Standard Chartered

Sent by e-mail to: baselcommittee@bis.org

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

16th April 2010

Dear Sir or Madam,

We welcome the aims of the reform package outlined in the Basel Committee on Banking Supervision's ("BCBS") consultative documents "Strengthening the resilience of the banking sector" (BCBS 164) and "International framework for liquidity risk measurement, standards and monitoring" (BCBS 165) consultative documents, which we believe head in the right direction to reform regulation and strengthen the stability of the banking system. However, we have a number of concerns which we will set out in this letter and the accompanying responses to the consultative documents.

Standard Chartered has always believed that being well capitalised and having strong liquidity are critical foundations for any bank. We take a prudent approach to liquidity and have a diverse funding base, primarily relying on customer deposits of varying types and maturities to fund customer assets, resulting in a healthy Advances to Deposits ratio and a strong liquid assets ratio. Standard Chartered also remained strongly capitalised throughout the financial crisis and took steps to strengthen its capital ratios even further.

As such, Standard Chartered is supportive of liquidity metrics which capture both short-term stress impacts and the structural nature of a firm's balance sheet. It also supports the view that the banking system does require higher levels of capital, and that the quality of this capital needs to be improved.

However, we strongly believe that the pace at which regulatory reform is being pushed is, in the long run, detrimental to the very goals that the changes are trying to achieve – a stable economy with robust banks. Without appropriate consideration of the wider implications that these changes will have, there is a risk of pushing the industry into regulatory gridlock. There are a considerable number of proposals from various governing bodies which, on a standalone basis, are trying to address concerns brought to the fore by the financial crisis. Nevertheless, many of the proposals are aiming for a "one size fits all" approach and ignore the fact that in combination with other proposals, they risk causing more harm than good through unintended consequences. It is vital that the new regulatory framework is implemented on an internationally consistent basis to maintain a level playing field and reduce the risk of regulatory arbitrage.

It is absolutely critical that we think through the aggregate impact of the entire suite of regulatory reform initiatives rather than opine on them in isolation. It is imperative that action is taken in a

Group Treasury
Standard Chartered Bank
1 Basinghall Avenue
London EC2V 5DD
Tel +44 (0)20 7885 8888
www.standardchartered.com

measured and calculated manner so that the final outcome is what was originally intended. We have been undertaking detailed work to better understand the likely impact of the Committee's and other proposals being developed. It is clear that the impact of proposed capital and liquidity reforms will be severe, particularly if the unwinding of the government support schemes were to take place in the same timeframe. In the UK, the banking system will require significant refinancing over the next few years and this also needs to be considered. There is a very difficult trade-off between ensuring the banking sector remains resilient whilst, at the same time, maintaining sustainable economic growth and job creation. We would urge the Committee to work with the other key stakeholders to articulate a vision for the desired end-state that the reforms are trying to achieve for the banking industry and the global economy. The timing and transition from the old to the new regime also needs to be carefully considered to ensure that the economic recovery currently underway does not falter.

The increasing complexity of regulatory reform proposals threatens to obscure the real risks which banks and the economy are facing. Simplicity will help management and regulatory bodies ensure that this does not happen. International consistency will solidify this further to ensure we do not enter a world of international regulatory arbitrage which in turn increases complexity further.

The stress assumptions used for the Liquidity Coverage Ratio are extremely severe and do not come across as having been thought through in terms of the practical effects they will have, as well as the behaviour they will drive. Most banks would struggle to survive a name specific stress of more than a week yet the proposal requires stress tests to run for a month with some rather unrealistic assumptions, even when compared to recent financial crises. The increased demand for government issued debt caused by liquidity buffer requirements will create concentration risk in government bonds at a time of increased sovereign risk. This will be compounded in the event of a market downturn if firms experiencing a combined stress flood the market with government bond sales. Equally, by moving banks away from holding bank issued paper it will in turn have funding implications for the financial sector. The subsequent demand for government bonds intended to aid liquidity will in effect, restrict asset growth and therefore, limit economic growth.

The measures and parameters within the proposed liquidity ratios favour investment banks over commercial banks, which seems inappropriate given the greater resilience which banks such as Standard Chartered (which have a reputable and well established international retail business) have shown during the crisis. This is notable in the favourable treatment of marketable securities and punitive rollover assumptions in the net stable funding ratio. The role of banks in carrying out maturity transformation is impeded by these metrics, which is likely to severely constrain retail lending growth and hence delay economic recovery.

The inclination towards Core Tier 1 capital assumes that there is a very significant appetite for new equity capital during the transition to the new capital framework. Any new capital raised will dilute earnings and lead to lower returns on equity which will compound the difficulty of raising new capital. It is important to recognise that banks will almost certainly attempt to re-build returns which could result in higher pricing or a move away from less profitable areas of business.

Group Treasury
Standard Chartered Bank
1 Basinghall Avenue
London EC2V 5DD
Tel +44 (0)20 7885 8888
www.standardchartered.com

The concept of a leverage ratio is supported as a back stop measure. In order to make leverage ratios meaningful however, it is essential that the methodology followed across the global industry in calculating the ratio is consistent and that detailed definitions of “capital” and “assets” are agreed. In the absence of international consensus on accounting treatment, taking accounting data as a starting point will not necessarily create a level playing field so we strongly urge the BCBS to define the required components so that the definition of capital and assets are agreed. We also believe that publishing the leverage ratio in financial statements could have a detrimental effect. A lower than expected level may spark further weakening of the financial entity in question through market perception. Instead, the ratio should be used by regulators for monitoring and supervision purposes only.

All new and revised approaches for determining minimum capital requirements need to be risk-based and proportionate to the underlying risks intended to be captured. It is not clear that all of the approaches set out in the consultative documents achieve this, e.g. the proposed Credit Valuation Adjustment methodology for calculating counterparty credit risk as set out in BCBS 164 derives a capital requirement that is inconsistent with the levels of counterparty credit loss experienced during the crisis. We would encourage the Committee to engage with the industry to develop more appropriate risk-based methodologies for such risk types.

The contextual framework within which the BCBS’ proposals are being prepared cannot be ignored. It is important that the full impact of the proposals is understood as the sum of all parts rather than individually. In addition to the BCBS proposals there are host country regulatory proposals being tabled, particularly around liquidity requirements, which need to be aligned if effective, international regulatory change is to be achieved. It is therefore imperative that a blueprint for the structure of future regulation be prepared to set out the full menu of regulatory changes being proposed so a holistic view can begin to take shape. Arising from this would be a prioritisation of proposals and an assessment of what the banking industry and the broader economy would look like with all the approved proposals in place.

