WORLD BANK GROUP
Finance & Markets

World Bank Survey on the Proposed Revisions to the Basel II Standardised Approach for Credit Risk

Analysis of Survey Responses

March 2015

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EXECUTIVE SUMMARY

i) The World Bank Group (WBG) has undertaken a Survey (from Feb 25 till March 18) to gather inputs and feedback from the central banks and the banking supervisory authorities in its member jurisdictions on the proposed changes to Basel II – Standardised Approach for Credit Risk. The Basel Consultative Group (BCG), of which the World Bank is a Member, actively supported the Survey by soliciting participation by its members.

ii) About 76% of the fifty three jurisdictions that participated in the Survey are low and middle income jurisdictions from all geographical regions.

iii) The main points that emerge from the survey are that the proposed revisions can:

   a. make the standardised approach less simple, and the loss of simplicity is apparently not adequately compensated by consistency or comparability;

   b. result in material or significantly higher capital requirements in most of the respondent jurisdictions (RJs), higher cost of borrowing for banks (including Basel I banks), and higher cost for computing and disclosing risk drivers;

   c. lead to some unintended consequences like applying indirect pressure on all jurisdictions to implement Basel III, and exerting adverse influence on project financing and lending to SMEs in EMDEs.

iv) Some of the main areas where the survey responses seem to suggest a need for a review or further consideration of the current proposals include:

   a. Use of Basel III CET 1 ratio, revenue, and DSC ratio as risk drivers taking into account their availability, reliability and implications of their use;

   b. Use of additional or alternate risk drivers for exposures on corporates – to improve risk sensitivity;

   c. Need for additional guidance or clarifications regarding the definitions and computation of risks drivers across asset classes (for example, banks, corporates and real estate), qualifying criteria pertaining to MDBs and application of operational requirements pertaining to exposures secured by residential real estate – to promote greater consistency in implementation;

   d. Allocation of off-balance sheet items to each CCF category, accuracy of the probabilities implied by the CCFs, and the proposed increase in the CCFs – to improve risk sensitivity;

   e. Treatment of SME exposures that do not qualify for inclusion in retail portfolio;

   f. Scope for avoiding changes which are either not sufficiently risk sensitive or can contribute to making the framework less simple, such as specialized lending, investment in equity issued by corporates;

   g. Scope for allowing a greater role for national discretion and Pillar II operations, to make the framework simpler and at the same time flexible to address specifics of the operating environment in each jurisdiction, for example the legal framework, accounting and auditing framework, level of development of the financial markets and market infrastructure.

INTRODUCTION

1. The Basel Committee plans to revise the Standardised Approach for assessing capital requirements for credit risk under its Basel II framework and has issued a consultation document on December 22, 2014. The consultation period is open till March 27, 2015.

2. The proposed changes are expected to have implications for a large number of the World Bank Group (WBG) member jurisdictions, since credit risk forms a significant portion of the risks assumed by banks across jurisdictions and the standardised approach has been implemented or is being implemented by over 80 jurisdictions that are not Basel Committee members.

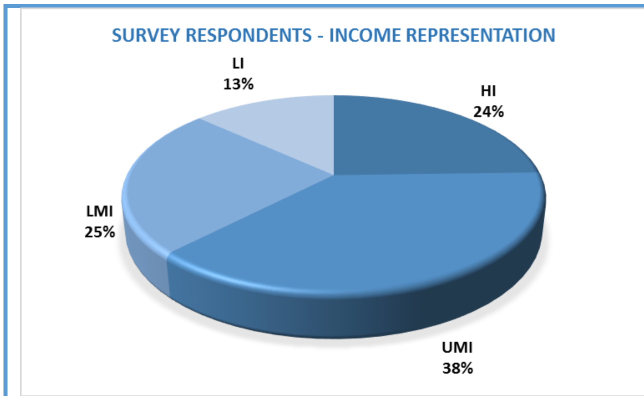
3. In the light of the wider implications for EMDEs and the banks in their jurisdictions, the World Bank Group has undertaken a Survey (from Feb 25 till March 18) to gather inputs and feedback from the central banks and the banking supervisory authorities in its member jurisdictions. The Basel Consultative Group (BCG), of which the World Bank is a Member, actively supported the Survey by soliciting participation by its members.

