From:	박성일
To:	Basel Committee, Service
Subject:	Shinhan Bank : comments for consultative document
Date:	Friday 16, April, 2010 14:51:56

Institution Name : Shinhan Bank
Country : Korea

We, Shinhan Bank(SHB), highly appreciate the initiation of the BCBS proposal, Strengthening the resilience of the banking sector.

With regarding to Comment on Consultative Document that was issued for comment by 16 April 2010, SHB would like to address some perspectives as follows;

Definition of Capital

SHB's suggestion for ***Grandfathering period of instruments***

1. Grandfathering period of instruments(hybrid Teir1, subordinated tier2) *which have already been issued by Banks prior to the publication of the consultative document* ***should be extended by the end of 2020 for the stability of capital adequacy management perspectives of banking sector.***

SHB's suggestion for ***Corresponding Deduction Approach***

2. *In terms of '****corresponding deduction approach'*** *for Investments in the capital of certain banking, financial and insurance entities, if those investments are NOT intended to reciprocal cross holding agreements with other financial institutions, then 'corresponding deduction approach' should NOT be applied for. .*

Liquidity

1. Treatment of undrawn committed facilities (items 107 to 112)

Current proposal: 100% multiplier for undrawn balances to FI and PSE

SHB's suggestion:

Credit conversion factors (CCF) applied in Basel II credit model can be regarded as a very high upper limit of multiplier for off-balance committed lines. The levels of CCF are about 50%, according to credit standard approach, even though they are dependent on institution's own estimation methodology when IRBA is approved.

We believe this can work because CCF represents the amount of additionally drawn line when the market id depressed. It is also a conservative calibration since the amount is counted for a whole year, not only within 30 days.

In this regard, the multiplier for line 112 (for sovereign and central bank and PSE) should be much less than 100% which is currently proposed.

2. Treatment of term deposits to retail/SME/corporate/FI/PSE (items 37 to 63)

Current proposal: 7.5% ~ 15% of total balance to retail/SME, up to 75% of amount matured in 30 days or less to corporate, up to 100% of amount matured in 30 days or less to FI and PSE

SHB's suggestion:

Retail counterparty should be most stable and FI counterparty should be least stable according to the general guideline of the proposal.

Our QIS result says, as far as time deposits are concerned, about 10% of retail and SME time deposits balances is counted in cash outflow. On the other hand, only 5% of FI and PSE time deposits balances is counted.

This has happened since, according to #43 in your consultative paper published in December 2009, for time deposits without severe penalty (which is the most case in SHB), all the amount is subject to the run-off factor but for FI and PSE time deposits, amount matured in 30 days is counted.

It will be argued which level of run-off factor would be appropriate, but retail time deposits should be subject to the lower factor (with respect to total balance) than FI and PSE deposits.

3. Treatment of encumbered securities in NSFR (item 251)

Current proposal: 100% RSF is applied to those securities designated as collateral if they are not categorized elsewhere

SHB's suggestion:

Meanwhile, unencumbered securities are assigned with different RSFs based on their type and maturity. For example, a government bond with 6 month remaining maturity is assigned with 100% RFS if it is unencumbered; otherwise it is assigned with 0% RFS.

Such extreme treatment for collateralization might bring about negative impact on the market operation

It is advised that even securities acting as collateral has conservative but similar treatments as unencumbered assets

4. Treatment of other securities (item 249)

Current proposal: 100% RSF is applied

SHB's suggestion:

Beneficiary certificate (classified as AFS securities) has similar features as other securities in a sense that it has maturity when the cash flows are generating.

It is true that it is somewhat exposed to liquidity risk, but it is not necessary to support the balance of beneficiary certificate with long-term stable funding. (especially those with short maturities)

Rather it is advised that such type of assets be treated as securities with maturities or based on maturity profile for asset comonents.

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