We will continue to engage in what we hope is seen as constructive dialogue to improve the stability of the financial services industry.

Yours faithfully,

PWalkden.

Pam Walkden
Group Treasurer

Group Treasury
Standard Chartered Bank
1 Basinghall Avenue
London EC2V 5DD
Tel +44 (0)20 7885 8888
www.standardchartered.com

<u>Standard Chartered Response to BCBS 164</u>
<u>Basel Committee on Banking Supervision's Consultative Document: "Strengthening the resilience of the banking sector"</u>

1. High Level Comments

Overall, Standard Chartered supports the view that the banking system does require higher levels of capital than before the crisis, although not necessarily higher than the levels held currently; and that the quality of this capital needs to be improved to ensure that it is able to absorb losses to a greater extent. How these requirements apply at the individual bank level is difficult to assess in view of the marked differences between banks' business models and their underlying risk profiles. The danger is that lessons drawn in haste from the failure of particular firms during the crisis lead to a regulatory over-reaction that is applied across the whole industry, penalising prudently run banks and their customers.

The banking industry is currently in a state of enormous uncertainty given the plethora of regulatory proposals and counter-proposals. The aggregate impact of all proposals is taking the industry and its regulators into uncharted waters. Given the potential magnitude of these changes and the uncertainties about their full impact, there could be severe unintended consequences on the ability of banks to serve the real economy, both in their local markets and globally. This is particularly relevant to capital.

Contrary to much conventional wisdom, the primary cause of the crisis was not a lack of capital. There is negligible correlation between levels of capital and the failure or success of individual firms. Liquidity and asset quality were much more important. Consequently, capital should not be seen as the sole solution to avoid future crises. More and better quality capital is part of the solution, but only part.

In the analysis of what went wrong and the consultation papers released on this, the primary focus has been, understandably, on bank failures and the causes of these failures. In addition, we feel that useful lessons could be drawn from banks which survived the crisis. For example, we would stress the importance of robust liquidity management and rigorous implementation of underwriting standards. We would also recommend that the Basel Committee on Banking Supervision ("BCBS") and other regulatory authorities look to the experience of the Asian financial crisis and the measures taken afterwards to foster prudent banking.

As regulators press for ever higher levels of capital, the impact of this on the markets for capital and the ability of banks to access these markets must be considered. The supply of bank capital is not infinite; and contrary to some suggestions, it seems implausible that the cost of bank equity will fall. The pressure to hold more and higher quality capital will tend to reduce the returns on capital. Banks will respond by re-pricing, cutting back on less profitable businesses, and reducing costs. In one way or another, the real economy will be affected negatively. If banks can preserve their returns on capital, it will be largely because they have passed on the costs of holding incremental capital to their customers. If banks fail to preserve their returns, they will be unable to attract additional capital, and will be forced to deleverage.

Given the potential for unintended consequences and negative impact on the real economy, the proposed changes should be assessed with great care, and implemented over an extended period of time, whilst monitoring the impact as it becomes clear. Moreover, it is important to recognise that many banks have already taken significant steps to strengthen their balance sheets. Most leading banks have increased their capital ratios to levels significantly higher than the pre-crisis minima, including their Core Tier 1 capital ratios. If there are genuine issues and concerns as to the current stability of individual banks or the banking system which can be clearly demonstrated, then these issues should be addressed immediately rather than delaying. However, the more fundamental proposals around the regulatory framework require very careful thought and a more measured approach. We believe that the efforts since the advent of the crisis have stabilised and strengthened the industry, giving us the time to set out in detail the blueprint for the new regulatory capital framework. We advocate that simplicity should be a key objective in the design of this new framework.

All new and revised approaches for determining minimum capital requirements need to be risk-based and proportionate to the underlying risks intended to be captured. Not all of the approaches set out in the consultative document achieve this, e.g. the proposed Credit Valuation Adjustment methodology for calculating counterparty credit risk derives a capital requirement that is inconsistent with the levels of counterparty credit loss experienced during the crisis. We would encourage the Committee to engage with the industry to develop more appropriate risk-based methodologies for such risk types.

Our detailed responses to the specific proposals set out in the BCBS's Consultative Document ("CD") are set out below. There are, however, certain general observations which frame our detailed responses.

1. <u>Cumulative Impact</u>
   There are a series of changes proposed, some of which we may be in agreement with individually, but which would have a collective impact that needs to be assessed so that the individual proposals can be appropriately calibrated. The QIS exercise does go some way to address this, but there is a need to consider all of the proposals which are either near implementation, or are still being debated. It is also important to incorporate the likely behavioural responses of banks to the package of reforms. There is a very difficult balancing act between financial sector stability and economic growth.

2. <u>Consistent Application</u>
   The proposals must be applied in a manner which does not advantage one country's banks over another. Whilst there should be scope for national discretion, this should not be at the level of application of the proposals. For example, the proposals on capital buffers include a statement that "The framework would be applied at the consolidated level, i.e. 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." Whether or not a national supervisor takes this option makes a fundamental difference to the impact of some of the proposals. Therefore, the BCBS should require consistent regulation at either the consolidated level, solo (banking sub-group) level or both.

   There is already ample evidence of wide differences in bank regulation across different countries – even within the EU – and even where common principles have been agreed by

the G20 (e.g. on remuneration). The BCBS should take the opportunity to promote in the most robust terms possible, the international harmonisation of rules and their consistent interpretation and application, to reduce the risk of regulatory arbitrage and to avoid unnecessary complexity. The objective of transparency can only be achieved once there is far greater international harmonisation.

3. Role of Macro-Prudential Supervision
Another feature which emerged from the financial crisis is that the regulatory framework had not kept pace with product and market developments, and financial innovation. Furthermore, clear responsibilities for monitoring the warning signs of crisis and for taking action had not been established. The role that macro-prudential supervision has to play in detecting the warning signs of an impending financial crisis is critical in preventing similar crises in the future. There was too much focus in the past on the assessment of firm-specific risks and not enough effort devoted to understanding the systemic risks. We support the intention to elevate the role of macro-prudential supervision, although we are concerned that the emphasis appears to focus on the imposition of capital and liquidity buffers rather than on promoting actions that contribute to a reduction in systemic risk.

