THE ASSOCIATION OF RUSSIAN BANKS
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April 30, 2015

The Basel Committee on Banking Supervision
Email: baselcommittee@bis.org

Dear Sirs,

The Basel Committee on Banking Supervision
Consultative Document:

«Guidance on accounting expected credit losses»

On behalf of the Association of Russian Banks (ARB), and particularly the ARB Committee on Basel II standards and Risk Management, we would like to thank the Basel Committee on Banking Supervision for the opportunity to deliver our opinion on the following Consultative Document «Guidance on accounting expected credit losses» published by the BCBS on February, 02, 2015 at [http://www.bis.org/bcbs/publ/d311.htm].

Please consider our detailed comments in the Annex on 2 pages.

We are grateful to O.Zhdanova, N.Nalimova, A.Grabar, R.Alimov, E.Anisimova, A.Kirejev, E.Mezeneva, Y.Mikhailova for their contribution in preparation of the consolidated feedback.

We hope our comments and suggestions will be of use for further development of the prudent international regulatory framework and stimulate its implementation.

In case of further questions, please, do not hesitate to get in touch with us through e-mail: arb@alfabank.ru.

Zeyn ADAM

Co-Chairman of the Committee on
Basel II standards and Risk Management
The Association of Russian Banks

Henry PENIKAS, PhD.

Head of Standing Group on
Basel III within the Committee
The Association of Russian Banks

Annex.
Comments on
Consultative Document
«Guidance on accounting expected credit losses»

№	Principle #	Question/suggestion
1	Principle 8, Point 80	A bank might develop models, which rely on experienced judgments/opinions/estimates as an element of inputed data. What is the committee general approach to the regulatory reporting and public disclose of such specific data source and models information? It would be useful to reflect what is the form of reporting on those subjective points, which are the minimal requirements to the reported/published information (structure, main descriptive and explanatory features).
2	Principle 1, point 17	We propose to recommend within the document the frequency of reporting of senior management to the Board on the results of the credit risk practices for assessment and measurement processes.
3	Principle 2, point 21	This recommendation may change the contracts' concluding practice - at present the determination of time, when the credit should be granted, is mostly a dual-sized process. If the terms and conditions of the Loan Agreement are kept, banks accept the clients' requests/ loan disbursement notices under the approved (committed) credit line. Uncommitted credit lines do not implicate any obligation to enter into any Credit Transaction. We suggest to clarify the ways of recognition of these lines.
4	Principle 2, point 31.C	We suppose the individual or flexible repayment schedule is not certainly the evidence of inadequate practice. In project financing or while financing the companies with seasonal business flexible payments seems to be appropriate. The bullet loans also seems to be usual practice for valuable and sustainable clients and should not be the evidence of inadequate practice as well if they are granted with the usual carefulness. If the term "Flexible repayment schedule" has another meaning, we propose it to be specified.
5	Principle 2, point 31.F	We suppose this valuable point should be clarified more carefully, because Russian Local Regulator does not forbid reclassification of loan in case if it is not the result of deterioration in financial position and if the relevant restructurization is approved by the Board and Local Regulator. It corresponds to the point 32.A. So, the restructured loans may be reclassified to avoid unviable decrease in credit quality. Consequently, the term "reclassification" may not certainly have negative connotation.
6	Principle 5, point 58.B	The point 58 allows the banks to outsource the function of validation the credit risk model. Using this option the banks should be sure of the quality and competency of the outsourcing company because the final responsibility for the risk assessing model rests for the bank. Transferring such vital function to unrelated company potentially may increase risks for bank. It also seems to be useful to clarify, whether the outsourcing means transferring this

№	Principle #	Question/suggestion
		function to the group company or to the third unrelated party.
7	Principle 5, point 58.B	Functions of independent review of the model validation process should be clarified in point b "Clear roles and responsibilities", we suggest to include point [e] in [b].
8	Principle 6 and the whole document	Using forward-looking models and macroeconomic forecasts for clients definitely is reasonable and will bring benefits to the banks. Propose to clarify to which extent the Credit Risk Managers should be involved into macroeconomic forecasting and financial modelling to avoid duplication of functions inside the bank. Another concern is the interpretation of the macroeconomic factors. Several borrowers may be "above" the majority of macroeconomic events because of specific industry or peculiarities of business. Propose to set up certain criterion of applicability of these factors.
9	Principle 9	We propose to recommend periods for evaluating the effectiveness of a bank's credit risk practices within the document.
10	Whole document (point 10; point 18; point 23)	Please provide clarification to the names of the Core Principle for Effective Banking Supervision #17 and 18. Suggest use Principle 17 ("Credit risk"), principle 18 ("Problem assets, provisions and reserves") in accordance with the BCBS document "Core principles for effective banking supervision" [http://www.bis.org/publ/bcbs230.pdf]
11	Whole document	We suggest to clarify the requirements to data quality and link this with another BCBS documents (for example, Pillar III), we suggest also specifying who should be responsible for data quality.
12	Point 14	Please provide links to the relevant documents.