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Secretariat of the Basel Committee on Banking Supervision,
Bank for International Settlements,
CH-4002 Basel,
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Dear Sir,

We, Basel Club, the association of all Thai commercial banks, appreciate that our comments previously made to the 1st consultative document have been taken into consideration and that you allow us to provide comments on the 2nd BCBS consultative documents "Revisions to the Standardized Approach for credit risk". With the ongoing effort to reinforce the stability of the global banking system, the 2nd draft introduces new approaches to capture credit risks. However, in the context of emerging economies, the proposed framework will, contrary to the above objectives, cause negative impacts on banking system in certain economies, largely from higher Credit Conversion Factor (CCF) for unused credit lines, absence of national discretion and risk weight assignment to unrated banks exposures. The following comments regarding these issues are as follows:

<u>CCF for corporate unused credit line</u>

The proposed 50-75% CCF for corporate unused lines is unduly high and would unavoidably hamper the banking capacity to support the economic growth in emerging countries where corporates typically rely on working capital credit lines from commercial banks.

BCBS rationale for 50-75% CCF is "Consumer protection laws, risk management capabilities, reputational risk or other factors appear to constrain banks' ability to cancel such commitments in practice. Many of the commitments assigned to this category may only be cancelled subject to certain contractual conditions (therefore, they are not really unconditionally cancellable)."

However, in our experience, such arguments may be applied to only lower retails and consumer segment as many corporate unused lines were cancelled especially during the financial crisis. Although credit lines are deemed available, customers must request for utilization where drawdown shall be made upon banks' approval, allowing banks to assess customers risk and cancel unused lines anytime banks see appropriate. So, practically, it behaves in the "Uncommitted" nature. Consumer protection laws and other reputational considerations do not generally apply to the so-called "corporate type customers" and, thus, do not prevent banks from cancelling these commitments. On the contrary, such laws and considerations encourage banks to prudently act in the best interests of all stakeholders, not just any individual corporate.

Even if BCBS still conservatively considers these unused lines as not "unconditionally cancellable", we still think that 50-75% CCF are still very discretionarily high due to the reasons provided above.

For this matter, we would like to propose that BCBS,

- Clarify the definition of 'unconditionally cancellable commitment' to ensure the uniformity of practice across banks.

- Recalibrate and provide information how the proposed CCF is calibrated to make sure that CCF is appropriate and fit for each market, especially emerging countries.
- Differentiate CCF for credit lines with different maturity as the shorter the maturity the lower the probability of utilization.

National Discretion

As each country is at different stage of development, we are of the opinion that certain national discretion should be allowed. A one-size-fit-all approach would result in an unjustified increase in capital charges and significantly decrease banks' capacity to perform their functions to fairly support the economy. Examples below reflect unique characteristics of emerging economies where implementing standardized rules might create distortion and inconsistencies.

In Thailand, SME can be in both forms of registered corporate (Corporate SMEs) or unregistered individuals (Individual SMEs). According to the draft guideline, exposures to SME registered as corporate which do not meet the retail criteria will be classified as "Corporate SME" and may receive 85% risk weight if its sales size is under certain threshold while exposures to Individual SMEs, which are not mentioned explicitly in the guideline, that do not meet the retail criteria will be classified as "Other retail" and receive risk weight 100%.

This treatment will penalize self-employed individuals (Individual SMEs) despite having similar types of loans and collaterals to those of registered SMEs (Corporate SMEs). Therefore in certain cases national discretion should be allowed or as cited by our example above, the definition of SME should be extended to include individuals whose loans are for business purpose so that they can be qualified for a lower risk weight and are suitable for economy of emerging country.

Bank exposures

As there are many banks in developing countries who are not externally rated, exposures to those banks must be risk weighted using SCRA approach. We find that SCRA approach is still flawed in some areas.

- SCRA methodology which compares current regulatory ratios against minimum capital requirement is inappropriate because different regulators apply different minimum requirement across jurisdictions. Some jurisdictions do not adopt Basel III requirement at all. Moreover, ratios may not be publicly disclosed. We propose that BCBS revise SCRA methodology again to make it practical and practicable.
- When comparing ECRA and SCRA, the inconsistency of risk weight mapping can be observed as unrated banks receive the same risk weight as rated leading banks. We propose that BCBS revise risk weight mapping.

Finally, the Committee should provide preparation period for banks for at least 5 years to avoid sudden change in capital requirement and business practices that may lead to unintentionally regulatory-driven credit crunch. Moreover, aggregate impacts of current and upcoming regulation should be discussed and thoroughly taken into consideration to alleviate any potential negative spillovers to real sectors and the stability of the economy where banks operate as a whole.

Thank you for your kind consideration.