March 9, 2016

Via Electronic Submission
Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland

Re: Second Consultative Document: Revisions to the Standardized Approach for Credit Risk

Ladies and Gentlemen,

The Market, FI & Country Risk Management Department at Group Credit Libanais S.A.L., Beirut, Lebanon, appreciates the opportunity once again to comment on the second Consultative Document for the Revisions to the Standardized Approach for Credit Risk issued by the Basel Committee on Banking Supervision. We recognize the Committee's efforts to address the issues and concerns raised by the undersigned and all other respondents following the initial proposal. In addition, we continue to support the Committee's ongoing efforts to propose revisions to the current standardized approach for credit risk as part of its overall aim to strengthen the existing regulatory capital standards and review the standardized approaches for Market Risk and Operational Risk.

We believe it is important to improve the existing risk framework in order to increase its overall risk sensitivity through reduced reliance on external credit ratings, limited national discretion requirements and stronger comparability between the standardized and internal ratings-based approach, thereby ensuring the proper reflection of the risk profile of each asset on the Banks' balance sheets.

Our comments below are aimed at addressing some of the questions and considerations raised in various sections across the consultative paper while providing the Committee with insight on the impact of these proposals on the capital requirements of our institution, taking into consideration some particularities related to the domestic market in which we are operating which shares many characteristics with other markets in the region.

We hope the Committee finds these recommendations helpful in accomplishing their objectives and we remain at your disposal for any additional information and clarification regarding the contents of this letter.

Respectfully yours,

Market, FI & Country Risk Management Team
Group Credit Libanais S.A.L., Beirut, Lebanon

The opinions and views expressed in the comment below do not reflect that of Group Credit Libanais, the domestic sector, any market participants or the national regulator but are solely that of the Market, FI & Country risk analysts detailed below for commentary purposes on a consultative document issued by the Basel Committee

Exposure to Banks

1. **External Credit Risk Assessment Approach (ECRA)**

Given that Lebanon is a jurisdiction which allows the use of external ratings for regulatory purposes, our institution would opt for the External Credit Risk Assessment Approach (ECRA) basing the initial base risk weight on the credit rating of the counterparty. We welcome the re-introduction of external ratings as the basis for the assignment of risk weights to Banks' exposures as it provides a more simplistic and comparable approach across various jurisdictions, as opposed to the previous proposal which would have been fairly time consuming and complicated.

Moreover, with regards to the Committee's proposal to use Banks' external ratings excluding government support, we believe that such an approach can prove to be unnecessarily complicated given that these ratings are not available by all major external credit rating agencies without the detailed rating reports of each counterparty usually accessible through subscription. Therefore, we suggest maintaining the final Long-term credit rating incorporating government support.

In addition, while we agree that the mechanistic reliance on external ratings is not the optimal approach, the proposal to incorporate a due diligence assessment to ensure the proper reflection of counterparty's risk profiles without the proposal of a standardized and uniform approach to follow can lead to subjective assessments and differing results. Moreover, the fact that said due diligence can only lead to higher risk weights would limit its usability as it would be difficult to advocate more conservative capital requirements for a particular claim when their external rating justifies a lower risk weight.

Therefore, we suggest introducing a uniform approach for the due diligence assessment, somewhat similar to that proposed for unrated exposures, which can be adopted by all Banks under the ECRA thereby limiting any significant disparities. Moreover, we suggest allowing a one notch variation in risk weight following the due diligence analysis, whether more or less conservative, thereby providing Banks with the opportunity to have a more comprehensive reflection of the counterparty's creditworthiness, especially in the case of Banks in developing countries.

2. **Standardized Credit Risk Assessment Approach (SCRA)**

With regards to exposures to unrated Banks, we welcome the more risk sensitive approach suggested by the Committee entailing the due diligence assessment of counterparties. Basing the grade classification on the abidance of the counterparty to the minimum requirements of various metrics such as capitalization, liquidity and leverage covers the main components of its financial health, noting that the Committee should take into consideration that some national supervisors have opted to require a more early application of the minimum ratios thereby possibly penalizing the Banks in their jurisdictions.

3. **Risk Weight Floors**

The application of risk weight floors is necessary in the case of exposures to unrated counterparties as it incorporates the risk of the operating environment. The Committee proposed to incorporate the country ratings into the abovementioned treatment in paragraph 2, which would ultimately represent a floor for the risk weight of an unrated counterparty, whereby it cannot be lower than the risk weight of its sovereign.

While such a treatment is based on reasonable arguments, the Committee invited respondents to propose alternative suggestion for the incorporation of country risk. We believe that exceptions should be introduced when the Bank is already carrying the risk of the country in which that unrated counterparty is operating, i.e. in the case where it is the same country of incorporation or residence of the Bank.

Such a treatment would be more risk sensitive particularly for unrated Banks operating in developing countries, which despite having sound financial standing are capped by the risk profile of their sovereigns, a risk which the Bank is already carrying when operating in that country.