4. The WBG sincerely thanks all participating jurisdictions and the BCG for jointly making the Survey a successful exercise for channeling the voice of EMDEs.

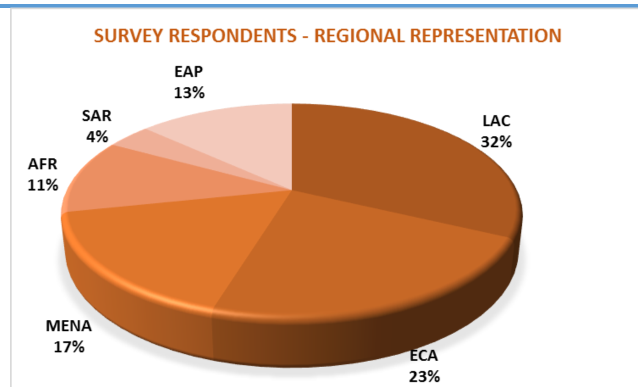
5. This note analyses the survey responses with a view to providing feedback to the Basel Committee, on the specific points that the Committee has sought inputs on, as also on the issues that may be relevant for the EMDEs and their banks. The WBG plans to stay engaged in this exercise and stands ready to continue to contribute to the Basel Committee's initiatives.

UNIVERSE OF RESPONDENTS

6. The WBG received survey responses from 55 jurisdictions. Of these two jurisdictions have not answered any or a significant part of the questionnaire and hence their responses are not included in the analysis below. Two others have provided their responses to selected sections of the survey questionnaire, which are included in the analysis. The regional and income-level distribution of the 53 respondent jurisdictions (RJs) whose responses are included for the following analyses are presented below. A list of all 53 respondent jurisdictions are provided in the Annex.



HI – High income; UMI – Upper middle income; LMI – Lower middle income; LI – Low Income.



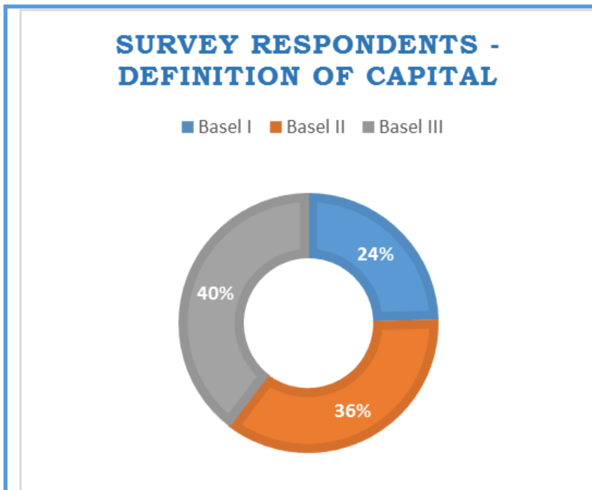
LAC – Latin America & Caribbean; ECA – Europe & Central Asia; MENA – Middle East and North Africa; AFR – Africa; SAR, South Asia; EAP – East Asia & Pacific

