Work Group: Basel
FELABAN
Comments on the document Revisions to the Standardized Approach for credit risk

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Contenido

I Introduction

On December 22nd 2014, the Banking Supervision Committee made public the *"Revisions to the Standardised Approach for Credit Risk"* document. The same was made available for comments and observations from the financial industry and the general public.

The present document summarizes information and observations made by the Basel Work Group consisting of the 7 countries representing FELABAN. Through discussions and contributions made by the members, some considerations on behalf of banks in Latin America are made for technicians and representatives of the Comité de Supervision Bancaria de Basilea (CSBB) (The Committee on Banking Supervision Committee of Basel).

With the hope that they contribute to and enrich an important technical discussion, comments are reported below. A final edited version of this document has been prepared by the Secretaryship of FELABAN.

II. General commentary on the context of the Basel rules and regulations in Latin America

The financial sector, particularly the banking sectors in Latin America play an important role in national economic development. Recent work by LACEA mentions that: "*a greater effort in expanding the financial sector would help improve economic activity, resulting in a higher level of welfare for the population*[1]"

It must be said that in emerging markets such as Latin America, there is the view that international best practice standards for financial regulation and supervision, as proposed by the CSBB are primarily designed for large international banks with overseas transactions. By contrast, emerging markets as a whole are different, heterogeneous and their needs are subject to great differences; they do not necessarily behave like developed economies.

The great challenge is to take these measures into our context ensuring a stronger financial system but not drastically affecting the economy, since in many of these instances, the financing of the economy is essential to encourage and finance economic development[2].

An example of this comes from experience in the region over the past 10 years. According to data from ECLAC, Latin America grew at average rates of 4% per annum. Additionally, growth in domestic demand, driven largely by household consumption, can attribute private credit supply as a key component. The expansion of private credit has been a source of consumer finance. It seems that the first step was taken by way of consumer credit, followed by vehicular and durable goods credit, then making way for mortgages.

In the context of improved earnings for the population and new consumer needs of households, banks have responded by delivering new credit offers, better products and specialization.

It should be mentioned that the banking sector has been important for this process to occur. La Corporacion Andina de Formento (CAF) (The

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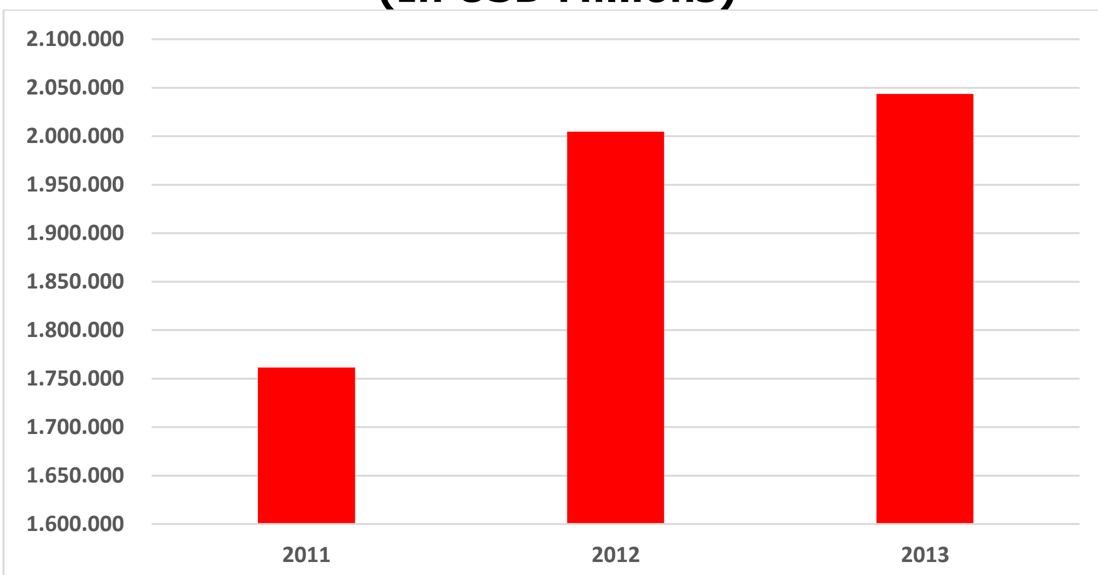
[1] Al__ Aali-Bujari and Francisco Venegas-Martínez and Gilberto Perez-Lechuga. Impact of the Stock Market Capitalization and the Banking Spread in Growth and Development in Latin American: A Panel Data Estimation with System GMM. Escuela Superior de Apan, Universidad Autónoma del Estado de Hidalgo, Escuela Superior de Economía, Instituto politécnico Nacional, Escuela Superior de Apan, Universidad Autónoma del Estado de Hidalgo. Munich Personal RePEc Archive. 11. June 2014

[2] Finance and Growth: Lessons from the literature and the recent crisis, July 2012. Prepared for the London School of Economics, Growth Commission

