

September 6, 2010

Dear the Secretariat of the Basel Committee on Banking Supervision,

I wish for the prosperity of your esteemed institution.

Please find comments below on the countercyclical capital buffer proposal

KB Bank's opinion on introducing the countercyclical capital buffer proposal

Complementary measures are necessary in Credit/GDP Gap , Guided Indicator

It could undermine the effectiveness of the proposal if credit supply is extended through non-bank financial institutions that are not subjected to this regulation. 'A level playing field' could also be distorted due to different constraints between banks and non-banks. Thus, supplementary action is needed.

Banks that have expanded aggressively credit exposures would have little burden for additional build-up as their BIS ratio increases benefiting from accompanying profit. However, it could be unreasonable because banks which have operated rather conservatively in asset growth policy in the same market are also subjected to accumulation of capital buffer add-on. Therefore, additional action depending on the level of individual bank's credit growth would be required.

The possibility that Countercyclical Buffer would be operated as Fixed Buffer

Compare to economies of developed countries, Korea's economy fluctuates substantially and fluctuation cycle is rather short therefore economic uncertainties are extremely high. To maintain maximum level of countercyclical buffer that banks have accumulated, bank may not use surplus capital when accumulation of capital buffer add-on is not necessary.

As it is not easy for banks to frequently adjust their business plan according to variation of capital buffer add-on level, it is likely that banks may operate the buffer by setting new regulatory capital, adding existing minimum capital requirement with buffer add-on.

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Therefore, if the countercyclical capital buffer is operated as fixed buffers rather than variable buffer (fluctuates based on financial economy), This could substantially weaken the effectiveness in implementing the proposal.

Problems on when the proposal should be introduced:

It is necessary that timing of introduction of the proposal is adjusted until the full recovery of world economy is confirmed. There are still concerns regarding economic recovery and introducing the proposal will delay the economic recovery or increase the chances for double dip recession.

To identify and improve upon the problem, it is desirable that introduction of the proposal is delayed until a detailed proposal is announced and after all the problems have been reviewed through the market over a full economic cycle.

Sincerely yours,

LEE MIN SOO
General Manager
Risk Management Department
KB Kookmin Bank
+82 (02) 2073 3550

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