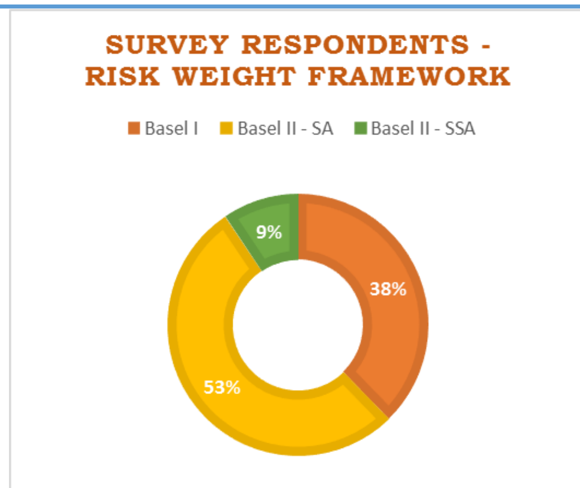
Operating capital adequacy frameworks

7. The operating capital adequacy framework in the 53 RJs is diverse.

a. **Basel II jurisdictions**: While 33 RJs (62%) use the Basel II risk weight framework, 16 of these use the Basel II definition of capital and 17 use the Basel III definition of capital. In 28 RJs (53%) a major segment of the banking system assets are held by banks using the Standardised Approach for credit risk, and in 5 RJs (9%) a major segment of the banking system assets are held by banks using the Simplified Standardised Approach.

b. **Basel I jurisdictions**: While 20 RJs (38%) use the Basel I risk weights, 13 of these (25%) use the Basel I definition of capital, 3 use Basel II definition of capital and 4 use Basel III definition of capital. About 8 RJs (15%) that are currently on Basel I have already planned adoption of the Standardised Approach for credit risk within the next few years.





EXPECTED IMPACT OF THE PROPOSED CHANGES[1]

8. The proposed revisions are likely to result in materially or significantly higher capital requirements in 74% of RJs (32 out of 43). The sources of higher capital requirements are expected to be:

a. Higher credit conversion factors for off-balance sheet items – about 73% of RJs (32 out of 44)
b. Exposure to banks – about 65% of RJs (29 out of 45)
c. Project finance exposures – about 56% of RJs (24 out of 43)
d. Exposures to non-retail SMEs – about 56% of RJs (25 out of 45)
e. Exposures secured by residential real estate – about 47% of RJs (21 out of 45).

	Significantly higher	Materially higher	Not much difference	Materially lower	Significantly lower	Responses
Overall (Aggregate impact)	5 11.6%	27 62.8%	11 25.6%	0 0.0%	0 0.0%	43
Exposures to banks	4 8.9%	25 55.6%	14 31.1%	2 4.4%	0 0.0%	45
Project finance exposures	4 9.3%	20 46.5%	19 44.2%	0 0.0%	0 0.0%	43
Exposures to non-retail SMEs	7 15.6%	18 40.0%	20 44.4%	0 0.0%	0 0.0%	45
Exposures secured by residential real estate	5 11.1%	16 35.6%	22 48.9%	2 4.4%	0 0.0%	45
Changes to qualifying criteria for eligible guarantors	3 6.8%	9 20.5%	30 68.2%	2 4.5%	0 0.0%	44
Higher CCFs for off-balance sheet items	5 11.4%	27 61.4%	12 27.3%	0 0.0%	0 0.0%	44

SIMPLICITY, RISK SENSITIVITY, CONSISTENCY AND COMPARABILITY

9. About 77% of the RJs (39 out of 51) believe that the proposed revisions to the standardised approach has 'not' made or 'probably not' made the standardised approach a simpler framework than currently. As to whether the reduced level of simplicity has been adequately compensated by promoting consistent implementation across banks and across jurisdictions, about 72% (26) believe that it is 'not perceptible' (36%) or it is 'marginal' (36%).

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[1] Almost all responses are based on expert judgment and are not necessarily based on quantitative impact studies. Some jurisdictions have chosen not to provide their responses to this question and some have chosen to answer parts of the question.

