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

27th March 2015

RESPONSE TO CONSULTATION DOCUMENTS 306 AND 307

Dear Mr. Coen,

Consultative Documents on “Capital Floors: The Design of a Framework based on Standardised Approaches” and “Revisions to the Standardised Approach for Credit Risk” (December 2014).

We thank the Basel Committee on Banking Supervision (“the Committee”) for the opportunity to respond to the Consultative Documents “Capital floors: the design of a framework based on standardised approaches” (CD 306) and “Revisions to the Standardised Approach for credit risk” (CD 307).

We support the Committee’s broader work on reducing undue variability in risk-weighted assets. This includes the review and recalibration of the standardised approach for credit risk in order to ensure that capital requirements arising from its use reflect the inherent riskiness of exposures and that the standardised approaches constitute a suitable alternative for less complex and sophisticated banks.

There are several in-process regulatory developments, not just limited to the Committee’s proposals, but also arising from regional and national regulators. We believe that sufficient time should be given to both regulatory bodies and industry, to understand the implications of the various changes and how changes to one part of the regulatory framework affect the other parts. Therefore, we see an important role for Quantitative Impact Assessments and staged consultations. It is also critical to gain a clear understanding of the aggregate impact of the various changes.

Key Concerns

We do not see how the imposition of capital floors would reduce complexity or aid comparability. In our view, the proposals undermine the joint regulatory and industry objective of having a meaningful differentiation of risk and to improve risk-sensitivity. While there may be a possible role for floors on very low default portfolios, they should not be used permanently to rectify perceived weaknesses in the underlying risk-

weighting approach itself, particularly the shape of the regulatory risk-weight curve for certain assets and counterparties such as residential mortgages and financial institutions, as this would amount to treating symptoms rather than underlying shortcomings.

In this context, we would like to raise the following key concerns with the Committee:

- Inter-bank exposure: The proposed treatment has the potential to result in very significant disruptions to the inter-bank liquidity markets. Therefore, the condition “expected to be rolled” should be amended and must not be identified based on “average” outstanding.
- Duplication of safeguards: The Basel III framework has already introduced the Leverage Ratio as a simple, transparent supplementary measure to capital requirements. The Leverage Ratio has the advantage of being less complex, more transparent and more comparable than a standardised approach based back stop (capital floor) to the capital ratio.
- Perceived ‘true’ capital requirement: The use of the standardised approach to determine the capital floors would enshrine these approaches as the ‘true’ capital requirements. So whatever the claims, introducing a standardised floor would override the model based regimes.
- Pro-cyclicality of capital requirements: Pro-cyclicality (as the amplification of the effects of the business cycle) in banking was said to have helped exacerbate the impact of the Global Financial Crisis, and while it cannot be fully eliminated, the Countercyclical Capital Buffer aims to reduce its amplification. The proposed set of risk-drivers is by its very design pro-cyclical. The proposed regime is therefore at risk of neutralising the dampening effects of the previous set of reforms which are not yet fully implemented.
- Lack of consistency with the Leverage Ratio and the Liquidity Coverage Ratio: The proposed framework does not recognise the differentiated treatment accorded by the Committee to low risk and shorter tenor asset categories such as Trade Finance under the Leverage Ratio and the Liquidity Coverage Ratio and disregards the maturity factor. Failing to recognise this differentiation will have unintended consequences of diverting capital resources away from supporting trade flows and economic growth.

Suggestions

Recognising the Committee’s intention to move forward with the proposal on capital floors (as reflected in the recently published disclosure requirements under Pillar 3) and the revisions to the standardised approach for credit risk, we would urge the Committee to consider the below when reviewing the proposed concepts:

- The potential duplication of capital requirements arising from parallel enforcement of capital floors under Pillar 1 and capital buffers for model risk under Pillar 2;

- A floor calibration that retains an incentive for banks to invest and to advance the modelled approaches for Pillar 1;
- The application of the capital floor at an aggregate level and potential double counting with respect to the capital buffers being introduced under Basel III;
- The use of external ratings where external ratings provide a better measure of risk sensitivity than the suggested risk-drivers; and
- The potentially material pro-cyclicality of capital requirements resulting from the proposed set of risk-drivers.

Summary

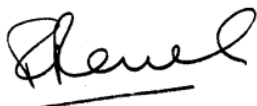
We are concerned that the revised standardised approach will still be less risk-sensitive than the internal models based approach, and that the proposed linkage would establish the standardised approach as the 'true' measure of risk.

