

11 March 2016

**Secretariat of the Basel Committee on Banking Supervision
Bank of International Settlements
CH-4002 Basel
Switzerland**

Revisions to the Standardised Approach for Credit Risk – second consultative document

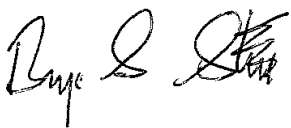
Dear Sir/Madam,

The Dubai Financial Services Authority (DFSA) is pleased to provide its comments on the Basel Committee's second consultative document on the "Revisions to the Standardised Approach for Credit Risk". We appreciate the levels of time and effort that have been dedicated to this task, as the Standardised Approach should be used by a large number of countries and jurisdictions.

The DFSA reviewed the proposal in light of the nature and level of activities being conducted by financial institutions in our jurisdiction, as well as the potential impact of the proposed reforms on the resilience and stability of the global financial sector. In instances where we do not have a strong or settled view, we have not provided any comments.

If you require any clarification in respect of our comments please do not hesitate to contact me on +971 4 362 1544 or by e-mail on bstirewalt@dfsa.ae.

Yours faithfully,



**Bryan Stirewalt
Managing Director, Supervision**

The DFSA Comments

1. Exposures to banks

- Section 1.1.1 (a) – External Credit risk Assessment Approach (ECRA)

The Committee is proposing the use of external ratings for banks that do not incorporate uplifts attributable to government support. The Committee has noted that bank ratings without government support might not currently be available and is looking for feedback in relation to the feasibility and appropriateness of implementing such a proposal.

DFSA Comments:

From a practical perspective we note that credit rating reports include the notch upgrade attributable to government support. In most cases, we believe banks would be able to identify the upgrade attributable to government support, and exclude the upgrade for credit risk weight determination purposes. As such, we believe the use of ratings without government support would be feasible.

- Section 1.1.1 (b) – Standardised Credit Risk Assessment Approach (SCRA)

The Committee is considering whether to further enhance disclosure requirements about banks' credit assessment approach.

DFSA Comments:

The DFSA supports the definition of minimum disclosure requirements by the Committee with respect to banks' credit assessment approach. We believe that this would contribute to harmonising the credit assessment approach and promote comparability across banks and jurisdictions. Practically this would also ensure clarity in relation to regulatory expectations in that regard and it would reduce certain potential confusion among national regulators and banks.

2. Use of external ratings in the CRM framework

- Section 2.2 – Reintroduction of external ratings to the CRM framework

The Committee is proposing two separate approaches for the recognition of credit risk mitigants. The approaches adopted are dependent on whether the jurisdiction adopts the use of ECRA ratings.

DFSA Comments:

Generally, the DFSA supports the Committee proposal on specifying the eligibility criteria for financial collateral and eligible guarantors in jurisdictions that do not allow the use of external ratings for regulatory purposes. However, the DFSA believes that the current approach may result in a wider range of eligible financial collateral for jurisdictions that do not allow the use of ECRA ratings, as compared to the jurisdictions allowing the use of ECRA ratings. For instance, an unrated financial instrument, which is not considered as eligible financial collateral in a jurisdiction that allows the use of ECRA ratings, might be considered as eligible in a jurisdiction that does not allow the use of ECRA ratings.

The DFSA would suggest considering the treatment of unrated financial collateral in jurisdictions that allow the use of ECRA ratings based on the same approach and criteria proposed for eligible financial collateral in jurisdictions that do not allow the use of ECRA ratings. We note that the proposed treatment for exposures to banks follows the same methodology. This may reduce any irregularities between the two proposed methodologies adopted for jurisdictions that use different approaches.

3. Definition of SMEs

- Annex 1 – Paragraph 37

The Committee is proposing to define SME's through the quantification of sales at the group level. This has been defined as total sales of less than €50 million.

DFSA Comments:

Generally defining quantitative thresholds (in this case SME's) linked to a reference currency (e.g. Euro) may lead to situations where material variations in currency movements result in a significant change of the captured population range. In the case of SME's, for instance, this may lead to undesirable consequences such as where large corporates may be captured as SMEs and be subject to lower capital charges. We propose that SME's are classified in accordance with the economy's relevant national classification. This would ensure that the appropriate enterprise population is always captured.