

Basel Committee on Banking Supervision

Bank for International Settlements

CH-4002 Basel, Switzerland

June 22, 2016

**Re: BCBS Consultation on Reducing variation in credit
risk-weighted assets – constraints on the use of internal
model approaches**

Dear Sir/Madam,

China Banking Association (“CBA”) appreciates the opportunity to comment on the Basel Committee on Banking Supervision Consultative Document: **Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches** dated March 2016.

China Banking Association (CBA) is a nationwide non-profit self-discipline organization of China’s banking sector. CBA serves for the common interest of its members through the functions of

self-discipline, rights protection, coordination and service so as to safeguard lawful rights and maintain market order of the banking sector, and promote the healthy and sustainable development of the industry. By April 2016, CBA has 585 members and 4 observers.

We sincerely appreciate the great endeavors you have made on the Consultative Document: **Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches** , as well as the opportunities you have provided to solicit the industry's comments on it.

On this important topic, we therefore have solicited our member banks' main comments as below for your reference, which we hope can be helpful. And we sincerely appreciate the great endeavors you have made in the global financial regulatory reforms.

Yours sincerely,

A handwritten signature in black ink, reading "Yang Zaiping". The signature is written in a cursive, flowing style with some ink bleed-through from the reverse side of the paper.

Yang Zaiping

Executive Vice President

China Banking Association

Specific Comments

Comment 1: We suggest that careful considerations should be given to the proposal of removing IRB approach for large corporates.

We suggest continue allowing IRB approaches for large corporates, for the following reasons:

(1) For Chinese large corporates, the degree of business integration is relatively low, and the homogeneity within industry is more apparent than that within the size group. Therefore, it doesn't reflect the actual risk feature if risk weights are simply driven by the size factor.

(2) For large corporates, the actual default is rare, and the introduction of PD floors already enhanced the model estimation, therefore the prudential problem of estimated PD for large corporates is mainly solved.

(3) If corporate customers are subject to different measurement approaches according to their size, it may result in regulatory arbitrage. Meanwhile, it would not be able to compare credit risk across corporate customers by the same ruler (e.g. PD). Furthermore, corporate customers would have to shift measurement methods whenever its size changes, resulting in operational difficulties and potential "cliff" effects.

(4) For Chinese banks, there are many SME exposures guaranteed by large corporates. If large corporates can only use standardized approach, it'll be difficult for these guaranteed SME exposures to adopt the substitution method for risk mitigation.

(5) Finally, banks would have to develop multiple models for corporate risk exposures, which will greatly increase the complexity of risk exposures identification, system development and RWA measurements.

Comment 2: We suggest that careful considerations should be given to the specific calibration of PD and LGD floors.

The reason is as follows: In the Consultation Document (“CD”), the PD floor for retail exposures is increased to 5bps or 10bps, and the LDG floor for QRRE and other retail exposures are set at 50% and 30% respectively. Compared with current approach, this might lead to large increase in capital requirements for retail exposures, and causing great impact on capital adequacy ratio. Therefore, we suggest that careful considerations should be given to the calibrations of parameter floors of retail exposures based on the QIS results.

Comment 3: We suggest simplify the treatment of the secured LGD for retail exposures.

In the CD, when the loan is secured by multiple types of collaterals, the secured LGD floor should be calculated as the weighted average LGD according to the ratio of different collateral amount to EAD. We suggest adopt a simplified method for retail exposures in this case, i.e. the secured LGD floor is simply the correspondent LGD of the type of collateral with the least risk-mitigating capabilities. The reason is as follows:

(1) The proposed weighted average method requires banks to conduct extensive calculations to decide each collateral to EAD ratio at each loan level at each reporting time, resulting in high complexity and calculation cost for banks.

(2) The proposed weighted average method would result in different LGD floor for each loan, due to the different collateral structure. Hence the same retail asset pool would have various LGD for different loans in the pool, causing difficult in the asset pool management for the retail portfolio.

Comment 4: We suggest modify the classification standards of the two subcategories of QRRE.

In the CD, the retail QRRE exposure can be further classified into transactor and revolver, with different settings of parameter floors. Transactors are facilities such as credit cards and charge cards where

the balance has been repaid in full at each scheduled repayment date for at least 6 months since its open date. Other QRRE are all considered as revolvers.

However, in practice, customer behaviors change over time, use the too long data history may not correctly reflect the current risk profile. Furthermore, banks may not be able to keep records of the whole data history especially for the long kept customers. Therefore, we suggest the following revision of the definition for transactor: QRRE transactors are facilities such as credit cards and charge cards, where (1) the balance has been repaid at each scheduled repayment date in the past N periods (12 or 24 etc), and (2) at least 6 months have passed since the facility was first used as a means of payment.

Comment 5: We suggest that the definition of “bad years” to be further clarified. The CD suggests that the sample of “bad years” should account for at least 1/10 in the data time series used to model PD, but how to define “bad years” needs further clarification.