We believe that a capital regime which relies on capital floors, based on the standardised approach for credit risk and the Leverage Ratio, would bring back one of the key causes of the Global Financial Crisis of 2007/08 and a key characteristic of Basel I. Banks would be incentivised to use their internal models to arbitrage the capital regime and push low risk assets off the balance sheet while keeping high risk assets to help drive up their returns.

In this respect, we would like to refer the Committee to the technical comments and recommendations reflected in the responses of the Institute of International Finance and the British Bankers' Association to which we have contributed.

We appreciate this opportunity to provide our comments on the Consultative Documents. Our responses to the specific questions set out in the Consultative Documents are included in the appendices. We would be pleased to discuss the contents of this letter, and related matters, with you at your request.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Renel', with a horizontal line underneath.

ROSELYNE RENEL

GROUP CHIEF CREDIT OFFICER

27 MARCH 2015

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APPENDIX 1 – RESPONSES TO CONSULTATIVE DOCUMENT 306

Please find below our responses to the questions set out in the Consultative Document 306.

Question 1 - *Assuming the respective floors were calibrated to achieve the same level of required capital, what are your views on the relative merits of a risk category-based floors and an aggregate RWA-based floor? What are your views on a floor based on exposure class?*

Capital floors should be applied at an aggregate level which would be in accordance with the Committee's simplicity objective. This would allow for a straightforward application and ease of comparison between banks and relative to Pillar 2 capital buffers. Furthermore, a more granular application would significantly increase the required disclosure without adding insight on a banks' risk profile.

Question 2 - *What are your views on the relative merits of the two options for adjusting for differences in the treatment of provisioning for credit risk?*

Under the assumption that the floor is applied against risk-weighted assets (and not against the resulting capital ratio), our preference would be for option 1, in combination with a capital floor set at an aggregate level. This would allow for a simple application and ease of comparison between banks, especially in the context of the upcoming implementation of IFRS 9.

Question 3 - *Do you have any other comments regarding the design of the capital floor?*

The design of the framework for capital floors should recognise the potential risk of duplication of safeguards (such as the Leverage Ratio) without adding risk-sensitivity, which will add additional complexity. In order to allow for a level playing field, capital floors should be consistently calibrated, i.e. there should be a consistent global standard (to avoid a situation similar to capital buffers as introduced under Basel III). Floors should be set at a level that retains an incentive for banks to implement and to advance modeled approaches. They can be used to incentivise banks that operate low effective risk weights to re-evaluate their risk parameters if they were to 'bite' for such firms, i.e. would provide a positive incentive as opposed to penalising a significant proportion of the population of IRB banks.

APPENDIX 2 – RESPONSES TO CONSULTATIVE DOCUMENT 307

Please find below our responses to the questions set out in the Consultative Document 307.

Question 1 – *What are the respondents’ views on the selection of the capital adequacy ratio? In particular, is the CET1 ratio superior to the Tier 1 ratio or the Leverage ratio? Do respondents agree that it is necessary to require calculations in accordance with Basel III in order to ensure a consistent implementation?*

In our view, the real issue during the Global Financial Crisis was liquidity triggered by concerns regarding capitalisation and asset quality. Further, we note that not all banks are subject to Basel III and that national regulators enforce different capital buffer regimes and transition schemes. Whilst we can understand the Committee’s desire to link the requirements to the Basel framework we think that linking the requirements to Basel III will cause significant implementation issues. Two issues in particular are relevant (i) this requirement will significantly disadvantage banks in countries, many of them emerging markets, that have not implemented Basel III which according to the latest Financial Stability Institute monitoring exercise is a large number of markets and (ii) it is not clear on what basis compliance with Basel III will be decided, not least because there are some markets that have opted only to implement elements of Basel III (for instance New Zealand). Therefore, we would suggest reviewing the use of external ratings, as these comprehensively combine capital, liquidity and asset quality in a single, consistent metric.

Given the choice of CET1 ratio and Tier 1, we are clearly in favour of the CET1 ratio. But we want to raise the concern, that the proposed risk-weighting grid turns 12% CET1 ratio into the new de-facto capitalisation target for banks. This is inconsistent with the Basel III concepts agreed by the G20, which define a minimum capitalisation range subject to economic conditions and size of banks. Furthermore, the CET1 risk driver should be applied consistently, given that it will take until 1 January 2019 for all banks to apply Basel III on an end-point basis.