4. Capital Requirements Must Remain Entity Specific
Whilst we agree with the desire to promote harmonisation of regulatory requirements, we also wish to emphasise that there is no “one size fits all” approach possible for the calculation of capital requirements. Each individual bank starts from a baseline risk profile. It is essential, therefore, that proposals be risk-based, and relevant to an institution’s risk profile, business model and structure. A bank with extensive trading businesses should not be treated the same as a “utility bank”; banks with a significant book of self-certified mortgages with no statutory loan to value ratio caps should not be treated in the same way as banks which are subject to tighter mortgage regulations; a bank which is highly liquid and has a high degree of risk diversification should be treated differently from a mono-line banking business in a single market; and banks with considerable numbers of off balance sheet activities, and reliant on risk transfers (for funding and capital purposes) should be viewed as inherently higher risk. The answer to greater resilience lies not just in the quantum and quality of capital, but in the nature of a bank’s underlying activities, and the calibration of those to the capital requirements of individual banks. This seems ill understood in much of the current political and regulatory rhetoric which focuses unfairly on capital levels.

As a response to the crisis, the CD can be seen as adding further layers to the existing framework. The crisis appears to have reduced regulators’ confidence in the Basel II framework. Also, shortcomings in the core correlations and diversification impacts of the baseline Risk Weighted Assets (“RWA”) calculations have at the same time both under-estimated and over-estimated risks for different banks based on their risk profiles. The view of Standard Chartered is that BCBS should not feel hastened into a response which risks placing extra layers of complexity on top of a flawed baseline starting point in the calculation of RWA. The outcome could be insufficient rewards being afforded for sound risk management and diversification. Any risk-based framework should look to provide both an incentive for “good behaviour” and to penalise greater risk-taking. In many ways Basel II’s very complexity leaves the regulatory world unable to see clearly the full picture and vulnerable to regulatory arbitrage evident in much of the structured credit expansion and the ignoring of the question of liquidity and of leverage. Adding further complexity to an already overtly intricate regulatory edifice may well create further problems.

In this regard, we believe that there is no “correct” level of capital. The underlying risk profile is what is relevant. Banks have failed with capital ratios well in excess of current regulatory minima. Many of the banking failures were due to poor liquidity management practices or concentrations in poor quality assets. The risk profiles of these banks were evident externally and in advance of their failures. However, much of the political and regulatory response has placed too much emphasis on the role of capital in addressing the problems in the banking system. We would support a “prevention-rather-than-cure” approach to improve the resilience of the banking system and see the proposed use of capital only as a means of trying to “cure” future crises.

5. <u>Role of the Basel II Framework</u>

We believe that the infrastructure for effective regulation is in many cases already in place, such as the Pillar 1 and Pillar 2 processes of the Basel II framework. We recommend that, where changes are proposed, it is clear within the recommendations where the changes are expected to take effect. It would be helpful for each of the recommendations to state whether the changes are:

- Changes to sharpen the Pillar 1 or baseline capital requirement calculations. It is recognised that these are disclosable.
- Changes to the Pillar 2 capital assessment and supervisory review processes. It is generally accepted that these are confidential between banks and regulators, although this is not recognised in the relevant market abuse legislation. Much greater consideration must be given by regulators to the potential unintended consequences of market disclosure requirements of the regulatory proposals being developed, e.g. the market reaction to a firm’s triggering of capital conservation limits.
- Additions or amendments to the framework, for example, the introduction of macro prudential supervision.

2. Detailed responses to proposals

(a) Raising the quality, consistency and transparency of the capital base

Standard Chartered agrees with the principles set out in this section of the paper, notably, the increased focus on Core Tier 1 capital and the de-emphasis (but not removal) of non-Core Tier 1 capital. We believe that non-equity capital still has an essential role to play in a bank’s capital structure. The proposals to exclude Tier 3 capital and the removal of the sub-tiers of Tier 2 capital are all supported.

The definition of non Core Tier 1 capital focuses on the ability to absorb losses on a going concern basis and points largely to forms of capital which can be converted to Core Tier 1 capital in stressed scenarios. Standard Chartered does not support the concept of this form of capital (commonly referred to as “CoCos”). These products (including structures with write down features) pose a significant risk to the financial system. The view of Standard Chartered is that these instruments, with hard wired triggers, would precipitate a crisis of confidence in the bank. Capital which converts upon the breach of a trigger would signal early warnings of failure to the market and could precipitate a liquidity run on the bank which would not be mitigated by the increased level of equity capital. Such instruments are, therefore, not desirable from the perspective of financial stability. Conversion would also risk the closure of capital markets to the firm, and potentially other firms with similar profiles or more broadly to the banking sector as a whole.

The role of contingent capital in banks' capital structures has evolved solely from the restructuring of essentially already failed institutions or for firms with unique circumstances, and to this extent made sense. Seeking to include them in the capital structures of going concern banks risks building into the financial system a level of instability that has not been considered or quantified. We recognise the role that non-equity capital can have in loss absorption on a going concern basis, and would encourage a broader debate to consider more effective mechanisms for loss absorption by non-equity instruments, e.g. by using coupon cancellation and principal write-downs.

The role of liability management activities in equity creation, undertaken across the banking sector by the healthy banks during the crisis, demonstrated their ability to convert non-equity Tier 1 and Tier 2 capital into equity capital. This point has been missed in the debate.

There are a number of detailed issues which we would like to raise relating to the treatment of adjustments applied to regulatory capital which are set out below.

Stock surplus

The proposals are that share premium raised from the issuance of Preference Shares (and similar items) should be excluded from Core Tier 1 capital. This is supported. However, in certain jurisdictions, where preference shares have been redeemed out of distributable earnings or from the issuance of common equity rather than from the premium arising from its issue, the historic premium should continue to be allowed to form part of Core Tier 1 capital.

Minority Interests

Whilst we support the concerns the CD is trying to address, there are however, a number of important consequences of the proposals. Such minority interests often arise due to regulatory or statutory requirements for local participation in the countries concerned. This is likely to discourage international banks from making any new or further investments into a number of banking markets and could prompt many existing joint venture partners to review their investments. This could therefore impede the sharing of international best practice and knowledge into developing banking systems and could be destabilising to a number of banking markets.

Were the proposal to be adopted, there is no mention of the treatment that should be adopted for the subsidiary's risk weighted assets and the presumption is that this would be included in full, including the portion attributable to the minority interest. This asymmetrical approach would be inequitable and unreasonably penal to international banks.

