Basel Committee on Banking Supervision March 25, 2015

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Ref: Revisions to the Standardised Approach for Credit Risk – consultative document

Ladies and Gentlemen:

We are grateful for the opportunity to provide comments to your Consultative Document on the proposed revisions to the Standardized Approach for Credit Risk. For the record, **we fully agree with your recommendations to reduce or eliminate reliance on external credit ratings** and will be copying the functional federal bank regulators in the United States (Federal Reserve Board, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency) to confirm our support. We will also copy the Office of Financial Regulation in the State of Florida which effectively licenses all Agencies and Branches of Foreign banks operating in our State.

The Florida International Bankers Association, better known as "FIBA", is a trade association established 36 years ago and based in Miami, Florida (www.fiba.net). Our membership includes 72 institutions from 18 countries. The primary focus of FIBA member banks is in the realm of international trade financing and private banking wealth management. Many of our member banks are community banks ranging in size from relatively small institutions to large and medium-sized banks. In addition, all Agencies and Branches of foreign banks authorized by the International Banking Laws of the State in 1978 are members of our Association. Our members have been active in financing trade with correspondent banks, primarily in Latin America and the Caribbean, for the last 50 years or more. In general terms, their experience has been highly satisfactory, which is consistent with the findings of the ICC and similar organizations.

On October 19, 2012, we expressed to the Federal Reserve Board of Governors that FIBA was seriously concerned with the adoption of the OECD's Country Risk Classifications (CRC) in the implementation of the "final rules" on Basel III in the United States. We strongly believed then, as we do now, that the CRC's should not be used as the basis for determining the Risk Weights (RW) that banks in the United States should apply to their exposures to other financial institutions (non-US banks) and that "short term trade financing facilities" should be carved out from the final rules and made a special line item. The OECD's CRC ratings were never meant to represent risk indicators for Sovereign Risks, and unless this is addressed, trade facilities to correspondent banks in emerging markets would be seriously impacted. In the case of Latin America and the Caribbean, all banks with the exception of Mexico and

Chile (which are OECD members) would see their RW's increase significantly. At best, it would increase the cost of financing significantly. A more likely consequence is that a reduction of credit availability from US banks will worsen economic conditions in the most vulnerable low-income countries in the region and adversely affect our own US exports and economic activity in the State of Florida as well. Our argument

FIBA
80 S.W. 8th Street Suite 2505 • Miami, Florida 33130
Phone: (305) 579-0086 • Fax: (305-579-0969 • www.fiba.net

was based on the fact that trade finance was never **an issue in the financial crisis of 2008 and that there is no valid, compelling reason to assign a higher risk** and higher capital requirements to these exposures. Empirical evidence provided by the ICC and similar organizations amply demonstrates that these exposures have a very low loss and default rate.

For easier reference, we attach copies of our letter of **August 27, 2014** and a subsequent letter dated **December 1, 2014** sent by members of the Florida delegation in the United States Congress to the Chairman of the Federal Reserve Board of Governors.

For the reasons stated above, we fully support your initiative to reduce or eliminate external credit ratings, to the extent this has an impact on the final rules promulgated in the Unites States. We also concur with you that the risk drivers, and subsequent RWs, should be balance sheet items. The suggestion for the use of Tier 1 equity ratio and NPA ratio would also appear to be justifiable indicators of risk. However, FIBA would strongly recommend that tenor and purpose of exposure be taken into consideration as well. As we all know, trade finance has always received preferential treatment at times of crisis. It is clear that, a**ll other things being equal, short term (under one year) trade finance facilities do not present the same risk as other forms of long-term or project finance. An exposure of 6 months to a bank in Colombia or Brasil clearly designated and registered as "import finance" or "pre-export finance" will present a lower risk profile than a medium term loan to the same financial institution for other purposes.**

Consequently, we urge BCBS to carefully review the buckets prior to issuing any final rules. The proposed calculation does not allow our association to decide how the buckets will affect financial institutions in Latin America since we do not have access to the necessary statistics. However, if we use comparable ratios for regional banks in the United States, it would appear that many financial institutions in the region could fall in the higher buckets if it were applied to US banks. The IRB formula used by BCBS for calibration may not be applicable to FIs in the region. Regardless, **we urge the BCBS to consider short-term trade finance as a separate line item and that an appropriate weight be given to these lower risk exposures. We would suggest that the proposed ratio be no higher than 100% for short term trade finance transactions.**

Lastly, and in response to your specific questions:

1. As stated previously, we believe the risk drivers proposed will ensure a consistent implementation of Basel III. However, we insist that more granularity is required to differentiate between risks to the same FI. The CET1 ratio appears to be adequate for this purpose.

2. The NPA ratio also appears to be a reasonable risk driver to calculate a bank's exposure credit risk. However, the ratio may be enhanced by adding other non-performing assets to the numeral instead of being limited solely to loans and leases.

3. We agree with your proposed treatment of short term interbank claims. However, once again, our main concern is trade-related financing, which can typically be up to one year. Cross-border interbank claims are less relevant to our considerations.

FIBA is grateful for the opportunity to comment on the very comprehensive Consultative Document and we make ourselves available for any questions you may have.

Respectfully yours,

David Schwartz
President
Miami, Florida

CC: Janet Yellen, Chair, Board of Governors of the Federal Reserve System
Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation
Thomas J. Curry, Comptroller of the Currency
Michael Johnson, Senior Vice President, Supervision & Regulation, Federal Reserve Bank of Atlanta
Michael Dean, Regional Director, Atlanta Region, Federal Deposit Insurance Corporation
Drew J. Breakspear, Commissioner, Florida Office of Financial Regulation
John Ryan, President and CEO of the Conference of State Bank Supervisors