

June 24, 2016

Basel Committee on Banking Supervision

Bank for International Settlements

CH-4002 Basel

Switzerland

Dear Sir/Madam,

Consultative Document: Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches

1 DBS is pleased to have the opportunity to comment on the Basel Committee on Banking Supervision's (BCBS) consultative document (CD) on the above mentioned topic. We note the BCBS's concern on the issue of variability in risk-weighted assets and the proposed changes to the IRB approaches forms a key element of the regulatory reform programme that the BCBS intends to finalise by end-2016. Our comments in this letter are focused on the specific proposals put forth in the CD. However, like many in the industry, we would also reiterate the critical need for a holistic review of the cumulative impact that the various changes being considered by the BCBS could have.

Exposures to banks, other financial institutions and corporates

2 As proposed, exposures to banks, other financial institutions and corporates would be subject to the standardised approach, on the basis that these entities are usually considered to be low-default exposures thus making reliable parameter estimation inherently challenging. The CD states that the banks' internal estimates would not be any more reliable than using estimates based on market data, on which the standardised approach is based. While the non-granular risk buckets do contribute towards the goals of comparability and simplicity, DBS echoes the broad concerns raised by the industry with respect to the significant loss of risk-sensitivity as a result.

Granularity of Risk Buckets

3 To minimise any undue loss of risk sensitivity and to avoid any cliff effects arising from the assignment of risk-weights based on external ratings, we believe that there is a need for more granular risk-weight buckets. We refer the BCBS to the response by the Institute of International Finance (IIF) to this CD: on pages 30-31 there is an illuminating outline of the significant impact that the proposed risk buckets have on investment-grade exposures, as well as unrated ones which would tend to be the norm in Asia. The cliff effects are also apparent, particularly in the transitions between the AA-/A+ and A-/BBB+ S&P rating grades.

Definition of “other financial institutions”

4 The definition and consequent scope of what constitutes “other financial institutions” are unclear within the CD. We would like to propose that the BCBS considers, for the sake of operational simplicity, harmonising the definition with that used for the purpose of applying the Asset Value Correlation (AVC) multiplier as set out at paragraph 272 of the Basel framework¹. We believe that the criteria specified not only meet the current scope of application but would also avoid the need to create a separate definition within the Basel taxonomy, thus simplifying the implementation process. In addition, for clarity, Holding Companies and Funding Vehicles should be specifically carved-out from the definition of “other financial institutions”.

Definition of Short-term Exposures

5 As currently proposed, exposures to banks with an original maturity of three months or less are assigned a preferential risk weight. Given that a significant part of the global trade finance business arises from bank-backed transactions, the Bank foresees that the application of the standardised approach to banks would adversely impact banks’ continued intermediation of trade flows. We would also suggest that the definition of short-term exposures be revised from an original maturity of “three months or less” to “one-year or less” in order to accommodate trade finance products and money market activities which are typically of this tenor.

Approaches for Large Corporates

6 We note that BCBS had proposed a scale-based structure, whereby exposures to entities within groups with consolidated assets greater than €50b are to be moved to the standardised approach. This proposal assumes that the credit risk profile of an entity that is part of a larger corporate structure is primarily driven by that of the consolidated group. This is not necessarily the case. There are differing degrees of parental support and financial interdependency that cannot be captured under a broad brushwork. Furthermore, ratings penetration below the main entity of the consolidated group is not likely to be high and the same issue identified at paragraph 3 on the relative low penetration of external ratings in Asia arises. As such, mandating the use of the standardized approach would result in a severe loss of risk-sensitivity. An alternative which would retain some of the risk-sensitivity in the current framework would be to continue to allow the use of the F-IRB approach (particularly since the BCBS is also already considering PD floors) and only disallow the use of the A-IRB approach.

Off-Balance Sheet

Unconditionally Cancellable Commitments (UCC)

7 We note that the CD effectively proposes to raise the IRB UCC CCF (in particular, the CCF for non-retail UCC will increase to 50%/75%). In this regard, we believe that a 0% CCF is not unreasonable for product types where a bank retains the right to unilaterally cancel the facilities and

¹ Basel III: A global regulatory framework for more resilient banks and banking systems

particularly in instances where it has not charged a commitment fee for the facility. Where the Bank is unable to contractually intervene prior to a drawdown, we submit that a positive CCF is reasonable, though we would urge the BCBS to reconsider the proposed range of 50% to 75% for non-retail UCC given the potentially significant change in business lending practices that this could trigger, whether in terms of reduced availability or higher pricing.

Timing of Commitments

8 The CD proposes to change the definition of “commitments” for both the standardised approach and IRB, particularly in relation to the timing of recognition. BCBS should consider whether a singular definition is appropriate considering the range of practices seen across products and segments. In particular, where there are a series of condition precedents to be fulfilled by the customer, it is reasonable to only recognise the commitment upon the satisfaction of all those conditions, rather than upon the customer’s acceptance. This is especially true for the mortgage loans where collateral documents needs to be completed in order for a borrower to drawdown. The IIF had also conducted a detailed analysis on this topic (pages 50-51) in its response letter to this CD.

Range of output floor

9 We note that the BCBS is considering an aggregate output floor of 60 to 90%. Our initial impact analysis shows that capital requirements will increase significantly at the higher end of this range. Giving regard to the BCBS’s objective for the new rules not to increase capital requirements, we suggest that the overall output floor should be set at 60 – 70%. The BCBS could revisit the various calibrations at a later stage after a reasonable seasoning period of the new rules in the banking system.

10 We trust that our comments will be useful for the BCBS’s further analytical work.

Yours faithfully,



CHNG SOK HUI

CHIEF FINANCIAL OFFICER

DBS BANK LTD