Standard Chartered accepts that minority interests from off balance sheet vehicles should be excluded from Core Tier 1 capital, but minority interests from genuine majority stakes in banking entities should continue to be included. In the case of the latter, Standard Chartered believes there is no need to change the existing rules.

Unrealised gains and losses on debt instruments, loans and receivables, equities, own use properties and investment properties

We are sympathetic to the proposal that unrealised results should impact Core Tier 1 capital, although this will introduce greater volatility into the capital structure of banks. It is

noted that many of these adjustments, such as “Available for Sale” reserves, arise from International Financial Reporting Standards (“IFRS”), and that these are being reviewed. We believe that the implementation of changes should first await the outcomes of changes to IFRS.

Goodwill and other intangibles

We support the proposal that these should be deducted from Core Tier 1 capital.

Deferred Tax Assets

We do not support the deduction of deferred tax assets from regulatory capital as this could create an incentive for the sale of deferred tax assets at a discount. They should be recognised in accordance with the prevailing accounting rules but in addition should be subject to a regulatory assessment of recoverability. To the extent that such assets may be deemed irrecoverable, we propose that the irrecoverable portion should be deducted from Tier 1 capital under the proposed new definition that recognises the need for such capital to absorb losses on a going concern basis.

Investments in own shares (treasury stock)

The basic principle is accepted that any interest in the bank’s own common shares should be deducted from Core Tier 1 capital. However, where a bank enters into a commercial, bona fide and arm’s length trade with a customer as part of its trading book (including index trades), it is appropriate that only the negative delta equivalent of the bank’s own stock should be deducted from a bank’s Core Tier 1 capital.

In certain circumstances, banks may reward staff by offering share-based incentives and remuneration. In some cases, banks may pre-purchase shares to satisfy these awards. Generally, this deduction is already charged to earnings, so any consequential holdings should not additionally be deducted from capital.

Investments in the capital of certain banking, financial and insurance entities which are outside the regulatory scope of consolidation

Whilst we recognise the need to address the issue of double leverage, we believe that the proposal does not achieve this aim and effectively ignores the value of banks’ investments in their subsidiary undertakings. The proposed treatment does not reflect the underlying economic value in these entities and its implementation would have a differential impact for jurisdictions that operate solo regimes where banking sub-groups are regulated, compared to those where only the consolidated group entity is regulated. This is an area where consistent implementation is critical, to avoid competitive distortions. There is an urgent need to ensure consistency of application of solo regulation globally to ensure that there is a level playing field and to prevent opportunities for regulatory arbitrage.

Shortfall of the stock of provisions to expected losses

The proposal is likely to lead to a further unlevelling of the playing field as jurisdictions that operate the internal ratings-based approaches will be penalised by having to hold capital for expected losses as well as unexpected losses. Furthermore, a full deduction regime may be contrary to the conceptual aim of the new forward-looking provisioning proposals being

developed and the proposed buffer rules, and could compound procyclicality. It is difficult to comment with confidence on the proposal given the current uncertainty about future provisioning rules under both IFRS and US GAAP. We recommend that until new accounting provisioning rules are determined, it would be unwise to prescribe changes to the regulatory treatment of these.

<u>Cash flow hedge reserve</u>

The proposals are accepted on the basis that the cash flow hedge reserve in isolation represents only a partial representation of the economic position of the bank.

<u>Cumulative gains and losses due to changes in own credit risk on fair valued financial liabilities</u>

The proposal that gains and losses on banks' own credit spreads should be excluded from Core Tier 1 capital are accepted. Indeed, we would encourage the BCBS to work with the relevant authorities responsible for setting accounting standards to remove this option, as it is counter-intuitive that a decline in creditworthiness should result in a gain for a bank.

<u>Defined benefit pension fund assets and liabilities</u>

The proposal to remove the filter in respect of defined benefit pension fund obligations will increase significantly the volatility in banks' capital resources by reflecting short-term market fluctuations that impact the valuation of pension fund assets and the actuarial valuation of pension liabilities. Such fluctuations are not representative of the actual funding requirements from banks, which are the subject of periodic detailed analyses and discussions with the pension funds' independent trustees in order to agree the funding of what are essentially long-term obligations. This proposal appears to be at odds with the broader objective of the current package of reforms to reduce the degree of procyclicality in the existing capital framework. It would be much more appropriate to deduct any significant funding shortfalls agreed with the pension funds' trustees from banks' total capital resources. Such an approach would recognise the long-term nature of pension fund obligations and the fact that issues are only likely to arise in the event of a bank's failure, in which case any outstanding pension liabilities could be met from both going concern and gone concern capital.

<u>Remaining 50:50 deductions</u>

The paper identifies a number of other adjustments which are currently being made 50% to Tier 1 and 50% to Tier 2. The proposal is that a weighting of 1,250% be applied to these. This is acceptable as the impact is to spread the deduction across capital types. The rationale for this treatment should, however, be made clear, so that there is not only a requirement, but a clear philosophical approach supporting this treatment such that the intention is clear. This should then prevent arbitrage opportunities and changes to classifications to circumvent these proposals.

<u>Disclosure requirements</u>

There are proposals to increase the transparency of the financial position of banks. It is not clear from the proposals, but our view is that regulatory minimum capital requirements (including capital buffers, if any) should not be disclosed where these are derived from the

Pillar 2 process. These are confidential between regulators and banks. This confidentiality is essential to ensure a full and open dialogue between banks and regulators, and to maintain public confidence which is critical to a stable banking system. In addition, public disclosure of minimum requirements might imply a level of deemed riskiness, which could be de-stabilising.

(b) Counterparty credit risk

The Committee proposes a number of measures aimed at increasing the capital requirement for counterparty credit risk ("CCR"), based on a view that the capital held against this risk was inadequate during the recent financial crisis. In our view the losses and inadequacies are largely attributable to a small number of market participants, rather than the industry as a whole. We are concerned about the potential regulatory over-reaction in respect of this issue and the imposition of excessive capital charges to the broader industry. Great care should be taken to ensure that any changes made to the current approach actually address the problem, and more importantly, do not introduce new risks into the system. We firmly believe that the current proposals are not based on a sound risk-based rationale which would result in a grossly disproportionate capital requirement, particularly in the case of the Credit Valuation Adjustment ("CVA").

We also believe that it is not appropriate to make changes to the CCR regime that would have an impact on activities beyond the scope of CCR and would not incentivise better risk management. The rationale for the scale of the multiplier proposed for the asset value correlation for large financial institutions is not clear. In our view this area requires additional analysis and careful thought to avoid unintended or undesirable consequences.