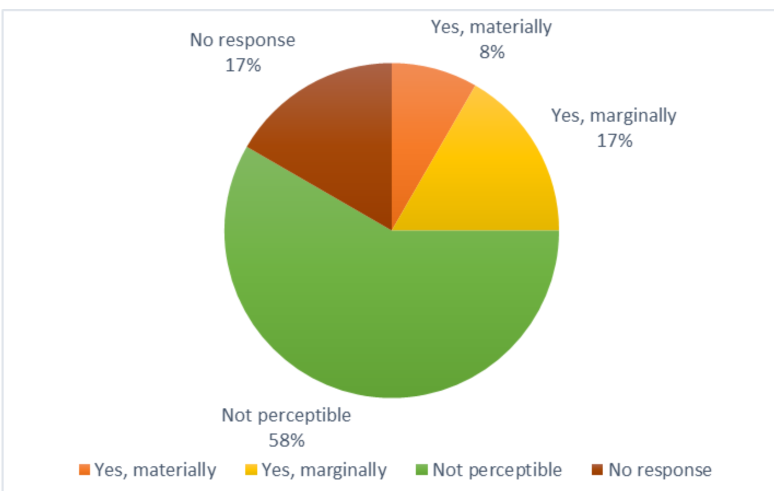
Do the proposed changes make the Basel II – standardised approach for credit risk simpler than the current framework?

Yes.	0.0%	0
Probably Yes.	23.5%	12
No.	39.2%	20
Probably No.	37.3%	19
	Total	51

Whether the reduced level of simplicity has been adequately compensated by promoting consistent implementation across banks and across jurisdictions, which can result in increased comparability?

Yes, significantly.	0.0%	0
Yes, materially.	27.8%	10
Yes, marginally.	36.1%	13
Not perceptible.	36.1%	13
	Total	36

10. Of the remaining 23% (12) who believe that the proposed revisions make it probably simpler than currently, about 25% (3) believe that the changes have resulted in reduced or lost risk sensitivity and 58% (7) have indicated that the loss of risk sensitivity is not perceptible.



11. While about 53% of the RJs (28 out of 53) will consider implementing the revised standardised approach, 17% (9) will consider implementing Basel III, and two will revert or remain on Basel I. About 26% of the RJs (14) have indicated that the revised standardised approach for credit risk does not incentivize them to do any of the above.

Implement Basel III framework.	17.0%	9
Consider implementation of the revised standardised approach for credit risk.	52.8%	28
Revert to or remain on Basel I.	3.8%	2
None of these.	26.4%	14
	Total	53

Unintended consequences

12. Basel III was designed for internationally active banks in Basel Committee member jurisdictions. However, the proposed changes to the Basel II standardised approach for credit risk, in particular the chosen risk drivers for exposures on banks, is likely to have some unintended consequences for banks that are counterparty to the banks implementing the standardised approach for credit risk. This can include banks that are currently implementing Basel I. About 73% of the respondents (37 out of 51) have indicated that the proposed changes indirectly put pressure on jurisdictions to move to Basel III.

13. As per the proposed changes, the risk weight for equity exposure to corporates will increase from 100% currently to 300% for investment in equity that are traded on recognized stock exchanges and 400% for those that are not. In this regard, 81% (38) of the RJs have indicated that the proposed changes will influence project financing by banks in EMDEs, where banks may currently fund projects at the development stage through equity finance. The proposed treatment of corporate equity exposures is expected to exert material or significant influence on project financing in 49% of the jurisdictions (material in 32% (15) of the jurisdictions and significant in 17% (8) of the jurisdictions). The influence is expected to be marginal in 32% of RJs (15).