Andean Development Corporation) in its Financial Services Development Report: *Promoting Access to Latin America* (2011) states that "*It is difficult to think about the possibility of an economy maintaining sustained growth without the parallel development of a financial system that facilitates families and businesses to access savings and credit insurance and payment options.* "

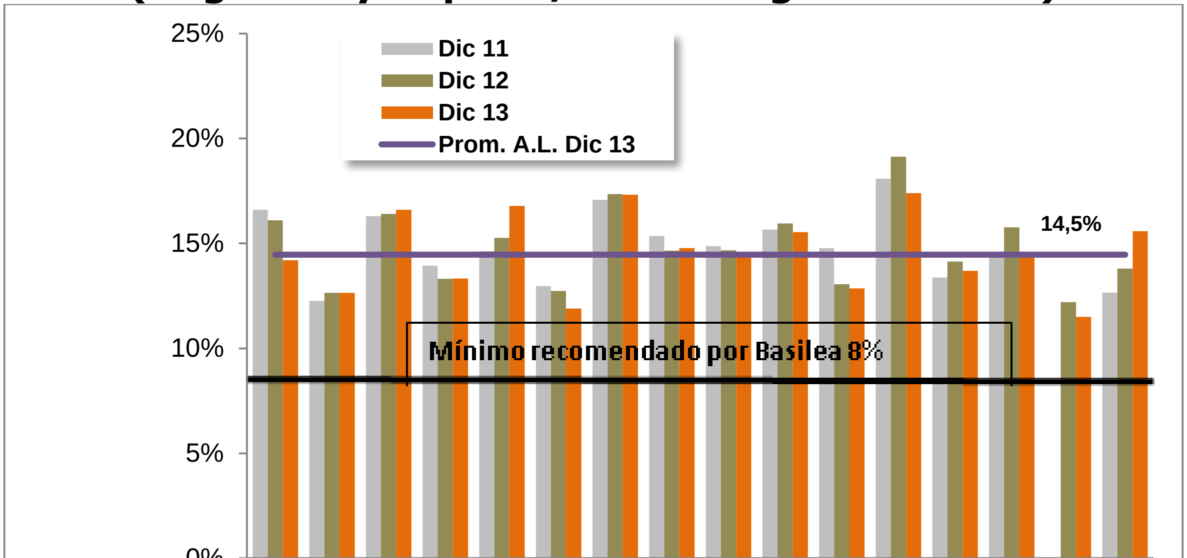
Value of the loan portfolio from 18 countries in Latin America
(In USD Millions)



Source: Encuesta Piloto II june 2014, FELABAN, own calculations

This loan growth has occurred in the context of secure and positive performances of the banking sector. Data compiled by FELABAN in May 2014 shows that many of the countries in Latin America have a solvency ratio well above the Basel recommendations. This appears to be a trend that has continued over the past three years.

Solvency index of banks in 18 countries Latin America (Regulatory Capital / Risk Weighted Assets)



	ARG	BOL	BRA	CHI	COL	ECU	ESA	GUA	HON	MEX	NIC	PAR*	PER	DOM	URU	VEN
Dic 11	16,6%	12,3%	16,3%	13,9%	14,6%	13,0%	17,1%	15,4%	14,9%	15,7%	14,8%	18,1%	13,4%	14,6%		12,7%
Dic 12	16,1%	12,6%	16,4%	13,3%	15,3%	12,7%	17,3%	14,7%	14,7%	16,0%	13,1%	19,1%	14,1%	15,8%	12,2%	13,8%
Dic 13	14,2%	12,7%	16,6%	13,3%	16,8%	11,9%	17,3%	14,8%	14,5%	15,5%	12,9%	17,4%	13,7%	14,6%	11,5%	15,6%
Prom. A.L. Dic 13	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%

Source: Survey for the calculation of financial indicators approved FELABAN 2013. There are institutional differences between countries for calculating regulatory capital

The adoption of Basel technical recommendations should be taken with caution. The measures which have been taken and which are to be taken, must take into account that the region must have a supervisory structure, regulation and bank security, which should be exemplary in the prevention and resolution of financial crises.

In 2011, World Bank researchers stated that there "*has been significant process achieved in Latin America in all major aspects of banking supervision, as defined by the Basel rules before the crisis, which influence institutional frameworks, accounting and reporting, and the major components of monitoring*[3] ". As such, while there is in Latin America supervision and regulation, there is a solid body of action and tools that have secured financial stability in recent decades.

The Basel III rules that have been discussed and implemented around the world since 2010 generate questions for emerging markets, particularly Latin America, which during the last stage of the economic cycle showed economic and credit growth. A strict trend of monitoring disproportionate

[3] Financial Development in LAC. The Road Ahead. By Team led by Augusto de la Torre, Alain Ize, And Sergio L. Schmukler. The World Bank. Regional Flagship Report 2011

to the risks in industrialized countries may have undesirable consequences for banks and operators in emerging markets. Financing costs could become more expensive and requirements to comply with international operations particularly for international trade could become more complex.