Question 2 – *Do respondents believe the net NPA ratio is an effective measure for distinguishing a bank exposure’s credit risk? What alternative asset quality measure, if any, should be considered by the Committee?*

The net NPA ratio is in effect the third non-performing loan measure that banks would have to manage against and report. This creates additional reporting requirements which in itself would not give insight into a bank’s risk profile.

Impairment is a lagging indicator. Rapid lending will reduce the ratio, but expose the bank to greater risk, especially in a weak economic environment. Conversely, a bank that slows lending or deleverages will most likely see the ratio increase, even though it is cleaning up its book and tightening its lending criteria. As such, reliance on this lagging indicator would lead to inappropriate risk weights.

Therefore, we suggest reviewing the use of external ratings, as these comprehensively combine capital, liquidity and asset quality in a single, consistent metric.

Question 3 - *Do respondents have views on the proposed treatment for short-term interbank claims?*

The proposed treatment has the potential to result in very significant disruptions to the inter-bank liquidity markets. Therefore, the condition “expected to be rolled” should be clarified and must not be identified based on “average” outstanding. The preferred treatment should be made available to inter-bank liquidity transactions and placements.

Trade Finance products typically are short term and self liquidating in nature and usually managed and governed according to robust, widely accepted international standards such as ICC rules of practice or common law. As a business, Trade Finance significantly helps increase portfolio diversification and from a macro-economic point of view contributes to supporting trade flows across the world.

The International Chamber of Commerce (ICC) has been collecting trade finance defaults and recovery data since 2011 from a large number of banks (24 institutions in 2014). The information gathered is very granular, covering over 4.5 million transactions and totalling exposures in excess of USD 2.4 trillion in 2014. An analysis of the data outlines the extremely low level of losses that arise from this business, with transaction level default rates at 0.03%.

It is critical that given the low risk profile of Trade Finance products (supported by ICC data) and the direct support to real economic activities (trade flows) across the world, Trade Finance exposures be differentiated from other exposure classes. Therefore, we propose that bank and corporate related Trade Finance exposures should receive preferential risk weights to reflect their very low level of risk. Banks should be allowed to apply a 20 percentage point (in line with the treatment of short term claims proposed by the Committee) reduction to the risk weights proposed for bank and corporate Trade Finance products and this risk weight should be no greater than 150%.

The recommendation is consistent with the treatment accorded by the Committee for Trade Finance products under the Leverage ratio (Credit Conversion Factors for Trade Finance Contingent Liabilities) and the Liquidity Coverage Ratio (100% inflow for Trade Finance exposures to Financial institutions and 50% inflows for Trade Finance exposures to Corporate entities, 0-5% outflow on Trade Finance contingents liabilities).

It would allow for capital floors to be a better comparable measure to capital calculated based on internal models and ensure adequate and affordable trade credit is available to support meaningful and sustained global economic growth.

Question 4 - *Do respondents have suggestions on how to address these concerns on the treatment of exposures to banks? In particular, do respondents have views on how to treat exposures to banks not subject to Basel III in a consistent and risk-sensitive manner?*

The risk-weighting should be based on external ratings, as these would capture capital, liquidity and asset quality of financial institutions, and would also help to overcome the differences between funds, insurance companies and banks that would be grouped together under exposures to banks.

We suggest that the external ratings-based approach be retained for bank exposures. Risk weights for unrated banks should follow the current Basel II Option 2 approach for bank exposures, i.e. based on the external rating of the sovereign.

Question 5 - *Do respondents have views on the selection of risk drivers and their definition, in particular as regards leverage and the incorporation of off-balance sheet exposures within the ratio? Would other risk drivers better reflect the credit risk of corporate exposures?*

We suggest retaining the external ratings-based approach. However, we recognise that a significant portion of corporate exposure may be unrated, especially in some jurisdictions. Thus, we see the need to complement the external ratings-based approach with some alternative metrics (especially for small and medium sized entities).

The proposals in the consultation document, however, are quite simple and assume that all corporates across jurisdictions and across industries can be assessed using a single set of metrics. We suggest using benchmarking data to review the selected set of metrics and their calibration.