The following two sub-sections elaborate on our views on the CCR proposals.

i) Credit Valuation Adjustment ("CVA")

The Committee proposes a capital 'add-on' by using a bond-equivalent as a proxy for CVA risk, introducing a market risk capital charge for a hypothetical bond-equivalent position. Based on our initial quantification of the impact of the proposal, we believe that the bond equivalent approach would result in a capital charge far in excess of the underlying risks, and vastly disproportionate to other risks.

In our view, the methodology developed and its initial calibration is flawed. Banks that do not use market-implied adjustments but use historic Probability of Default ("PD") movements, are not exposed to large volatility in CVA. The bond-equivalent approach would not address the risk appropriately for such banks. Moreover, the proposal relies heavily on using spreads of credit default swaps. Banks that deal with counterparties that are not traded and would therefore have to use proxies such as credit indices, would be placed in a particularly difficult position. Basis risk would be added to their balance sheet (where hedges have been executed). Encouraging banks to hedge their CVA through the use of proxies like credit indices could result in a large systemic bias when all market participants would seek to hedge their positions the same way.

Imposing this approach would impact more negatively on certain markets – for instance many Asian markets – and advantage Western markets, which ironically were the source of

the current crisis. This would represent a perverse discrimination against new or emerging markets, and in particular Asian markets.

We believe strongly that the Committee should recognise that banks use different methods for a variety of reasons, for example due to differences in their accounting methods and because of the characteristics of the markets in which they operate. The framework should allow banks flexibility to continue to use the calculation methods that are most appropriate and practical for the institution given its customer mix and geographical spread.

Additional factors, such as whether the institution in question is on the standardised, mark-to-market plus add-on or Internal Model Method approach for the calculation of capital for CCR, as well as the assumptions that are used to generate exposure profiles, need to be taken into account when considering the appropriate approach for determining CVA in order to maintain a level playing field. In addition, the approach applied for determining specific risk (standardised or Value-at-Risk) needs to be factored in.

We note that the Committee acknowledges that the recommendations need to be adapted to properly apply to all available approaches used to recognise CVA. We urge the Committee to work further with industry participants to evaluate alternative approaches for calculating CVA, and we would welcome the opportunity to participate in such work.

ii) Asset Value Correlation

The Committee proposes a multiplier for large financial institutions, on the grounds that during the crisis financial institutions were relatively more sensitive to systemic risk than non-financial firms. In our view the increased correlation factor would distort the markets and result in increased system-wide risks. It has a disproportionately negative impact on better rated counterparties, and it would effectively drive placing of liquidity towards smaller, typically riskier institutions and away from banks– which would be a rather perverse outcome.

The Committee proposes to apply the multiplier to all financial exposures, not just those giving rise to CCR. We do not agree that there is justification for this. It would have detrimental effects on basic banking activities, such as the provision of trade finance facilities, by driving these towards smaller firms that would have less capacity and capability to manage the associated risks. This could lead to an increase in the overall risk in the banking system.

(c) Supplementing the risk-based capital requirement with a leverage ratio

The concept of a leverage ratio is supported only as a back stop measure to supplement the risk-based capital ratio. In order to make leverage ratios meaningful, it is essential that common and detailed definitions of the capital and exposure measures to be used are agreed. There are currently different accounting treatments (in particular with regard to netting) between countries, and it is recommended that the BCBS prepare a set of very specific definitions as to how balances are calculated. Taking accounting data as a starting point will not create a level playing field.

Standard Chartered's view is that the capital measure should be based on the new Tier 1 capital definition proposed by the Committee which recognises that capital instruments eligible for inclusion in this form of capital will need to satisfy going concern requirements. Exposures should include derivative positions (as these generally represent the present value of future cash flows) and should include a standardised weighting for off balance sheet items such as committed facilities. The exposure measure should also be adjusted for items already taken through capital, such as goodwill.

Perhaps the most important question is whether the leverage ratio is a publicly disclosable ratio, or a ratio calculated solely for the regulators. The leverage ratio should be a back-stop measure to provide an additional measure of risk in the balance sheets of banks, and should be part of the Pillar 2 review process. There should be no minimum as such, but the ratio should provide an early warning to regulators that a firm's leverage is increasing and would allow them to take prompt action if needed. If a minimum is set within which banks must manage their balance sheets, the ratio and the minimum may need to be disclosed, but this would need to be properly explained by providing the context around a bank's risk profile and the mitigants such as netting that are used to manage leverage.

A key feature of the proposals is how this ratio will change in times of economic downturn. Generally, banks have a tendency to reduce business volumes in a downturn, and were such a measure to become hard-coded and disclosable, banks may come under pressure to increase lending from economic policy makers, whilst regulators may push for tempering of balance sheet growth. The risk is, therefore, that the measure may become unworkable.

The essential problem with any single leverage ratio is that it fails to distinguish between different profiles of banks. A better focus would be on ratios of change in leverage at which point regulators or markets (if public) could exert discipline.

(d) Reducing procyclicality and promoting capital buffers

Standard Chartered supports the objective of reducing the impact of procyclicality on the capital requirements of banks. The approaches suggested in the CD are as follows:

- dampen any excess cyclicality of the minimum capital requirement (capital demand);
- promote more forward looking provisions (recognise losses sooner);
- conserve capital to build buffers at individual banks and the banking sector that can be used in stress (adding to capital supply); and
- achieve the broader macro prudential goal of protecting the banking sector from periods of excess credit growth (broader macroeconomic supervision).

The paper recognises that there are a range of options. The primary concern is that each is additive in its impact, and could result in significantly higher capital requirements to cover the same risk.

The CD favours capital buffers. This has the characteristic of a single solution to increase the capital requirements of banks in good times to allow their usage in tougher economic conditions.

The option of dynamic provisioning seems to have been dismissed when this should be explored as an alternative to capital buffers. This addresses similar issues but at the exposure level rather than the capital level.

Standard Chartered is generally cautious about capital buffers ("CB"). The paper does draw attention to the need for caution and the need to ensure that the risk profile of individual banks is factored into the need for a buffer and the size of the buffer.

At the conceptual level, it is unclear whether a CB is in practice a new capital minimum. The implications are that, given the range of powers being proposed for regulators if the buffer is used, that many banks will view this as a new minimum requirement. With that in mind and given the numerous other proposals around capital, the proposal seems punitive rather than prudent.

