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Secretariat of the Basel Committee on Banking Supervision,
Bank for International Settlements,
CH-4002 Basel,
Switzerland
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Dear Sir,

We, the Basel Club, a working group comprises representatives from Thai Banks, appreciated the opportunity to comment on the BCBS consultative documents "Revisions to the standardized Approach for credit risk".

We agree in principle with BCBS' initiatives to strengthen and harmonize credit risk capital standards by enhancing risk sensitivity of the calculation method. However, there are crucial points which should be taken into consideration.

Firstly, the released consultative document has not provided sufficient information about neither the basis BCBS used to derive the proposed calculation such as dual risk drivers, which allow diverse possible interpretations as well as implementation practices, nor the basis of the new proposed risk weights, not to mention the difference on local taxes and accounting standard practices. It is therefore difficult for banks to provide justifiable comments on the consultative document in such a short period of time.

Secondly, the proposed methodology will certainly lead to unintended consequences in emerging economies. It penalizes SMEs classified as corporate asset class and project finance loans since they will be assigned relatively higher risk weights than large corporates, ignoring SMEs' portfolio diversification nature. Financial statements in emerging market reported by SMEs in particular might not reflect true financial health and business activities of SMEs as those financial statements were prepared primarily for taxes purpose. Emerging market banks, in practice, must rely on their internal reconstruction of customers' financial statements as well as other factors, including collaterals, to mitigate or reflect more accurate financial status of SMEs, which may not be the same practices as those used by more developed market banks. Adopting the new proposed basis will undermine the economic growth of emerging countries where SMEs and investment in infrastructure are prevalent. Moreover, higher credit conversion factor applied to uncommitted credit line will have a direct impact on all corporate entities, including SMEs in particular, in bank-based emerging countries where SMEs and corporate entities typically rely on working capital credit lines from commercial banks as the depth of capital market has so far limited. The proposed new guidelines, as the rule, will undeniably incentivize banks to reduce or eliminate such liquidity supplementary mechanism, or to pass on their cost to customers, resulting in increasing credit cost to both SMEs and other corporate lending.

Thirdly, BCBS should also consider the aggregate impacts of other implemented or to-be-implemented requirements and/or guidelines which have not yet been fully materialized and carefully assessed or properly determined by each local regulatory bodies of its intended and un-intended consequences on each respective market.

We, therefore, would like to make the following proposals:

- <u>Supporting information and period for comments.</u>
  BCBS should provide more supporting information on the basis of how each risk drivers and risk weights are derived and consider postponing the period for comments for at least 3 months after such information is provided.
  Regarding QIS exercise, we are of the opinion that BCBS should provide more clarification on definition of the data required and that banks should have lengthy period of time to accurately complete the QIS template so that BCBS can effectively evaluate the combined results and able to make more well-informed decisions.

- <u>Impact assessment of the proposed rule</u>
  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, introduce Leverage Ratio and Liquidity Ratio, all of which are on the verge of full implementation by various regulators across the globe. Therefore, instead of starting to overhaul the above new standards, BCBS should alternatively use existing tools such as Pillar II and Pillar III to enforce proper alignment and for the time being considers the aggregate impacts of all requirements which are not yet implemented such as leverage ratio, LCR, NSFR and other capital buffers. Such alternative approach helps avoid the situation where banks are overly regulated and that the regulatory costs may be passed onto customers and eventually impact the real sectors or may encourage the un-controlled Shadow Banking activities. BCBS should also focus on the impact of the new Standardized Approach for Credit RWA on emerging markets specifically. We believe the proposed rules are calibrated with the aim to prevent the next global financial crisis as previously happened in the US and Europe. However, emerging economies are operating in a different financial landscape, so one-size-fit-all approach is certainly not suitable.

Banks in emerging market, like us, need to be able to support the well-being of our local economy that still largely relies on bank funding. Therefore, we believe that it is appropriate for local emerging market central banks to perform such task and BCBS should allow certain flexibility for each central bank to exercise its discretion to balance both banking stability and global economic stability.

Thank you for your kind consideration.