March 27, 2015

Basel Committee on Banking Supervision
Bank for International Settlements
Basel, SWITZERLAND

Attn: Mr. David Leon
Deputy risk manager of Banco de Crédito del Perú
Banco de Credito del Perú

Re: Comments on the proposed revisions to the credit risk standardized approach

Dear Sirs and Madams:

We appreciate the opportunity to comment on the Basel Committee on Banking Supervision's (BCBS) proposed revisions to the credit risk standardized approach (SA).

General comments

1. It's no necessary to discard the use of external ratings in the case of banks and corporate exposures. On the contrary, it must be complemented with the proposed risk drivers because the proposed risk parameters do not necessarily increase the risk sensitivity. On the other hand, the new Basel securitization framework continues to use external ratings and so does the new market risk framework proposed in the fundamental review of the trading book.

2. The executive summary of the consultation document states that "Increasing overall capital requirements under the standardized approach for credit risk is not an objective of the Committee." However, the proposed changes result in higher capital requirements, particularly for high quality portfolios. For example, lower risk weigh for bank exposures would increase from 20% to 30%, while, for corporate exposures would increase from 20% to 60%. In addition, the credit conversion factor (CCF) for unconditionally cancellable commitments would increase from 0% to 10%.

3. Increasing capital requirements, as proposed in the new SA, could encourage banks to take more risks, to reduce risk management and to extend credit to different borrowers with lower credit quality.

4. If it is necessary to review the existing credit risk SA, we suggest that the BCBS focus to making improvements in specific areas such as the treatment of unrated corporate exposures and exposures guaranteed by residential real estate, leaving areas where the framework currently works sufficiently well unchanged.

Banks exposures

5. The use of risk drivers such as CET1 and NPA in banks would make capital requirements more procyclical. This would cause to increase capital requirement in a downturn. In particular, in the case of a bank that does not meet the minimum CET1, in a recession would have a risk weight of 300%, which could also result in increased costs or reduced capacity to rise funding.

6. We consider that bank ratings did not have the same weaknesses as ratings on sovereign and corporate bonds; therefore, external ratings should be retained for bank exposures.

7. The Committee proposes to apply a preferential risk weight to short-term interbank claims, so as not to negatively impact market liquidity in interbank markets. Short-term interbank claims are defined as having an original maturity of three months or less. Claims with an original maturity of three months or less which are expected to be rolled over do not qualify for this preferential treatment. With respect to this paragraph, we consider that short-term claims are usually rolled over, so this treatment should be allow banks to apply the preferential treatment of short-term interbank claims despite of the fact that they are expected to be rolled over.

Corporate exposures

8. For corporate exposures, we also suggest the use of external ratings complemented by proposed risk drivers. However, we recognize that a significant portion of corporate exposures have no external rating in some jurisdictions. In this respect, we believe that external ratings approach should be complemented with internal rating approach for unclassified corporate exposures.

9. The assigned risk weights for corporate exposures appear to be excessive. We note, for example, that the risk weight for companies highly rated (AA or higher) will be triplicated (from 20% to 60%). This proposal should be contrasted with empirical evidence if such increase in risk is justified.

10. We do not agree with the use of the same risk driver (revenue and leverage) for small and medium-sized entities (SMEs). This proposed treatment do not take into account the fact that most exposures to SMEs are highly collateralized comparing to exposures with large corporates. Therefore, it is necessary to consider a separate treatment for SMEs to better reflect their risk.

Exposures secured by residential real estate

11. The two proposed risk drivers for exposures secured by residential real estate, loan to value (LTV) and debt service coverage ratio (DSC) could cause complications in implementation across jurisdictions. For example, the existence of different tax regimes could complicate the estimation of "disposable income" affecting the

calculation of DSC. Moreover, if the loan is for the first mortgage, it should be allowed lower risk weight.

12. Regarding the proposed risk weights, we believe there are no enough granularity, especially in the lower range of LTV, for example, the risk weight for all LTV below 40% seems too conservative (10% of LTV is has the same risk as a mortgage with LTV of 39 %).

13. In addition, for exposures with additional guarantee (considered under SA) the risk weight should be lower.

Exposures secured by commercial real estate

14. For exposures secured by commercial real estate, we believe that the guarantee should be taken into account in determining the appropriate risk weight. In this sense, option B is preferable. Nevertheless, the ranges of risk weights are similar to those of unsecured (60 % to 130 % vs 75 % to 120 %). We suggest changing those risk weights to reflect the appropriate risk.

Off-balance sheet exposures

15. We consider that the proposal to increase to 10% of “Commitments that a bank may cancel unconditionally and at any time without prior notice, or that effectively provide for automatic cancellation due to the deterioration in a borrower’s creditworthiness, currently receive a 0% CCF” is excessively punishing that kind of loans. This parameter should be calibrated with the use of internal models. In addition, this CCF is punishing for high credit quality clients (with lower utilization).