Exposure to Corporates

1. **Rated Corporates**

While we support the Committee's decision to reintroduce the use of external ratings for the treatment of Corporate exposures and the adoption of a due diligence analysis in order to determine the final risk weight of counterparty, we suggest adopting a standardized and uniform approach for conducting the analysis, as mentioned above, in order to avoid any subjective assessments and differing results.

2. **Unrated Corporates**

With regards to unrated Corporates, the Committee opted not to change the treatment of these exposures maintaining a flat 100% risk weight, thereby penalizing unrated corporate entities regardless of their risk profile.

We suggest adopting a treatment similar to that proposed for unrated Banks, classifying exposures to unrated Corporates into different grade sections based on specific metrics pertaining to Corporates, related to their performance (Gross Profit Margin, Revenues/Assets, Revenues/ Equity) and/or ability to service their debts (EBITDA-To-Interest Coverage Ratio) for example. Each grade would consequently map into a different risk weight more appropriately reflecting the corporate entity's risk profile.

3. **Unrated Small and Medium sized Entities**

One of the issues raised by the Committee is the treatment of unrated Corporate SMEs, which do not qualify as part of the Retail portfolio and are defined as having revenues below EUR 50 million, whereby a preferential treatment is applied entailing 85% risk weight.

The Committee had inquired in the consultative document whether these exposures would warrant a preferential treatment noting that the proposed risk weight is higher than that currently used (75%) under the standardized approach.

Therefore, we suggest applying the same approach as the one proposed for unrated Corporates noting that we do not recommend the application of a preferential risk weight for exposures to Corporate SMEs. While these counterparties do provide more collateral than Corporates, SMEs have proven to exhibit a riskier profile and are more likely to not meet their obligations as evident within our books.

Subordinated Debt and Equity

Despite lowering the proposed capital requirements in the second revision, the proposed changes continue to be considerably unfavorable for any Bank holding such instruments noting that the assigned risk weight has increased significantly compared to the current approach. This treatment would discourage Banks from investing in these instruments, thereby constraining an already less active market.

Given that the Committee has stated that raising Banks' overall capital requirements is not one of the objectives of the revised standardized approach, we suggest further revision the suggested risk weights for Subordinated debt and equity exposures.

Claims secured by Real Estate

We welcome the proposed amendment to the approach for the treatment of real estate exposures, taking into consideration our concerns with regards to the complexity of using the Debt Coverage Ratio. Moreover, we believe that the Committee should require the revision of the value of the property, as part of the Loan to Value ratio, in the event of a general decline in residential market prices.

Overall, we believe that proposed approach is appropriate and most reflective of the particular risk profile of these exposures.

Doubtful Loans

In its second consultative document, the Committee opted to expand the definition of doubtful loans including various criteria, most notably considering exposures where the Bank believes that the obligor is unlikely to meet its obligations regardless of the 90 days trigger. While the change in definition is more comprehensive and in line with IFRS9 requirements with regards to impairment, the Bank would have to classify an exposure as doubtful based on subjective judgement thereby possibly leading to differing and non-comparable results.

Moreover, the Committee is proposing to delink the levels of provisions with the corresponding risk weight, improving in our opinion the risk sensitivity of the approach. However, the Committee is also proposing the highest risk weight for doubtful loans currently used under the standardized approach, whereby all doubtful exposures with the exception of real estate exposures will be assigned a 150% risk weight.

Hence, the proposed treatment will likely lead to an unnecessary rise in the levels of non-performing loans, which coupled with the already higher risk weight applied and the indirect effect of the new IFRS9 requirements with regards to provisioning, would exert double negative pressures on the Bank’s solvency position.

Therefore, we suggest maintaining the 90 days trigger for the classification as a doubtful exposure as well as the various other specific criteria mentioned in the consultative document but exclude the subjective judgement of the Bank. Moreover, given the proposed high risk weight for doubtful loan exposures, we suggest maintaining the preferential treatment (100% risk weight) related to past due loans secured by collateral not eligible under the CRM framework.

Off-Balance Sheet Exposures

While we agreed with the proposal of the first consultative document to slightly rise the CCF applied to Off-Balance sheet exposures, we believe that the proposed revisions in the second consultative document have significantly increased the CCF and exerts a negative impact on capital requirements.

The proposed revisions related to the non-retail unconditionally cancellable commitments have increased CCF from 0% up to 75% CCF, one of the highest CCFs among off-balance sheet exposures, without a clear reasoning behind such a significant rise noting that other commitments were maintained at current levels. Given that the Committee has stated that raising Banks’ overall capital requirements is not one of the objectives of the revised standardized approach, we suggest further revision the suggested risk weights for Off-Balance Sheet exposures

Mapping Process for Multiple External Ratings

We welcome the clarification included with regards to the mapping process when three or more external ratings are available as it limits the confusion when the two highest ratings map to the same risk weight. Under the current standardized approach, an exposure’s risk weight might improve despite a downgrade in its external rating by an ECAI.

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