It is also unclear how a buffer would be calculated for internationally active banks with a highly diversified geographical asset base. The CD is silent on practical aspects, such as what would trigger the use of a buffer, and whether such use would require public disclosure – which in turn raises other questions. For banks that have balance sheets which are more diversified than is recognised by the Pillar 1 methodology, there is a risk that the CB could overlap with the risks already captured under Pillar 1.

Whenever buffers are created, there is always the risk that buffers are created for risk components which are already covered by the capital calculations – in effect risks would be double counted in determining the capital requirements.

There are a number of issues surrounding the practicalities and processes of CBs. For example, the Pillar 2 process is most suited to the implementation of a CB. This is confidential between banks and regulators, so CBs would not contribute to public confidence as they are not to be disclosed. However, we are very concerned that usage of a capital buffer could be a disclosable event under financial and stock exchange reporting requirements. In such circumstances, there is a risk that this event could precipitate a loss of confidence, and a consequent run on the bank.

Proposals are being developed to introduce Recovery and Resolution Plans ("RRPs"). It is unclear whether a bank using the buffer would trigger the Recovery and Resolution Plans. These capital buffers do not, therefore, exist in isolation, and solutions for these need to take into account the interaction between requirements.

The Basel Committee has indicated that it will prepare a more detailed proposal in July 2010, which we welcome. This should address credit concentration and diversification as well as the four solutions mapped out in the paper. One feature of the recent financial crisis was the concentration of risk in specific products and economies. In particular, when regulators assess systemic significance of banks and their size and international profiles, the benefits as well as the risks of such diversified groups should be recognised. We also suggest that the BCBS consider whether procyclicality is addressed through the numerator or the denominator in the capital equation, or indeed whether changes to accounting rules can best address this.

The proposals need to be more specific as to the form of capital required. There is an implication that firms can switch forms of capital at short notice which is generally not possible. Standard Chartered does not support any type of capital which converts into

another type of capital. The act of conversion would, almost certainly precipitate a crisis of confidence in the bank, which could be potentially fatal. Such “hard trigger” instruments are, therefore, not desirable from the perspective of financial stability. In particular the so-called Convertible Capital, which converts from debt to Core Tier 1 upon the breach of a trigger, would signal early warnings of failure to the market and could precipitate exactly the type of crisis that the instruments are designed to provide capital cover to support.

(e) Addressing systemic risk and interconnectedness

The Basel Committee does not make specific proposals at this stage on these issues. The paper does, however, refer to the possibility of capital add-ons or additional liquidity requirements with respect to organisations which are perceived to be “Too Big To Fail”, “Systemically Significant”, or “Interconnected”. Such measures would be detrimental to the stability of the financial system as large and truly diversified international banking groups are better able to act as shock absorbers of losses as was evidenced during the recent financial crisis. Secondly, where large international banks have caused instability to the broader banking system this has arisen from the business model and booking practices rather than scale itself. It is concerning that regulators are looking to correct failings which have occurred in firms which have already failed and applying these to banks which did not fail. It should be stressed that many of the firms which survived, without any government support, had business models which contributed to their survival. Rather than responding to the negative of where failure occurred, we believe a study of banks which did not fail would be just as revealing in terms of the positive measures that could be employed.

Furthermore, where a bank is well-capitalised and highly liquid, the probability of failure decreases, and the likely impact of failure is reduced. In these circumstances, it is unclear what benefit would accrue to making further add-ons to capital.

There are also dangers of adopting a “static” approach overly dependent upon the “large firm” perspective, and the business mix of banks. Alongside scale, there are other measures of riskiness reflected in trading limits and the extent of customer rather than proprietary business undertaken.

Standard Chartered believes that the inter-connectedness issue raised in the paper is important, and that any future paper should consider the variety of business models employed in banking and the variety of regulatory approaches taken by regulators in their regulation of banks. The lack of an effective solo regulatory regime in many countries actively encourages inter-connectedness within banking groups (the issuance of intra-group guarantees, and “cash-sweeping”). Whilst there are many benefits to a degree of connectedness within a banking group (in the form of diversification and loss absorption), this is a question of degree. It is noted that many banking organisations, although subsidiarised, guarantee the performance of their subsidiaries, and are permitted to do so by their regulators. In these cases, there is a massive interconnectedness within groups which can lead to the spread of risks. There is no “one size fits all” solution on this matter.

We believe that banks should not be penalised purely on the basis of size. Also, reducing or “taxing” large banks will reduce the capacity of the banking sector to support the global economy as banks will be discouraged from acquiring scale simply to comply with regulations. There are practices which we believe contribute to contagion, such as cash sweeping, and parental guarantees that should be addressed ahead of the issue of Too-Big-to-Fail and systemic significance.

3. Conclusion

We should like to reiterate that Standard Chartered supports strengthening of the resilience of the banking sector, and therefore the overall aims of the paper, but we would draw your attention to the need to develop a clear regulatory framework that sets out the key components and their respective roles within the framework. We also urge prioritisation of the proposals so that they are risk-focused and look to address issues which are prevalent rather than issues which have in the past contributed to bank failures. Lastly, we stress that capital is not a panacea, demonstrated most forcibly by high capital ratio levels of those banks that failed at the point of their collapse.

Standard Chartered Response on BCBS 165
Basel Committee on Banking Supervision Consultative Document "International framework for liquidity risk measurement, standards and monitoring"

1. High Level Comments

Standard Chartered is supportive of harmonised liquidity metrics which capture both short term stress impacts and the structural nature of a firm's balance sheet. However, the detail and factors applied within the paper are both inconsistent and inappropriate.

We feel strongly that a balance is required between bringing in tougher liquidity rules and allowing appropriate recovery by some banks and the broader economy.

There needs to be a balance between liquidity metrics that are simple enough to be clearly understood, while being sufficiently flexible to capture the complexity and diversity of the firms impacted.

It is paramount that there is robust analysis of the impact on banks and full consideration of the secondary impacts of requiring compliance with these ratios.

Standard Chartered continues to work with regulators to ensure global coordination and the application of consistent liquidity risk management practices across jurisdictions. Harmonisation is key to ensure a level playing field and avoid overlapping and inconsistent regimes. There should be comparability in cases where national discretion is applied. This will prevent international firms being faced with contradictory liquidity regimes and reduce the risk of regulatory arbitrage.

Standard Chartered supports the use of a range of liquidity metrics and would fully endorse the use of tactical and structural measures, especially where these reduce so-called "cliff effects". While the metrics will provide part of the story, supervisors still need to have a full understanding of a firm's business model to assess the liquidity risk being run.

