Comments on Basel Committee documents

As the Consultative Document states, we have noticed the new accounting provisioning models introduce fundamental changes to banks' provisioning practices in qualitative and quantitative ways, which may lead to higher provisions to be accrued by Banks. Also we have noticed there are differences between the IFRS 9 ECL models and the regulatory expected loss (EL) calculated under the internal ratings-based (IRB) approach in Basel III, Basel Committee has discussed and is considering several possible ways in the Consultative Document as the starting point for a dialogue on the issues, which need our further discussion and impact analysis on GAAP conversion.

The policy considerations in this consultative document provide useful guidance for us to conduct ECL model. As an FIRB implementation Bank, the message that the Basel Committee is currently not considering changing the regulatory treatment of accounting provisions under the IRB framework (except for possible transitional arrangements) is useful for us during the implementation of IFRS 9.

Also, Under IAS 39, there are two types of provisions: general provision and specific provision. As there is no such distinction under IFRS9, we understand the Basel Committee is considering possible ways regarding keeping both GP and SP or not. If the Committee retain the definition of the General Provision and Specific Provision, we suggest to carefully consider marking a balance between the provisions under IFRS9 and under the Committee requirements. Moreover, carefully consider the impact on CAR when determine whether what potion of the provisions under Tier 1 would be added back into Tier 2 capital.

We understand the Committee is considering reviewing the rationale for the current regulatory treatment of provisions (including the inclusion of limited amounts in Tier 2 capital) which were designed under the incurred loss model, as well as assessing variability in the levels of provisions across banks applying the same accounting standard, and we look forward to see the impact analyses result on regulatory capital. No contrary opinion on this document.