The Latin American banking sector has the immense challenge of combining a complex equation that combined, the need for financial stability with promoting financial inclusion in the region. This under the principles of free market development and proper consumer protection.

It is well worth mentioning that, in general it would be highly desirable that local supervisors should establish clearly, and in advance, their intentions to adopt the reforms stipulated in BIS III and the procedure to follow. Additionally, to work closely and with greater communication of supervisors, with financial institutions and to evaluate the regulatory impact in the best manner following what the Committee itself mentions in the QIS studies.

III. General Commentaries on Published BIS Documents, December 2014

a) External Ratings

For unrated banks, one could use the option permitted by Basel II (when using the external rating of the sovereignty). For companies, we have to consider that some national jurisdictions, many companies have no ratings, so external ratings should be complimented with an alternative measure, without penalizing those emerging markets that are not considered in Basel III

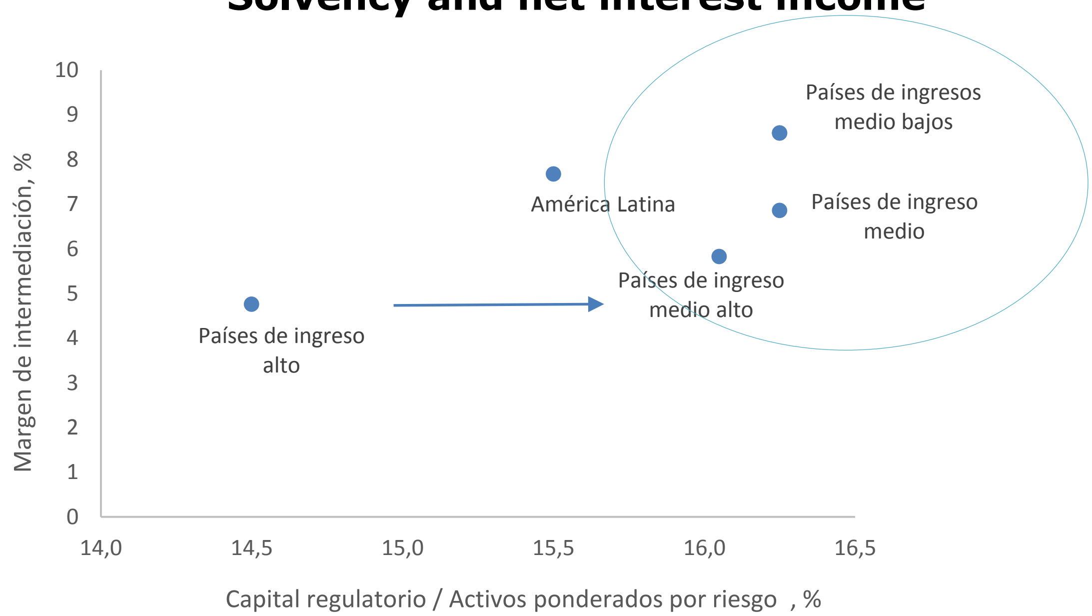
b) Capital Requirements

Although in theory it is stated that the aim is not to increase capital requirements as a whole, the proposal represents an increase of capital for exposures at low risk: The lowest RW for banks would increase from 20% to 30%, while for companies increase from 20% to 60%. In addition, the CCF´s unilaterally cancellable commitments would go from 0% to 10%, and other commitments (regardless of maturity) would increase from 20% / 50% to 75%. So the proposal penalizes banks with "good" portfolios.

Therefore, a measure requiring all systems in the world to increase the regulatory capital would be inconvenient since this measure is only needed for high-income countries. Even if applied across the board in all nations, there would be pressure on net interest income in the emerging world, unnecessarily taking away competitiveness.

We understand that the main elevation measurements of the amount of capital have already been addressed by the Basel regulations, particularly for countries of high income, who possessed regulatory capital levels on weighted assets below the others. Now, the most important would not again raise regulatory capital levels, but only increase sensibility the risk on standard models approach.

Solvency and net interest income



Source: The World Bank. *Data: 2011

c) Implementation

The information required to feed the risk models is not immediately available, nor would it poses the quality needed to be useful for the purposes of meeting the regulatory requirements in the short term. Apart from the technological investment, limited information could lead to increased capital charge and accentuate the financial impact of the proposal within banks.

d) Procyclicity

The proposed denominated "risk drivers" (TSC1, net NPA, leverage, revenue) to measure financial risk, are all highly dependent on the economic cycle, which goes against the measures mentioned in Basel III, banking variables, which state that they shouldnt become an amplifier of the trends of the current economic cycle.

IV. Banks

An additional concern for Latin American Banking would be the case of a bank that does not reach the minimum CET1levels proposed and had a 300% RW.

