the bank must have full discretion at all times to cancel distributions/payments b. cancellation of discretionary payments must not be an event of default c. banks must have full access to cancelled payments to meet obligations as they fall due d. cancellation of distributions/payments must not impose restrictions on the bank except in relation to distributions to common stockholders.	The full discretion, by the bank, over the dividend payments should be limited to circumstances where it has not paid or declared dividend on its ordinary shares.

S/No	Para	BCBS Proposals	OCBC's Comments
		12. Neither the bank nor a related party over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument.	Subsidiaries should not be precluded from investing in the bank's papers. Rather, the amounts held by subsidiaries should be excluded from the bank's capital. At the subsidiary level, the exposure to the bank should be managed as per its internal processes. On the proposed funding limitation, banks should be allowed to provide financing to its customers to purchase its capital instruments over the normal course of its business. The customers, being the beneficial owner, bear the risk and reap the returns on the bank's capital instruments. It is unclear how such demand would differ from those coming from customers which are financed by other financial institutions. In addition, a bank can put in place adequate internal procedures such that it would not end up owning its capital instruments, which are marketable securities, as a result of liquidation situations for financing customers' investment activities. The risk-return for a bank taking its capital instruments as collateral is no different from those of similarly rated instruments in the same class. To address the regulators' concern with regards to the above, we recommend setting a limit on the amount of such purchases or funding as opposed to the Committee's proposed blanket prohibition.
		Additional requirements • This element of capital will be net of the appropriate corresponding deductions related to holding of non-common equity capital instruments in other financial institutions.	In addressing the systemic risk concern, it would be more reasonable for the corresponding deduction approach to apply only after certain thresholds. Furthermore, such thresholds should be determined based on factors like bank's available capital, as it is not feasible to measure shareholding of non-common equity capital instruments. If threshold levels are considered, regulators should also not disregard the internal risk management processes which banks have put in place.
1.3	90	**Criteria for inclusion in Tier 2 Capital** 5. May be callable at the initiative of the issuer only after a minimum of five years: a. To exercise a call option a bank must receive prior supervisory approval; and b. A bank must not do anything which creates	Regardless of whether an expectation for redemption was created at issuance, the option to redeem is with the issuing bank and subject to regulatory approval which is conditional on the Bank having adequate capital positions post-redemption or the replacement with capital of equal or higher quality. Accordingly, the bank does not see the merit of phasing out instruments with

S/No	Para	BCBS Proposals	OCBC's Comments
		an expectation that the call will be exercised; and c. Banks must not exercise a call unless: i. They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or ii. The bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised. 8. The bank or a related party cannot have knowingly purchased, or directly or indirectly have funded the purchase of, the instrument. **Additional requirements** • These criteria will also apply to instruments which appear in the consolidated accounts as minority interest. • This element of capital will be net of the appropriate corresponding deductions related to holding of non-common equity capital instruments in other financial institutions.	step-up feature and it would only impose higher up-front costs on the banks, as investors would expect compensation for the call option. As per response for para 89 (12). As per response for para 89 – Additional Requirements.
1.4	92	The Committee would welcome feedback on whether the safeguards introduced on the use of call options will avoid the problem evident in the crisis that in some jurisdictions banks felt compelled to exercise call options, due to the potential negative market reaction that would have resulted if the call was not exercised. The Committee would also welcome views on whether additional safeguards such as a lock-in mechanism is necessary to ensure that Tier 2 capital does not need to be repaid during a period of stress.	Even with the removal of step-up feature, it is not a certainty that there would be no negative reactions from investors when banks choose not to redeem their debt instruments on the first call date. Furthermore, the events from the financial crisis could have also resulted in a paradigm shift on investors' expectations surrounding call option on the step-up date. Regardless, banks are still not obligated to redeem given the terms and conditions of existing qualifying Tier 2 capital instrument (i.e. with step-up feature). We do not view the lock-in mechanism as necessary as the Bank seeks to manage itself such that its note-holders will be repaid during stress periods.

S/No	Para	BCBS Proposals	OCBC's Comments
1.5	95	**Minority interest** Minority interest will not be eligible for inclusion in the Common Equity component of Tier 1. The proposal addresses the concern that while minority interest can support the risks in the subsidiary to which it relates, it is not available to support risks in the group as a whole and in some circumstances may represent an interest in a subsidiary with little or no risk.	The proposal to exclude minority interest from the common equity of the parent bank results in an asymmetric treatment as while the risk-weighted assets of the subsidiaries are fully consolidated, the limited liability of the parent's interest in its subsidiaries is not recognised.
1.6	96	**Unrealised gains and losses on debt instruments, loans and receivables, equities, own use properties and investment properties** No adjustment should be applied to remove from the Common Equity component of Tier 1 unrealised gains or losses recognised on the balance sheet. The proposal addresses concerns that the existing policy adopted in certain jurisdictions of filtering out certain unrealised losses has undermined confidence in Tier 1 capital. It helps ensure that the Common Equity component of Tier 1 is fully available to absorb losses (both realised and unrealised). The Committee will continue to review the appropriate treatment of unrealised gains.	Unrealised gains should be recognised as Common Equity if unrealised losses are to be applied against Common Equity. The measure of capital ratios would be less than adequate if regulators only require banks to assume the worst and disregard their gains which would be available for loss absorption. We urge the Basel Committee to take a balanced approach in the revision of the capital standards.

S/No	Para	BCBS Proposals	OCBC's Comments
1.7	100	**Investments in own shares (treasury stock)** All of a bank's investments in its own common shares should be deducted from the Common Equity component of Tier 1 (unless already derecognised under the relevant accounting standards). In addition, any own stock which the bank could be contractually obliged to purchase should be deducted from its common equity. The treatment described will apply irrespective of the location of the exposure in the banking book or the trading book. In addition: • Gross long positions may be deducted net of short positions only if the short positions involve no counterparty risk. • Banks should look through holdings of index securities to deduct exposures to own shares.	The requirement to look through holdings of index securities to deduct exposures to its own shares is operationally onerous and impractical on reporting banks and the fund management industry. To obtain the figures for regulatory reporting, fund managers will have to provide the breakdown of the underlying assets of the funds/index securities to banks on a frequent and timely basis. There is also the question of what amount should be deducted as the breakdown of the underlying assets available would be at current market value compared to the "cost" of the underlying securities when the bank first bought into the index funds. Furthermore, the composition of the underlying assets would change over time. The Committee should balance the costs and benefits of requiring banks to go to the extent of reporting its capital positions by looking though holdings in funds/index securities. Investments in funds/index securities are made with the intention of making a return on the risk of a diversified portfolio of securities (rather than on the bank's shares alone) and are typically subject to third parties' discretion with regards to the combination of such portfolios/index securities. While the bank understands the purpose of the look through approach, we request the Committee to distinguish such broad investment initiatives from exercises or transactions which banks undertake to manage their capital. In the context of investments on a portfolio basis, the risks of such investments are already considered as part of risk weighted assets and the Committee should likewise, allow banks to look at such investments consistently when computing its eligible capital, especially given the overall incremental benefit of such a requirement versus the compliance cost of doing so.

S/No	Para	BCBS Proposals	OCBC's Comments
1.8	101	**Investments in the capital of certain banking, financial and insurance entities which are outside the regulatory scope of consolidation** Banks should apply a "corresponding deduction approach" to investments in the capital of other banks, other financial institutions and insurance entities where these fall outside of the regulatory scope of consolidation. This means the deduction should be applied to the same component of capital for which the capital would qualify if it was issued by the bank itself. All holdings of capital which form part of a reciprocal cross holding agreement or are investments in affiliated institutions (e.g. sister companies) are to be deducted in full on a corresponding basis. For all other holdings, the corresponding deduction approach will apply when the holdings exceed certain thresholds. For holdings of common stock the thresholds work as follows: • If the bank has holdings of common stock in a financial institution which exceed 10% of the common stock of the financial institution then the full amount of this holding (not just the amount above 10%) should be deducted from the bank's common equity. • If the bank has holdings of common stock in other financial institutions which in aggregate exceed 10% of the bank's common equity (after applying all other regulatory adjustments to common equity) then the amount above 10% is required to be deducted. The treatment described will apply irrespective of the location of the exposure in the banking book or the trading book. In addition:	**Consolidated basis – deduction of holdings exceeding 10% from common equity** At group consolidated level, shareholdings of common equity in banking, financial and insurance entities exceeding 10% and up to 50% are to be fully deducted against a bank's common equity. By this requirement, regulators are taking the view that a bank faces a 100% probability of losing the full amount of such investments during the investment horizon, which unfairly penalizes banks that seek to diversify and pursue inorganic growth strategy outside their domestic markets through strategic partnerships involving significant minority investments. Furthermore, the ability for banks to purchase majority stakes outside their home markets is restricted by the regulations in many jurisdictions globally. Regulators should distinguish between holdings of financial institutions within and outside home market, as overseas investment is a means for banks to grow, diversify and stabilise their earnings, thus reducing failure risk and lowering systemic risk in the home market. The proposed deduction of investments in overseas financial institutions from common equity could also have a perverse effect on the development of the global banking sector over the longer term. We believe the business models of the majority of banks is to grow within its means rather than seek excessive leverage through reciprocal purchase of banks' capital papers. Any such exploitation of capital rules would be more appropriately addressed through reporting requirements and monitoring by regulators rather than requiring a full deduction against common equity. We would also appreciate if the Committee could provide the rationale on why shareholdings of common equity in financial institutions exceeding 10% and up to 50% should warrant a significantly punitive treatment versus shareholdings of less than 10% and those exceeding 50%, especially if the Committee is concerned with systemic risks. In addition, we are also concerned with the somewhat inconsistency, from a principle perspective, with the existing accounting rules. **Consolidated basis – deduction of holdings in insurance subsidiaries** By requiring banks to fully deduct capital investments in insurance subsidiaries

S/No	Para	BCBS Proposals	OCBC's Comments
		• Gross long positions may be deducted net of short positions only if the short positions involve no counterparty risk. • Banks should look through holdings of index securities to deduct relevant exposures to financial institutions which exceed the threshold limits. The purpose of the proposed deduction is to remove the double counting of capital in the banking sector and limit the degree of double counting in the wider financial system. Furthermore, it seeks to remove double counting within the appropriate tier of capital rather than at the total capital level. It will help ensure that when capital absorbs a loss at one financial institution this does not immediately result in the loss of capital in a bank which holds that capital. This will help increase the resilience of the banking sector to financial shocks and reduce systemic risk and procyclicality.	against common equity will disadvantage such banks vis-à-vis peers without significant insurance subsidiaries. A full deduction approach implies that a parent bank gets zero capital benefit from its ownership of an insurance subsidiary, which is not a reasonable assumption. We propose that the Committee consider deducting from the bank's capital an amount based on the minimum capital requirement (plus some buffer) of an insurance subsidiary after considering other qualifying capital resources like fund surplus. We believe this would provide comfort that the bank's capital would have excluded the amount required to support its insurance operations, while allowing the bank to recognise some value in its investments. It is also not rational and reasonable to penalise banking parents which have chosen to maintain a greater amount of capital buffer at its insurance subsidiaries, thus resulting in higher shareholders' funds, by subjecting them to greater amounts of deduction vis-à-vis banks which have chosen otherwise. **Standalone bank basis – deductions for investments in subsidiaries** On capital adequacy requirements for standalone bank basis, investments in subsidiaries should not be fully deducted from common equity. Similar to the above, these holdings are resources which can be realized by a bank over time and it is unreasonable to assume that banks would lose 100% of their investments in subsidiaries. **Overall** Given that capital adequacy positions are publicly disclosed, regulators should develop rules that would allow stakeholders to fairly and readily compare capital ratios across different banking groups to foster transparency. With the Committee's proposals to deduct the above holdings fully from common equity, capital demand appears to be determined to a greater extent by business structure rather than by risk profile. To provide stakeholders with a fair and readily comparable view of individual bank's capital strength, a bank with significant minority investments or banking or insurance subsidiaries should not have significantly worse capital positions when compared to a bank without such investments and subsidiaries, given the same gross capital and asset quality.

S/No	Para	BCBS Proposals	OCBC's Comments
			Look through holdings of index securities to deduct relevant exposures to financial institutions which exceed the threshold limits As previously explained in our response for paragraph 100, the requirement to look through holdings of index securities to deduct relevant exposures to financial institutions is operationally onerous and impractical on reporting banks and the fund management industry. While the bank understands the purpose of the look through approach, we request the Committee to distinguish such portfolio investments from specific transactions which banks undertake for purposes of strategic investments and partnerships. The risk and return in relation to portfolio investments should simply be looked upon in the right context and should not be lumped with the true significant minority holdings and these two types of investments are managed very differently. **Netting of gross long positions with short positions only if the short positions involve no counterparty risk** While the Bank recognises the Committee's concern to include trading book positions for computing significant minority stakes (even though trading book and banking book investments are made rather independently, for different reasons, and managed differently), regulators should allow netting based on net trading positions regardless of counterparties. It is much less reasonable for the Committee to require deductions against capital based on gross positions, given the nature of trading activities. Moreover, counterparty risk would have already been considered as part of the computation of risk-weighted assets and should not be taken up again against capital measures.

S/No	Para	BCBS Proposals	OCBC's Comments
1.9	102	**Shortfall of the stock of provisions to expected losses** The deduction from capital in respect of a shortfall of the stock of provisions to expected losses under the IRB approach should be made 100% from the common equity component of Tier 1 capital. Under the proposed approach, the capital regime would not differentiate between a bank which has a low stock of provisions relative to expected losses and a similar bank which has a stock of provisions (including a similar approach to write-offs) equal to expected losses. The current regime results in the bank with a low stock of provisions showing more Tier 1 capital, which could be acting as an incentive for banks to provision at low levels.	If the shortfall of provisions to expected loss ("EL") is to be deducted 100% from common equity, then EL should be based on average estimates of PD, LGD and EAD rather than the downturn estimates of these parameters, as such downturn estimates include components of unexpected losses and would cause common equity after regulatory adjustments to be understated through most part of the economic cycle. Unexpected losses are already included through risk-weighted assets which are computed based on downturn risk estimates, and the Committee is also expecting banks to add countercyclical capital buffers so that sufficient capital would be maintained for stress conditions. As such, the shortfall should be relative to EL based on average estimates of PD, LGD and EAD.
1.10	103	The data collected in the impact study should help aid consideration of the existing inclusion of provisions in Tier 2 under the Standardised and IRB approaches to credit risk, including the treatment of the cap (ie 1.25% and 0.6% of credit risk weighted assets under the standardised and IRB approaches, respectively).	If the shortfall of provisions to expected loss ("EL") is to be deducted 100% from common equity, then any excess of specific and general provisions over EL should be recognised in common equity capital, i.e. not subject to cap. This would be in line with the Committee's principle that capital rules should not differentiate banks with different stock of provisions relative to EL. Similar consideration should also apply to the Standardised Approach.
1.11	108	**Remaining 50:50 deductions** All remaining regulatory adjustments which are currently deducted 50% from Tier 1 and 50% from Tier 2, and which are not addressed elsewhere in the proposal, should receive a 1250% risk weight. These include: • Certain securitisation exposures; • Certain equity exposures under the PD/LGD approach; • Non-payment/delivery on non-DvP and non-PvP transactions; and	The risk weight should be correspondingly lower if the calibrated minimum Total CAR is higher than 8%.

