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

Dear Sir

COMMENTS ON CONSULTATIVE PAPER: SUPERVISORY FRAMEWORK FOR MEASURING AND CONTROLLING LARGE EXPOSURES

With reference to the consultative paper issued during March 2013 in the above regard, we wish to comment as follows:

South African banks are subject, in terms of our in-country regulations which are Basel III compliant, to an additional Pillar 2A systemic risk capital requirement. One of the reasons for the introduction of a Pillar 2A capital requirement for systemic risk in South Africa was an elevated level of single name and sector concentration in South Africa, in comparison to mature economies.

Having regard to the above, we believe that a reduction in the hard limit of 25 per cent to 15 per cent for domestic systemically important banks (D-SIBs), will penalise South African D-SIBs. The Pillar 2A add-on varies from 0,5 per cent to 2 per cent and will be 0.5 per cent in 2019 when the large exposures framework comes into effect.

In addition, the framework is overly complex and aims to address too many items. In view thereof, we are of the opinion that the calibration of appropriate

thresholds may be flawed and that a more simplistic approach must be considered.

Furthermore, the threshold for defining a large exposure at 5 per cent of a bank's eligible capital base is problematic and it is unclear whether a bank should obtain the permission of its board of directors, or a committee appointed for such purpose, for exposures classified as a "large exposures" at 5 per cent or more of a bank's eligible capital base. The current statutory board approval limit for large exposures is 10 per cent in South Africa. We wish to highlight that a reduction to 5 per cent of the statutory board approval limit for large exposures will have unintended consequences relating to practicalities such as operational processes and the time required to approve such transactions by a bank's board of directors. In our opinion, such an arrangement will be impractical and decision making on smaller transactions may be delayed. Accordingly, FirstRand will appreciate receiving clarification on the envisaged large exposure limit approval processes. We strongly recommend that the current 10 per cent threshold which is used in a number of jurisdictions, be implemented and/or maintained.

It would be appreciated if you could provide reasons for changing from a "Total Capital" concept to CET1 or Tier 1 as the eligible capital base. Many of the entities within the consolidated FirstRand group report exposures on Basel I (or Basel II standardised approach) and as a result carry general provisions in Tier 2, which we believe should be included in the definition. In addition, we believe that Tier 2 instruments have greater loss absorbency as it can still be converted or written down at the discretion of the Regulator.

It is still not final what the position on exposures to central counterparties (CCPs) will be. We are of the opinion that it may be difficult to determine the interconnectedness of the clearing houses. Moreover, we believe that although banks are encouraged to make use of CCPs, it appears unreasonable to subject the CCP exposure to the same 25 per cent threshold. In this regard, we propose that consideration be given to a re-calibration of the level exposure to CCPs.

We also wish to recommend that further consideration be given to possible operational difficulties that may be associated with the application of a look through approach in respect of all underlying exposures invested in collective investment schemes. We are also of the opinion that it is inappropriate to apply a look through approach to the underlying assets in a securitisation vehicle. As an example, the structuring of the different tranches in these vehicles has to be taken into consideration, i.e. junior tranches are specifically structured to absorb losses

before senior note holders. Accordingly, it is our opinion that the approach is over-simplified since the originator may not be taking any losses as a senior note holder.

With regard to offsetting of long and short positions across instruments in the trading book, we wish to emphasise that It may be operationally challenging to apply netting based on levels of seniority. Accordingly, we would appreciate additional guidance in this regard.

In conclusion, we wish to express our appreciation for the opportunity afforded to us to comment on the said consultative paper. Please do not hesitate to contact the undersigned at Yvette.Singh@Firstrand.co.za, should you require any further information or clarity on the issues raised by us.

Yours sincerely

YVETTE SINGH
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