Question 6 - *Do respondents have views on the appropriateness of the proposed treatment, especially with regard to SMEs? And about the more lenient treatment for start-up companies?*

There are practical difficulties in using the proposed risk drivers for small and medium sized entities (SME):

There are jurisdictions where SMEs are not required to file annual audited financial statements. Hence, alternative turnover/income validation approaches (for example use of bank statements) should be considered. However, it would not be possible to confirm whether the obligor is in negative equity or highly leveraged without reliable financial statements.

In addition, the update of the proposed metrics is usually not feasible for non renewable facilities, commonly offered to SMEs. The 300% risk weight for negative equity and where revenue / leverage data is not available is punitive and is higher than the current 150% risk weight for past due unsecured loans under present Basel regime. It is contradictory that a higher risk is applied for non-defaulted SME exposures compared to defaulted unsecured exposures.

We would suggest that a different approach be adopted for smaller SMEs (e.g. based on revenue up to €10 million). Start-up companies and smaller SMEs should be treated as part of retail portfolios (i.e. regulatory retail or other retail). This would encourage and increase lending to SMEs which has been a concern in many jurisdictions. To make this a workable approach, the metric used for defining smaller SMEs should be based on loan origination and updated only when there is any change or renewal of the facilities granted.

The proposed treatment also contradicts the SME treatment under the internal-ratings based approach (ref. size-adjustment). The risk-weighting table should be reviewed and re-calibrated, otherwise this would result in opposing lending incentives.

Question 7 - *Do respondents think that the risk sensitivity of the proposal can be further increased without introducing excessive complexity?*

While the inclusion of additional risk-drivers might improve the risk-sensitivity of the proposed methodology, it would substantially increase the burden for all banks and would potentially undermine the objective of comparability. We therefore suggest reconsidering the use of external ratings for risk-weighting exposures where there is a reasonable history of coverage by rating agencies, and to limit the use of risk-drivers to those larger corporate portfolios that are less covered by rating agencies.

Question 8 - *Do respondents agree that introducing the specialised lending category enhances the risk sensitivity of the standardised approach and its alignment with IRB?*

The proposed treatment for specialised lending does not enhance risk-sensitivity. Instead we would suggest the introduction of the slotting criteria approach, under the assumption that any bank conducting such a transaction should be able to assess these against the regulatory matrix. This would increase risk-sensitivity and align both approaches.

Question 9 - *Do respondents suggest, and provide evidence on, how to increase the risk sensitivity of the regulatory retail exposures treatment, either by differentiating certain product subcategories for which a specific risk weight may be appropriate; or by suggesting simple risk drivers that could be used to assess the risk of all retail exposures?*

We would suggest reviewing the use of more granular risk-drivers, as a single risk-weight of 75% does not allow for risk differentiation. For example, for credit card portfolios and personal loans we would suggest considering the use of days past due information. Other collateral at inception of the loan such as personal guarantees and durable goods (e.g. vehicle loans secured against the vehicle) should also be considered.

We would suggest that exposures to small businesses (to be defined), under a portfolio management approach, that do not meet all of the criteria for a regulatory retail portfolio be treated as other retail exposures.

Question 10 - *Do respondents agree that LTV and/or DSC ratios (as defined in Annex 1 paragraphs 40 and 41) have sufficient predictive power of loan default and/or loss incurred for exposures secured on residential real estate?*

Yes, as the LTV definition is applied consistently across banks and this ratio is predictive and can be easily calculated. We agree that this is the most appropriate risk driver and would propose that this one metric should be sufficient.

No, as the DSC definition varies across banks and the ratio is influenced by property prices, income levels and credit bureau information and hence a prudent DSC ratio can vary widely across jurisdictions. For example, the proposed DSC ratio of 35% would be too low for most markets. The DSC ratio is further complicated by using net income which introduces a subjective element into the definition.

Question 11 - *Do respondents have views about the measurement of the LTV and DSC ratios? (In particular, as regards keeping the value of the property constant as measured at origination in the calculation of the LTV ratio; and not updating the DSC ratio over time.)*

In order to ensure risk-sensitivity the value of the property should be adjusted over the lifetime of the exposure. In line with banks' own risk-management practice, banks should be required to determine LTV at the point of reporting, and should be allowed to use index-based methods for adjustment.

The DSC ratio is not preferred as it relies on the reliability of the counterparty, as credit bureaus or similar institutions are not always present. In addition, the definition / calibration of debt measurement and income measurement for purposes of the DSC calculation is generally neither standardised nor consistently applied across banks and jurisdictions in order to ensure comparability and a level playing field.

