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

Dear Sir,

The Basel Club (Thailand), the association of Thai commercial banks, appreciates the opportunity to comment on the “Regulatory treatment of sovereign exposures” discussion paper. The Club is fully supportive of the objectives to review the current regulatory treatment of sovereign risk. However, on behalf of Thai banking industry, the Club would like to submit comments and recommendations as follow:

Standardized approach treatment for sovereign exposures

The Club supports the general idea of applying non-zero risk weights for sovereign exposures. However, as sovereign credits play a very important role for government-led economy development as well as financial market especially in emerging countries, we would like to propose that the committee;

- Apply the proportionality concept for sovereign risk weight i.e. sovereign exposures under certain threshold are subjected to zero risk weight. Sovereign exposures are necessary not only for economic growth e.g. sovereign exposures as a result of Small and Medium Enterprises (SMEs) government guarantee and government’s fiscal policy but also for banking system stability i.e. banks’ liquidity management. To prescribe non-zero risk weights for such essential exposures would inadvertently affect economic growth and discourage banks to hold more than minimum High Quality Liquid Assets (HQLAs) required under Liquidity Coverage Ratio (LCR).
- For exposures above the threshold, the Club agrees with the committee proposal to use external credit ratings as indicators for risk weights. However, the Club believes that additional measures to determine risk weight i.e. use of additional non-rating indicators and performing due diligence are excessive as these actions are already performed by credit rating agencies in the process of assigning sovereign credit ratings. The Club though proposes to further increase risk sensitivity by differentiating risk weights for short term and long term exposures and by making the look-up table more granular (more buckets).

- Revise %RW for “Other sovereign entities” rated AAA to AA- as the proposed 25% risk weight is higher than that assigned for corporates exposures with similar ratings (risk weight 20%)

Risk weights add-ons to mitigate sovereign exposures concentration risk

Risk weight add-ons would unintentionally penalize banks in emerging countries where depth of bond markets are limited. While banks in developed countries enjoy liquidity requirement benefits by undertaking corporate credit risk in the form of bonds, banks in emerging countries, which balance sheets typically consist of loans, must rely on sovereign exposures to meet its liquidity requirement.

The Club proposes that the committee carefully assess the impacts of its intended and un-intended consequences on different markets.

The Club understands the importance of standardizing sovereign risk capital requirement; however, the Club believes that one-size-fits-all approach is not the best measure to address this concern. Banks in emerging market need to be able to support the well-being of its local economy. To achieve this goal, reasonable flexibility should be allowed for central banks to exercise its discretion in order to balance both banking and local economic stability.

Under the circumstances, the Club is of the opinion that sovereign exposures risk should be managed under Pillar 2 and that national discretion should be allowed.

Thank you for your kind consideration in our feedback.

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