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Dear the Secretariat of the Basel Committee on Banking Supervision,

I wish for the prosperity of your esteemed institution.
Please find comments below on implementing contingent capital.

KB Bank's opinion on implementing contingent capital.

Trigger Event

Since capital injection from public sector or decision to write-off became trigger events, national authorities have discretionary powers to decide on trigger event. Increased discretion may lead relevant authorities to abuse of the governmental authority. If the authorities decide to inject minimum public capital into financial institutions that are not having serious financial trouble, with intention to prepare in advance for the future major downfall, subordinated debt investors may have to bear the unfair loss burden. To improve upon this problem, it is desirable to set the necessary conditions by objective standard indicator to decide on capital injection or write-off (for example, BIS ratio, stock price or CDS spread)

Conversion rate

Ideal conversion rate would be to use market price of subordinated debt divided by market price of one common stock at trigger event, However there are two practical problems. First, it is difficult to find the market price of subordinated debt capital. Secondly, bond holders may attempt to put the stock price down in order to increase the number of stock that may be received at trigger event. Therefore, it is desirable to adopt fixed conversion rate when subordinated debt is issued

Market Effect

Since it is difficult to accurately measure the risk of conversion. Investing in contingent capital requires excessive risk taking in compared to the present terms of subordinated debt. Consequently, there are possibilities that market for contingent capital may not be formed in

countries that are lacking in capital market size and diversity. Therefore, National authorities need to come up with resolution framework.

Additional comments

Implementing the regulation that forces issuance of contingent capital puts heavy burden on financial institutions. Therefore, it is necessary to supplement accounting and tax system in order to relieve the stress. (For example, Contingent Capital should be excluded from EPS calculation)

Sincerely yours,

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