Question 12 - *Do respondents have views on whether the use of a fixed threshold for the DSC ratio is an appropriate way for differentiating risks and ensuring comparability across jurisdictions? If not, what reasonably simple alternatives or modifications would respondents propose while maintaining consistent outcomes?*

The DSC appears to be a good risk-driver, but we are concerned that a fixed ratio would not ensure risk sensitivity while we do agree that it is extremely challenging to obtain updated income information once the loan is granted. Additionally, the DSC ratio threshold is materially correlated to property prices. Hence a fixed DSC ratio threshold would not be appropriate for differing property segments.

Question 13 - *Do respondents propose any alternative/additional risk drivers for the Committee's consideration in order to improve the risk sensitivity in this approach without unduly increasing complexity?*

No.

Question 14 - *Which of the two options above is viewed as the most suitable for determining the risk-weight treatment for exposures secured on commercial real estate?*

Our preference would be for option 2. For facilities secured by a pool of collateral, including commercial real estate collateral, we suggest that the unsecured exposures after offsetting other eligible collateral be allocated to the commercial real estate collateral. The general principle applies that these unsecured exposures can be assigned to another exposure class with lower risk weight, where applicable.

Question 15 - *What other options might prudently increase the risk sensitivity of the commercial real estate treatment without unduly increasing complexity?*

No comment, as our preference is for option 2 (see question 14).

Question 16 - *Do respondents agree that a risk weight add-on should be applied to only retail exposures and exposures secured by residential real estate? What are other options for addressing this risk in a simple manner?*

We do not agree. Banks should be allowed to apply their internal risk management practices for exposures with currency mismatches. Lending to high net worth individuals with income streams from multiple currencies would be impacted by this proposal and from experience this customer segment has very low default rates. We would suggest that this risk be covered in the ICAAP review.

Question 17 - *Do respondents consider the categories for which a CCF is applied under the standardised approach to be adequately defined?*

Yes, though we do not support the application of a 10% CCF for unconditionally cancellable undrawn commitments. In our experience, such commitments are

managed pro-actively and in consideration of a counterparty's credit risk, and have not resulted in significant risk exposures.

The application of a blanket 75% CCF to commitments that are not unconditionally cancellable without taking into account the maturity factor of the commitments in question is harsh. While the 75% CCF has been proposed to bring it in line with the Foundation IRB approach, there is a strong case for arguing that since maturity is treated as a separate parameter within the IRB approach, making a distinction between commitments with a maturity less than one year and commitments with a maturity more than one year for the revised standard approach for credit risk would be appropriate.

The application of a 50% CCF value for performance guarantees (under transaction related contingent items) preserves the existing treatment for these products within the standardised approach. However, based on the actual loss data collected within the ICC trade register and as illustrated in the ICC's response to the Committee (see section on "CCF Calibration for Guarantees"), there is a case for arguing that the CCF factor for performance guarantees should be brought down from 50% to 20%.

Question 18 - *Do respondents agree that instruments allocated to each of the CCF categories share a similar probability of being drawn and that the probabilities implied by the CCFs are accurate? Please provide empirical support for your response.*

Please refer to our response in Question 17.

Question 19 - *What are respondents' views on the alternative treatments currently envisaged for past-due loans?*

The current approach that balances between higher risk-weights and provisioning levels for unsecured exposures should be kept.

Question 20 - *Do respondents agree with the proposed treatment for MDBs?*

We believe that MDBs display a strong resemblance to financial institutions rather than to corporates for the following reasons. Most MDBs benefit from treaty arrangements where member countries give them preferred creditor status (a manifestation of the shareholder support which means that even when sovereigns (the majority borrowers) default on private creditors they continue to honour MDB obligations), tax immunities/zero tax requirement (which allows accumulation and retention of profits for use of developmental activity) and the ability to act as lender on record. MDBs tend to be well capitalised with highly conservative balance sheets compared to traditional financial institutions (FI) and this is quite clear from a S&P 2012 report on supranationals which shows that the risk adjusted capital ratio is in the range of 25-30% compared to an average of 7% for 100 of the largest banks in the world. The average capital levels for banks has hence increased due to increasing regulatory capital requirements

Multilateral projects, lending and loan portfolios are similar to that of FIs and the balance sheet structure and behaviour is similar to that of banks and other large (non retail borrowing) FIs. MDBs support bank lending and long term project finance exposures by virtue of their guarantees and ability to take long term credit risk – akin to FIs providing additional credit support by virtue of their guarantees. This is unlike corporates where exposures are more towards managing their own project risk / subsidiary risk.

