



**International
Banking Federation**

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Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland
baselcommittee@bis.org

March 9, 2018

Dear Sir/Madam:

**Re: Basel Committee on Banking Supervision
Discussion paper
The regulatory treatment of sovereign exposures: December 2017**

The IBFed¹ appreciates the opportunity to comment on the Basel Committee on Banking Supervision (BCBS) discussion paper that looks at the treatment of exposures to sovereigns.

The discussion paper serves as a useful summary of the sources and channels of sovereign risk in the banking system, the holistic role of sovereign exposures and the existing regulatory treatment of sovereign exposures. We are pleased to read the Committee recognises that the specific roles of sovereign exposures may vary across jurisdictions due to the heterogeneity in banks' business models, market structures and macro-financial balances.

We welcome the Committee's decision to complete its review of the regulatory treatment of sovereign exposures without changes to current rules, and are pleased that regulatory certainty is offered to stakeholders. Overall, we think that the current regulatory treatment is conceptually sound and our preference would be for it to remain unchanged.

We would urge the Committee to take into account the entire financial services sector, possible ramifications for monetary policy and the maintenance of an efficient functioning of the repo market as well as the impact on export financing.

¹ The International Banking Federation (IBFed) was formed in 2004 to represent the combined views of our national banking associations. The IBFed collectively represents more than 18,000 banks, including more than two thirds of the largest 1000 banks in the world. IBFed member banks play a crucial role in supporting and promoting economic growth by managing worldwide assets of over 75 trillion Euros, by extending consumer and business credit of over 40 trillion Euros across the globe, and by collectively employing over 6 million people. The IBFed represents every major financial centre and its members' activities take place globally. This worldwide reach enables the IBFed to function as a key international forum for considering regulatory and other issues of interest to the global banking industry. For more information visit: www.ibfed.org

Our key points are as follows:

Regulatory treatment of sovereign exposures

For the avoidance of any doubt, we support the Leverage Ratio and the national discretion allowing the exclusion of central bank reserves from the leverage ratio framework. We support the diverse uses for sovereign debt. We would support the exemption of sovereign exposures under the current large exposures framework, and do not support introducing any framework that limits sovereign exposure holdings. Furthermore, we support the current credit risk mitigation framework which provides supervisors with the discretion to apply a 0% haircut for repo-style transactions. However, we do not support an adverse capital treatment for securities required by the Liquidity Coverage Ratio (LCR), and would support an expansion of the LCR's definition of high quality liquid assets.

Observations on the risk-weighted framework

Current national discretion

- We note that nearly all jurisdictions surveyed by the Committee have taken advantage of paragraph 54 in the Basel II accord (refer to the results published in November 2014 by the Committee in the “Basel capital framework national discretions”)². We think there are advantages to continuing to recognise national discretion including the 0% risk weight with regard to the determination of risk weights for exposures within the sovereign asset class.

Current IRB approaches

- We think that the IRB approaches should continue to be permitted to assess the expected loss and estimate the minimum capital requirement. We also support the continuation of the absence of a PD floor for sovereign exposures. However, in this regard, we draw your attention to an inconsistency arising between the banking book and the trading book, where under proposed rule revisions to the market risk capital framework, the latter will require a PD floor for sovereign exposures despite there being no PD floor for exposures in the banking book. We urge the Task Force on Sovereign Exposures to work with the Market Risk Group to remove this floor within any revisions or modifications made to the revised market risk capital rules this year.

Standardised approach discussed in the discussion paper

- We do not support linking risk weights to the OECD CRC index because those scores are designed to classify countries in connection with their agreement on minimum premium fees for official export credits. For banks that cannot implement the IRB approach, we think that the continued use of external ratings represents an appropriate approach. However, we think the current standardised risk weights for domestic and foreign currency exposures in excess of 0% are excessive and lower weightings should be considered as well as more granularity by external ratings.

² <https://www.bis.org/bcbs/publ/d297.pdf>

- We do not support the introduction of additional (non-rating) indicators under Pillar 1 (e.g. macroeconomic variables, fiscal variables and/or credit aggregates) to assess the creditworthiness of sovereign exposures.

Home-host recognition

- We understand that the Committee has discussed encouraging home authorities of internationally active banks to recognise the prudential treatment of sovereign exposures applied by host authorities. We support this.

Aspects to be considered

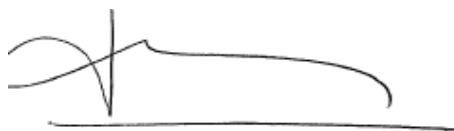
- We encourage the Committee to take into account the views of national regulators regarding exposures to government-sponsored entities such as mortgage guaranty corporations, Export Credit Agencies and state-backed Export-Import banks.

Other matters

- Loans covered by export credit insurance should continue to receive preferential treatment.
- We draw the Committee's attention to the fact that public sector banks are set up by central or local governments with the purpose, as laid down in their mandates, to serve public policy objectives. They are inherently linked to the sovereign, therefore public banks should continue to remain out of scope of any prudential measures to break the link between sovereign and public sector banks.
- We urge caution with respect to establishing a prescriptive set of Pillar 2 guidance and any changes to Pillar 3 reporting.

Thank you for taking our comments into consideration.

Yours sincerely,



Ms. Hedwige Nuyens
Managing Director
IBFed



Ms. Debbie Crossman
Chair of the Prudential Supervision
Working Group IBFed