Bangkok Bank

September 10, 2015

Mr. William Coen
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2, CH-4002 Basel
Switzerland

**Re: Comments on the BCBS consultative documents on the Consultative Document on Interest rate risk in the banking book (IRRBB)**

Dear Secretary General Coen

Bangkok Bank Public Company Limited ("the bank"), operated as one of major commercial bank in Thailand appreciate the opportunity to comment on the Consultative Document on Interest rate risk in the banking book (IRRBB).

The following feedback and suggestions submitted herewith are geared towards strengthening IRRBB framework whilst aiming to retain an appropriate representation of risks with a view to minimizing unnecessary complexity, where possible.

The bank understands and appreciate that BCBS's initiative are to strengthen risk management framework for IRRBB, especially the application and quantification of basis risk and optionality articulated in the consultative document. Banks can take this opportunity to review and improve some of their IRRBB management as well as measurement methodologies.

In summary, the bank felt that it is difficult to apply the same prescribed IRRBB methodologies to banks across jurisdictions although they have similar balance sheet structure and composition. That is because the difference of market environment, characteristic of interest rates, banking business model and products, and customer behavior across jurisdictions is remarkable. Banks should manage their IRRBB based on their own internal data, not the parameters uniformly prescribed by external regulatory parties. We, therefore, believed that the One-size-fits-all approach will not work for IRRBB and are of the opinion that an enhanced Pillar 2 approach along with Pillar 3 disclosure, similar to current process, is more appropriate than applying Pillar 1 minimum capital requirement.

Also, the bank generally do not agree with BCBS's proposed standardized approach within Pillar 2 and disclosures, as this would make the Pillar 2 approach primarily no difference from the earlier proposed Pillar 1 approach. The following are supporting reasons for the conclusion above :

**Overall comments :**

Since banks have traditionally managed their balance sheet with an ultimate objective of optimizing net interest income (NII) in the short term and enhancing shareholders' value in the long term, we believe that in an adverse environment IRRBB may lead to lower earnings but not necessarily to negative earnings. The positive earnings can be used to absorb potential negative IRRBB impact either in the form of NII impact or EVE impact. The bank strongly believe that standardization of regulatory treatment of IRRBB is highly inappropriate given lots of differences in economic environment, taxation practice, customer behavior as well as market practices, pricing and products offered by banks across jurisdictions. A rigid approach to standardization may lead one to believe that notional comparability is achieved, but it will come at the expense of masking and, as a consequence, distorting banks' real risk exposures which could lead to adverse consequences.

One of the most important sources of year over year earning variability comes from structural interest rate risk which derives from having to invest non- or low-interest bearing liabilities (including demand deposits) into interest-bearing assets. As non- or low-interest bearing liabilities (particularly the core component) are stable over time, the earnings for the bank are necessarily dependent on market rates. This is the reason why IRRBB requires adopting a going-concern perspective. Thus, we strongly believe that the regulatory approach to IRRBB should be consistent with going-concern management of IRRBB and that variability risk should not attract a capital charge.

The suggested Pillar 1 framework, if implemented, would result in a uniform (consistent) IRRBB representation across banks, but may not be reflective of actual risks and risk management/mitigation done by banks. It may lead to an inaccurate representation of IRRBB for many banks. Furthermore, the capital requirement for IRRBB is not logical and would make the management of banking business more complicated and burdensome. It is not logical in the sense that the mark-to-market gain/loss of investment in banking book debt securities already has direct impact to the Common Equity Tier 1 capital under Basel III framework. The other complication is that banks have to maintain certain level of HQLAs to meet minimum LCR which may, in some cases, lead to higher EVE or NII impact and hence higher IRRBB capital charge. It is questionable how banks could manage their balance sheet to meet both LCR and IRRBB capital requirements and simultaneously achieve an expected level of shareholders' return. Since the BCBS had already put tremendous effort to establish Basel III as well as the enhanced risk-capital coverage, re-define the quality of capital and introduce capital buffer, Leverage Ratio, LCR and NSFR, all of which are on the verge of full implementation by various regulators across the globe, it should considers the aggregate impacts of all requirements so as to avoid the situation where banks are overly regulated and unavoidably pass the regulatory costs onto customers, and eventually encourage the un-controlled Shadow Banking activities.

