The response to

“Regulatory treatment of accounting provisions”

by China Everbright Bank.

We recommend Basel Committee to involve the answer to the questions listed below in the FAQ section.

Q1:【Segregation of Duties】According to d386, the Committee raised the Approach 1 “Day 1 impact on CET1 capital spread over a specified number of years”, as a transitional arrangement. Committee suggested that the straight line amortisation is likely to be preferable on the grounds of simplicity. While using the Approach 1, two situations would be considered:

a. For a rapidly developing bank, new business and product would bring a large impact to the impairment and capital, which cannot be ignored.

b. If facing the economic depression, the expected loss would obviously increase, and the straight amortisation method cannot reflect the actual credit risk.

Q2：【The first conversion considerations】According to the d385, Under the IRB approaches, banks compare the total eligible provisions to the regulatory measure of EL calculated by banks as probability of default (PD) times loss given default (LGD) times exposure at default (EAD). Any shortfall between total eligible provisions and regulatory EL is fully deducted, without considering tax effects, from CET1 capital (Basel III paragraph 73); whereas any excess is added to Tier 2 capital, up to a limit of 0.6% of credit RWAs calculated under the IRB approaches (Basel III paragraph 61).

If all the "impairment of balance", will be deducted from tier-one capital, for changes and additional provision for impairment, if impacts to the tier-one capital, financial institutions may require capital increase to make up for this gap under a standards conversion. On the regulatory framework, would special consideration for this kind of situation?

Q3：【two types of provisions】Under IAS 39, there are two types of provisions: general provision and specific provision. As there is no such distinction under IFRS9, the committee has mentioned in d385:“Retain the distinction between GP and SP for regulatory purposes based on definitions that would produce universally aligned categorisations of ECL provisions as GP or SP across jurisdictions”.

So, if Committee retain the definition of the General Provision and Specific Provision, how to make a balance between the provisions under IFRS9 and under the Committee requirements? Moreover, under IFRS9, how the provisions would impact the bank's capital and whether all the provisions under Tier 1 would be added back into Tier 2 capital?

Q4：【standardised regulatory EL】According to the d385, the Committee introduce a standardised regulatory EL component to the standardised approach (SA) for credit risk.

As the assets held and credit risk faced by the banks would be different, how does the Committee set the EL component? How would the EL component accurately reflect the actual credit risk the bank faced?