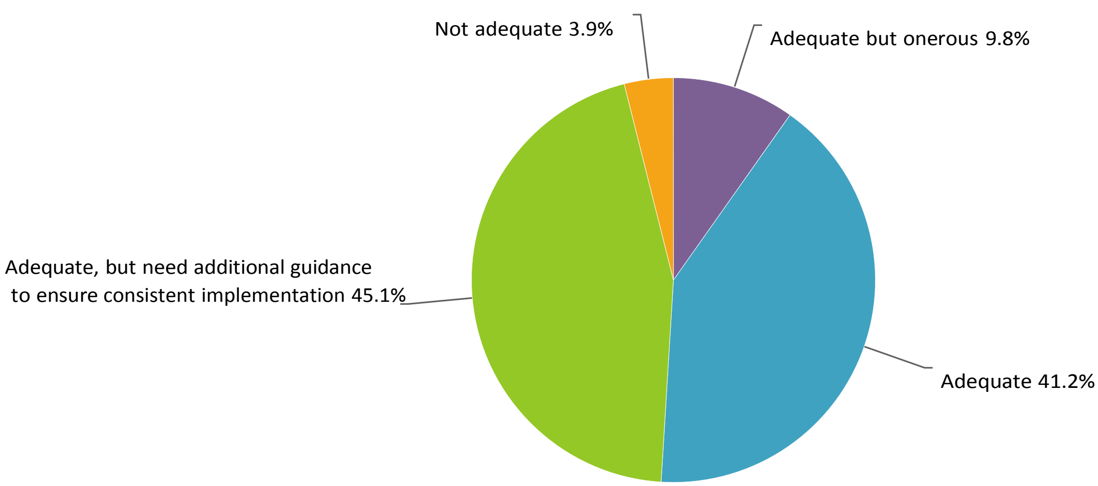
Yes, significantly.	17.0%	8
Yes, materially.	31.9%	15
Yes, marginally.	31.9%	15
No.	19.2%	9
	Total	47

EXPOSURES ON MULTILATERAL DEVELOPMENT BANKS (MDBS)

***CD – Q 20:** Do respondents agree with the proposed treatment for MDBs?* [2]

14. While 71% of the RJs agree or strongly agree that the proposed treatment for MDBs is appropriate, 23% neither agree nor disagree and 6% (3 RJs) disagree.

15. About 96% of RJs have indicated that the eligibility conditions for qualifying as an MDB are adequate. At the same time, 10% feel that these are onerous and 45% have indicated that additional guidance is required to ensure consistent implementation.



16. Four RJs have indicated that the proposed eligibility conditions will exclude MDBs operating in their jurisdictions from becoming a qualifying MDB. Some of the MDBs that will not qualify as an MDB are Development Bank of Latin America (CAF, Peru), and Credit Guarantee & Investment Facility (Philippines). One respondent has indicated as below.

> *We have concerns that the proposed treatment may undermine financing alternatives for other multilateral development banks other than those considered under footnote 47 of BII. This treatment may show contradictions with p.5 of the*

[2] The questions presented within boxes throughout this document are the questions posed in the Consultation Document by the Basel Committee.

Brisbane Summit - G20 Leaders' Communiqué where Leaders expressed: "...We will continue to work with multilateral development banks, and encourage national development banks, to optimise use of their balance sheets to provide additional lending and ensure our work on infrastructure benefits low-income countries." We have concerns that the proposed treatment may undermine financing alternatives for other multilateral development banks other than those considered under footnote 47 of BII. This treatment may show contradictions with p.5 of the Brisbane Summit - G20 Leaders' Communiqué where Leaders expressed: "...We will continue to work with multilateral development banks, and encourage national development banks, to optimise use of their balance sheets to provide additional lending and ensure our work on infrastructure benefits low-income countries."

Respondent comments on exposures on MDBs[3]

- The exposures to MDBs by [country name] banks are not material. We have not conducted any in-depth study on the new proposal for MDBs.
- We are concerned about the treatment of other MDBs under "Exposures to Multilateral Development Banks (MDBs)", we recommend introducing other treatment for such exposures as they have different level of risk than corporates.

EXPOSURES ON BANKS

Implications of proposed changes for exposure on banks[4]

17. The proposed changes to the treatment of exposures on banks is expected to have material or significant impact on the capital requirements of banks in about 42% of RJs (22) and only about 11% of RJs (6) have indicated that the capital requirements will reduce. 47% are not sure about the revised capital requirements for their banks' exposures on other banks. About 36% (19 RJs) have indicated that the proposed changes can imply material or significant higher costs for banks that are borrowing or availing lines of credit or LC confirmation support from foreign banks.

