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Secretariat of the Basel Committee on Banking Supervision,
Bank for International Settlements,
CH-4002 Basel,
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The *Basel Club* comments on the BCBS discussion paper:
Regulatory treatment of accounting provisions.

Dear Sirs,

The Basel Club (Thailand) appreciates the opportunity to comment on the "Regulatory treatment of accounting provisions". We are fully supportive of the committee's objective to consider regulatory treatment of accounting provisions under the Basel III regulatory capital framework as a response to the change in accounting provisions. However, we do have several concerns as follows;

Capital impact from the proposal

The committee proposes that the changes to capital framework arising from Expected Credit Loss (ECL) provisions be made only to the Standardized Approach (SA) as the Internal Rating Based approach (IRB) framework does not rely on the distinction between general provision and specific provision. However, the proposal will unintentionally impact the capital level for not only banks adopting the SA but also banks using the IRB as the committee has another ongoing proposal regarding a new capital floor for banks using the IRB based on a revised SA for credit risk.

While we recognize that the proposal is well intended, another regulation change that will lower capital level is seen as undesirable as it would only slow the pace of economic recovery.

Capital volatility arising from ECL provisions

The proposal did not adequately address how the potential issue arising from the increase in capital volatility as a result of ECL provisions will be mitigated.

Impending regulations

There are several regulations under development, not only limited to this proposal, but also arising from those previously adopted as well as what remain in the process of consideration both by the Committee and national regulators (all impending regulations).

We would urge that BCBS takes all necessary time to consider not only how regulatory capital and accounting will interact over time but also to assess the total impact of all impending regulations to ensure that ultimately the most appropriate solutions and all the intended and unintended consequences are well considered. We encourage the Committee to take into account the level playing field and to consider the impact on financial stability. In emerging market economy where capital markets are much less developed and banking supervisions are unequal; too strict capital regulations could drive the shadow banking activity in the long run.

Thank you for your kind consideration in our feedbacks.