This turns out to be an excessive charge involving disadvantages for banks with businesses located in different geographies under different systems of capital regulation, or small banks that Basel III does not apply to under local law regimes. There should be specific parameters set for jurisdictions that do not apply Basel III to their banks or a segment of their banks. It should be noted according to the proposal that banks will have an increase to their risk weight, which will have an affect on them.

a) Risk driver CET1

- Additionally, the use of high levels of CET1 as a determinant may mean a new regulatory minimum capital level that should be sought by banks, overlapping even the minimum requirements that are required by each of the jurisdictions.

- To solve the problem, it would be appropriate to use a measure on the minimum capital requirement for each bank, including a conservation buffer, a countercyclical buffer and additional buffers for systemically important banks, respecting local characteristics of risk and business cycle.

b) Risk driver NPA ratio

- The definition of "Non-performing loans" is not harmonized internationally for what should be done prior work of harmonization to ensure comparability.

- In the use of NPLs, local specificities should be taken into account.

- It is appropriate and reasonable to consider the Country Risk factor as a “risk driver” when there is a transfer risk, but it is not considered in the new proposal. In addition, country risk is already taken into account in the external rating of the bank.

- The use of net NPA provisions encourage the adoption of conservative provisioning levels in banks. Above all, the avoidance of the double jeopardy of capital, as much so as for the recognition of losses and reduced benefits, as well as for higher capital requirements.

- The NPA is considered as uniform as can be. Although the description mentions them implicitly, there should be explicit mention of restricted loans.

- In general, the local regulators and supervisors have Mark schemes of credit obligations, which involve not only the loan delinquency risk factors but customer default, an alternative measure in this regard would be to use a quality assets indicator based on those classifications.

- As an additional or alternative measure for assessing banks could be combined with the two factors mentioned by the proposed rules with the coverage of past due and restructured credits with the accumulated balance, with provisions, in a way that recognizes that a bank with higher levels of portfolio hedging is less likely to default.

- It should be mentioned that the NPA is useful, however it depends on the provisioning policy used; therefore it is important to consider the results of the sector and other indicators that assess the financial ability of the entity to absorb losses from deteriorating asset quality, coupled with the expected losses.

- An additional comment CSBB's proposal is the way to involve country risk. Two counterparts with the same indicators may have a different probability of default for each country of operation.

V. Treatment of short-term interbank loans

- Although the approach is reasonable, the same could be improved considering that the decrease in weight was variable, rewarding with a greater decrease r those exposures to counterparties whose solvency indicators and whose NPA is better.

- Another proposal for consideration relates to it being gradual to the interbank term (i.e. the longer the term, the greater the weight), however these weights should note that, since the financial institutions are subject to supervision by the respective authorities and subject to compliance with minimum requirements for risk management.

VI. Corporate exposures

It should be mentioned that is not easy to compare companies from different industries and jurisdictions of countries, so it must be stated that the proposed definition is too broad to include in the same group and risk analysis sectors as diverse as insurance, investment funds etc.

Using the size of turnover does not necessarily reflect the risk profile of a company and instead ends up penalizing:

- In order to consider these specificities, we suggest to use risk drivers set in relative terms (e.g. revenue/total assets) and/or create the look-up tables calibrated according to the local specificities of each sector and jurisdiction. These calibrations could be done by local authorities subject to minimum standards defined by the BCBS. In addition, the local calibration should be subject to peer reviews to ensure compliance with these minimum standards and the national authorities should be transparent with regard the calibration.

- Smaller companies with lower turnover.

- Although it is clear that the need for regulation and supervision will allow financial institutions to maintain provisions which are countercyclical in order to smooth economic cycles of real activity, in incorporating the income of a company as a variable to assess the credit risk, it is counterproductive as goes against this principle, as sales decline in recessions and increase in boom times.

- Small businesses that are not required to publish financial statements (could imply that a significant portion of the exposure of the category of companies tripled their weighting).

- Countries that have no currency or currencies considered international reserves. Variations in the exchange rate between the currency of a subsidiary and the currency of the consolidated entity directly affect the determination of the applicable weighting and could lead to inconsistencies. It can also be a factor that restricts access to credit.

  Revenue's buckets are defined in euros, and therefore, they are not aligned with the different countries' currencies. Thus, banks outside the euro area could be shifted to change constantly the corporates' risk weights due to FX fluctuations even if the revenue in local currency remains unchanged. This variation in exchange rates between currencies could generate Data instability, volatility in assigning risk weight and cliff effects.

- It should be mentioned that the small and medium company is a segment that gains importance in Latin American banking. According to the Annual Survey made by the IDB-MIF and FELABAN 75% of banks in the region have a section for specialized SMEs within their financial institution. 51% of the banks mentioned that informality and opacity of information creates difficulties for the provision of credit. In this regard, it must be stated that the SMEs in Latin America, which are serviced by Banks, could be a firm with 24 to 27 employees. In 2004, the SME was considered a strategic sector for 84% of banks in the region. In 2014 it was for 90%[4].

