Chng Sok Hui
Chief Financial Officer
DID : 65 6878 5552
FAX : 65 6223 6202
EMAIL : sokhui@dbs.com

9 September 2010

Dr Nout Wellink
Chairman
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Dear Dr Wellink

Response to Basel Committee consultative document: Countercyclical capital buffer proposal

General comments

The Committee of European Banking Supervision issued a position paper on a countercyclical buffer on 17 July 2009. Banks that were consulted on this paper provided feedback on some characteristics that a countercyclical tool should have. The tool should be:

- Bank-specific, in order to be tailored to the peculiarities of each bank's portfolios;
- Based on risk-sensitive concepts, in order to avoid perverse incentives and arbitrage opportunities;
- Not be excessively burdensome in terms of data needs and computational efforts; and
- Transparent and clearly announced ex-ante so that market participants are aware that banks build up buffers in expansion and run them down in recession.

We are encouraged that the BCBS has taken these comments on board. Nevertheless, while we are in broad agreement with the strategic intent of the proposed countercyclical buffer, we note that many operational considerations remain unarticulated at this stage of the consultation and, as a macroprudential policy tool, the measure is untested.

We would also like to reiterate our position that was first communicated in our response to the December 2009 consultation paper. We remain concerned that the total regulatory package now commonly termed "Basel III" could result in banks having to grapple with a higher cost of capital, and potentially reduced capital supply as investors reassess the reduced attraction f investment returns from the banking sector. Moreover, the ramifications could extend beyond the banking sector: availability of credit to the wider

DBS Bank Ltd
6 Shenton Way
DBS Building Tower One
Singapore 068809
Tel: 65.6878 8888
Telex: RS 24455
SWIFT Dest: DBSSSGSG
www.dbs.com

economy could be curtailed, and increased disintermediation could adversely affect economic activity, as consumers and businesses are impacted with increased costs.

With banks being the only intermediary affected by these changes, it is conceivable that some risk-taking activities may shift to more opaque and less comprehensively regulated parts of the financial system, which would have an impact on systemic stability. This would appear to be a risk that is particularly pronounced with this proposal.

We set out below some of the key issues that we, as a bank, think are important as the BCBS continues with its deliberation.

Home-host interaction

While the host regulator will be formulating the proposed buffer for their country of jurisdiction, the proposal allows home regulators to impose higher buffers if they deem the host regulator's buffer to be insufficient. There is a degree of subjectivism involved in the interpretation of economic data; indeed, the BCBS concurs that the same set data could result in different judgements being applied. We believe there is a trade-off between permitting wider discretion for the exercise of regulatory judgement by a home regulator and level playing field considerations: banks operating in jurisdictions where the home regulator is more conservative could be unduly penalised. It is unclear whether there is an actual "sweet spot", but our view is that having more commonly-agreed methodologies that all regulators can consistently apply within the framework will help prevent scenarios where home-host regulatory perspectives over an appropriate buffer are totally de-coupled.

Feedback from rating agencies

Rating agencies remain one of the more important constituents that could impact banks' capital management strategies. These have formulated approaches to assess the capital positions of banks that they rate, some of which include risk weights that reflect perceived sovereign credit standings and exposures originated within the applicable countries. It will be useful for regulators to seek a common understanding with rating agencies when formulating the countercyclical buffers.

Interaction with existing supervisory requirements

Most banks now operate with a supervisory requirement imposed on top of the regulatory minima. Since the introduction of the indicative capital conservation standards and the articulation of the building block approach in December 2009, one clear concern in the industry has been the way with which these approaches would interact with the current supervisory add-ons to the capital ratios.

It will be useful if the BCBS could provide further clarity on how institution-specific supervisory requirements will be applied within the building block approach. For example, a bank could be required to comply with a 2% countercyclical buffer; if this is construed of as a regulatory minimum to which a supervisory add-on is further applied, the resultant countercyclical buffer will actually be more than the initial 2%.

DBS Bank Ltd
6 Shenton Way
DBS Building Tower One
Singapore 068809

Tel: 65.6878 8888
Telex: RS 24455
SWIFT Dest: DBSSSGSG
www.dbs.com

06-18-008 (10/2006)
Co. Reg. No: 196800306E

Clarity around the mechanics of the building block approach will be very important as we progress towards the implementation of Basel III. Other considerations would include how existing Pillar 2 requirements will be integrated into the overall framework. In fact, some in the industry are of the view that the various buffers should be managed using a less rigid approach constituting part of Pillar 2.

Conclusion

The consequences arising from a failure to meet with the various capital buffers are severe: banks will face restrictions in dividends, share buybacks and discretionary bonus payments, impacting many important constituents in the process. While the BCBS deliberates on the specific mechanics of the countercyclical capital buffer, the more important issue is the role that the various buffers would play within the regulatory capital framework, and how they therefore influence overall capital management initiatives. As such, it may be opportune to discuss and consult on the concepts outlined in Annex 1 of this consultation paper.

Yours sincerely,

Chng Sok Hui
Chief Financial Officer

DBS Bank Ltd
6 Shenton Way
DBS Building Tower One
Singapore 068809

Tel: 65.6878 8888
Telex: RS 24455
SWIFT Dest: DBSSSGSG
www.dbs.com