S/No	Para	BCBS Proposals	OCBC's Comments
		• Significant investments in commercial entities.	
2. Risk Coverage			
2.1	121	**Effective EPE with stressed parameters to address general wrong-way risk** In addition, given that the stressed period of risk could have occurred several years prior, the Committee is proposing that banks also calculate EAD using current market data and that this be compared with the EAD derived using the stressed parameters. When parameters are estimated historically, the current market data must be based on at least the most recent three-year period. Banks would then have to use the maximum of 1) the portfolio-level capital charge based on Effective EPE using current market data and 2) the portfolio-level capital charge based on Effective EPE using the three year period that includes the one year stressed period (i.e. that is used for the Stressed VaR calculation). Such an approach would result in the "use test" still being relevant and would capture changes in the current economic environment. Furthermore, use of Effective EPE with stressed parameters implicitly considers general wrong-way risk and reduces the cyclicality of the capital requirement.	There should be a clear definition of 'stressed period' to reduce inconsistency in interpretation.
2.2	123	**Bond-equivalent of the counterparty exposure to capture CVA losses** To better capture CVA losses, the Committee also is proposing to implement the "bond-equivalent of the counterparty exposure" approach. In practice, this proposal provides a capital add-on by using a bond equivalent as a proxy for CVA risk. It covers the 99% worst case CVA profit and loss (P&L) as per the market risk framework as an addition to the existing treatment of default risk. This proposal is based on a	The hypothetical bond equalling potential CVA loss serves as a good proxy to capture the market value of the credit risk due to the counterparty's failure to perform on an agreement. However, the proposed approach is too conservative as it does not take into account the fact that some of the exposures may be fully or partially secured by various kind of collateral. Using the longest dated transaction from a netting set of a counterparty as the Effective Maturity of the "bond" is too conservative. Banks should be given the

S/No	Para	BCBS Proposals	OCBC's Comments
		representation of the P&L from CVA as being long a hypothetical bond issued by the counterparty where: • the notional of the "bond" would be the total EAD of a counterparty (treated as fixed); • the maturity of the "bond" would be the Effective Maturity (M) of the longest dated netting set of a counterparty; and • the time horizon would be one year, as opposed to the market risk framework's 10-day time horizon.	flexibility to using the time-to-maturity for each transaction as the Effective Maturity. The proposal indicates that "the notional of the "bond" would be the total EAD of a counterparty (treated as fixed)". We require further clarification on the interpretation of "treated as fixed".
2.3	131	**Wrong-way risk** ….. Nevertheless, to improve the identification and monitoring of wrong-way risk, the Committee is proposing to revise paragraph 57 of Basel II's Annex 4 as follows: [57. Banks must identify exposures that give rise to a greater degree of general wrong-way risk. Stress testing and scenario analyses should be designed to identify risk factors that are positively correlated with counterparty credit worthiness. Such testing needs to address the possibility of severe shocks occurring when relationships between risk factors have changed. Banks should monitor general wrong way risk by product, by region, by industry, or by other categories that are germane to the business. Reports should be provided to senior management and the appropriate committee of the Board on a regular basis that communicate wrong way risks and the steps that are being taken to manage that risk.]	 The monitoring of wrong way trades is practised at the credit analysis and limit-setting level. When analyzing counterparty's credit quality, specific factors such as nature of the counterparty's (and its related companies) business mode, macroeconomic factors, nature of the potential transactions with the counterparty are taken into consideration. In addition to counterparty's credit worthiness, credit covenants and security arrangements are influenced by the types of transactions and level of credit limit that is proposed for every counterparty. As a risk mitigant, master agreements such as the ISDA are signed in order to offset trades that are nettable, etc, to reduce the overall credit exposure to a particular counterparty.

S/No	Para	BCBS Proposals	OCBC's Comments
2.4	133	**Wrong-way risk** Thus, the Committee is proposing to apply a capital charge for each counterparty for which there exists an explicit legal relationship that gives rise to measurable wrong-way risk. Banks are already required to identify such legal relationships for the purposes of calculating the probability of default. More specifically, for single-name credit default swaps where there exists a legal connection between the counterparty and the underlying issuer, the Committee is proposing that the notional of the CDS be used as the EAD of the counterparty. In addition, for equity derivatives referencing a single company where there exists a legal connection between the counterparty and the underlying company, the Committee is proposing that the value of the derivative under the assumption of default of the underlying entity be used as the EAD of the counterparty.	 To apply a generic capital charge for all counterparty with 'wrong-way' legal relationship may be overly conservative. For example, a derivative trade which appears to have "wrong-way" characteristics in relation to a counterparty's business or its related companies may be the counterparty's attempt to hedge that "wrong-way" risk. Identifying wrong-way trades is particularly challenging for FI counterparties as their portfolio tend to be diversified. Unless the counterparty discloses its business or trading strategy or makes available the details of its portfolio, it is very difficult to accurately determine whether the FI counterparty is hedging or taking a proprietary position with each transaction.
2.5	135	**Asset Value Correlations** During the crisis, financial institutions' credit quality deteriorated in a highly correlated manner and they proved to be relatively more sensitive to systemic risk than non-financial firms. As a result, financial institutions were more correlated than reflected in the current Basel II IRB framework. The work conducted by the Committee indicates that asset value correlations (AVCs) for financial firms were, in relative terms, 25% or more higher than for non-financial firms, and the Committee is of the view that this higher degree of correlation with the market needs to be reflected in the IRB capital framework. For this reason, the Committee is proposing that a multiplier of 1.25 be applied to the AVC of financial firms. Under this proposal, the AVCs between financial firms would range from 15% to 30%, as Strengthening the resilience of the banking sector 37 opposed to the 12-	 Please clarify how the AVC multiplier of 1.25 times is derived. A standard across-the-board multiplier of 1.25 times may be overly conservative and discourage efforts by banks to diversify their portfolios.

S/No	Para	BCBS Proposals	OCBC's Comments
		to-24% range currently set forth in the Basel II framework. The Committee is conducting further analysis on the appropriate calibration of this proposed multiplier.	
2.6	150	**Increase the margin period of risk** The Committee is proposing an increase in the supervisory floors for margin periods of risk for both OTC derivatives and SFTs in order to capture the risks outlined above. Specifically, the Committee proposes that the margin period of risk be extended to 20 business days for netting sets 1) where the number of trades exceeds 5,000 or 2) that contain illiquid collateral or OTC derivatives that cannot be easily replaced in the marketplace (eg so-called bespoke or exotic derivatives).	The proposal calls for an increase of the margin period from 10 days to 20 days for exposure measurement purposes. Banks should be able to select from several margin periods depending on the products (plain vanilla liquid or illiquid/complex structured) and collateral/margin arrangements (if any). A blanket 20-day margin period is overly punitive.
3. Leverage Ratio			
3.1	205	The Committee has designed a leverage ratio as a supplementary measure to the Basel II risk-based framework with a view to migrating to a Pillar 1 treatment based on appropriate review and calibration. To ensure comparability across jurisdictions, the leverage ratio will be harmonized internationally, fully adjusting for material differences in accounting and will appropriately integrate off-balance sheet items that have also been a major source of leverage in the last crisis.	Since leverage ratio is largely an accounting-based ratio in that capital and exposures can be referenced to the audited financial statements, we recommend that the computation be kept simple and easily understood without the sophisticated adjustments/bases required under the risk-based approach.

S/No	Para	BCBS Proposals	OCBC's Comments
3.2	208	**(a) Capital measure** The Committee's proposal to improve the quality of capital is set out in Section II.1, and is appropriate for both risk-based and non risk-based (leverage ratio) purposes. It is not appropriate for banks to take excessive leverage using low quality capital that does not demonstrate the required permanence and loss absorbency on a going concern basis. That is, the definition of capital should not be used to increase leverage. A high quality measure of capital will therefore be used for the leverage ratio and the Committee intends to consider both Tier 1 capital and the predominant form of Tier 1 capital as possible measures. For the purposes of impact assessment the Committee also will collect data on total regulatory capital.	 We recommend that capital measure for purpose of computing leverage ratio be defined as total equity (which will include preference share capital, unrealised gains/losses and minority interests) net of goodwill and intangible. This basis is easily understood and referenced to the accounting numbers disclosed in the audited financial statements.
3.3	209	Items that are deducted completely from capital do not contribute to leverage, and should therefore also be deducted from the measure of exposure. That is, the capital and exposure should be measured consistently and avoid double counting. This means that deductions from regulatory capital (as set out in Section II.1) should also be made from the total exposure measure.	Since leverage ratio is intended to be a simple, non-risk based measure, we recommend that capital measure should not be net of regulatory deductions and correspondingly there is no need to exclude these regulatory deductions from exposure measure.
3.4	210	The treatment of investments in subsidiaries will follow the approach used in the risk-based capital framework. Where a bank has a subsidiary that is included in the accounting consolidation, but not in the regulatory consolidation, then the treatment is to deduct the holding in the subsidiary from capital and not to include the subsidiary's assets in the total exposure measure.	If leverage ratio is an accounting-based ratio, we recommend that both capital and exposure measures should be in accordance with accounting consolidation.
3.5	212	The generally preferred measure of exposure for the leverage ratio follows the accounting measure of exposure. The advantages of this approach are that	

S/No	Para	BCBS Proposals	OCBC's Comments
		accounting data are readily available to the market and transparent, provide an independent measure of exposure to regulatory exposure; and are generally not risk-based. To be measured consistently with financial accounts, it follows that: • Total exposure should be net of provisions and valuation adjustments (e.g. credit valuation adjustments); and • Physical or financial collateral is not allowed to reduce exposure. This approach is also consistent with developing a non-risk based measure, and addresses concerns over the uncertainty in the valuation and time to recovery of physical collateral.	While this is supposed to address concerns around uncertainty in the valuation and time to recovery of physical collateral, consideration should be given to cash collaterals or high quality liquid collaterals at the least. We suggest that the netting of loans against deposits be allowed where the deposits are collaterals for the loans (refer paragraph 215). If the accounting measure of exposure is to be followed, exposures will be net of valuation adjustments only if these are required under accounting treatment.
3.6	214	**b. Netting** To achieve international consistency in netting, two approaches are considered possible in principle. The first approach is to disallow both accounting and regulatory netting, thereby focusing on gross measures of exposure. Such an approach recognises that zero gross exposure is different form zero netted exposure, where the latter may still entail significant counterparty, operational or other risks. The second approach is to apply a common set of regulatory netting rules, as currently set out in the Basel II framework.	We recommend that netting based on the Basel II framework be allowed as this is allowed under the ISDA agreement.
3.7	218	**High quality liquid assets** The proposal is to include all assets (including high quality liquid assets) in the measure of exposure. This approach is simple, non risk-based and avoids the problem of trying to decide where to draw the line on inclusions and exclusions from the exposure measure	We recommend that high quality liquid assets like cash, balances with central banks and government securities be excluded from the measure of exposure. The numbers excluded can be easily referenced to the financial statements of the reporting bank.

S/No	Para	BCBS Proposals	OCBC's Comments
3.8	226 to 228	**Derivatives** Derivatives create two types of exposure: an "on-balance sheet" present value reflecting the fair value of the contract (often zero at outset but subsequently positive or negative depending on the performance of the contract); and a notional economic exposure representing the underlying economic interest of the contract. The Committee will evaluate two distinct approaches without netting and also intends to understand the effect of those approaches with regulatory netting. The two options are: (i) follow the accounting approach but with no netting; and (ii) use the current exposure method to measure potential exposure but with no netting. The Committee also proposes to assess both options with regulatory netting. The positive fair value of derivatives is in general negligible or very low at origination compared with its potential future value and economic leverage. The impact study therefore includes an assessment of the potential future value calculated using the current exposure method of the Basel II framework for counterparty credit risk.	We recommend that regulatory netting be allowed as this is allowed under the ISDA agreement.
3.9	233	**Off-balance sheet items (excluding derivatives)** OBS items are a source of potentially significant leverage. The failure to include OBS items in the measure of exposure creates an incentive to shift items off the balance sheet to avoid the leverage ratio constraint. The Committee therefore proposes to include the above OBS items using a 100% credit conversion factor. This approach is simple and consistent with the view that OBS items are a significant source of leverage.	We propose that a lower credit conversion factor should be applied to certain OBS items e.g. unconditionally cancelable commitments, trade letters of credit, unsettled securities.

S/No	Para	BCBS Proposals	OCBC's Comments
3.10	237	**Calibration** Calibration of the supplementary measure is a crucial issue as it will determine the extent to which the measure acts appropriately in supplementing the risk-based measures. The Committee will carefully consider the calibration of the leverage ratio as part of the impact assessment, including interaction with the risk-based measure. Moreover, the ratio will be calibrated to constrain the build-up of leverage in the banking sector, helping avoid destabilising deleveraging processes which can damage the broader financial system and the economy. The Committee will therefore also consider the dynamic effects of a leverage ratio in the context of the overall package of reforms.	We recommend that leverage ratio be a disclosure requirement instead of regulatory compliance ratio, based on these rationales: a) With the proposed revisions to the risk-based capital measure, with explicit minima for Common Equity, Tier 1 Capital and Total Capital ratios as well as introduction of countercyclical capital buffers, we urge the Committee to consider whether there is a need to add a supplementary non risk-based regulatory ratio. b) In addition, the leverage ratio does not differentiate the quality of the underlying assets, and on its own may be an overly simplistic measure which is a step back from the current Basel II risk-based framework.
4. Procyclicality			
4.1	241	**Cyclicality of the minimum requirement** The Committee has reviewed a number of additional measures that supervisors could take to achieve a better balance between risk sensitivity and the stability of capital requirements, should this be viewed as necessary. In particular, the range of possible measures includes an approach by the Committee of European Banking Supervisors (CEBS) to use the Pillar 2 process to adjust for the compression of PD estimates in IRB capital requirements during benign credit conditions. Addressing the same issue, the UK FSA has proposed an approach aimed at providing non-cyclical PDs in IRB requirements through the application of a scalar that converts the outputs of a bank's underlying PD models into through-the-cycle estimates. An alternative to dampening the volatility of the inputs to the Basel II capital requirement could be to dampen the output through a time-weighted averaging process. All of these approaches have	We propose that the Basel Committee consider letting banks manage the pro-cyclical nature of their respective capital requirements through Pillar 2 process, instead of a prescriptive cyclicality adjustment to Pillar 1 capital requirement. The Pillar 2 approach is preferred as it will allow a holistic assessment of material risks and capital requirements. While we support the rationale of reducing pro-cyclicality in capital requirements, we foresee the following challenges: • Long historical data will be required to determine the model cyclicality and develop reasonable adjustment scalars. In addition, the behaviour under different economic cycles is likely to differ. • Ability to isolate changes due to cyclical migration from changes in quality of portfolio due to other reasons such as underwriting changes

S/No	Para	BCBS Proposals	OCBC's Comments
		advantages and disadvantages.	
4.2	244	**Forward looking provisioning** The Committee strongly supports the initiative of the IASB to move to an expected loss approach. The goal is to improve the decision usefulness and relevance of financial reporting for stakeholders, including prudential regulators. It has issued publicly and made available to the IASB a set of principles that should govern the reforms to the impairment standards. In particular, loan loss provisions should be robust and based on sound methodologies that reflect expected credit losses in banks' existing loan portfolios over the life of the portfolio. The accounting model for provisioning should allow for early identification and recognition of losses by incorporating a broader range of available credit information than is permitted under the incurred loss model. The Committee communicated its guiding principles for the replacement of IAS 39 to the IASB in July 2009. These guiding principles also include principles related to fair value measurement and provisioning. The Committee will continue to work with the IASB with an aim to ensuring that these principles are met in practice when the details of the IASB's proposals are fleshed out over the coming months. The Committee will promote an EL approach that captures actual losses more transparently and is also less pro-cyclical than the current "incurred loss" approach.	The proposed IASB's approach appears to differ from Basel's expected loss (EL) approach, which is based on 1-year horizon and using risk parameters from internal rating models, typically hybrid or through the cycle (TTC) rather than PiT models. We suggest that IASB's EL provisioning be based on the bank's internal rating models (refer paragraph 245), however the downturn risk parameters should be adjusted to reflect average estimates (refer comments in item 1.9). Disclosure requirements in IASB's ED should be aligned with Basel Pillar 3 where possible.
4.3	245	The Committee has begun the process of revising its supervisory guidance on sound provisioning practices to be consistent with the desired EL approach. Such guidance will assist supervisors in promoting strong provisioning practices under the expected loss approach. In practice, this means updating the 2006 document *Sound Credit Risk Assessment and*	If EL provisioning utilises approaches that draw from banks' internal risk management and capital adequacy systems, how would banks on Standardized Approach form reliable estimates of expected loss? Different provisioning approaches across banks would result in different earnings volatility of banks on different Basel II approaches, i.e., Standardized, Foundation or Advanced IRB approach.