  It would be advisable that when determining capital consumption, a more granular segmentation is made, which would differentiate SMEs and Corporates and recognize the different types of companies in different countries. Also, it should be recognized that parts of exposures with small companies are often guaranteed.

  With regard to the risk weights in the corporate segments, it should be said that:

[4] El "Missing Middle" y los Bancos. 7 Encuesta Regional. FOMIN BID FELABAN Noviembre de 2014. Ver: http://www.felaban.net/noticia.php?id=30

- Proposed RW for companies is too high. The RW of a company with AA rating would triple (from 20% to 60%).
- Company categories typically include other exposures that are not included in other categories, so that these partners potentially receive a high RW.
- It would be desirable in the weights associated to the most leveraged companies.
- The risk weight of 300% for companies without information is highly punitive to small and medium enterprises, which are not required to publish financial statements.
- The proposal is not appropriate for insurance sectors, as the leverage ratio (excluding off balance sheet) is above 5 and may have varied ratings.

a) Small medium enterprises

- The proposal unduly penalize SMEs or smallest corporates because:
  - They are subject to the most punitive risk weights, which is contradictory with the preferential treatment of the IRB approach to SME.
  - Some SMEs are not required to publish financial statements according to the local accounting standards, that could be different for each jurisdiction and therefore, this lack of information would penalize them. As a consequence, institutions could tighten credit conditions for SMEs loans and even limit their access to financement. We consider that the leverage ratio is not suitable for this segment characterized by incomes with high volatility and thereby this could entail volatility in determining risk weights for these exposures.

- In order to mitigate the potential credit stemming from a lack of information faced by some SMEs, we propose to:

  - To break down the corporate segment to introduce a special treatment for the SMEs in order to consider the different nature of these companies/portfolios. We propose to use the IRB definition of SMEs stablished in the paragraph 273 of the Basel Accord. This article differentiates exposures to SME's borrowers from those to large firms and defines SMEs exposures as corporate exposures where the reported sales for the consolidated group of which the firm is a part is less than €50 million.

  - Given the diversity of the SMEs natures, a more granular risk weight buckets should be defined that take into account the SMEs risk profiles, type of product, etc.

- Regarding the risk drivers used for determining the risk weights for this new segment (SMEs)we suggest:

  - The use of behavioral credit information provided by the "credit bureaux" should be allowed. These independent organizations play a fundamental role and have a good track record worldwide. For instance, Experian (USA, UK, worldwide), Equifax (USA, UK, worldwide), Schufa (Germany), CIRBE (Spain), ASNEF (Spain), RAI (Spain), Buró de crédito (México), Buró Condusef (México), Serasa (Brasil), Transunion (USA, worldwide) moreover, initiatives like Anacredit will allow to share information regarding the customer's credit quality in Europe. The information produced by these organizations is objective and has empirically demonstrated to have a significant predictive power, such as the delay in payment of two instalments in the last 12 months.
  - When the credit bureaux are not available, we suggest to use objective internal behavioral information because it is audited and supervised. The use of internal information should be justified by the absence of a credit bureau in the country where the SMEs are located and the use of the use of this information for management purposes.
  - When it is available the behavioral drivers could be complemented by financial information. In this case, we consider that the best driver would be the financial expenses over total assets ratio that has proven to be a good risk predictor.
  - In order to not penalize the creation of new SMEs on which neither behavioral information nor financial information would be available, the current treatment of 100% should be retained.
  - Moreover, the risk drivers for SMEs should be calibrated in order to reflect the specificities of the sector and geography where these companies are located. These two components are critical for this segment that is highly influenced by the local business culture and the local rules.

We have considered proposals about these issues:

Suggestion 1: Committee could permit use of a simpler, easily verifiable metric for exposures to corporates with revenue up to € 50 MM, such as a short term debt (1yr) to annual revenue ratio.

Alternatively, the committee could apply a 120% risk weight (instead of 300%) for SMEs with revenues of up to € 50 million.

ii) Larger Corporates:

Suggestion 2: Committee could substitute Short term debt / revenue by Short term debt / EBITDA and include external ratings for exposures to Corporates with revenue larger than € 50 million, which would increase risk sensitivity. Banks could be permitted to assign the minimum RW of 20% to low-indebted upper-IG corporates, and a 120% RW should be assigned when no data is available.

b) Comments on the determinants of risk

- It is considered that the gross income of the companies may not adequately reflect the risk, this factor should be combined with a factor of profitability (ROE, ROA or EBITDA margin). To avoid accentuating the effects of the current economic cycle. On each, average indicators of the last three years could be used and for companies with less of an operational life span would be treated as start-ups.

- The inclusion of off-balance sheet in the calculation of debt seems exaggerated and may involve liabilities that are backed by other assets or other sources of income that are not included within spreadsheets analyzed for the client, therefore the inclusion of these values should be limited to contingencies with a high probability of occurrence.

- Additionally, it is important to consider some leverage and off-balance sheet, where the degree of exposure and failure is assessed by type of company and client, especially those having to do with responsibilities to third parties.