	Significantly higher	Materially higher	Lower	Materially lower	Significantly lower	Not sure	Responses
Capital requirements for banks will be...	4 7.5%	18 34.0%	6 11.3%	0 0.0%	0 0.0%	25 47.2%	53
For banks that might be borrowing or availing lines of credit or availing LC confirmation support from foreign banks - their costs will be...	8 15.1%	11 20.8%	5 9.4%	0 0.0%	0 0.0%	29 54.7%	53

[3] Names of countries have been anonymized in the compilation of respondent comments
[4] Almost all responses are based on expert judgment and are not necessarily based on quantitative impact studies.

Choice of risk drivers

CD – Q1: *What are 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?*

18. In response to how CET1 ratio compares with other risk drivers like Tier 1 ratio and leverage ratio, 84% of the RJs have indicated that CET 1 is a better risk driver than Tier 1 ratio, and 39% have indicated that CET 1 ratio is a better risk driver than leverage ratio. About 10% consider the leverage ratio to be a better risk driver and 4% consider the Tier 1 ratio to be a better risk driver.

CET1 is a better risk driver than Tier 1 ratio	84.3%	43
CET1 is a better risk driver than Leverage ratio	39.2%	20
Tier 1 ratio is a better risk driver than CET1	3.9%	2
Leverage ratio is a better risk driver than CET1	9.8%	5
	Total	51

Risk weights for exposures to banks that are not on Basel III:

CD – Q4: *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?*

19. The choice of Basel III CET 1 ratio as one of the risk drivers to determine the risk weight of the counterparty bank is expected to have significant impact on banks (and jurisdictions) that are not on Basel III. As most of the EMDE banks are not on Basel III yet, they may not be able to compute the Basel III CET 1 ratio and as a result, the risk weights that might be assigned to the exposures to these banks would be 300%. This is at least three times higher than the current risk weight for exposures to unrated banks. In the context of exposure on other domestic banks in jurisdictions that are yet to implement Basel III, the increase can be much more pronounced – increasing from say 20% to 300%.

20. In addition to creditor banks being required to hold higher capital, the proposed use of Basel III CET 1 ratio can also have impact on debtor banks – even when they are on Basel I. About 67% of the respondents (34) have indicated that use of the Basel III CET 1 ratio as a determinant of risk weights will lead to higher cost of borrowing from other banks for non-Basel III banks and 29% (15 RJs) have indicated that this will also result in higher costs for computing and disclosing the Basel III ratio.

Can result in higher cost of borrowing from other banks	66.7%	34
Can result in higher costs for computing and disclosing the required ratios	29.4%	15
Can result in indirect pressure on all jurisdictions to adopt Basel III	72.6%	37
	Total	51

21. With regard to the ability of non-Basel III banks to calculate their Basel III CET 1 ratios, 43% of the RJs have indicated that it is either difficult or very difficult. Of the remaining 57%, (24 RJs) who have indicated that it is easy or very easy, 10 RJs are already implementing Basel III. Excluding jurisdictions whose banks are already implementing Basel III, 56% of the respondents have indicated that calculating Basel III CET1 ratios will be either difficult or very difficult.

Very Easy	11.9%	5
Easy	45.2%	19
Difficult	33.3%	14
Very Difficult	9.5%	4
Extremely difficult	0.0%	0
	Total	42

22. With regard to how exposures to banks not subjected to Basel III in a consistent and risk sensitive manner should be treated, 65% of respondents have suggested that banks' Tier 1 ratio (with adjustments to risk weight buckets) can be considered as a risk driver instead of the Basel III CET 1 ratio, 17% have suggested to use leverage ratio instead of Basel III CET 1 ratio and 21% have suggested that leverage ratio should be adopted as the risk driver for all banks (instead of the Basel III CET 1 ratio).