S/No	Para	BCBS Proposals	OCBC's Comments
		Valuation for Loans. In this context, it is important that the new standard utilise approaches that draw from relevant information in banks' internal risk management and capital adequacy systems whenever possible.	
4.4	248	**Building buffers through capital conservation** Outside of periods of stress, banks should hold buffers of capital above the regulatory minimum. These buffers should be capable of being drawn down through losses and large enough to enable banks to maintain capital levels above the minimum requirement throughout a significant sector-wide downturn.	If countercyclical capital buffer is to be implemented, in practice this will require objective formula-based approach to allow banks to draw down on such capital buffer during periods of stress.
4.5	259	Set out below are a number of other key aspects of the proposal: • Calibration: This will be considered as part of the wider exercise to re-calibrate the capital framework. The guiding principle will be that the buffer must be large enough to enable banks to remain above the minimum requirement in the face of losses expected to be incurred in a feasibly severe downturn. In addition, the level of restrictions imposed within the buffer range need to be calibrated. This calibration will take into account evidence from distribution rates during periods of economic and financial stress. • Capital type: To ensure that the buffer created can be drawn down, the capital used to comprise the buffer needs to be capable of absorbing losses on a going concern basis. Therefore the standard would be based on Tier 1 capital rather than total capital. • Elements subject to the restriction on distributions: Items considered to be distributions would include ordinary dividends and share buybacks,	The calibration should not be a one-size-fits all prescribed buffer; instead considerations should be given to different business models, risk profiles and risk management practices of various banks. There should be a consistent definition of a feasibly severe downturn, as this can be subjective. If dividend distribution is curtailed, the implication is that shareholders' return from investing in bank shares will be impacted, which may divert capital to unregulated financial intermediaries and the shadow banking system will grow

S/No	Para	BCBS Proposals	OCBC's Comments
		discretionary payments on other Tier 1 capital instruments and discretionary bonus payments to staff. • Definition of earnings: To be consistent this would be distributable profits calculated prior to the deduction of elements subject to the restriction on distributions. • Solo or consolidated application: The framework would be applied at the consolidated level, ie restrictions would be imposed on distributions out of the consolidated group. National supervisors would have the option of applying the regime at the solo level to conserve resources in specific parts of the group. • Additional supervisory discretion: Although the buffer must be capable of being drawn down, banks should not choose in normal times to forgo discretionary distribution to operate in the buffer range simply to compete with other banks and win market share. To ensure that this does not happen, supervisors would have the additional discretion to impose time limits on banks operating within the buffer range on a case-by-case basis. In any case, supervisors would ensure that the capital plans of banks seek to rebuild buffers over an appropriate timeframe.	larger. While we support the current requirement under ICAAP to better link compensation to longer-term capital preservation and financial strength of the bank, total compensation level, including discretionary bonuses, should not be capped as proposed under the capital conservation measure. Instead, it is preferable to let the market determine appropriate compensation for talented individuals, to avoid the unintended consequences of the best brains moving to the shadow banking sector. The framework should not be applied at solo level, as management of capital buffer is more effectively carried out at consolidated level.

S/No	Para	BCBS Proposals	OCBC's Comments
4.6	262	**Excessive credit growth** The proposal is currently at an earlier stage of development and further work is needed to fully specify the details of how it would operate. The Committee will review a fully fleshed out approach at its July 2010 meeting. However, to promote discussion on this proposed approach, the Committee is putting forward its key elements: • A macro-economic variable or group of variables would be identified and used to assess the extent to which in any given jurisdiction there was a significant risk that credit had grown to excessive levels. These would need to take into account the variations in the stages of development of financial sectors across jurisdictions. As an example, one variable which is being considered is the difference between the aggregate credit-to-GDP ratio and its long term trend. • For each jurisdiction, when the variable breached certain pre-defined thresholds this would give rise to a benchmark buffer requirement. This could then be used by national jurisdictions to expand the size of the capital conservation buffer. • Banks with purely domestic lending would be subject to the full expanded buffer. Internationally active banks would be required to look at the geographic location of their credit exposures and calculate their buffer as a weighted average of the buffers which are being applied in jurisdictions to which they have exposures. • ….. • Outside of periods identified as having a significant risk that credit had grown to excessive levels, the capital conservation range will remain at its target level above the minimum requirement.	Control of banking sector by requiring additional buffer for excess credit growth on top of the countercyclical capital buffer seems to be overly conservative. This could lead to unintended consequence of curbing economic growth in a given jurisdiction. What constitute excessive level of credit growth is dependent on the stage of development in a jurisdiction. Any pre-specified thresholds should be reviewed and updated periodically taking into consideration different stages of development and operating environment of specific jurisdiction.

S/No	Para	BCBS Proposals	OCBC's Comments
International Framework for Liquidity Risk Measurement, Standards and Monitoring			
5. Global Liquidity Standards			
5.1	6 10	To further strengthen and promote consistency in international liquidity risk supervision, the Committee has also developed a minimum set of monitoring tools to be used in the ongoing monitoring of the liquidity risk exposures of cross-border institutions and in communicating these exposures among home and host supervisors. These two standards are comprised mainly of specific parameters which are internationally "harmonised" using specific and concrete values. Certain parameters, however, will need to be set by national supervisors to take account of jurisdiction-specific conditions. For example, the percentage of potential run-off of retail deposits is partially dependent on the structure of a jurisdiction's deposit insurance scheme. In these cases, the parameters should be transparent and clearly outlined in the regulations of each jurisdiction. This will provide clarity both within the jurisdiction as well as across borders concerning the precise parameters that the banks are capturing in these metrics. There also need to be public disclosures regarding regulatory standards.	We agree on the need for consistency and transparency. There should be close collaboration and alignment between home and host regulators to minimise inconsistencies in the application of the requirements across jurisdictions. For example, banks with overseas branches could potentially be subject to several different reporting requirements at both the local branch and firm-wide level, especially if host regulators also require the head office to comply with the local regulatory requirements which may be different from the home regulatory requirements.
5.2	 23 24	**Liquidity coverage ratio** In summary, the stress scenario specified incorporates many of the shocks experienced during the current crisis into one acute stress for which sufficient liquidity is needed to survive up to 30 calendar days. This stress test should be viewed as a minimum supervisory requirement for banks. Banks are still expected to conduct their own stress tests to assess the level of liquidity they should hold beyond this	 Whilst it is prudent to ensure banks' survival for a sufficiently stressed scenario, imposing even longer time horizons (than the regulatory proposal) for banks' internal stress test might risk placing disproportionate burden on the banks, given that the proposed regulatory standards already present a sufficiently steep hurdle.

S/No	Para	BCBS Proposals	OCBC's Comments
		minimum, and construct scenarios that could cause difficulties for their specific business activities. Such internal stress tests should incorporate longer time horizons than the ones mandated by this standard. Banks are expected to share these additional stress tests with supervisors. The proposed standard should be a key component of the regulatory approach, but must be supplemented by detailed supervisory assessments of the other aspects of the bank's liquidity risk management framework in line with the Committee's Sound Principles.	
5.3	30	As outlined by these characteristics, the test of the "high quality" of assets is that by way of sale or secured borrowing, their liquidity-generating capacity is assumed to remain intact even in periods of severe idiosyncratic and market stress: indeed such assets often benefit from a flight to quality in these circumstances. Lower quality assets fail to meet that test. An attempt by a bank to raise liquidity from lower quality assets under conditions of severe market stress would entail acceptance of a large fire-sale discount or haircut to compensate for high market risk. That may not only erode the market's confidence in the bank, but would also generate mark-to-market losses for banks holding similar instruments and add to the pressure on their liquidity position, thus encouraging further fire sales and declines in prices and market liquidity. In these circumstances, private market liquidity for such instruments is likely to evaporate extremely quickly, as evidenced in the current crisis. Taking into account the system-wide response, only high quality liquid assets meet the test that they can be readily converted into cash under severe stress in private markets.	Whilst the emphasis on high quality liquid assets is understandable, it might be too stringent if assets that do not fit the definitions are given no recognition at all. We propose that a graduated approach (e.g. assigning higher haircuts rather than blanket ban) be considered to give due recognition to the differing risk characteristics amongst the universe of non-high quality liquid assets.

S/No	Para	BCBS Proposals	OCBC's Comments
5.4	32	The stock of liquid assets should not be co-mingled with or used as hedges on trading positions, be designated as collateral or be designated as credit enhancements in structured transactions, and should be managed with the clear and sole intent for use as a source of contingent funds. The stock should be under the control of the specific function or functions charged with managing the liquidity risk of the institution. A bank should periodically monetise a proportion of the assets in its liquid assets buffer through repo or outright sale to the market in order to test the usability of the assets.	As liquid assets could be booked by different business units within a bank, which is not necessarily under direct control of the function tasked with managing liquidity, the requirement of direct control might pose operational difficulties and limit banks' flexibility in asset management. Establishment of formalised programs (with regular testing) on liquidation of banks' stock of liquid assets (held under various functions) should suffice to demonstrate control.
5.5	33	While the LCR is expected to be met and reported in a common currency, supervisors and banks should also be aware of the liquidity needs in each significant currency. The bank should be able to use the stock to generate liquidity in the desired currency and in the jurisdiction in which the liquidity will be required. As such, banks are expected to be able to meet their liquidity needs in each currency and maintain high quality liquid assets consistent with the distribution of their liquidity needs by currency.	There could be practical constraints if banks are required to maintain liquid assets for every currency it deals in. Instead, a risk-based approach can be adopted where the requirement needs to be satisfied only for material currencies. Besides, due recognition should be given to the ability to meet liquidity needs in a particular currency via liquidity in another freely convertible currency (with appropriate haircut if necessary). Banks should also be allowed to adopt a graduated approach with haircuts by currency, tenor and counterparty rating to recognize FX swap lines rather than a complete exclusion.
5.6	36	Corporate bonds that, depending on their credit assessment, receive either a 20% or a 40% haircut and satisfy all of the following conditions: • Central bank eligibility for intraday liquidity needs or overnight liquidity shortages in relevant jurisdictions. • Not issued by a bank, investment or insurance firm. • Low credit risk: assets have a credit assessment by a recognised external credit assessment institution (ECAI) of at least AA (assigned a 20% haircut), or A- (assigned a 40% haircut) or do not have a credit assessment by a recognised ECAI	Banks should be allowed some flexibility in demonstrating that there is sufficient market depth and reliability of the corporate bonds as a source of liquidity. Instead of tracking the bid-ask-yield and haircuts which could be operationally onerous for each bond purchased, this could be managed through the issuance size of the bonds, credit ratings and the amount to be held by each institution.

S/No	Para	BCBS Proposals	OCBC's Comments
		and are internally rated as having a probability of default (PD) corresponding to a credit assessment that is at least AA or A-, respectively. • Traded in large, deep and active markets characterised by a low level of concentration. The bid-ask-yield spread has not exceeded 40 bsp (assigned a 20% haircut) or 50 bsp (assigned a 40% haircut) during the last 10 years or during a relevant period of significant liquidity stress. • Proven record as a reliable source of liquidity in the markets (repo and sale) even during stressed market conditions: i.e., maximum decline of price or increase in haircut over a 30-day period during the last 10 years or during a relevant period of significant liquidity stress not exceeding 10%.	
5.7		**Cash outflows** **(i) Retail deposit run-off**	
	41	Retail deposits are defined as deposits placed at a bank by a natural person, not a legal entity, and exclude deposits placed by sole proprietorships and partnerships. Retail deposits are divided into "stable" and "less stable" portions of funds as described below, with run-off rates listed for each category. (a) Stable deposits, 7.5% and higher - Stable deposits will receive at least a 7.5% run-off factor in each jurisdiction and refer to the portion of deposits which are covered by an effective deposit insurance scheme and where: – the depositors have other established relationships with the same bank which make deposit withdrawal highly unlikely; or – the deposits are in transactional accounts (e.g. accounts where salaries are automatically credited). An effective deposit insurance scheme refers to	The determination of stability of deposits based on the specified criteria may be difficult to implement and may not accurately reflect the characteristics of the deposits. Banks should be allowed to rely on the results of their historical behavioural analysis (with sufficient segmental granularity) to determine the stability of their deposits. Deposit insurance schemes may not be established in all jurisdictions, and for those where it is established, the details may differ between jurisdictions. Hence, to allow only deposits covered under such schemes could potentially result in inconsistencies in the requirements. In addition, customers may not have any other relationships with the bank other than deposits and that may not necessarily imply that the deposits are less stable. Customers may also have several accounts with the same bank, such as time deposits, savings or current accounts, and they could be equally stable.