Comments on the adequacy of the proposed treatment for SMEs

- It is important to moderate the balance of loans to SMEs, as a heavy weight makes credit substantially more expensive and decreases the viability of these companies in terms of credit.

- The same consideration can be made for businesses in the initial stages of operation.

- It does not consider the reality of SMEs and microenterprises. Additionally it contemplates that the smaller companies do not have balances, if they don't have balances they are punished with higher capital requirements. This would have great impact on the Latin American region given our particular characteristics, very different from those of developed countries.

- The sizes defined as SMEs have expressed a single reality difficult to compare across jurisdictions. This should be part of the discretion of each jurisdiction, recognizing the particularities of each one. The ranges and thresholds should then be defined according to each particular situation.

- According to FELABAN, it would be reasonable to consider that it counts with a specific segment for SMEs and other micro enterprises, the latter being characteristic of emerging markets. (We believe that these should not be penalized for not having financial reports, and very small levels of sales), in that sense the granularity of the portfolio contributes to the study of evaluation and mitigation of risks. These portfolios could be located in the retail segment and not within corporate and, for microenterprise to have a separate category.

Comments about whether we could further increase the risk sensitivity of the proposal without adding excessive complexity

The inclusion of a factor that reduces the weighting of exposures in terms of macroeconomic performance in which the company develops, if it is a factor that adds proclicicidad, reflecting the fact that in times of lower economic growth there is a higher probability of default and vice versa.

For large companies, it would be appropriate to combine external rating with a measure which ensures the ability of the company to pay its debts, which would allow greater differentiation in weighting of the risk, encouraging lower risk-taking by banks.

VII. Specialized Lending

Credit risk exposures of products such as *Project Finance, Finance commodities Object Finance and Income-Producing Real Estate Finance* would be subject to a risk weight floor of 120%. While the risk exposure to land acquisition, development and construction would be subject to a risk weight of 150%.

This can become a great limitation for the construction of physical infrastructure in a region like Latin America. Calculations by the CAF mention that Latam spends about 1.5% of GDP in infrastructure. Estimates speak of a need to invest 5% of GDP to just break the backlog of existing variables. According to the Economic Commission for Latin America CEPAL for Latin America is equated to Southeast Asia´s need to invest 8% of GDP in that category[5].

In press statements the President of Citibank Colombia mentioned "Basel III is especially hard on construction projects as before a bank could finance a 20 or 25 years, but now the need for capital is very high and the banks are financing for the short term"[6]

In short, the effect is negative for the region's supply of resources available to finance infrastructure and other products.

Additionally, one could divide the project into phases (construction phase and operational phase) and have RW agreements for the risks of each phase.

Proposal

External rating	Preoperational phase / high volatility	Operational phase / high volatility
Upper IG	50% / 60%	30% / 40%
Unrated/non-IG	100% / 120%	80% / 100%

[5] La brecha de infraestructura en América Latina y el Caribe. CEPAL, julio 2011
[6] "*Por Basilea III, los bancos solo financiaran obras en el corto plazo*". Miércoles 30 de octubre de 2013 Diario La República, Bogotá, Colombia.

The definition under the standardized approach should be aligned with the IRB one and in order to increase risk sensitivity, we propose to apply an approach based on the IRB slotting criteria for specialized lending under the standardized approach. Therefore, in assigning risk weights to specialized lending exposures institutions could take into account not only the remaining maturity but also the other factors such as financial strength, political and legal environment, transaction and/or asset characteristics, strength of the sponsor and developer, including any public private partnership income stream, and security package.

VIII. Retail Credit

It is observed that there is no differentiation of different consumer credit products or *retail* so these are given the same treatment as credit risks.

We think that the retail treatment proposed is not sufficiently risk sensitive. In order to enhance risk sensitivity, we propose to take into account additional drivers. For instance:

- Variables directly linked to the behavior of a particular product/client
- Variables associated with the history/stable relationship of the customer and transaction with the institution. In order to harmonize the definition of this relationship, we propose to use the definition stablished in the European Commission of 10.10.2014 delegated regulation with regard to liquidity coverage requirements for credit institutions. In this respect, a retail deposit shall be considered to be part of an established relationship where the depositor meets at least one of the following criteria:
    - has an active contractual relationship with the credit institution of at least 12 months duration;
    - has a borrowing relationship with the credit institution for residential loans or other long term loans;
    - Has at least one other active product, other than a loan, with the credit institution.

The use of these variables should not jeopardize the credit to new financial customers that have no history within the system.

- The maturity of the loan

This information could be provided by the credit bureaux and when they are not available, we suggest the use of internal information.

The BCBS should also consider the risk mitigating arrangements included in certain retail transactions, e.g. loans paid by receivables (e.g. commercial, service and credit card receivables, payroll payments, rents, long-term public concessions), or collateralized by durable goods (e.g. vehicles) that meet specific requirements.

