Bangkok Bank

July 15, 2016

Mr. William Coen
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2, CH-4002 Basel
Switzerland
e-mail : baselcommittee@bis.org

Re: Comments on the BCBS Consultative Document on "Guidelines Prudential treatment of problem assets – definitions of non-performing exposures and forbearance" ("the CD")

Dear Secretary General Coen,

Bangkok Bank Public Company Limited ("the Bank") appreciates this opportunity to comment on the Consultative Document issued by the Basel Committee on Banking Supervision ("the Committee") : Guidelines Prudential treatment of problem assets – definitions of non-performing exposures and forbearance.

The Bankappreciate the Committee's effort to harmonize different definition, usage and disclosure of asset quality within and across jurisdictions as a consistent supervisor layer complementing the other regulatory and accounting credit categorization schemes. However, to achieve optimal prudential disclosures to the market, improve bank's internal credit categorization systems for credit risk management and supervisory monitoring, the Bank would like to provide comments and/or recommendation for the proposed CD as following details:

General comments

The Bank believe that various applications have different underlying objectives. Thus, harmonization, though logical, is not always possible. The proposed amendment of the non-performing exposures and forbearance definition will trigger considerable adjustment needs for all banks in Thailand and across the globe. This will impact in particular the historical data being used in the model which have to be adjusted. Therefore, if implemented, sufficiently long implementation periods should be allowed for institutions so that they can carry out the required process and method adjustments. It is uncertain that such action would benefits the whole industry and whether or not the cost of doing so would greatly compensate the benefits. In addition, while the proposed harmonization rules and practices can be a justified goal for the regulatory point-of-view,, not all definitions and practices can be harmonized due to national specific usages and legislative differences.

Apart from specific difference between the current proposed CD and what had been in practice in Thailand, the definition used in our jurisdiction may less broader than proposed version in term of exposures and classification of non-performing, those practice had been well disclosed in the financial statement where stakeholders, particularly institutional investors as well as analysts well understood such practice.

Refer to the Committee's objective of previous CD on capital requirement where it stted ins intention is not to substantially increase in capital requirement to banking institution, in line with above objectives, in order to harmonised standard definition and reporting, it should not substantially increase in non-performing exposures and subsequently higher provisioning level. The Bank understand that when the European Banking Authority's definition of NPEs and forbearance was published in 2014, it prompt some member banks to significantly increase their provisioning levels.

Jargon

Moreover, such harmonization should not disregard currently imposed issues from other regulatory bodies to ensure consistency. The proposed guidelines should not be in contrast with IFRS 9 where several issues even in contradiction with the newly finalised IFRS 9, e.g. transfers between stages, cure period, treatment of forbearance, and number of days past due.
According to paragraph 24:
The following exposures are considered as non-performing:

1. All exposures 'defaulted' under the Basel framework (e.g., paragraph 452 and following of the Basel II rules text and their subsequent amendments); or
2. All exposures impaired (in the meaning of exposures having experienced a downward adjustment to their valuation due to deterioration of their creditworthiness) in accordance with the applicable accounting framework; or
3. All other exposures that are not defaulted or impaired but nevertheless are:
   3.1. Material exposures that are more than 90 days past due; or
   3.2. Where there is evidence that full repayment of principal and interest without realization of collateral is unlikely, regardless of the number of days past due.

Besides, no efforts has been mentioned about the difference in term used for similar meaning e.g. non-performing exposures, impaired assets and defaults exposures used by banks for different purposes covering Basel, accounting and internal risk management. With regards to the days past due, the IFRS9 standard uses the term 90 days and more past due while the CD, according to Paragraph 24 (also Paragraph 452 of Basel II framework) refer to 'more than 90 days past due.. While this may seem a minor difference, it can increase the complexity, thus, more alignment should be sought with the IASB.
Also, regarding the disclosure of information, this could lead to confusion among public users if 'Non-performing' is to disclose in Pillar3 while 'Impaired' is to disclose in notes to financial statement. Hence, we would recommend same jargon, either 'Non-performing' or 'Impaired' or what else, to disclosure in both places. That would deliver better benefits to public users of the information. Generally, Stage 3 of IFRS 9 includes exposures that are credit-impaired (e.g. in case of significant financial difficulties of the debtor, breach of contract, concession due to financial difficulties, the probable bankruptcy of the borrower etc. However, the condition that all exposures classified as 'Stage 3' under IFRS 9 are treated as defaulted should be applied in a more flexible way, otherwise it may prevent from reclassifying in performing status some asset typologies like purchase or originated credit impaired (POCI) assets, which according to the accounting principles remain in Stage 3 also after having being restructured. POCI are treated differently because they are credit impaired at initial recognition. According to the IFRS 9 accounting principles under certain conditions the POCI must remain in Stage 3 for their entire maturity regardless of their credit recovery and performance also if they could be classified as performing. Hence, we would suggest that the Committee 's guidelines embed a Stage 3 definition as it will be adopted in

the relevant accounting operative rules avoiding automatism between stage 3 and default. Also, while most of the exposures in default would end in Stage 3 under IFRS 9, the reverse may not be automatically true. There could be situations where some Stage 3 are not in default defective, for example when national options exist, but also for some technical defaults

Reclassification

With regards to paragraph 32 of the CD, the bank generallyagrees with those criteria. However, the bank proposes that BCBS should leave some authority to supervisors of each jurisdiction (as National Discretion) to determine additional "reclassification of non-performing exposures to performing exposures" criteria, in order to well suit each jurisdiction's environment and legal framework. For example, in our practice, when a court agrees with and accepts a customer's rehabilitation plan, it is considered that the customer has legally completed the restructuring and on-going payments are assumed to be paid according to the agreed plan. As a result, the customer status will then be reclassified from non-performing to performing. The same issues also applied to disclosed information to National Credit Bureau should synchronized with national legal framework, not accounting treatment nor external regulatory standard.

Probation period

With regard to the proposed probation period for return to non-default status, the Bank believe that counterparties should instead move to the non-default as soon as the obligation is paid in or we would like to suggest 3 months probation period. This is particularly crucial for default trigged by past due.

Technical default

When implementing the proposed definition of technical default, it should be borne in mind that individual institutions could be confronted with considerable IT and procedural implementation costs. Technical identification could result in an undesirable change in default status. For example, after the occurrence of the default event, it has to be established whether the customer rendered payments which were not taken into consideration in time. In that case the default event has to be reset manually after the review. The resulting high effort would be unjustified in view the low materiality of technical defaults. Even though the proportion of technical defaults is low, all the defaults would, nevertheless, have to be analysed.

For your kind consideration.

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