S/No	Para	BCBS Proposals	OCBC's Comments
		one which is in effect and guarantees that it has the ability to make prompt payouts. The presence of deposit insurance alone is not sufficient to consider a deposit "stable". (b) Less stable deposits, 15% and higher: Individual jurisdictions should then create additional factors as required to apply to buckets of potentially less stable retail deposits in their jurisdictions, with a minimum run-off factor of 15%. These jurisdiction-specific factors should be clearly outlined and publicly transparent. Less stable deposits could include deposits which are not covered by effective deposit insurance, high value-deposits, deposits of sophisticated or high net worth individuals and deposits which can be withdrawn quickly (eg internet deposits) and foreign currency deposits, as determined by each jurisdiction.	
	44	Foreign currency deposits are deposits denominated in a currency other than the predominant currency used in the jurisdiction the bank is operating in. Supervisors will determine the run-off factor that banks in their jurisdiction should use for foreign currency deposits. Foreign currency deposits will be considered as "less stable" if there is a reason to believe that such deposits are more volatile than domestic currency deposits. Factors affecting the volatility of foreign currency deposits include the type and sophistication of the depositors, and depositors' purpose of placing such deposits.	
5.8	43	Fixed or time deposits, regardless of maturity, that have a withdrawal penalty not materially greater than the loss of interest, should be treated no differently from other types of deposits and be subject to the same run-off factor as other deposits in the same bucket. Term deposits which do have a withdrawal	Same comments as per item 5.7 (retail deposits). In addition, allowing only term deposits with withdrawal penalty that is materially greater than the loss of interest as qualifying deposits could encourage banks to start introducing stiff penalties that may not be in the interest of retail depositors. The absence of penalties alone may not imply that

S/No	Para	BCBS Proposals	OCBC's Comments
		penalty that is materially greater than the loss of interest should be treated consistently with the term of their funding – i.e. qualifying deposits with a term beyond the 30-day horizon would not receive a run-off factor in this scenario and those within the 30-day horizon would either be treated as "stable" or "less stable" according to the definitions above.	term deposits are less sticky as depositors typically consider other factors such as the perceived credit worthiness of the bank and the local regulation. As such, we suggest that all term deposits should qualify regardless if there are any withdrawal penalties.
5.9	48	**a) Unsecured wholesale funding provided by small business customers: 7.5%, 15% and higher** Unsecured wholesale funding provided by small business customers is treated the same way as retail deposits for the purposes of this standard, effectively distinguishing between a "stable" portion of funding provided by small business customers and different buckets of less stable funding defined by each jurisdiction. The same bucket definitions and associated run-off factors apply as for retail deposits, with the "stable" portion of unsecured wholesale funding provided by small business customers receiving a minimum 7.5% run-off factor and less stable funding categories receiving minimum run-off factors of 15%.	Same comments as retail, i.e. banks should be allowed to rely on the results of their historical behavioural analysis (with sufficient segmental granularity) to determine the stability of their deposits.
	51	**b) Unsecured wholesale funding provided by non-financial corporate customers, sovereigns, central banks and public sector entities with operational relationships: 25%** Deposits and other extensions of funds made by non-financial corporate customers (other than small business customers), sovereigns, central banks and public sector entities that are demonstrated to be specifically needed for operational purposes may receive a 25% run-off factor if the customer has an established cash management or other administrative funds relationship with the bank upon which it has a substantive dependency. Only the specific amount of deposits utilised for these operational functions qualify	As above. In addition, sovereign, central banks and public sector entities have a vested interest in the liquidity health of banks and hence, would be expected to be more stable and the run-off factor for them should be much lower than that for the non-financial corporate customers, regardless of the existence of any cash management arrangement.

S/No	Para	BCBS Proposals	OCBC's Comments
		for the 25% factor.	
	54	**(c) Unsecured wholesale funding provided by non-financial corporate customers: 75%** This category is defined as all deposits and other extensions of funds made by non financial corporate customers (that are not categorised as small business customers) which are not specifically held for operational purposes (as defined above). The run-off factor for these funds is set at 75%.	
	55	**(d) Unsecured wholesale funding provided by other legal entity customers: 100%** The run-off factor for these funds is set at 100% and consists of deposits and other extensions of funds made by financial institutions (including banks, securities firms, insurance companies, multilateral development banks etc), fiduciaries, beneficiaries, conduits and special purpose vehicles, sovereigns and central banks, public sector entities; affiliated entities of the bank and other entities not included in the prior three categories.	
5.10		**Net stable funding ratio (NSFR)**	
	82	Available stable funding (ASF) is defined as the total amount of an institution's: 1) capital; 2) preferred stock with maturity of equal to or greater than one year; 3) liabilities with effective maturities of one year or greater; and 4) that portion of "stable" non-maturity deposits and/or term deposits with maturities of less than one year that would be expected to stay with the institution for an extended period in an idiosyncratic stress event.	Same comments as item 5.3 above (LCR). i.e. banks should be allowed to rely on the results of their historical behavioural analysis (with sufficient segmental granularity) to determine the stability of their deposits (both retail and corporate) and the appropriate ratios to apply.
	83	The objective of the standard is to ensure stable funding on an ongoing, viable entity basis, over one year in an extended firm-specific stress scenario where a bank encounters, and investors and	

S/No	Para	BCBS Proposals	OCBC's Comments
		customers become aware of: • A significant decline in profitability or solvency arising from heighted credit risk, market risk or operational risk and/or other risk exposures; • A potential downgrade in a debt, counterparty credit or deposit rating by any nationally recognised credit rating organisation; and/or; • A material event which calls into question the reputation or credit quality of the institution.	
	85	The available amount of stable funding is calculated by first assigning the carrying value of an institution's equity and liabilities to one of five categories as presented in Table 1 below. The amount assigned to each category is to be multiplied by an ASF factor and the total ASF is the sum of the weighted amounts.	
	86	Table 1 below summarises the components of each of the ASF categories and the associated maximum ASF factor to be applied in calculating an institution's total amount of available stable funding under the proposed standard. [Refer to the Liquidity document pg 21-22 for Table 1.]	
5.11	80	The NSF measure builds on traditional "net liquid asset" and "cash capital" methodologies used widely by internationally active banking organisations, bank analysts and rating agencies. However, the proposed measure expands general industry conventions of these concepts to account for the potential liquidity risk of off-balance sheet (OBS) exposures and various types of maturity mismatches involved in short-term secured funding of long-dated assets that traditional forms of these measures may ignore. The standard provides a comprehensive measure of liquidity risk exposure that acknowledges recent market difficulties, including the need to fund securities in trading inventories or securitisation pipelines in the face of	Whilst the emphasis on high quality liquid assets is understandable, it might be too stringent if assets that do not fit the definitions are given 100% RSF weight. We propose that a graduated approach (rather than blanket 100%) be considered to due recognition to the differing risk characteristics amongst the universe of non-high quality liquid assets. In addition, we would appreciate the rationale for the difference in the required stable funding factors for loans to non-financial corporate clients having a maturity < 1 yr and loans to retail clients having a maturity < 1 yr be included in required stable funding.

S/No	Para	BCBS Proposals	OCBC's Comments
		illiquid markets. In computing the amount of assets that should be backed by stable funding, the proposed methodology includes required amounts of stable funding for all illiquid assets and securities held, regardless of accounting treatment (e.g. trading versus available-for-sale or held-to-maturity designations) and with constrained assumptions regarding trading and securitisation inventory turnover. In effect, portions of trading assets are required to be funded using stable funding sources based not on assumed execution turnover but on the relative liquidity characteristics of the positions held. Additional resources funded by stable sources are also allocated to support at least a small portion of the potential calls on liquidity arising from OBS commitments and contingencies.	
	87	**B. Definition of required stable funding for assets and off-balance sheet exposures.** The amount of stable funding required by supervisors is to be measured using supervisory assumptions on the broad characteristics of the liquidity risk profiles of an institution's assets, off-balance sheet exposures and other selected activities. The required amount of stable funding is calculated as the sum of the value of the assets held and funded by the institution, multiplied by a specific required stable funding (RSF) factor assigned to each particular asset type, added to the amount of OBS activity (or potential liquidity exposure) multiplied by its associated RSF factor. The RSF factor applied to the reported values of each asset or OBS exposure is the amount of that item that supervisors believe should be supported with stable funding. Assets that are more liquid and more readily available to act as a source of extended liquidity in the stressed environment identified above receive lower RSF factors (and require less stable funding) than assets considered less liquid in such circumstances	As above.

S/No	Para	BCBS Proposals	OCBC's Comments
		and, therefore, require more stable funding.	
	88	The RSF factors assigned to various types of assets are parameters intended to approximate the amount of a particular asset that could not be monetised through sale or use as collateral in a secured borrowing on an extended basis during a liquidity event lasting one year. Under this standard such amounts are expected to be supported by stable funding. Except for "repo-like" transactions as defined in existing global capital standards issued by the Committee, all encumbered assets would also be expected to be fully supported by stable funding.	As above.
	89	Table 2 briefly summarises the specific types of assets to be assigned to each asset category and their associated RSF factor. Annex 2 fully outlines the assets in each category and should be used by banks in conducting the NSFR. [Refer to the Liquidity document pg 23 for Table 2.]	As above.
	90	Many potential OBS liquidity exposures entail little direct or immediate funding but can lead to significant liquidity drains in times of market or idiosyncratic stress. As a result, the application of an RSF factor to various OBS activities results in a requirement for the institution to establish a "reserve" of stable funding that would be expected to fund existing assets that might not otherwise be funded with "stable' funds as defined in other parts of this standard. While funds are indeed fungible within a financial institution, this requirement could be viewed as promoting the stable funding of the stock of liquid assets that could be used to meet liquidity requirements arising from OBS contingencies in times of stress.	As above.

S/No	Para	BCBS Proposals	OCBC's Comments
5.12	111	**Concentration of funding** A "significant currency" is defined as liabilities denominated in a single currency, which in aggregate amount to more than 1% of the bank's total liabilities.	The definition of significant currency should be consistent with that under interest rate risk management. Under the *Principles for the Management and Supervision of Interest Rate Risk* document, banks should carry out analysis of their interest rate risk for each currency that accounts for 5% or more of either the banking book assets or liabilities. The threshold for the definition of "significant currency" as proposed in this consultative paper could therefore be set at 5% instead of 1%.
	119	**Available unencumbered assets** In addition to providing the total amounts available, banks should also report these items categorised by significant currency. "Significant currency" is defined as available unencumbered collateral denominated in a single currency which in aggregate amounts to more than 1% of the associated total amount of available unencumbered collateral (for secondary markets and/or central banks).	

Appendix 2

Oversea-Chinese Banking Corporation Limited

Financial Highlights

13 April 2010

Ask OCBC
www.ocbc.com

OCBC Bank

Agenda

- Overview of OCBC
- Financial Highlights

Overview of OCBC

Key Statistics (US$m) [1/]	
Market Capitalisation (19 March 2010)	20,630
Total Assets	138,786
Customer Loans	58,815
Customer Deposits	71,881
Total Equity (excl minority interests)	13,550
Net Profit (FY2009)	1,401

Key Financial Ratios, 2009 (%)	
Net Interest Margin	2.23%
Loans-to-Deposits Ratio	80%
NPL Ratio	1.7%
Allowances/NPAs	102%
ROE	12.2%
Tier 1 Ratio	15.9%

1/ Based on exchange rate: US$1 = S$1.40

- Singapore's longest established bank (since 1912), second largest financial services group in Southeast Asia by assets (US$139bn), one of the highest rated banks in Asia (Moody's Aa1, Fitch AA-, S&P A+)
- More than 500 branches and representative offices in 15 countries and territories – key markets are Singapore, Malaysia, Indonesia and Greater China
- Strong presence in both the consumer and business banking segments in Singapore and Malaysia, and SME segment in Indonesia
- 3rd largest bank in Singapore by banking assets, and largest foreign bank in Malaysia by loans
- 87%-owned Great Eastern Holdings (GEH) is the largest life insurance group in Singapore and Malaysia
- 91%-owned Lion Global Investors is one of the largest asset management companies in Southeast Asia (AUM US$20bn)
- Owns 75% of Bank OCBC NISP in Indonesia
- Owns 10% of Bank of Ningbo (market cap. US$5.8 bn) in China and 15% of VP Bank in Vietnam

OCBC Bank

Clear and Consistent Strategy – New Horizons II (2006-2010)

1. Focused, Disciplined Overseas Expansion

Singapore and Malaysia → Indonesia → China / Vietnam

- Deepen our market penetration in Malaysia, Indonesia and China
- Selectively explore opportunities to establish strategic partnerships in Indochina
- Grow market share in the consumer and SME segments in Indonesia and China by transferring successful business models and product solutions from Singapore and Malaysia to existing branches and alliances in Indonesia and China

OCBC Bank

Clear and Consistent Strategy – New Horizons II (2006-2010)

2. Continue to Build A High Performance Bank

Customers	• Expand corporate, SME and consumer customer base • Maintain Top 3 consumer bank and become a Top 3 corporate bank in Singapore-Malaysia
Products	• Build more best-in-class products • Target 15% revenue contribution from new products annually • Be Top 3 in wealth management, credit cards and unsecured lending in Singapore-Malaysia
Risk Management	• Manage balance sheet proactively to deliver enhanced risk-return • Execute Basel II implementation plan in line with regulatory guidelines • Maintain position as one of the highest rated banks in Asia Pacific
Productivity	• Leverage cross border processing hubs in Singapore and Malaysia to gain further efficiencies • Strive to be an efficient, low cost service provider
People	• Develop and foster human capital • Maintain share ownership schemes to enable all employees to own OCBC shares • Continue to improve employee satisfaction and be increasingly recognized as a regional employer of choice
Shareholder Value	• Aim to be a high performance bank, achieve 10% annual EPS growth, a minimum dividend payout of 45% of core earnings, and sustain ROE of above 12% • Seek to swap non-core assets for core financial services growth opportunities • Return excess capital to shareholders via share buyback programmes • Build the basis for share price to outperform the Straits Times Index

OCBC Bank

Track record of prudent acquisitions

Acquisitions	Period	Cost	Average Price Multiple
100% of **Keppel Capital Holdings**	2001	S$5,225m	1.7x book
74.7% of **Bank NISP**, Indonesia	2004-2008	S$639m	2.3x book
10% stake* in **Bank of Ningbo**, China	2006	S$122m	2.1x book
15% stake in **VP Bank**, Vietnam	2006, 2008	S$68m	4.5x book
Additional 38% stake in **GEH** (to 87%)	2004-2008	S$2,255m	1.3x EV
Additional 39% stake in **PacificMas**, Malaysia (to 67%)	2008	S$124m	1.0x book
100% of **ING Asia Private Bank**	2009^	S$2,024m	1.6x book