In this regard it is proposed to assign lower RW weights for credits paid that have acceptable or permissible requirements such as payments for payroll deductions, public long-term income concessions, secured or collateralized by durable goods like cars and insured (e.g. agricultural credit), which meet specific conditions.

Eligible Requirements (Requirements/ receivables):

- Minimum coverage of 120% of credit payments
- Valid if they are liquid and predictable
- Valid if they are controllable by banks, ensuring that the debtor can use the cash received only after completing payment
- Custody may be made by third parties, ensuring availability for banks
- Valid if concentrates / individualized use RW risk weight for the source of payment or security of collateral to a counterparty; the risk weight of 50% could be assigned if payment exposure is added to the source of the payment as a threshold

Durable goods requirements:

- Liquid assets with an easy estimation of market value
- Legally seizable, enforceable under local law
- An LTV ratio of 80 %, which reduces losses in case of judicial enforcement
- Could have an applicable a risk weight of: 50 to 80 % LTV = 50 %; LTV≤50 % = 35%

For retail portfolios a good determinant of risk is the historical payment behavior. While it may be a bit complex some rules can be designed of this behavior to classify risks and assign differential weights.

Also in relation to retail criteria, the quantitative criterion to consider as retail displays those up to 1 million euros is not aligned to that practiced internally by banks in their segmentation of customers.

We suggest the revision of the threshold to €2 million, in order to reduce the gap between management and regulatory practices, while preserving adequate diversification.

IX. Exposure with residential property

- The proposed risk drivers LTV and DSC (debt service), despite the good correlation with risk, may be difficult to implement (information and databases) and interpreted in different jurisdictions.
- We should consider that introducing risk drivers does not necessarily add risk sensitivity, for which we propose maintaining the RW 35% for exposures to residential property.
- If you decide to keep the LTV, a loan secured by property in the higher bands of LTV loan has higher RW than unsecured loans. It would be desirable to limit the maximum RW by an RW counterparty (for Retail, 75%).

a) Debt Service Coverage RISK DRIVER (DSC)

- The DSC calculated at the origin of an operation does not reflect significant changes in the risk profile of the debtor during an operation. Apart from the operational difficulties of obtaining information, there may also be problems with the privacy of clients when updating income and borrower's debt information.

- Other issues of DSC:
    - There is no common definition of the subject, so it is difficult to compare across countries
    - It is difficult to determine the income of self-employed or independent account
    - The quality and reliability of the data may not be consistent.

- The adoption of DSC require a major adjustment in the sources of information, legislation and other peculiarities in different jurisdictions.

- Against the LTV, it does not seem appropriate to leave constant the value at a contract´s inception since they fail to consider critical events of impairment of property (i.e. devaluation), it might be more conservative to update this value having its initial value as a ceiling.

- With respect to the DSC, it is not considered a suitable indicator as generally these loans are long term and the updating is not easy to prepare, considering that these loans are granted in bulk. As in retail portfolios, it is considered that the historical payment behavior can more effectively collect the risk level of obligations.

X. Exposure commercial property

The proposal barely considers guarantees, since the range of RW is very similar between unsecured (60% to 130%) or secured transactions (75% to 120%). In fact, the lowest RW unsecured exposure is below the lowest RW of a guaranteed exposure, which is not consistent and is sensitive to risk.

- It is important to differentiate loans for the development of real estate projects guaranteed with assets under construction (housing and commercial) and loans to finance income-producing property (assets already built and delivered in lease). For the first case, it is considered that the proposal is applied, and for the second it is considered that the treatment for companies is applied.

- In the first case, it is considered better to use alternative B in which a weight is given depending on the LTV of the operation

XI. Off-balance sheet exposures

The CCFs associated to the commitments have been increased without empirical evidences. This increase contradicts the Committee’s message that increasing overall capital requirements under the standardized approach is not an objective. In particular, the proposal to increase from 0% to 10% of "Commitments that are unconditionally cancellable at any time without prior notice, or that effectively provide automatic cancellation due to deterioration in borrower's creditworthiness" is unduly punishing for banks. We suggest to maintain the current CCF of 0% because there are no evidences that banks are inadequately capitalized for the risks created by offering such commitments

The proposed increase in CCFs for unconditionally cancelable (from 0% to 10%) and other commitments with maturity (from 20%/50% to 75%) would penalize even more revolving products of banks operating with lower-risk portfolios. Usual customers of these banks barely use their limits (low utilization rate), or use and pay their credit card lines as "transactors", without interest charge. The proposed rule disregards important risk drivers that could differentiate risk and thus promotes unintended incentives to transfer revolving credit lines from low-risk low-utilization clients to others with higher risk.

Potential suggestions:

CCFs applied in the Standardised Approach should not be equivalent to IRB CCFs, since PD is not reflected in Risk Weight. In that case, the treatment for off-balance sheet items in the SA should incorporate risk drivers that increase alignment of capital requirement and risk taken by banks. Specifically for revolving products (such as credit cards and overdraft limits), the SA could incorporate a risk driver that reflects the way customers use their limits, such as customer behavior (transactor/revolver) and Utilization-Income rate.

