

Secretariat of the Basel Committee
on Banking Supervision (BCBS)
Bank for International Settlements
CH-4002 Basel, Switzerland

July 4, 2019

Dear Basel Committee members:

Re: CBA¹ Comments on BCBS Consultative Document *Consolidated Basel Framework*

Thank you for the opportunity to provide comments on the BCBS's consultative document *Consolidated Basel Framework* ("the consultative document"). We agree that the consolidated framework is comprehensive in nature and we welcome the centralized repository for the BCBS's full set of standards. We find the layout to be clear. In addition, the framework provides easy access to the policies on various topics and offers a complete view of all the standards.

We also support the technical amendments that are outlined in the consultative document and find them to be very helpful. The technical amendments clarify various interpretation challenges associated with having multiple BCBS standards and they remove ambiguities in certain areas. For example, some of the notable positive changes we would like to highlight include the technical amendments related to the simple approach to credit risk mitigation and SA-CCR, SA-CVA margin period of risk, and splitting of netting sets. We have included a small number of detailed comments including requests for clarification on certain technical amendments and FAQs in the attached appendix.

Thank you for undertaking the work to consolidate the Basel framework and for making the related technical amendments. We would be pleased to discuss our submission at your convenience should you have any questions.

Sincerely,



Attachment

¹ The Canadian Bankers Association is the voice of more than 60 domestic and foreign banks that help drive Canada's economic growth and prosperity. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals. www.cba.ca.

**CBA Comments on BCBS Consultative Document
'Consolidated Basel Framework'**

CBA Members' Comments and Requests for Clarification

1. Technical amendments (p. 4)

1.3 Standardised approach for credit risk (p. 4)

1.3.2 Commercial entities (p. 4 - 5)

We note that Basel II paragraph 35 (significant investments in commercial entities, page 9)) was amended with Basel III paragraph 90 (former deductions from capital, page 27) to remove reference to the two Basel II materiality thresholds (i.e. (1) for individual investments, 15% of the bank's capital; and (2) for the aggregate of such investments, 60% of the bank's capital). However, we note that these two materiality thresholds now re-appear in the consolidated Basel framework in both the 2019 version (CRE 20.32) and the 2022 version (CRE 20.61). We request clarification on the re-inclusion of these materiality thresholds in the consolidated Basel framework.

1.3.4 Guidelines for implementing the mapping process (p. 5)

We note that the current version of CRE21.4 refers to the March 2019 Guidelines whereas the actual date for these Guidelines on "Standardized approach – implementing the mapping process" is April 2019. A hyperlink to these Guidelines would also be helpful for reference.

1.4 Standardised approach: credit risk mitigation (p. 5)

1.4.1 Eligible financial collateral (p. 5)

Allowing the use of the sovereign issuer rating when a security issued by a sovereign is not rated is a welcome change. We would like to clarify whether the same treatment is extended to public sector entities and agencies that are implicitly guaranteed by the sovereign.

1.4.3 Treatment under the comprehensive approach of securities financing transactions covered by master netting agreements (p. 5 – 6)

We would like to clarify if the change should apply everywhere that mentions "repo style transactions" (e.g. paragraphs 158, 169)?

CBA Members' Comments and Requests for Clarification

1.5 Internal ratings-based approach for credit risk (p. 6)

1.5.2 Definition of bank exposures (p. 6)

The Standardised Approach for "*subordinated debt, equity, and other capital instruments*" covers issuances by both corporates and banks. We welcome clarification on the inclusion of subordinated debt, equity, and other capital instruments issued by banks in the definition of bank exposures in the future 2022 IRB section (CRE30.18). By the same logic, it would be helpful if clarification on subordinated debt, equity and other capital instruments issued by corporates can also be provided in the relevant section(s).

2. FAQs (p. 10)

FAQs on Additional Tier 1 and Tier 2 capital eligibility criteria (the measurement of Additional Tier 1 and Tier 2 capital instruments should consider any tax liabilities or payments resulting from conversion or write-down):

- We believe the references should be CAP10.11 FAQ23 (instead of FAQ15) and CAP10.16 FAQ9 (instead of FAQ3).

CRE52.1 FAQ3 – Decomposition of a product in simpler contracts resulting in the same cash flows

The FAQ only states explicitly that banks are not allowed to decompose linear products. We interpret this as structured products, in addition to options explicitly described in the FAQs, which are eligible for decomposition into simpler contracts resulting in the same cash flows. We request that clarification be provided in the text.

MAR50.5 FAQ1 – All fair-valued SFTs to be included in the scope of covered transactions

We believe this is a conservative treatment. If zero CVA is attributed to fair-valued SFTs for accounting purposes, there are no sensitivities to be allocated to such transactions. As such, in principle, SA-CVA would be zero. Could the BCBS please clarify if the intent is to require that BA-CVA would have to be calculated for these fair-valued SFTs which have zero accounting CVA?