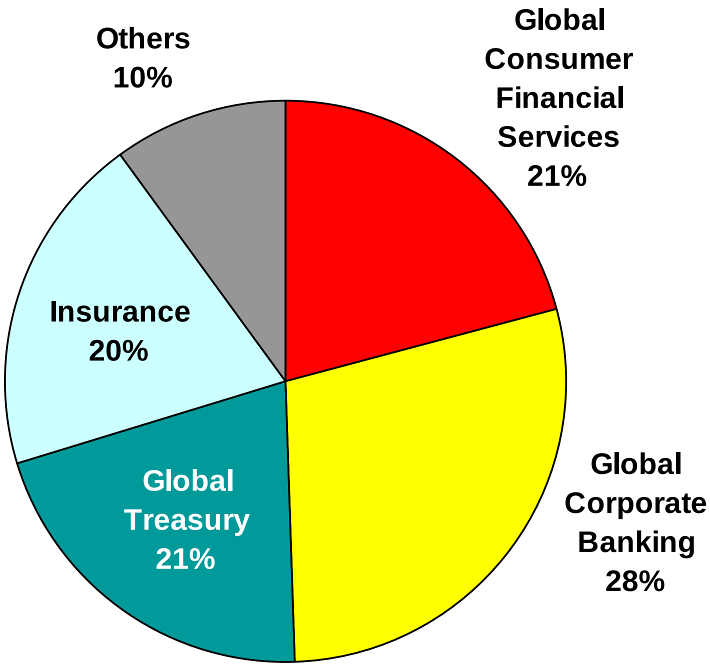
* Diluted from original 12.2% stake after IPO in 2007

^ Acquisition announced in Oct 09 and completed on 29 Jan 10

OCBC Bank

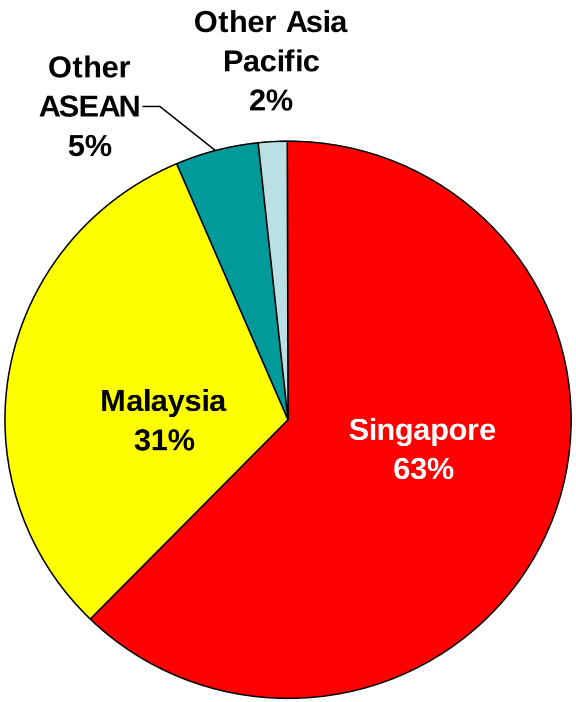
Diversified earnings profile

FY09 PBT by Business Segment



Note: Pretax profit before joint income elimination and before items not attributed to business segments

FY09 PBT by Geography



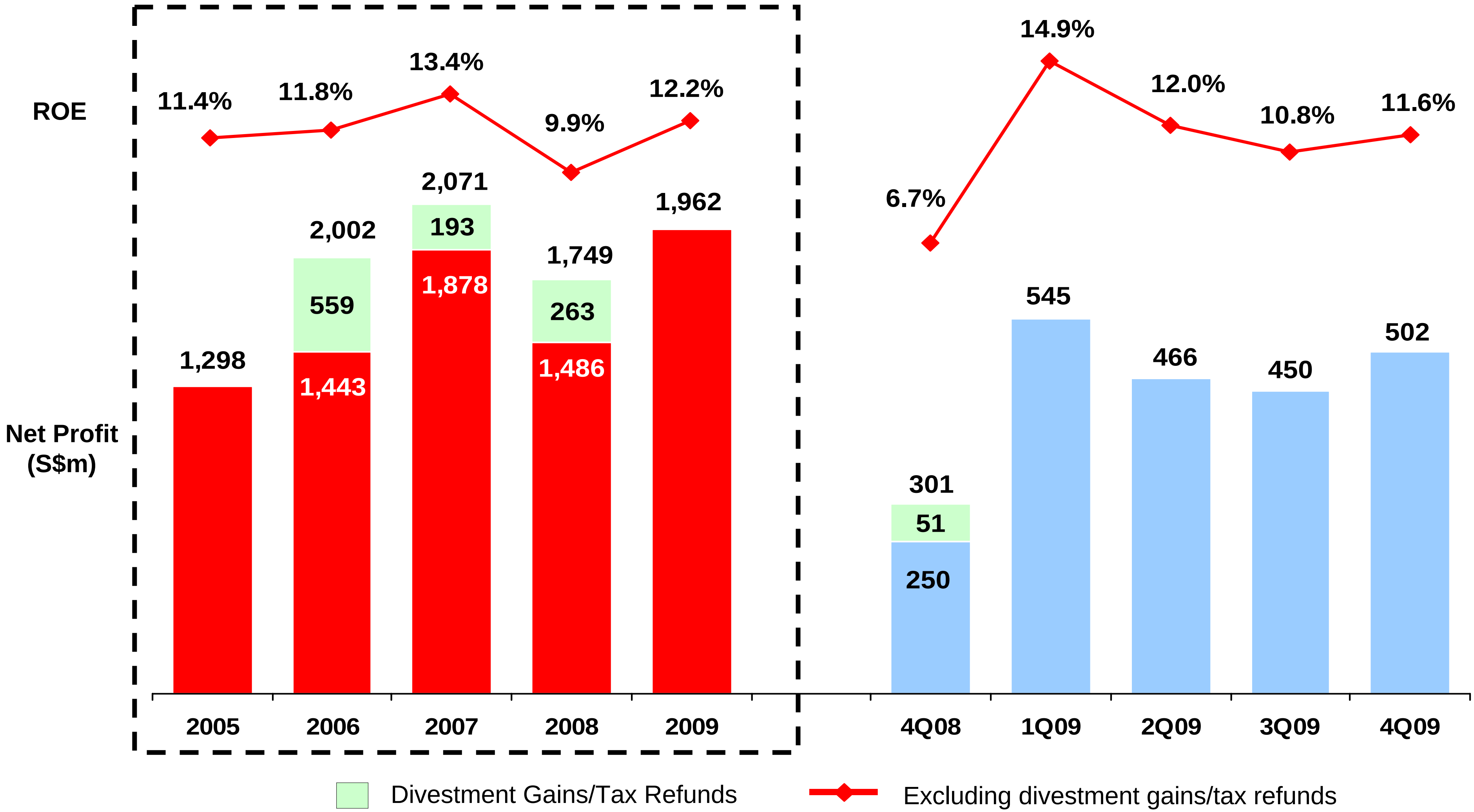
“Others” segment (not shown) accounted for -1%

Agenda

- Overview of OCBC
- **Financial Highlights**

OCBC Bank

Achieved record core earnings of S$1.96bn in 2009 despite global recession



Note: 1Q09 includes net non-recurring gains of S$175m from GEH; 3Q09 includes net GLC-related loss of S$154m

Full year core net profit rose 32%; reported net profit up 12%

	FY09	FY08	YoY
	S$m	S$m	+/(-)%
Net Interest Income	2,825	2,783	2
Non-Interest Income [1/]	1,990	1,458	37
Total Income	4,815	4,241	14
Operating Expenses	(1,796)	(1,854)	(3)
Operating Profit	**3,019**	**2,387**	**26**
Amortisation of Intangibles	(47)	(47)	-
Allowances	(429)	(447)	(4)
Associates & JVs	-	6	(101)
Tax & Minority Interests	(581)	(413)	41
Core Net Profit	**1,962**	**1,486**	**32**
Divestment Gains/Tax Refunds [2/]	-	263	-
Reported Net Profit	**1,962**	**1,749**	**12**

[1/] FY09 non-interest income includes GreatLink Choice (GLC) loss of S$213m in 3Q09 and one-time insurance gains of S$201m in 1Q09, which largely offset each other

[2/] Net divestment gains of S$174m and tax refunds and writebacks of S$89m in FY08.

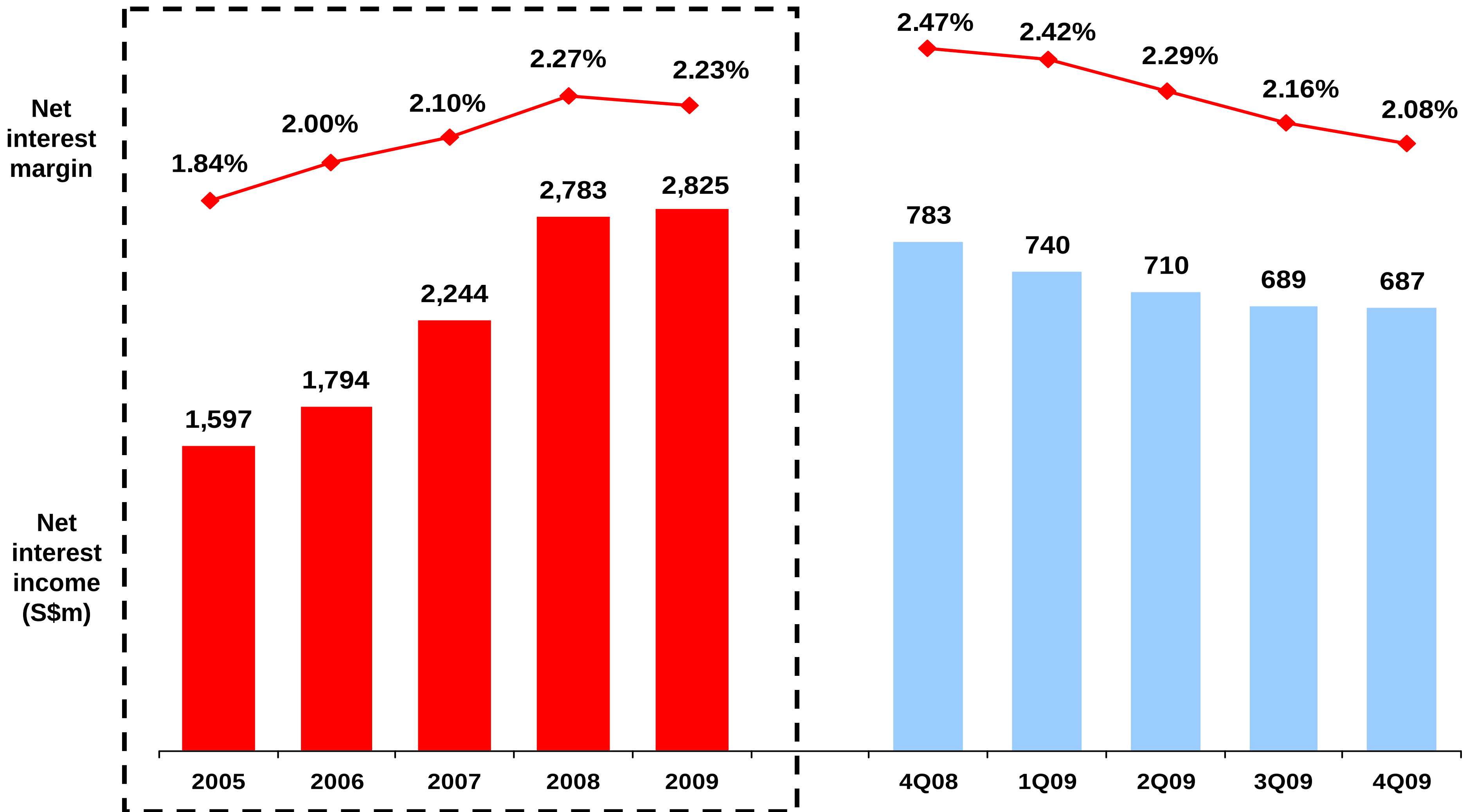
OCBC Bank

Fourth quarter's core net profit up 101% YoY and 12% QoQ

	4Q09	4Q08	YoY	3Q09	QoQ
	S$m	S$m	+/(-)%	S$m	+/(-)%
Net Interest Income	687	783	(12)	689	-
Non-Interest Income [1/]	497	259	92	392	27
Total Income	1,184	1,042	14	1,081	10
Operating Expenses	(466)	(463)	1	(467)	-
Operating Profit	**718**	**579**	**24**	**614**	**17**
Amortisation of Intangibles	(12)	(12)	-	(12)	-
Allowances	(77)	(243)	(69)	(52)	48
Associates & JVs	(2)	(3)	37	2	(228)
Tax & Minority Interests	(125)	(71)	77	(102)	24
Core Net Profit	**502**	**250**	**101**	**450**	**12**
Tax Refunds	-	51	-	-	-
Reported Net Profit	**502**	**301**	**67**	**450**	**12**

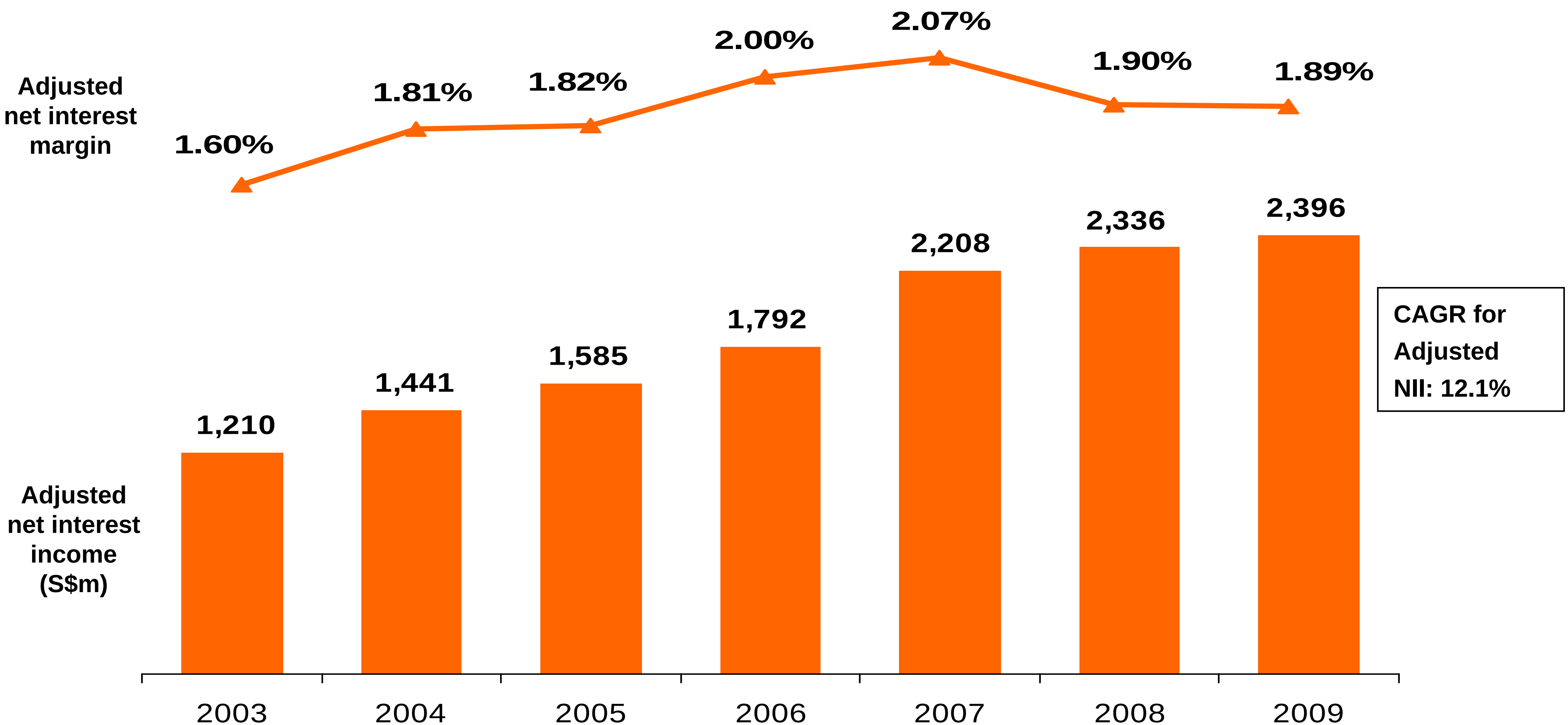
[1/] 3Q09 non-interest income includes GLC-related loss of S$213m