The common definition of utilization rate (percentage of a consumer's credit limit being used) doesn't incorporate different policies among banks, and could disrupt an increase in credit limits from banks in order to keep utilization rates low. For that reason, we found more prudent to use customer's total income instead of credit limit. Also, in order to distinguish revolvers from transactors, known as lower-risk customers, we opted to use only the portion of balance with interest charge in the numerator.

See exemplification below on a hypothetical portfolio with maturity up to 1 year, similar to figures found in banks operating with low-risk portfolios.

Utilization-Income rate (UI)*	Commitments distribution	PD	LGD	IRBA k*CCF (CCF=75%)	Current SA k*CCF (CCF=20%)	Revised SA k*CCF (CCF=75%)
Transactors or revolvers with UI<5%	50%	0,7%	45%	0,1%	1,2%	4,5%
Revolvers with 5%<UI<30%	30%	3%		0,9%		
Revolvers with 30%<UI<70%	15%	8%		2,8%		
Revolvers with UI>70%	5%	15%		5,1%		
Total	**100,0%**	**3,2%**		**1,0%**		

$$* \, UI = \frac{Portion\ of\ revolving\ balance\ with\ interest\ charge}{Total\ income}$$

After that, we used IRBA k*CCF in the SA formula with retail RW of 75%, which resulted in the implicit CCF with increased risk sensitivity. See results below.

Calculated CCF for credit limits with maturity up to 1 year:

Utilization-income rate (UI)*	Implicit IRBA CCF
Transactors or revolvers with UI<5%	2%
Revolvers with 5%<UI<30%	15%
Revolvers with 30%<UI<70%	46%
Revolvers with UI>70%	85%

$$* \, UI = \frac{Portion\ of\ revolving\ balance\ with\ interest\ charge}{Total\ income}$$

Considering the results, we propose to maintain maturity and incorporate customer behavior (transactor/revolver) and Utilization-Income rate when defining the CCF to be applied to credit limits

XII. Fixed assets shouldnt be considered exposure to risk

It does not seem reasonable to use credit risk weights for fixed assets and assets not in use. It would be reasonable to apply RW at 0% for those assets, which are addressed in some way in the rules of Liquidity and Leverage.

XIII. Past-due Loans

Banks in jurisdictions with strict provisions for bad debts and doubtful debts could be penalized if they are not considered to be adhering to capital requirements for debt in arrears. Certainly any specific rule of capital for NPLs should consider provisioning, after deduction from capital.

Suitably nonperforming loans should have a higher weight. It is important that the weighting is applied on the value not accrued thereof. It is also desirable to introduce mitigation in that weighting, according to the guarantees pertaining to such operations.

We consider that CCF associated to trade related guarantees should be reduced to 20% in order to appropriately reflect the risk, This is supported by a case study published by the ICC Trade Register in 2014.

We consider that the CCf of 20% should be applied to short-term self liquidating trade letters of credit arising not only from the movement of goods but also from the movement of services. We suggest to include this possibility in the parragrah 53 of the proposal.

XIV. Exposures to Multilateral Development Banks (MDBs)

It is important to review the areas of influence of different MDBs, there may be smaller banks that do not qualify for the preferential list due to size, but that have a sphere of influence according to their size. Perhaps for this category, due to the specific nature of the entities and their "public level", the use of the ratings assigned by international agencies specialized in such subjects could be used.

We consider that the fallback treatment as a corporates, for claims on MDBs others that highly rated MDBs or qualifying MDBs would be unduly punitive, especially for MDBs located in emerging markets. In addition, given the nature and characteristics of these institutions, they could not be assimilated to corporates. Therefore, we suggest to maintain the current risk weights based on the MDB's external credit rating.

Moreover, greater clarity on the treatment of credit risk mitigation from Export Credit Agency (ECA) and Private Insurance products should be provided. In Particular, for ECA credit risk mitigation techniques that meet the criteria of a guarantee under paragraphs 126 to 129 of Annex 1, it should be not be an issue of whether the ECA credit risk mitigant is "styled" as a guarantee or an insurance product.

In addition, we believe that the Private Insurance should be explicitly recognized as an eligible credit risk mitigation technique (subject to meet the criteria of the personal guarantees). This inclusion would be useful for the sake of clarity given that it was already acknowledged in the QIS Frequently Asked Questions (as of 20 December 2002)

XV. Quantitative Impact Study

The banking industry believes that the development times of the current QIS may be insufficient. It is proposed for it to permit for broader times; thus giving a more rigorous assessment of the impacts of new proposals per year. As such, it is important not to adopt recommendations or changes in methodology before impact studies have been fully tested, for 100% of the banks, not leaving out the medium and small domestic banks in our countries, where we think these measures could have a major impact.

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