Use the Tier 1 capital ratio with adjustments to risk weight buckets	64.6%	31
Use Leverage ratio with adjustments to risk weight buckets	16.7%	8
Adopt Leverage ratio as the risk driver (instead of CET 1 ratio) for all banks	20.8%	10
	Total	48

Reliance on Pillar 3 disclosures

23. The proposed changes require banks to rely on the counterparty banks' Pillar 3 disclosures to determine their CET1 ratio and Net NPA ratio, to determine the risk weights to be assigned to their exposures on the counterparty banks. In this context, while about 96% of the respondents have indicated that the Pillar 3 disclosures can be an acceptable source of disclosures, about 75% have indicated that it is acceptable if these are subjected to verification by the supervisor (about 29%) or if subjected to independent verification / audit (about 46%). About 92% of the respondents have indicated that either the supervisor/ regulator, or the banks' external auditors or external parties, or both can provide the assurance that the banks are calculating their CET1 ratios consistently as per Basel III requirements.

Yes.	21.2%	11
Yes, if subjected to independent verification/ audit.	46.2%	24
Yes, if subjected to independent verification by the supervisor.	28.9%	15
No.	3.9%	2
	Total	52

Yes, supervisor/ regulator can provide the assurance	34.0%	18
Yes, respective banks can provide assurance through external auditors or external parties	22.6%	12
Yes, both can provide the assurance	39.6%	21
None can provide the assurance	7.6%	4
	Total	53

Implications of breach of prudential requirements

24. As per the proposed changes, the risk weight assigned to a counterparty bank will increase to 300%, if that bank is in breach of any binding minimum prudential standard required by their national supervisor. However, only 16% of the respondents have supported this proposal. About 36% have indicated that the higher risk weight should be applicable only if key prudential requirements are breached, and 48% have indicated that the higher risk weight should be applicable only if key prudential requirements are breached and the breach is significant or sustained.

Yes, for any breach.	16.0%	8
Should apply only when key prudential requirements are in breach.	36.0%	18
Should apply only when key prudential requirements are in breach and the breach is significant or sustained.	48.0%	24
	Total	50

Reliance on the ratios of the consolidated bank instead of the counterparty bank

25. The CD proposes to allow banks to use the CET1 and Net NPA ratios of the consolidated bank, if the counterparty's solo ratios are not available, to determine the risk weight of the exposure to the counterparty solo bank. The survey results indicate that reliance on the ratios of the consolidated bank might not be appropriate as it can either underestimate or overestimate the risks in almost all jurisdictions (98%). About 54% of the respondents have indicated that this can underestimate the risk and such underestimation may be more than marginal.

Yes, can underestimate risk.	54.0%	27
Yes, can overestimate risk.	18.0%	9
Yes, but difference would be marginal.	26.0%	13
Will make no difference.	2.0%	1
	Total	50

Risk weights for exposures on banks with higher minimum capital requirements

26. As per the changes proposed, for example, a bank with a minimum capital requirement of 8% which holds a 12% CET1 will receive a higher risk weight of 60%. Another bank with a minimum capital requirement of 13% [say a global or domestic systemically important bank, or a bank where the supervisor has required to hold a higher minimum capital because of its risk profile] which holds 13% CET1 will receive a lower risk weight of 45% - if both their net-NPAs are between 1 and 3%.

27. With regard to whether exposures on banks that are subject to higher minimum capital requirements (as in the example above) can justify a lower risk weight, about 60% of the respondents have indicated that this treatment is justified. Of the remaining 40% who consider that the above proposed treatment is not appropriate,

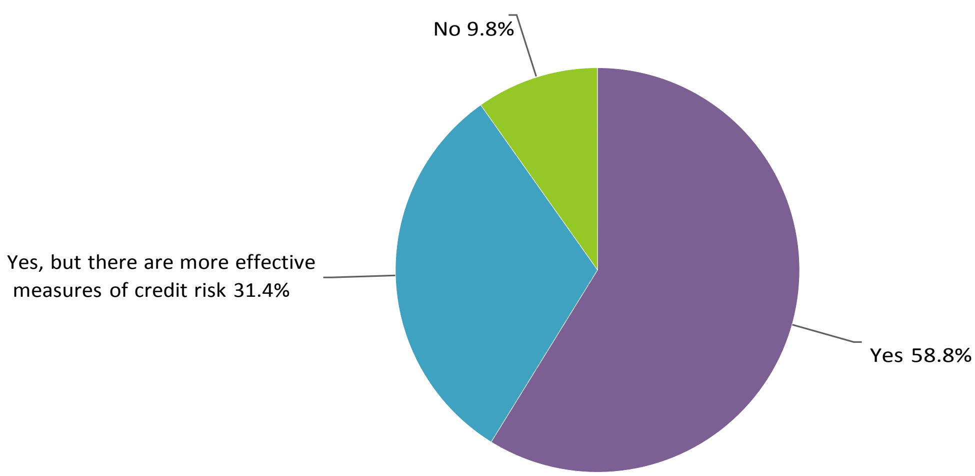
about 60% have proposed that the ‘CET1 ratio’ risk driver should be replaced with the ‘excess CET1 held over the minimum capital requirement’, and about 50% have proposed that there should be a separate look-up table for banks with higher minimum capital requirement or there should be a risk weight add-on for exposure to such banks.