Steady growth in net interest income and margins in recent years; margin decline in 2009 due to lower gapping income and low interest rates



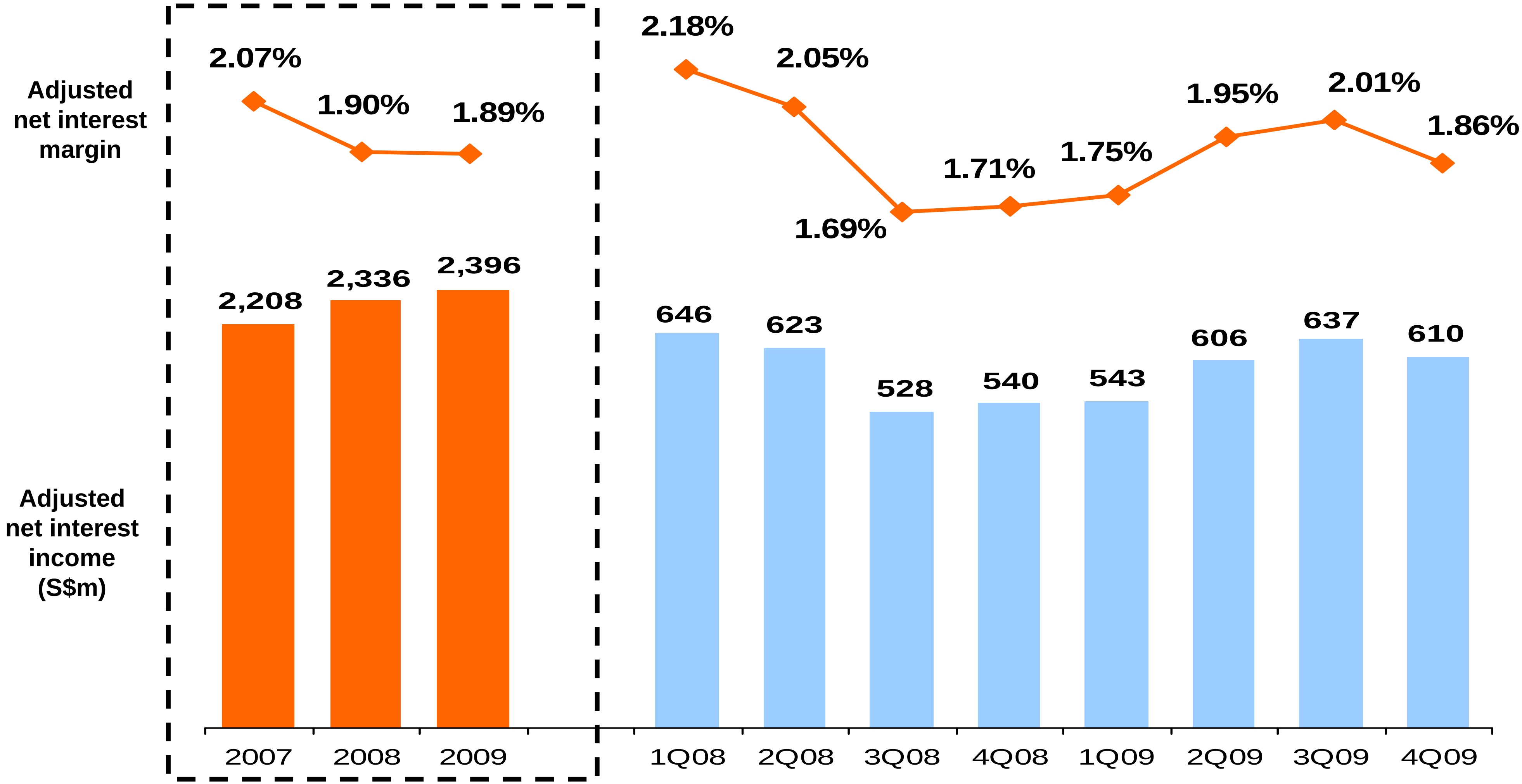
OCBC Bank

Net interest income and margin adjusted for allowances* show healthy trend through the cycle



* Allowances for loans and other assets deducted from net interest income

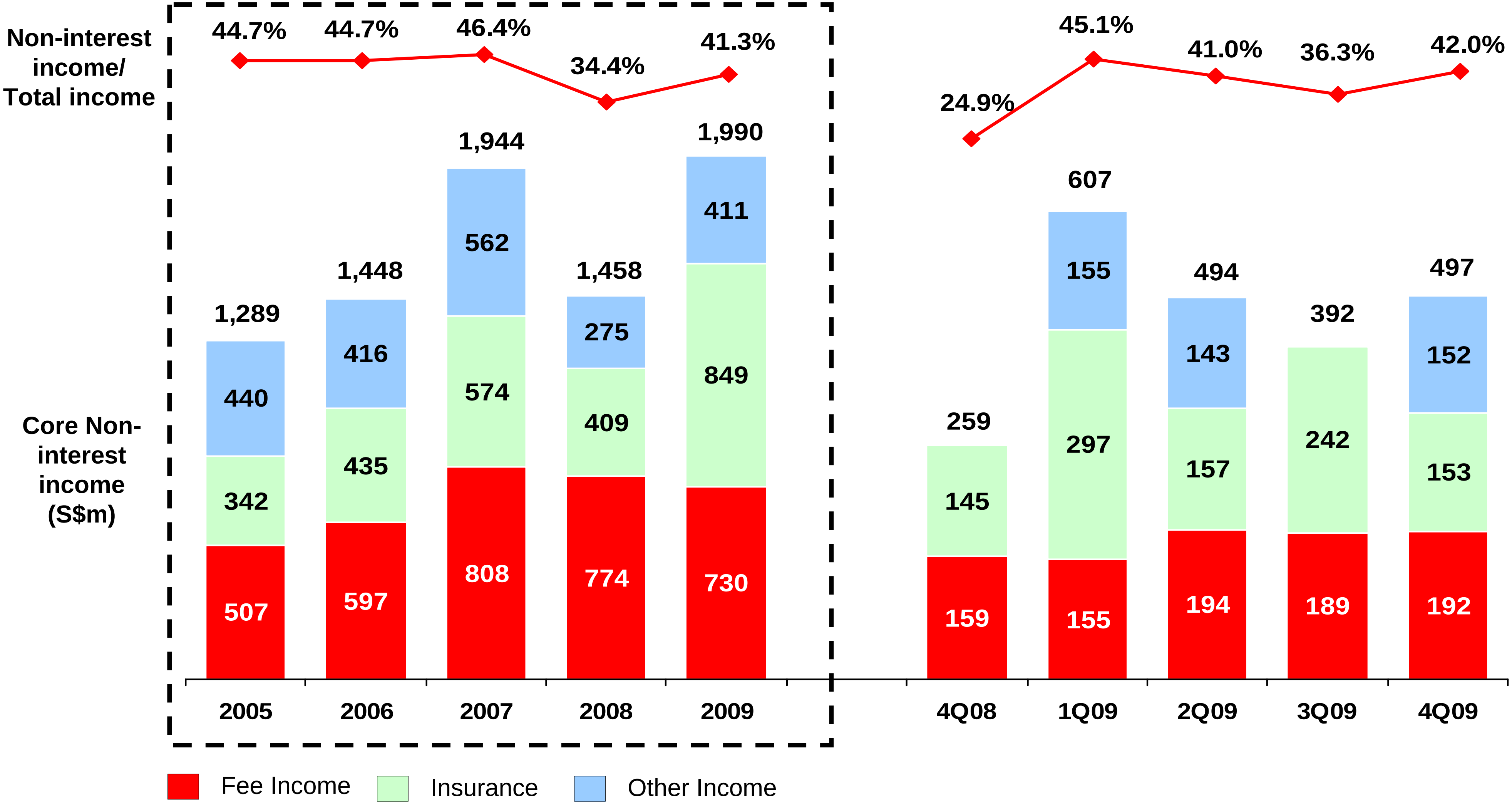
Net interest income and margin adjusted for allowances*



* Allowances for loans and other assets deducted from net interest income

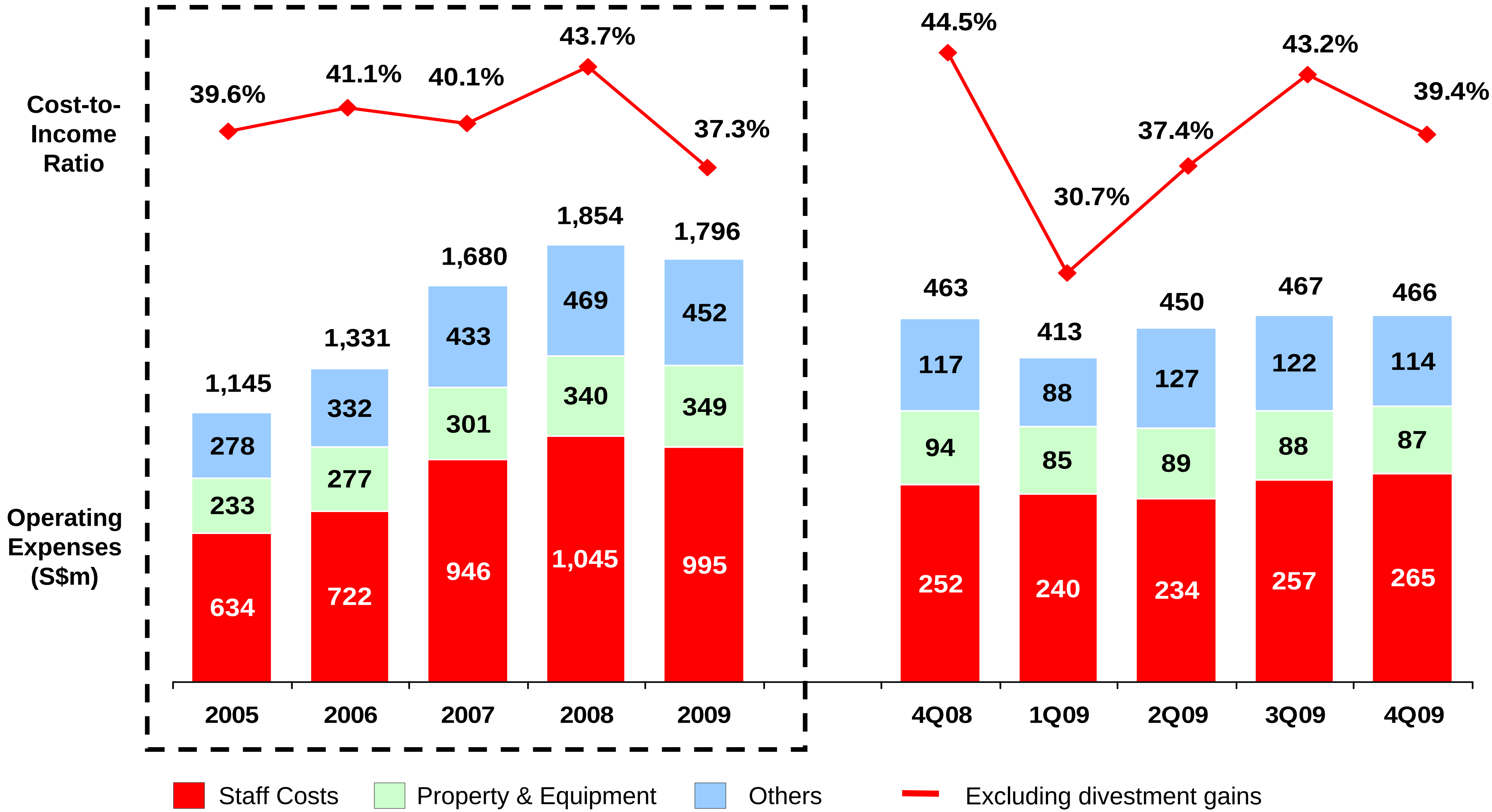
OCBC Bank

Diversified non-interest income – insurance component a differentiation from peers



Note: Excludes divestment gains. 3Q09 and 4Q08 include net losses of S$39m and S$45m, respectively, from "Other Income" (3Q09 – due to GLC loss of S$213m)

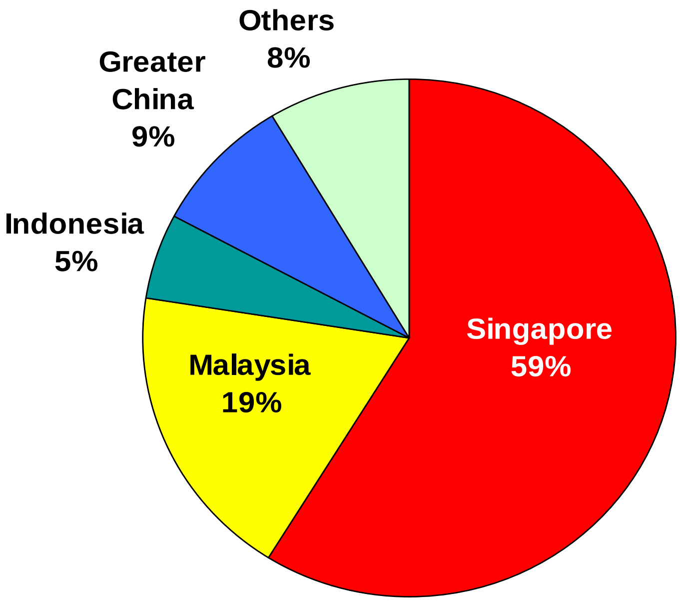
Track record of disciplined cost management



