



KOREA FEDERATION OF BANKS

www.kfb.co.kr

9, 3-gil, Myeong-dong, Jung-gu, Seoul, 100-021, Korea T. 82-2-3705-5245 F. 82-2-3705-5215

August 1, 2012

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

E-mail: baselcommittee@bis.org

Subject: KFB comments on *A framework for dealing with domestic systemically important banks*

Dear Sir or Madam,

The Korea Federation of Banks (KFB) is a bankers' association that represents and promotes the interests of the Korean banking industry as a whole. Our membership comprises banks and other financial institutions, both domestic and international, operating in Korea.

Thank you for providing the opportunity to industry stakeholders to comment on the "*A framework for dealing with domestic systemically important banks*". Having sufficient understanding of the background behind this consultation paper, the KFB and our member banks have reviewed the paper. The following are our comments on the document.

In regard to setting the upper limit for higher loss absorbency (HLA)

The proposal suggests that national authorities solely determine additional capital requirement for D-SIB. We believe, however, that it is necessary for the Basel Committee to set the upper limit of capital requirement calibrated for D-SIB in order to create a level playing field for competition.

Particularly given that the D-SIB framework supplements the G-SIB framework, it would be appropriate for the maximum level of D-SIB capital requirement not to exceed that of G-SIB.

The proposal indicates that in the event of both D-SIB and G-SIB being applied to a bank, the higher of either the D-SIB or the G-SIB is to be imposed as additional capital requirement. However, as G-SIB imposes 0% to 2.5% depending on the importance of the system, and 3.5% in exceptional cases, and D-SIB does not require such limits, banks identified as D-SIB may end up being assigned with a higher level additional capital requirement than those identified as G-SIB.

Taking this into account, the upper limit of D-SIB HLA should be placed at the level where the maximum D-SIB capital requirement does not exceed the maximum G-SIB capital requirement.

Diversification of HLA composition

While a high level of capital requirement is continuously imposed on banks, particularly driven by Basel III, the decision to impose capital requirement in addition to the already high level of capital requirement should be made with much precaution especially in the current situations including the downturn of the global financial market triggered by the financial crisis in Europe.

Based on the above points, we are convinced that having the HLA requirement for D-SIB be met entirely by the Common Equity needs to be reconsidered and the HLA requirement should be met with not only Common Equity but also other Tier 1 capital appropriately for the circumstances of the specific country.

As an alternative, the Korea Federation of Banks suggests addressing up to 1%* of risk-weighted assets with Common Equity to ensure fairness among nations, and allowing those above the level to be met with other Tier 1 capital depending on the decision of home jurisdictions.

* The lowest level of the HLA requirement calibrated for G-SIB

Clarity on role of Recovery and Resolution Plans

The Basel Committee suggest using the following factors to gauge a firm's

systemic risk: Size or market share; Interconnectedness; Substitutability/ financial institution infrastructure; and, Complexity.

Each of these are valid, however, banks' Recovery and Resolution Plans should form a key part in the assessment of systemic risk. Therefore this needs to be more clearly built into the assessment methodology.

Thank you for providing industry stakeholders with the opportunity to comment on the BCBS's "*A framework for dealing with domestic systemically important banks*". The KFB and its members shall continue to closely follow future developments regarding this work stream. If you have any questions whatsoever about the comments we made, please do not hesitate to get in touch with me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Yung Dae, Kim', followed by a long horizontal flourish.

YungDae Kim
Vice Chairman
Korea Federation of Banks