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Secretariat of the Basel Committee on Banking Supervision,
Bank for International Settlements,
CH-4002 Basel,
Switzerland
e-mail : baselcommittee@bis.org

Dear Sir,

We, Basel Club, an association of Thai commercial banks, are writing to express our concerns on the consultative document "Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches". While we support the Committee's stated objectives of "(i) reduce the complexity of the regulatory framework and improve comparability and (ii) address excessive variability in the capital requirements for credit risk", the consultative document does not address the issue of maintaining risk sensitivity. Imposing both capital floor and parameters floors would reduce risk sensitivity in capital framework and make banks unable to accurately measure risk and make fair pricing decisions. Banks would be discouraged to lend to better creditworthy customers since there is no pricing differentiation and in turn result in even riskier portfolio. Eventually this will threaten stability of the global banking system and lead to unstable economy. The comments regarding these issues are as follows:

Floors: We are of the opinions that by imposing capital floor and parameters floors, capital requirement would unnecessarily be insensitive to risk in the banks' portfolios. To ensure that capital ratios appropriately reflect the financial strength of banks it is essential that capital ratios reflect risk levels the banks are exposed to.

- Applying floors for model-parameters such as PD floor would limit banks' ability to measure risk accurately. Bank's internal risk assessment allows banks to properly measure risk, allocate capital and make pricing decisions accordingly. With parameters floors as constrain, risk will be distort. Banks would have to pass the unnecessary cost to high credit quality customers or in worse case lend to less creditworthy customers and in turn result in even riskier portfolio. This will eventually threaten stability of the global banking system.
- Capital floor are unduly costly in terms of system development, system maintenance and human resources. It also would not incentivize banks to improve their risk management and would compromise the risk-sensitivity of the main capital framework.

Low default portfolios: While we somewhat agree that models for low default portfolio may not be highly predictive due to data insufficiency; however, totally abandoning such models, and relying heavily on asset size should not be the only factor determining capital calculation approach. Doing so would unnecessarily penalize large corporates with high credit quality.

We support risk sensitivity as a fundamental principle to capital framework and recommend that any form of floors whether capital floor, parameters floor or floor for certain exposures (applying Standardized Approach instead of IRB) should be very carefully designed and calibrated.

We believe that financial stability is in the interests of all parties. However we are genuinely concerned that reducing risk sensitivity in the framework and unintentionally increasing capital requirements will be damaging to the real economy.

Thank you for your kind consideration.

A handwritten signature in blue ink, appearing to be 'M. P.' or similar, with a long horizontal stroke extending to the left.