OCBC Bank

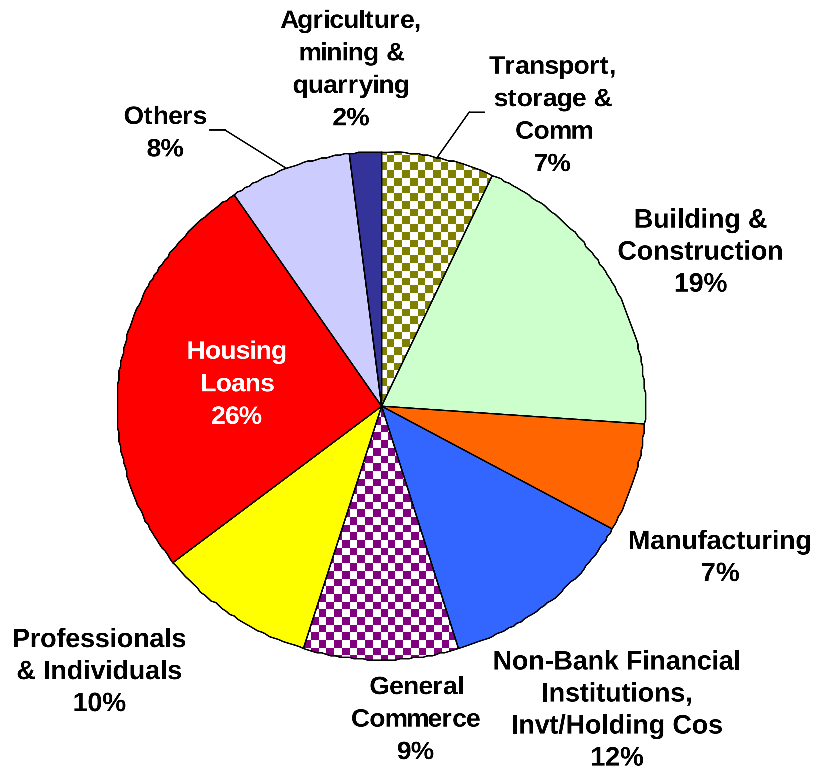
Diversified loans

Loans by Geography*



As at 31 December 2009

Loans by Sector

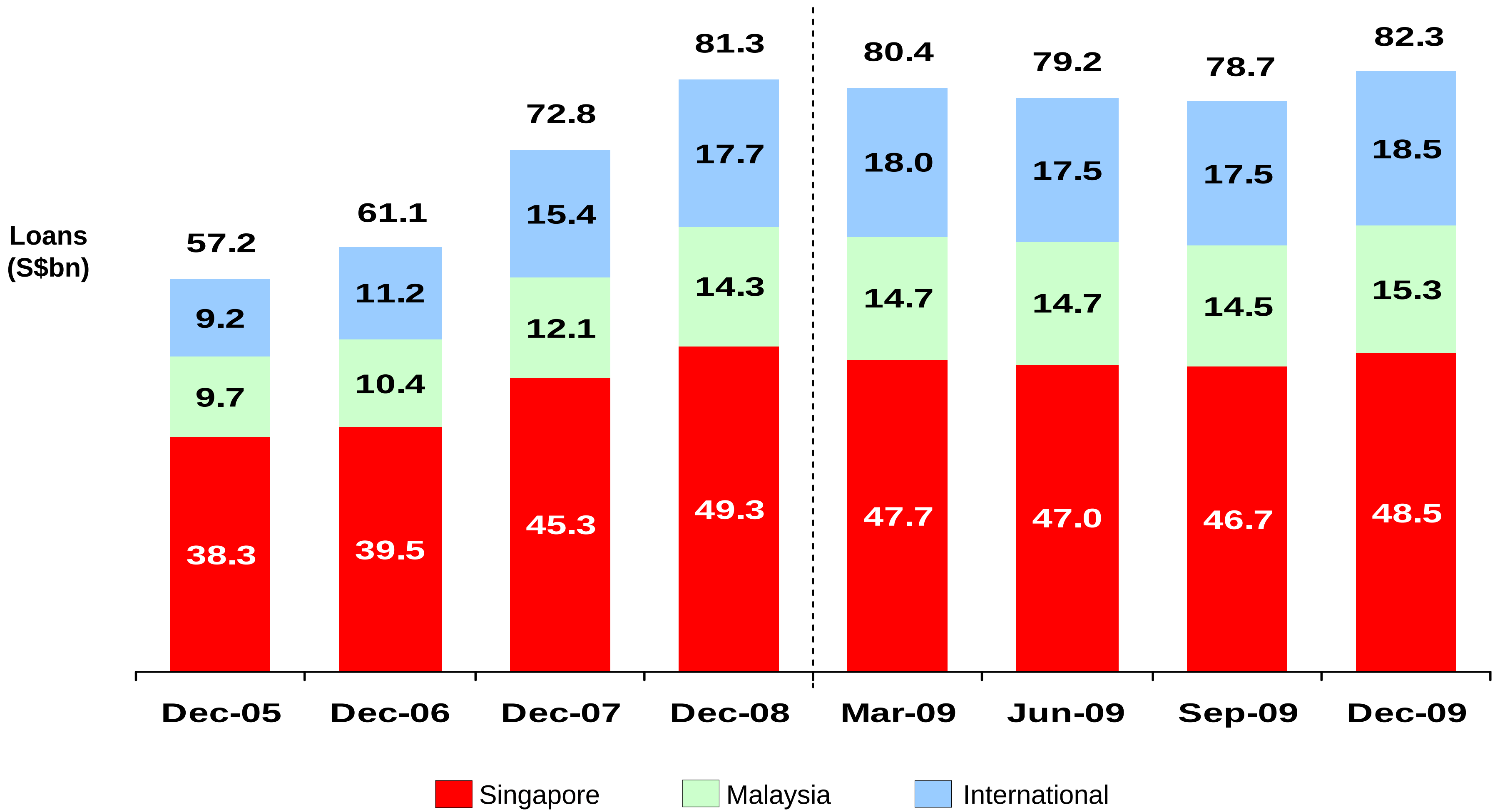


As at 31 December 2009

* Based on where the credit risks reside, which may be different from the country of the borrower or where the loans are booked

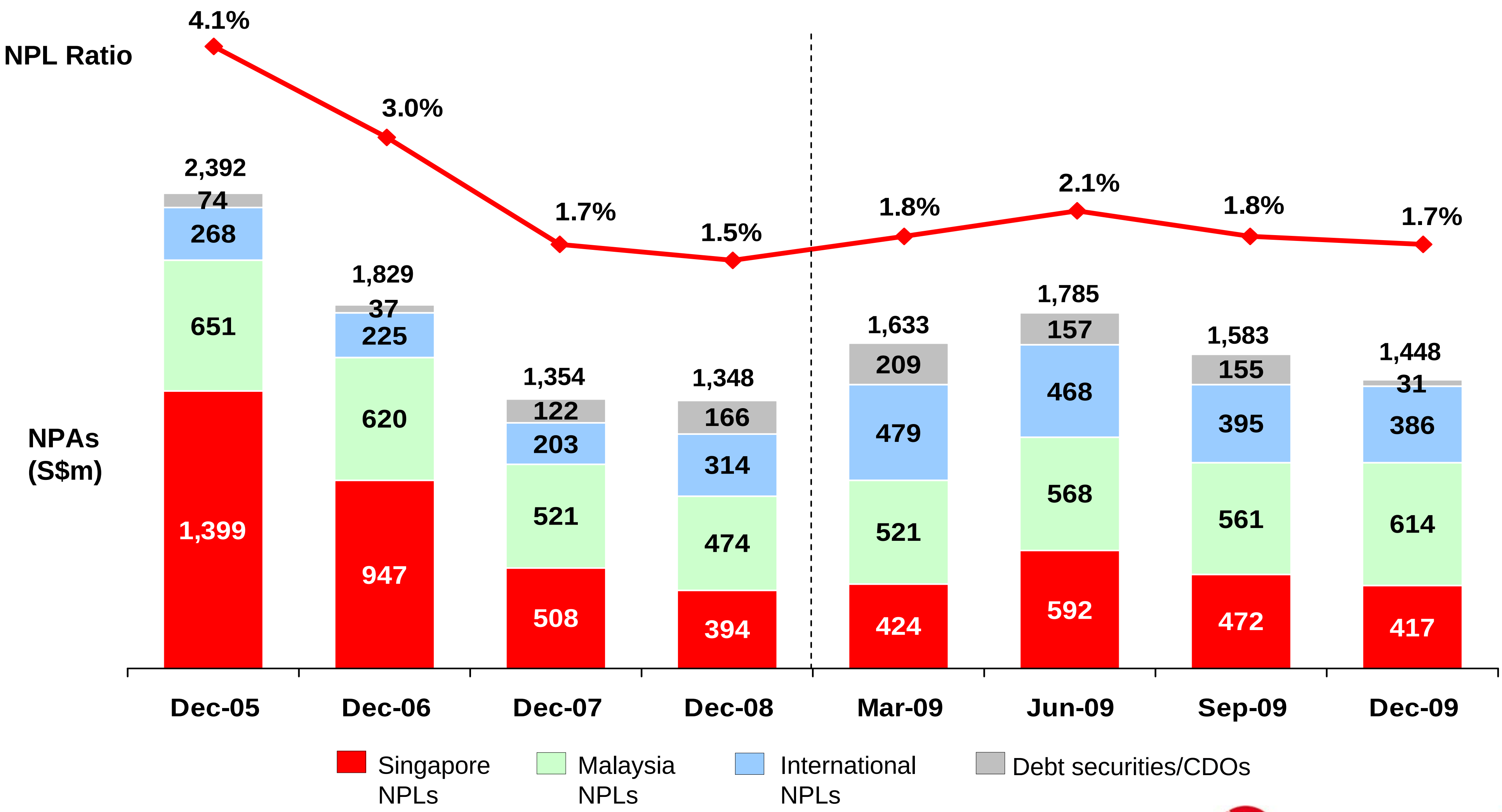
OCBC Bank

Prudent lending stance – loans grew 1% in 2009, 5% in 4Q09



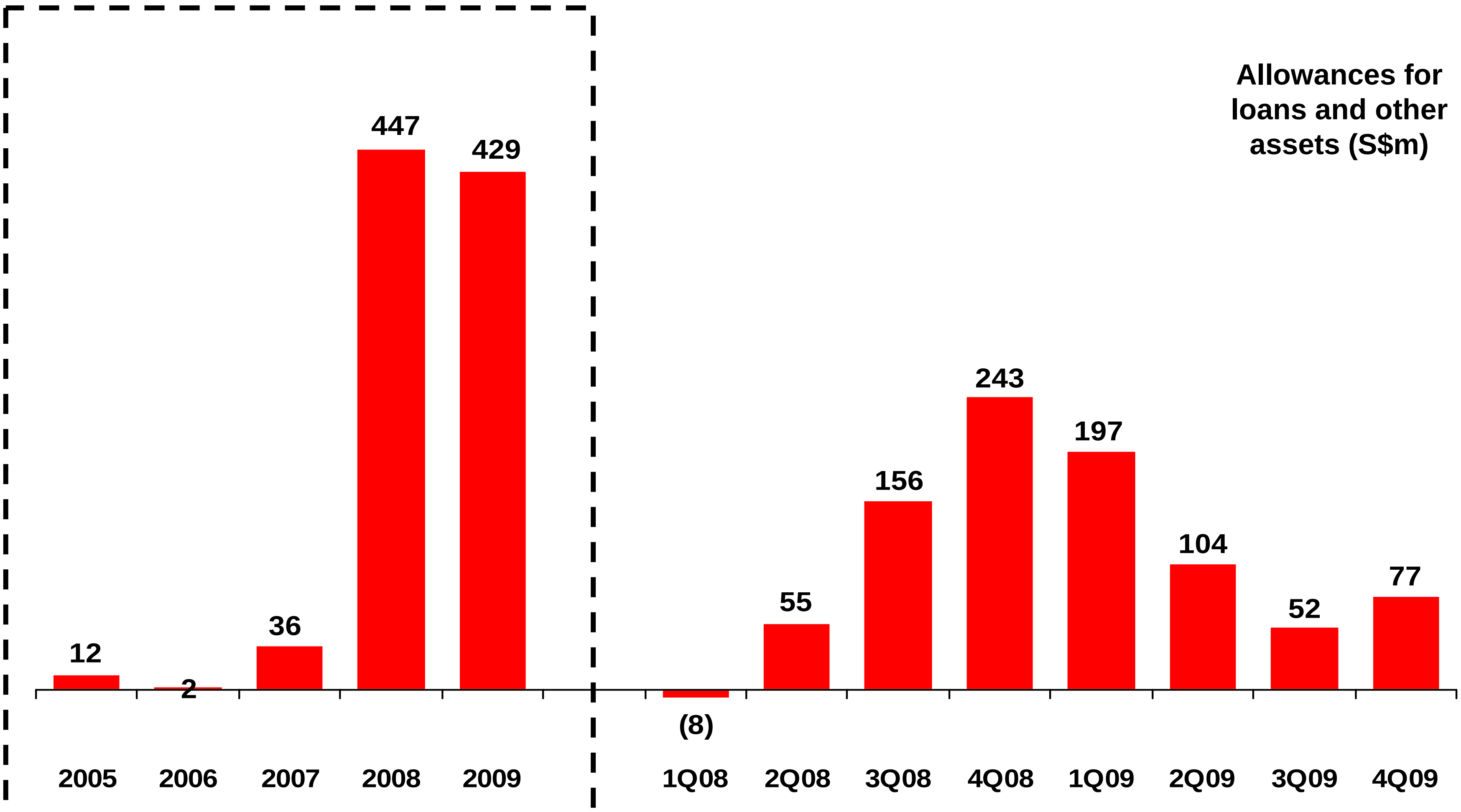
Note: Loans by geography are based on where the credit risks reside