In addition, the disclosure requirement under the enhanced Pillar 2 alternative is too demanding. Certain information such as hedging strategies is proprietary and confidential and should not be required for full public disclosure. We also confuse why public disclosure requirement falls under Pillar 2 (Supervisory Review Process) instead of Pillar 3. Also, the consultative document did not elaborate the implication of standardized Pillar 1, if selected, on the disclosure requirement. The requirement of reporting to supervisors is also too demanding, in particular the advance notification to supervisors of any change of IRRBB internal limit structure, modeling system/methodologies or behavioral assumptions. The bank would rather suggest that banks should only be required to have all governance process regarding the internal approval of these changes in place and to make these information available to the supervisors when requested.

Also, the requirement to allocate internal capital to IRRBB under Principle 9 should be elaborated more in details. From the consultative document, we interpret that there are 2 steps of capital allocation. Firstly, the allocation of capital for IRRBB. Secondly, the internal allocation of IRRBB capital to the "business lines" of capital costs that aligns incentives with risks. It is unclear whether the "business lines" stated in the consultative document refer to the business units who originate and own interest rate risk positions such as loans and deposits units, or the central treasury unit who centrally manage IRRBB of the bank. We also have an opinion that the latter issue on capital allocation should be i at the bank's discretion to allocate IRRBB capital further to relevant units. It seems too intrusive for BCBS to interfere with how banks measures and manages internally.

## Technical Aspect :

Treatment of position amenable to standardization : The methodology of slotting the spread component of all floating rate positions in the repricing gap buckets is too complicated and do not add much value to the assessment results compared to the effort required. For simplicity, we think that ignoring credit spread element should be acceptable for the assessment of IRRBB.

Treatment of basis risk : The bank agree that basis risk is an important source of interest rate risk but only the significant component of basis risk, i.e. reference rate basis risk should be taken into account, while the short-term non-parallel gap risk, which arises between different reset frequency of the floating rate tenor (eg. 1M vs 3M, 3M vs 6M), is considered small and could be ignored.

Treatment of non-maturity deposits : For the Time Series Approach which is the separation of NMDs into core and non-core, the bank feel that if banks can prove that their Retail NMDs products are non-remunerated, it is not necessary to segregate Retail NMDs into Retail/transactional and Retail/non-transactional accounts for the application of the 3 parameters i.e. Implied cap on Core NMDs, Stability Cap and Pass-through Floor. This is for simplicity of implementation. In addition, most banks especially those in emerging markets are unlikely to have long historical data of segregated transactional and non-transactional deposit balances to conduct such analysis.

Cash flow bucketing in Subsection II 2.1 excludes the notional repricing cash flows arising from Basel III capital instruments. The bank think that an exclusion of Tier 2 capital instrument is logical in the aspect of loss absorption characteristic of these instruments. However, the consultative document does not clarify how banks should treat derivative positions used for hedging interest rate risk of these Tier 2 capital instruments, if any, nor does it clarify the treatment for non-compliant Basel III Tier 2 capital instruments (old Tier 2) which are still outstanding on the balance sheet of some banks.

The use of the present value in the assessment of IRRBB under earnings-based (NII) approach is not necessary if the time horizon (T) is as short as 1 year because the impact is likely insignificant.

In conclusion, the bank believed that the One-size-fits-all approach will not work for IRRBB and are of the opinion that an enhanced Pillar 2 approach along with Pillar 3 disclosure, similar to current process, is more appropriate than applying Pillar 1 minimum capital requirement.

Thank you for your kind considerations.

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