The Royal Bank of Scotland

280 Bishopsgate
London
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27th March 2015

Basel Committee on Banking Supervision
Centralbahnplatz 2
4051 Basel
Switzerland

Dear Sirs,

**BCBS Consultation Paper: Revisions to the Standardised Approach for Credit Risk**

The Royal Bank of Scotland Group plc (RBS) welcomes the opportunity to comment on the BCBS consultation paper on the proposed revisions to the standardised approach for credit risk.

RBS is a major UK-focused bank. We serve and meet the banking needs of individuals, businesses in every sector and of every size, and the needs of financial institutions. Regulated by the UK Prudential Regulatory Authority we have had IRB permission since 2008 and apply the Standardised approach to transitional and permanent-partial use portfolios. Our response to this consultation draws on our experience of developing IRB compliant models for the exposure types where rule changes are proposed and applying existing standardised rules.

We are submitting our response in addition to those from the Institute of International Finance (IIF) and the British Bankers Association (BBA) to which we have contributed, due to the importance of this topic. We also echo those industry body comments in seeking additional time to ensure an enhanced and appropriate outcome.

The key issues we wish to comment on are:

***Bank and Corporate Senior Debt***

RBS supports the continued use of external credit ratings, where available, to determine risk weights for corporate and bank senior debt and does not agree that the stated objective to reduce or remove reliance on external ratings naturally leads to their exclusion. We support the use of alternative risk weight drivers where external ratings are not available (for example, SMEs) or where the jurisdiction does not permit their reference in the first instance. However where the alternative approach is applied, the proposed two risk driver models for both Corporate and Bank senior debt presume to appropriately rank order and predict default and/or loss across all industries and jurisdictions. We do not believe that this global one-size fits-all approach will achieve a granular and risk sensitive outcome. We consider some local definition or calibration of drivers may be necessary to accommodate jurisdictional and local market differences and achieve the objective regarding rank ordering and prediction of default.

***Lending Secured by Residential Property***

RBS supports the use of a clearly defined LTV as a risk driver for lending secured on residential property. However we recommend this should be indexed to current property values instead of origination value which would lead to some unintended consequences. For example, origination value does not capture the increased risk of loss during a housing market downturn and has detrimental effects on loyal borrowers whose loans would face higher capital requirements compared to if they had re-mortgaged.

RBS does not support the use of the Debt Service Coverage (DSC) ratio because of the difficulty of achieving a consistent definition across jurisdictions leading to capital requirements that are not comparable. Equally important, as it will be measured at origination, use of DSC will not capture changes in the borrower's financial position.

The proposal to apply flat risk weights to the full exposure (i.e. no tranching of the exposure across different LTV buckets) combined with the proposed risk weights could significantly increase RWAs for first time buyers with high LTV mortgages. This could have indirect implications for national government schemes in some jurisdictions that encourage home ownership, and could lead to a greater burden on these schemes to bridge the LTV/lending gap in order to support first time buyer purchases.

***Credit risk mitigation***

Section 3.1 of the consultation paper proposes that exposures using the standardised approach (credit risk) should not allow internal models to be used to set capital charges. We would welcome confirmation that an IMM permission to use internal models or own estimates to calculate EAD for counterparty credit risk should take precedence over the bank's credit risk permission i.e. the permissions remain independent.

We would be pleased to provide any additional information the Committee may require.

Yours sincerely

Rajan Kapoor
Financial Controller