NPLs and NPL ratio peaked in June 2009



OCBC Bank

Net allowances peaked in 4Q08



OCBC Bank

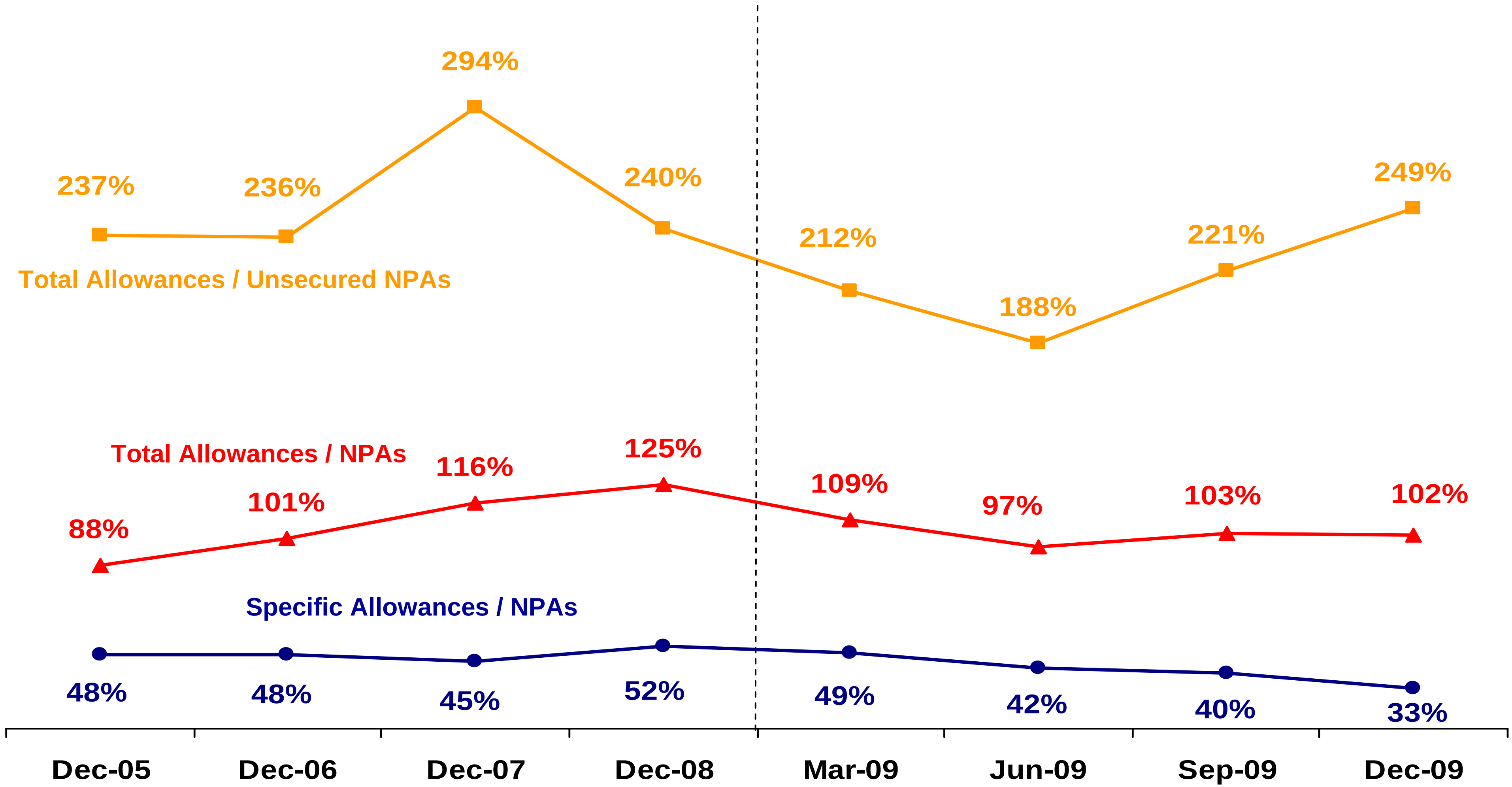
Breakdown of allowances – Specific loan allowances remained relatively low through the current cycle, at 21 bps in 2008 and 29 bps in 2009

	FY09	FY08	4Q09	3Q09	4Q08
	S$m	S$m	S$m	S$m	S$m
Specific allowances for loans	241	165	61	49	159
Portfolio allowances for loans	23	20	11	5	11
Allowances for CDOs/(write-back)	86	87	(1)	(6)	15
Allowances for other assets	79	175	6	4	58
Total net allowances	**429**	**447**	**77**	**52**	**243**
Specific loan allowances/ average loans (bps)*	29	21	30	25	78

* Annualised

OCBC Bank

Healthy allowance coverage of 102% over total NPAs and 249% over unsecured NPAs



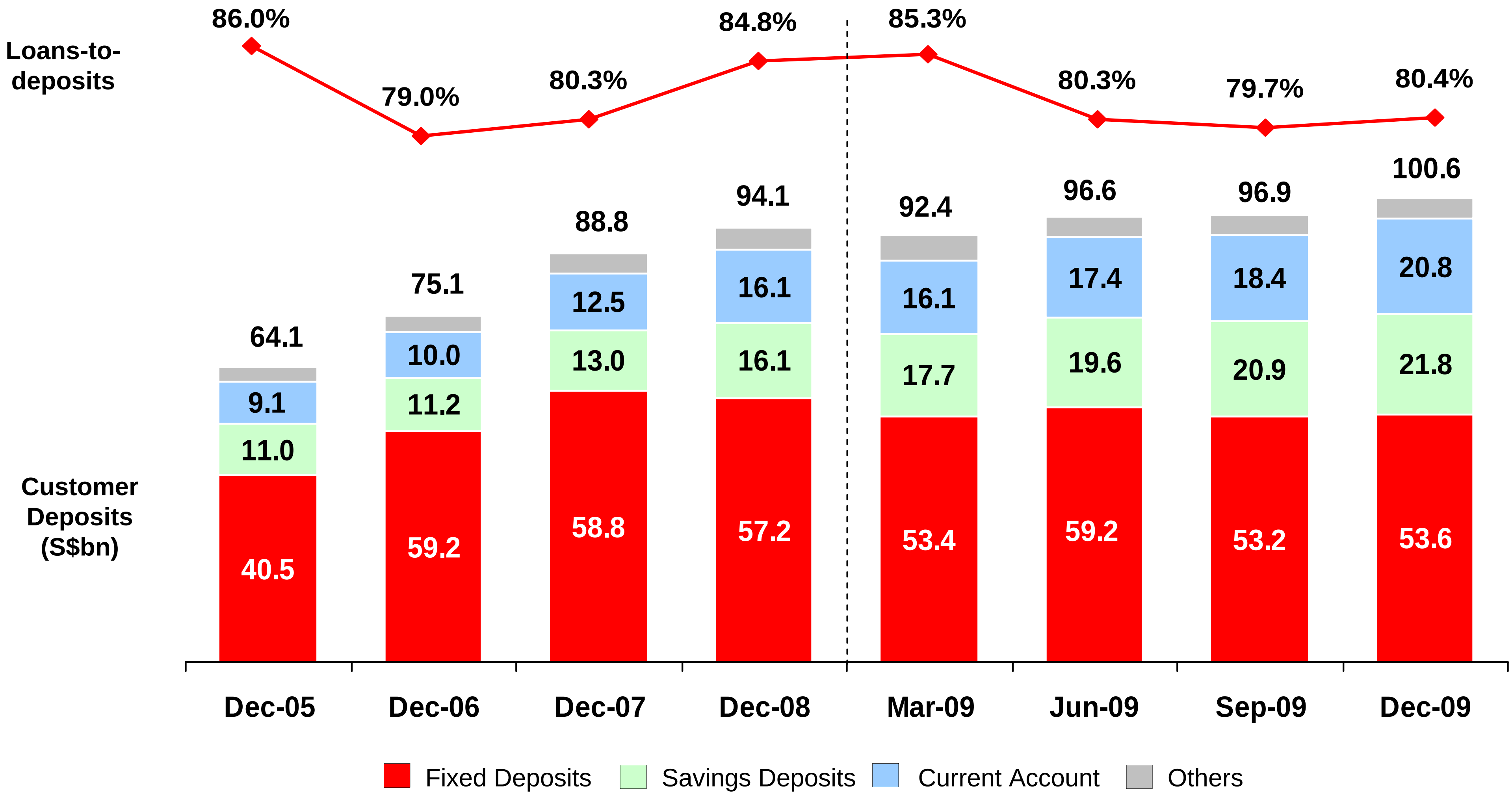
AFS Portfolio – Fair value reserves increased by S$1.3bn in 2009

	Dec-09	Sep-09	Dec-08
	S$m	S$m	S$m
<u>Available-for-Sale Securities</u>			
Corporate Debt Securities	7,425	7,152	7,563
Equities & investment funds	2,723	2,430	1,621
Government Securities	*12,615*	*13,698*	*12,703*
- *Singapore*	*9,394*	*10,186*	*8,693*
- *Others*	*3,221*	*3,512*	*4,010*
Total AFS Securities	**22,763**	**23,280**	**21,887**
FV reserves at end period *	**1,506**	**1,128**	**222**
QoQ Change in FV reserves	**+378**	**+168**	**-3**

* Net unrealised fair value gains on the AFS book, included in shareholders' equity

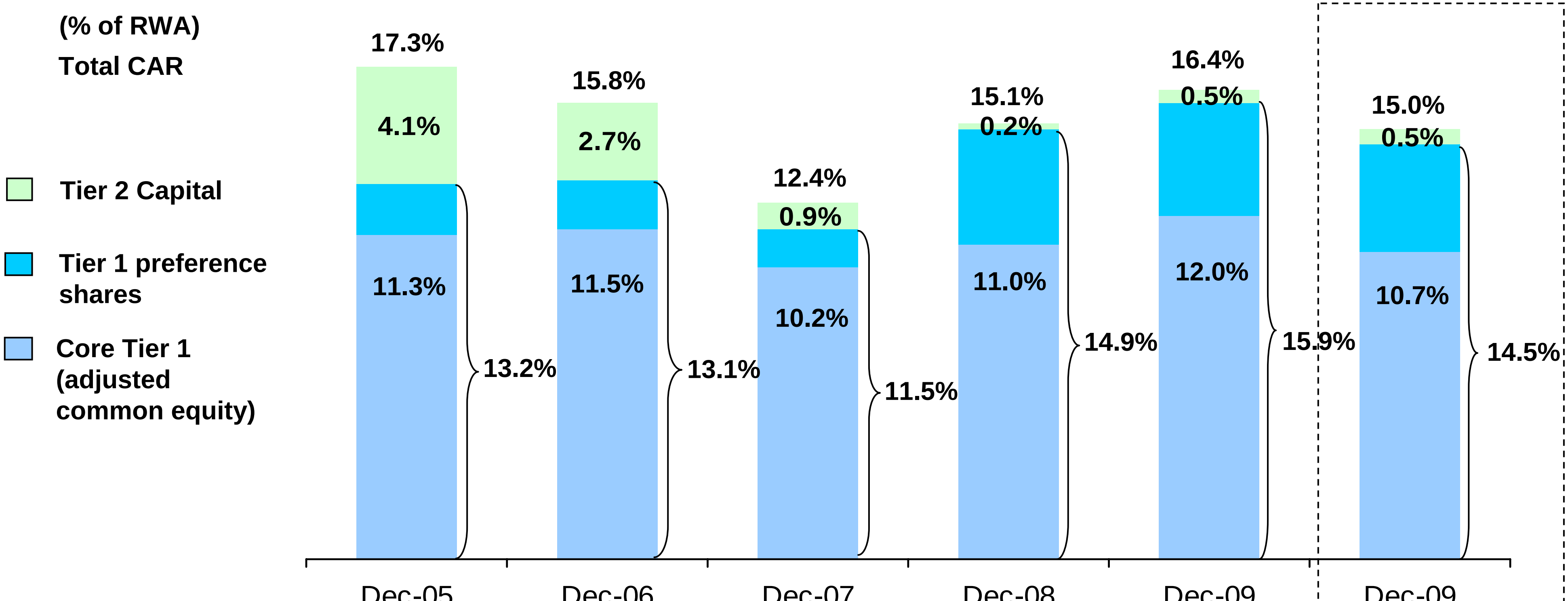
OCBC Bank

Strong deposit funding with comfortable LDR of 80%; share of low-cost deposits has increased significantly



OCBC Bank

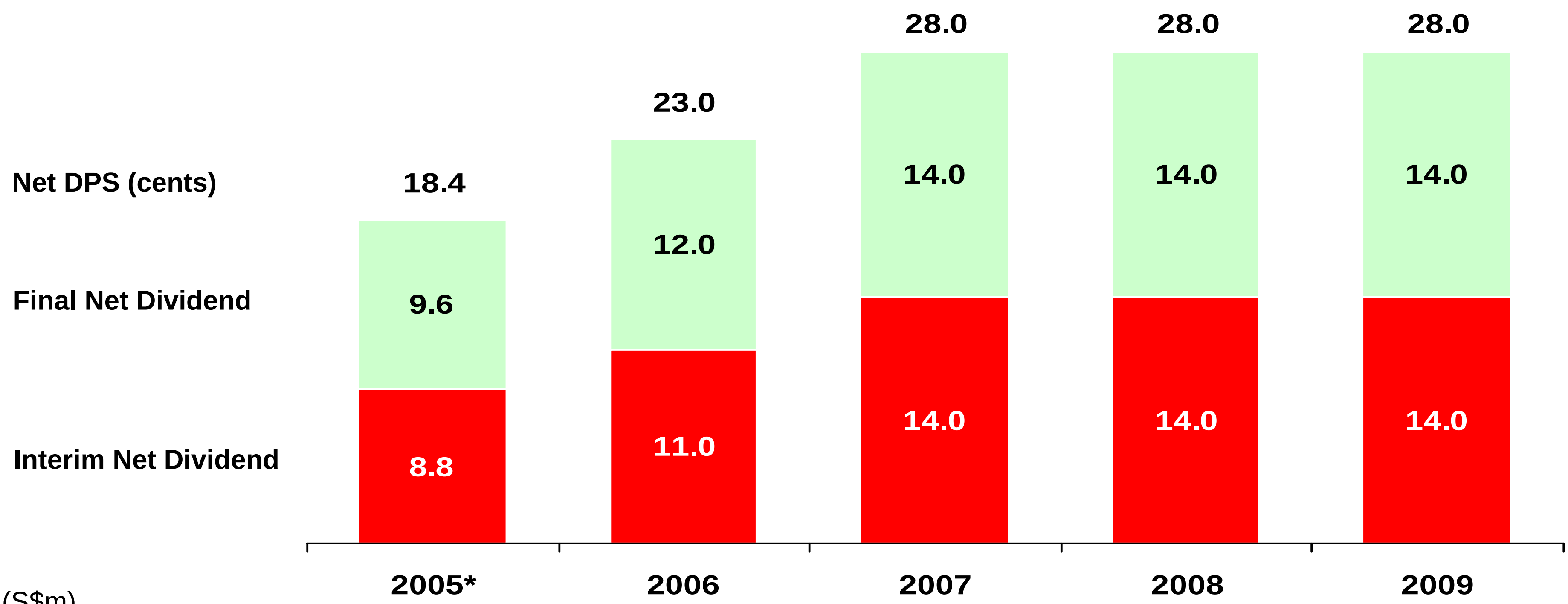
Strong capital position; pro-forma core Tier 1 of 10.7% post-IAPB acquisition



(S$m)	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-09 Pro-forma*
Tier 1 Capital	9,302	10,057	11,431	14,261	15,962	15,208
Tier 1 Prefs	1,296	1,296	1,296	3,796	3,958	3,958
RWA	70,708	76,514	99,381	95,522	100,013	104,548

* Estimated, post consolidation of Bank of Singapore (formerly ING Asia Private Bank) on 29 Jan 2010.
Note: Capital ratios since 2008 are computed based on Basel II framework and in accordance with revised MAS Notice 637

Dividend policy targets minimum payout of 45% of core earnings



(S$m)	2005*	2006	2007	2008	2009
Net Dividends	574	709	864	868	897
Core Net Profit	1,298	1,443	1,878	1,486	1,962
Dividend Payout Ratio	44%	49%	46%	58%	46%

* Excludes Bonus Dividend of S$0.417 per share in 2005 (adjusted)

OCBC Bank

Thank You

Ask OCBC
www.ocbc.com

OCBC Bank