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8 September 2010

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland
(email: baselcommittee@bis.org)

Dear Sirs

Response to Basel Committee on Banking Supervision Consultative Paper BCBS #172: Countercyclical Capital Buffer Proposal issued for comment by 10 September 2010

United Overseas Bank Singapore is pleased to respond to the consultation paper on countercyclical capital buffer proposal.

Introduction

We are generally supportive of the reform initiatives proposed by the Committee to strengthen the stability of the global financial system. However, requiring banks to hold more capital is only part of the solution, and it should also be complemented with systemic or prudential measures. Additionally, we believe in certain jurisdictions the regulators already operate with such equivalent measures, hence we urge the Committee to have a holistic assessment of the impacts to avoid unnecessary regulatory duplication which would make us less competitive.

That said, if this proposal is implemented, the ability of a bank to manage its business could be undermined by an unduly restrictive framework of capital distribution, or by excessive regulator intervention. We are also not sure how a 12-month preannouncement requirement on part of the banks (in event of not able to meet the capital buffer requirements) would help to achieve their capital adjustment plans effectively. Our issues and concerns are detailed in the following paragraphs:

Detailed Comments and Recommendation

a. We are not sure whether this proposal by itself would effectively curb excessive credit growth. It will only partly address the supply side reform, but the emphasis of which may divert the need for reform from the demand side.

b. Rationally all banks should operate at above capital regulatory minimum. However, the issue is whether this proposal would effectively allow the banks to use the buffer during periods of downturn. Having it publicly disclosed may instead turn this into an expectation that this is the capital minima.

c. While it is difficult to devise a macroeconomic indicator that would accurately reflect the true economic conditions/credit growth of a country, it is even harder to use these same indicators across different countries and regions. As such, we are not sure how an undifferentiated "one-size-fits-all" approach would help achieve the intended objective. For implementation, we urge national regulators to proactively consider the specifics of the banking industry under their purview, as well as taking into account the individual bank's business mix, the markets it is exposed to and its growth strategies. We strongly believe that it is not equitable to require a bank to hold additional capital for the system if the excessive growth is not a result of its action or pursuit of an aggressive growth strategy.

d. Where possible the existing regulatory tools should be used to avoid unnecessary regulatory duplication. In our view Pillar 2 already provides regulators with extensive tools to address this issue. We also believe that regulators in certain jurisdictions have the powers to curb the level of capital distributions. As such, where equivalent measures are proven and operating effectively, it is recommended that the Committee to align its proposals with existing practice, rather than to introduce duplicate requirements.

e. We agree with the Committee's approach that banks should be given a timeline to build up its capital buffer requirement. However, we are concerned that during this critical period, it is important to maintain investor confidence and staff morale. For banks to execute its capital adjustment plans effectively and expediently, we support a less transparent approach to disclosure. We should not underestimate the "signaling" impact on distribution restrictions might have on the attractiveness to market investors and the need to retain and attract employees.

   We are also not sure whether this requirement, if implemented, could alter the bank's approach to staff remuneration, shifting away from a flexible-wage or performance-based system.

Based on the above arguments, it is recommended that we keep buffers undisclosed and integrate this into the existing Pillar 2 framework. This will also allow it to be tailored to the individual institution, its markets, business mix and other specificities in order to allow a robust and effective oversight.

Clarification Sought

We also like to seek clarification on the application of this jurisdictional add-on for credit exposure, whether it would be applied to the country of domicile of the lender, or to first ascertain the ultimate country of operations of the lender. If it is the latter, this could be further complicated if the lender has an international footprint across countries. We foresee there will be operational difficulties, and for practical reason, it is recommended that the Committee to consider setting materiality thresholds for the application, or a phased timeline for implementation.

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Conclusion

In conclusion, we think that the Committee should not pursue a new regime of capital buffers if there are already existing tools for national regulators to use. If it chooses to adopt this proposed approach, it is important that calibration would not create further double counting, taking into account the wider and unintended consequences.

The issue of "level playing field" remains to be a key concern to us under Basel 3. While it is the intention of the Committee to aim for common transition timetable for implementation of a common set of standards for the banking industry, we wish to highlight to the Committee that by itself it is not in a position to secure this outcome as evidence by the Basle 2 experience. For this to happen, all national regulators should adhere to the internationally agreed measures and timeline to create a level playing field.

If you have any queries or require any clarification regarding this response, please contact Hong Yew Leong at e-mail: leong.hongyew@UOBGroup.com or the undersigned at e-mail: lee.waifai@UOBGroup.com.

Yours faithfully
for UNITED OVERSEAS BANK LIMITED

Lee Wai Fai
Group Chief Financial Officer

Copy: Monetary Authority of Singapore
(Attn: Ms Cindy Mok / Mr Paul Chung)