Standard Chartered supports the concepts of a short-term tactical measure under liquidity stress and a longer-term structural measure to ensure a robust balance sheet can be maintained beyond any short-term stress effects. However, the detail contained within the ratios in terms of categorisation and weighting factors applied is both inconsistent and overly severe. No clear justification is provided for the percentages used. The parameters applied in the paper seem to go far beyond the experience of firms during both the recent crisis and the Asian crisis at the end of the 1990s. The result of applying these ratios will not generate "minimum standards", but present a drastic change to banks' approach to liquidity, where the full consequences of the changes have not been fully considered.

Standard Chartered urges the BCBS to consider both the results of the Quantitative Impact Study and industry feedback appropriately. If the metrics are implemented with the current suggested factors applied, there will be a fundamental impact on the way banks operate, their profitability, and their susceptibility to new market stress scenarios. The impact will be seen

through a reduction of the amount of maturity transformation banks can carry out, increased difficulty in raising medium term funding due to disincentives to other banks of holding bank bonds, and increased charges passed on to retail customers due to increased carry and funding costs.

By forcing firms to consider the perfect storm of firm and market stress, the standards go far beyond the majority of liquidity risk stress points and even what is feasible, e.g. the asymmetric treatment of bank to bank facilities provided (100% drawdown) and those received (0% inflow). The draconian assumptions discourage firms from actively managing their internal liquidity risk management framework and dissuade them from adequately planning for less severe scenarios. Allowing firms to demonstrate their internal liquidity frameworks to justify behavioural assumptions provides a more appropriate method of capturing firms' business models and gives a continued incentive to fully consider alternative liquidity scenarios.

One of the consequences of these standards will be increased concentration risk within government bonds at a time of increased sovereign risk; the corollary of which will be higher risks of herd behaviour and increased correlation between firms. For example, if firms are experiencing a combined stress, the impact of large government bond sales may well cause a run on that government bond market. This in turn could lead to a severe circle of declining liquid asset prices for firms already experiencing liquidity stress.

The measures and parameters within these ratios favour investment banks over commercial banks. This is especially notable in the retail required stable funding roll-over assumptions, where 85% of retail loans are assumed to roll-over. The role of banks in carrying out maturity transformation is impeded by these metrics, which is likely to severely constrain retail lending growth. Investment banks are favoured through the treatment of marketable securities in the net stable funding ratio. It is wrong to penalise less risky commercial banks for performing maturity transformation and incentivise them to move further into a repo and securities framework. It is perverse that one of the drivers of the liquidity crisis in the first place was investment bank structured credit, distributed in the form of securities to achieve funding which now receives better treatment than retail commercial deposit gathering.

The focus within the paper is on "internationally active firms", but it must be a requirement that internationally <u>in</u>active firms are covered by the measures as well to ensure consistent standards for all banks. Moreover, the liquidity crisis highlighted that national boundaries matter and that the impact of liquidity stress will depend in large part on the actions taken by governments. This impact will be felt more keenly for firms based solely in a country impacted by the stress.

2. Liquidity Coverage Ratio

<u>Timeframe</u>

The use of 30 days goes beyond the likely timeframe of an acute short-term firm-specific stress scenario. The majority of retail bank runs have ended within a week, e.g. Northern Rock, WaMu, Bank of East Asia, so this would be a more appropriate timeframe to consider a liquidity stress. Similarly the CEBS Liquidity Identity Card paper suggests one to two weeks as an appropriate timeframe for a liquidity stress.

The consultative document does not make it clear how any management actions or contingency funding measures would play a role in this stress. In reality these would be

activated in advance of a stress or commensurately with an exogenous event precipitating a combined stress.

Liquid Assets

The assumptions in the document enforce a dichotomy between liquid and illiquid assets and between products that will be sticky and those that will not. In situations outside of a combined firm and market liquidity stress, many assets will be marketable; but in this standard no liquidity value is awarded to them at all. The resultant cliff effects will be destructive and skewed in a way which does not reflect the multi-dimensional liquidity spectrum which exists. Similarly, by emphasising the stability, and hence desirability, of retail deposits there is a significant risk that this stability actually reduces as firms all compete for this finite pool of funds.

The liquidity transmission mechanism will be disrupted by these standards as banks will have no incentive to hold bonds issued by banks as these provide no liquidity benefit. While the wrong-way risk that exists especially in short-term bank issuance needs to be taken into account, this needs to be considered against the genuine requirement of firms to raise medium term funding and to diversify exposures to ensure adequate contractual funding.

Clarification is needed from national regulators for the treatment of assets held for reserve requirements or other liquidity regimes. We would expect these to be accessible during a liquidity stress even where this would take a firm below the typical reserve requirements. This will be imperative to avoid duplication of liquidity buffers.

If the assets are only required for a combined stress then there is more rationale for the definition. However, this will create a dichotomy between “liquid” and “less liquid” securities, even though many of the less liquid securities could be used in a range of other stresses. Given heightened sovereign risk, Standard Chartered would highlight the importance of diversification. The criteria to determine high quality liquid assets take no account of the impact across national borders, e.g. a western market crisis does not make all Asian bank bonds illiquid.

Standard Chartered would agree with the tiered approach to liquid asset classification. However, the current wording will make it very difficult to include any corporate or covered bonds. It is not clear whether the 10 year history applies to an issue, an issuer, an industry or a bond type. The ability to demonstrate reliably bid/offer spreads is limited. Furthermore, the haircuts applied to corporate and covered bonds are very severe. By making the criteria so stringent, BCBS risks making virtually no corporate or covered bonds eligible.

The characteristics used to describe liquid assets are unclear. Low duration does not necessarily improve liquidity, e.g. on-the-run 10 year gilts vs off-the-run 6 year. Several of the characteristics are subjective, e.g. it is unclear when a product becomes exotic. Other characteristics may be very difficult to demonstrate, e.g. market breadth and depth, presence of committed market makers.

Roll-off / Haircut factors

Standard Chartered would like to understand the derivation of the factors and obtain more clarity where parameters have not been set, e.g. “increases in market volatilities” would need to be well-defined to enable calculation of the liquidity impact by firms.