Further, it is worthwhile noting that the methodology for determining ratings used by rating agencies (Moody's and S&P) treats MDBs as a combination of banks and sovereigns. Both agencies assign a stand-alone (financial strength) rating based on adjusted bank financial ratings drivers falling broadly into two categories: capital adequacy (about 60%) and liquidity (about 40%) while S&P also adds policy mandate and management quality. Government support is then added to the stand-alone rating and this is driven by the policy importance of the organisation, preferred creditor status, etc.. Moody's methodology also notes that the rating stability for the MDB sector has been much higher than the global corporate sector, despite the fact that the size of the MDB sector is extremely small compared to the size of the global corporate sector. So in summary, rating agencies treat the sector more akin to FIs rather than corporates.

Proposal

The proposed changes in the risk weighting will make capital for these MDBs more expensive and/or projects guaranteed by them, which in turn can undermine their core mandate of making highly concessional funding available to developing countries. Hence instead of a criteria based approach for qualifying MDBs and treatment of other MDBs as corporates, we would like to suggest the Committee consider the following approach: Exposures to MDBs should be risk weighted as exposures to (highly rated MDBs (risk weighted at 0%), and (b) all other MDBs based on external assessments.

In addition, on the criteria for highly rated MDBs, we believe the Committee should add clarity to the criteria in terms of potential range of long term issuer ratings which are acceptable, the level of sovereign proportion in the shareholder structure, level of leverage etc instead of subjective criteria. We also request the Committee to review some conditions specifically on Annex 1 paragraph 11 section (a) subsections (ii) and (iii) based on the following points.

- a) Shareholder performance irrespective of rating of the shareholding country is also vital. Lower rated country commitments should be measured by their demonstrated ability to subscribe to capital and pay on time vs. purely the country rating.
- b) Due consideration should be made to the extent of call-able capital commitment from non investment grade countries and their ability to pay such amounts in times of need.
- c) Most MDBs limit the amount of their direct obligations by using structures such as funds or sub entities to extend guarantees/aid/grants for less developed countries. Given that operations of a MDB are primarily financial in nature, exposures are diversified to a large number of institutions, sovereigns and

customers. This is unlike corporates where exposures are concentrated to subsidiaries, own operations and distributors/large customers utilising the product. Thus the quantum of funds required is much higher and leverage is essential given the nature of the support extended but well mitigated through much wider portfolio diversification.

Question 21 - *What exposures would be classified under “Other assets”? Is a 100% risk weight appropriate? (Please provide evidence where possible).*

The current definition of other assets and the risk weight of 100% is appropriate except for cash or cash equivalents which should be at zero risk weight.

Question 22 - *What are respondents’ views on the above alternative ways to define eligible financial collateral?*

We do not support the idea to remove the external credit rating requirement for eligible financial collateral, and the references to external credit ratings in the supervisory haircuts table. As the consultation document points out, this is a “second-order” issue because references to external ratings in this context does not directly determine the risk weights. In addition, as pointed out above, external ratings are still used in the Basel securitisation framework and in the proposed new market risk framework.

Eliminating all references to external ratings in credit risk mitigation is not necessary. It will just lead to unnecessary complexity (e.g. how will supervisors ensure that “investment grade” will be consistently defined in practice?) without any clear benefits.

Question 23 - *What are respondents’ views on the recalibrated supervisory haircuts shown in Table 4? What are respondents’ views on how to eliminate references to ratings from the supervisory haircuts table? What could be the implications of eliminating references to external ratings?*

The proposal to exclude the use of own estimates of haircuts, and the VaR and IMM approach for secured financing transactions under the standardised approach would have important implications for banks that apply the standardised approach for credit risk but are approved to use IMM for SFTs. These banks are likely to be investment banks with very little lending business that would not justify investment in IRB. Hence, it would not be appropriate to force these banks to use the IRB approach just to retain their use of IMM.

The elimination of internal measures of exposure within the comprehensive approach could have a material impact in terms of the mitigation effect. It could also potentially reduce the incentive to continuously improve internal collateral management practices in terms both of data collection and risk management and measurement approaches. As such, we support maintaining the use of internal measures of exposure in the standardised approach framework.

Question 24 - *What are respondents' views on the proposed corporate guarantor eligibility criteria?*

No comment.