Comments Received by Turkish Bank Association from Turkish Banks

Revisions to the standardised approach for credit risk - consultative document	
General Comments	**Suggestions**
Bank 1: It will be appropriate that national initiatives should be announced before implementing of this consultative document.	
. **Bank 2:** Although we agree that underlying reasons for the revisions to Standardised Approach for Credit Risk such as increasing risk sensitivity, strengthening the link between the Standardised Approach and IRB approach and enhancing the comparability of capital requirements across jurisdictions and banks etc. are legitimate and material, the proposals are quite difficult to be applied in practice. For instance, since most of the proposals requires new data about the borrowers like Net NPA ratio and CET1 ratio for banks, Revenue and Leverage for Corporates, LTV and DSC ratios for exposures secured by real estate, data acquisition and data maintenance for such these data would be a quite big problem for the banks. In addition, Obligor banks who are not subject to Basel III Standards and does not publish Pillar 3 reports would be a burdensome for the proposed risk-weighing treatment for exposures to banks. On the other hand, different accounting practices across jurisdictions would make it difficult to have a comparable net NPA ratio. Moreover, although the proposed approach seems to be more risk-sensitive than the current one, risk drivers revenue and leverage differs substantially across industrial sectors and jurisdictions which might jeopardize the proposed treatment for exposure to corporates. Regarding exposures secured by residential and commercial real estate, different real estate market regulations, practices and different tax regime for DSC across jurisdictions makes the proposed treatment vulnerable and does not address the comparability of capital requirements across jurisdictions.	**Bank 2:** More risk drivers like industry sector and external credit ratings for exposures to corporates should be considered to increase the risk-sensitivity of the proposed risk weighting treatment.

CP Paragraph	Comments	Suggestion
2.1 Exposure to Banks: Bank exposures would no longer be risk-weighted by reference to the external credit rating of the bank or of its sovereign of incorporation, but they would instead be based on a look-up table where risk weights range from 30% to 300% on the basis of two	**Bank 2:** Obligor banks who are not subject to Basel III Standards and does not publish Pillar 3 reports would be a burdensome for the proposed risk-weighing treatment for exposures to banks. On the other hand, different accounting practices across jurisdictions would make it difficult to have a comparable net NPA ratio.	**Bank 2:** Lack of eligible CET 1 and net NPA ratio compliant with Basel III in Pillar 3 reports problem should be tackled by the Committee. In the preferential treatment for short-term interbank claims, remaining maturity should be

risk drivers: a capital adequacy ratio and an asset quality ratio.	To capture the risk sensitivity for short-term interbank claims, original maturity might be misleading.	used instead of original maturity. Furthermore, the rule in Annex 1 Paragraph 18, which states Any bank exposure that receives a risk weight above 100% according to the look-up table would not, however, be eligible to receive this short-term preferential treatment should be cancelled.
2.2 Exposure to Corporates: Corporate exposures would no longer be risk-weighted by reference to the external credit rating of the corporate, but they would instead be based on a look-up table where risk weights range from 60% to 300% on the basis of two risk drivers: revenue and leverage. Further, risk sensitivity would be increased by introducing a specific treatment for specialized lending.	**Bank 2:** Although the proposed approach seems to be more risk-sensitive than the current one, risk drivers revenue and leverage differs substantially across industrial sectors and jurisdictions which might jeopardize the proposed treatment for esxposure to corporates.	**Bank 2:** More risk drivers like industry sector and external credit ratings for exposures to corporates should be considered to increase the risk-sensitivity of the proposed risk weighting treatment.
2.3 Subordinated debt, equity and other capital instruments	**Bank 2:** To capture the risk sensitivity of the exposure better, there should be a distinction between subordinated debt issued by banks and corporates since inherent credit risk for these instruments issued by banks is lower than those issued by corporates.	**Bank 2:** A lower risk weighting should be assigned for subordinated debt issued by banks.
2.5.1 and 2.5.2 Exposures secured by residential and commercial real estate	**Bank 2:** Exposures secured by residential real estate would no longer receive a 35% risk weight. Instead, risk weights would be determined according to a look-up table where risk weights range from 25% to 100% on the basis of two risk drivers: loan-to-value and debt-service coverage (DSC) ratios. Regarding exposures secured by residential real estate, different real estate market regulations, practices and different tax regime for DSC across jurisdictions makes the proposed treatment vulnerable and does not address the comparability of capital requirements across jurisdictions.	**Bank 2:** New risk drivers should be explored to tackle with problems that might be encountered due to difference the real estate market regulations, difficulties in the data collection for net income for DSC ratio.
2.6 Risk weight add-on for exposures with currency mismatch	**Bank 2:** The Committee proposes to apply an add-on to the risk weight of certain exposures where the currency of the loan is different from that of the borrower's income. However, It might be very hard to collect the income data from customers for retail exposures and and claims secured by residential	**Bank 2:** Collection of the income information for for retail exposures and and claims secured by residential real estat should be reevaluated.

	real estate.	
2.7 Off-balance sheet exposures	**Bank 2:** Commitments that a bank may cancel unconditionally and at any time without prior notice, or that effectively provide for automatic cancellation due to the deterioration in a borrower's creditworthiness, currently receive a 0% CCF. However, consumer protection laws, risk management capabilities and reputational risk considerations may constrain banks' ability to cancel such commitments. For this reason, the Committee believes a 0% CCF is inappropriate and proposes a new CCF of 10% for such exposures. However, as long as legal documents like General Loan agreement signed with customers allows the banks to cancel commitments unconditionally and at any time without prior notice, consumer protection laws, risk management capabilities and reputational risk considerations will not be relevant for the risk sensitivity of these off balance sheet.	**Bank 2:** Commitments that are unconditionally cancellable at any time without prior notice, or that effectively provide automatic cancellation due to deterioration in borrower's creditworthiness should receive 0%CCF instead of 10% as in the current standard .
54. A 10% CCF will be applied to commitments that are unconditionally cancellable at any time by the bank without prior notice, or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness.	**Bank 1:** It will be appropriate that %0 CCF should be applied to unconditionally cancellable commitments because banks can control and have prior notices over the risks before the commitments turn in to cash.	"**54.** A 0% CCF will be applied to commitments that are unconditionally cancellable at any time by the bank without prior notice, or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness."

Capital floors: the design of a framework based on standardised approaches - consultative document	
General Comments	**Suggestion**
Banka 2: Capital floor should be introduced as a complementary to the leverage ratio to strenghthen risk-weighted capital framework. In our opininon, capital floor should be based on aggregate RWA-based floor which allows banks offsetting across risk types. We think option 1 which adjusts the floor for differences in the treatment of provisions would take the form of an adjustment to the numerator of the capital ratio. The reason why we are opting for Option 1 rather than Option 2 is that Option 2 does not distinguish between provisioning adjustments made to CET1 and Tier 2 capital.	**Bank 2:** - Capital floor should be based on aggregate RWA-based floor. - Option 1 should be utilized for adjusting for differences in the treatment of provisioning for credit risk.