In some cases, clarity is required over the definition:

- The ability to differentiate “stable” and “less stable” deposits will need to be defined in more detail. Standard Chartered would support this being carried out by firms with the supporting rationale provided to the regulator.
- The inability to take any offset when calculating aggregated funding will present a misleading picture where the funds are required as collateral against loan exposures.
- Further detail is required on credit card and overdraft inflow assumptions.
- While Standard Chartered would agree that increased liquidity needs related to market valuations should be calculated, firms would need to understand the severity of market shift and how to apply this across each market, e.g. IR, FX, equity, commodity etc. This would then need to be linked to only those with CSA arrangements.

More appropriate roll-off assumptions:

- The definition of stable deposits does not consider the situation where no deposit scheme exists in the country. Standard Chartered would expect high stability of deposits in some of these countries.
- Treating time deposits the same as call accounts is severe. The definition of “materially greater than the loss of interest” is not defined here, but this treatment erodes the liquidity value of term deposits. It would be more appropriate to consider potential breakage with consideration of client relationships on a firm-specific basis.
- The available criteria for assessing foreign currency deposits would need to be applied to ensure that these may be classified as stable, e.g. USD in many countries.
- By taking all callable funding which is possibly callable within 30 days, there is no offset for likelihood of call, even where this is linked to a market event.
- 75% roll-off for unsecured wholesale funding is too severe. The strength of corporate relationships may allow far higher roll-over during stress and does not take any account of the historically sticky nature of corporate current and cash management accounts. It is essential that the differences between corporate cash management accounts and “Treasurer placings” is recognised.
- 100% for customers such as sovereigns and central banks may not reflect the depth of relationship or implicit support provided by those counterparties. This includes debt securities in issue unless “the counterparty is known to be a retail customer, a small business customer or a non-financial corporate customer”. It is unclear how firms could categorise this, as the bonds may be sold on.
- The assumed 20% fall in less liquid securities will make it very onerous for firms to use any of this type of collateral.

<u>Committed Facilities</u>

The treatment of committed credit and liquidity facilities is arbitrary and does not provide sufficient clarity around items such as credit cards and overdrafts where committed limits could be reduced very rapidly. The 100% drawdown assumption for non-financial corporates’ liquidity facilities and other legal entity customers’ credit and liquidity facilities is far too severe. Even during a significant liquidity stress, not all facilities would be drawn as some customers will have alterative sources or not require funding. Drawings on facilities such as working capital and trade financing L/Cs would not correlate with a liquidity stress. This is supported by the experience of the last three years.

The treatment of lines of credit the bank holds is asymmetric and very severe. By assuming that none are available this impacts the ability of firms to insulate themselves during certain

stresses. There is little evidence that a high percentage of committed credit lines were not honoured in the crisis.

By treating intra-group transactions in the same way would prevent appropriate liquidity risk transfer and support of a firm's subsidiaries and branches. This will lead to trapped pools of liquidity, which will significantly impact the financing of international capital and trade flows.

3. Net stable funding ratio

Standard Chartered would agree that this is a useful metric as it considers the structure of the balance sheet. However, the factors applied to a firm's balance sheet favour investment banks over commercial banks; dissuade maturity transformation; and do not correlate with a firm's likely behaviour during a prolonged stress.

For example, the 20% required stable funding for the majority of bonds is too high given that most of these could be sold within a year, even under a prolonged stress. It is unclear why 5% required funding has been assumed for high quality liquid securities, although this may have been arbitrarily selected to ensure adequate funding profiles for those liquid assets.

The 50% assumed for gold and equities is not only far too high, but there seems to be no justification for the percentage applied. Gold would tend to be a flight-to-quality asset during a stress and could be liquidated easily. Similarly, the majority of equities, even those in less liquid markets, could be sold within a year. Different market sectors and regions behave differently and as such the assumptions used need to be more scientific and based on realistic market behaviour.

The parameters here do not consider likelihood of roll-over, e.g. 50% assumed for all non-financial corporate loans and 85% for loans to retail clients. This does not consider the underlying business models, the granularity of the customer base or the ability of firms to run down their asset books under prolonged stress scenarios. These ratios should be determined by firms based on their core analysis and consideration of the potential to change the business model over time.

The treatment of off balance sheet items is vague and the link to a "reserve" of stable funding for liquid assets seems spurious. The factor is not determined here, so would depend on the assessment by national regulators. The most significant case here is the treatment of derivative MTM which will very largely net but provide significant grossing up on an IFRS balance sheet. It would be more appropriate to apply a weighting to only the net exposure.

The treatment of undrawn facilities is largely left to national supervisors. This is likely to lead to uneven application. Furthermore, no account seems to be taken of the maturity of the facilities.

4. Monitoring tools

The scope of application is paramount to the success of these liquidity rules as it seeks harmonisation and consistency. The BCBS wording on this is key: "When applied on a legal entity basis, affiliated entities should be treated no differently than unrelated third party financial institutions."

Standard Chartered does not support the public disclosure described in paragraph 135, as disclosure of weaker metrics may force a bank into a vicious circle of liquidity weakness. The numbers here will only tell part of the story - there is no consideration of business model, markets in which the firm operates or the components making up a given metric.

<u>Detailed comments:</u>

- The buckets should be harmonised.
- It is unclear how credit cards and overdrafts would be treated within the contractual cashflow assumptions.
- There is no awareness of a firm's business model or underlying behaviour within the contractual data metric.
- The calculation of significant counterparties is difficult to calculate, especially where debt securities have been issued as these may be sold on by dealers.
- Grouping of entities is quite subjective and may be hard to calculate, e.g. where counterparties are linked.
- For the Significant instrument / product, further clarity is required as the definition of an instrument / a product / a group of instruments / products is unclear.
- Linking to paragraph 114 and depositor concentration, it is important to consider the role of relationships - large depositors may actually help in a crisis if they stay with the bank.
- The FX risks highlighted in paragraph 116 need to be expanded, e.g. it is unclear what is meant by a "comparison of assets and liabilities by currency".
- Calculation of unencumbered assets is important, but the treatment of assets required for national reserve requirements or liquidity regulations needs to be clarified.

5. Conclusion

While Standard Chartered endorses the harmonisation of liquidity metrics and the use of tactical and structural measures for considering a short term stress and the longer-term stability of the balance sheet, the measures proposed are misaligned. In several cases the factors are inconsistent or excessively severe when compared to real experience. This will drive commercial banks to change their business models and limit the amount of maturity transformation they undertake.

Only by revisiting the metrics, the factors and the application to fully consider the impact on banks and the wider economy will the BCBS achieve "a cornerstone of a global framework to strengthen liquidity risk management and supervision".