

Comments on the Consultative Document of the Basel Committee on Banking Supervision

Revisions to the Standardised Approach for credit risk

We welcome the opportunity to comment on the BCBS review of the standardised approach (SA) for credit risk.

Below we discuss briefly a number considerations for individual topics.

Reducing mechanistic reliance on ratings

We agree on the need to reduce the weight of the ratings for the determination of capital requirements. This need, however, requires a more far-reaching regulatory intervention aimed at increasing transparency in the evaluation process by the rating agencies and to increase the independence and objectivity.

The provision of due diligence does not appear at the time a viable solution, leading to an increase in general costs (especially on customers funding rates) without generating significant benefits. It is unclear who is as it should conduct due diligence, and it is unclear why the due diligence would generate a more reliable result of the rating of a rating firm. One additional verification step would undermine the credibility of all internal control processes, auditing firms and rating agencies.

Retail exposures

The definition of retail exposures includes a series of specific criteria ,including that of granularity:

"No aggregate exposure to any single counterparty can exceed 0.2% of the overall regulatory retail portfolio, the unless national supervisors have determined another method to Ensure satisfactory diversification of the regulatory retail portfolio."

This criteria appears to be extremely penalizing and source of capital requirements increase, especially with regard to traditional small and medium size banks with a significant number of exposures secured by real estate.

It seems obvious, but the current assets of banks are the result of years of business development policies based on previous relevant regulations. The inclusion of a new criterion so stringent would generate an unjustified increase in the capital requirements, undermining even the risk / return profile at the time adopted, necessarily entailing an increase in the funding cost of the customer. To this ends, the prediction of 1 million Euro limit appears already in itself therefore adequate, it is believed that the second limit of 0.2% should be raised to a higher level not inferior to 1% of the portfolio. It also points out that the calculation model of concentration risk, for example in use in Italy the so-called Granularity Adjustment, already provides an add on to the credit risk as a function of the single name

concentration. This model, associated with the proposed revision of the criteria for the identification of a retail counterpart, would generate an unjustifiable increase in the capital requirement.

Real estate exposures

We appreciate the new proposal of a revision instead of previous indications based also on Debt Servicing Coverage (DSC).

With reference to the current proposal, the indications for the commercial real estate may, in some cases, severely penalize certain economic sectors. Arises, for example, the case of receptive hotel sector, where the repayment is often dependent on the cash flow generated by the building. A clarification of the cases where that shooting conditions and when they can be excluded, for example, by distinguishing cases of counterparts belonging to the same risk group, where it often happens that a company is the registered holder of the property and financing, and another company is the operating company that pays the rent to the previous one, although both belonging to the same economic entity.

We highlight also the need to provide for an adequate transitional period aimed at keeping unchanged the risk-return profile of the loans already in place.

General considerations

The Revisions to the Standardised Approach for credit risk fits in a time of profound change in the regulatory environment. The Basel III provisions are still not fully operational and is expected briefly the new accounting standard IFRS 9, the effects of which are expected extremely relevant on loan evaluations and provisioning processes.

All the novelties in the Standard Approach should not create an undue increase in capital requirements, above all on all existing credits. Moreover, one must consider that the current environment of low interest rates has also changed customer behavior, more inclined to increase its debt because of the low cost of supply (consider the implications to the LTV rate).

It should be noted, finally, that the most recent and relevant banking crises mainly involved banks that adopted the IRB approach, while the smaller crises have been generated by deficits in governance and internal control systems.

Thank you for your attention.

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