Provide a separate look-up table for banks with higher minimum capital requirement	20.0%	4
Provide an add-on for banks with higher minimum capital requirement	30.0%	6
Substitute level of CET1 with the excess CET1 held over the minimum capital requirement	60.0%	12
Other	5.0%	1
	Total	20

Implementation issues pertaining to risk drivers

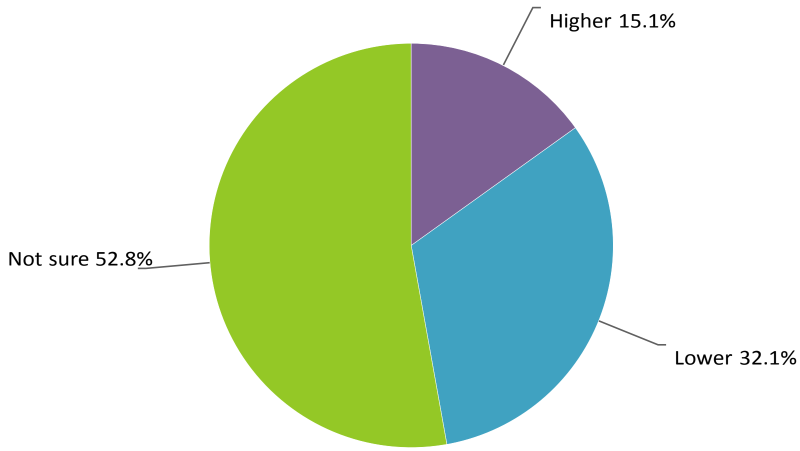
CD – Q2: *Do respondents believe the net NPA ratio is an effective measure for distinguishing a bank exposure’s credit risk? What alternative asset quality measure, if any, should be considered by the Committee?*

28. About 59% of the RJs have stated that net NPA ratio is an effective measure for distinguishing a bank’s credit risk, 31% have indicated that while the net NPA ratio is an effective measure of credit risk, there are more effective measures of credit risk, and 10% indicate that net NPA ratio is not an effective measure of credit risk.



29. In response to whether the proposed definition of Net NPA, the second risk driver, would increase the level of NPAs in the respective jurisdictions, a majority (53%) have indicated that they are not sure about the impact, but about 32% have

indicated that the level of NPAs will be lower. Only 15% have indicated that the level of NPAs will increase for banks in their jurisdiction.



30. As to whether the definitions for computing the net NPA ratio was clear, about 69% have indicated that the definitions are clear and the remaining about 31% have indicated that only some parts are clear.

Yes, for all four	69.2%	36
Yes, for non-performing loans and leases	19.2%	10
Yes, for non-performing debt securities	9.6%	5
Yes, for non-performing interest-bearing balances	3.9%	2
Yes, for provisions	11.5%	6
No	11.5%	6
	Total	52

31. Of the 16 jurisdictions that have indicated that only some parts are clear, 13 have indicated that the definitions of each of the components needs to be improved. These 13 jurisdictions have indicated that in the absence of further clarifications, one may not be assured of consistent calculation of the Net NPA ratio by all banks across jurisdictions.

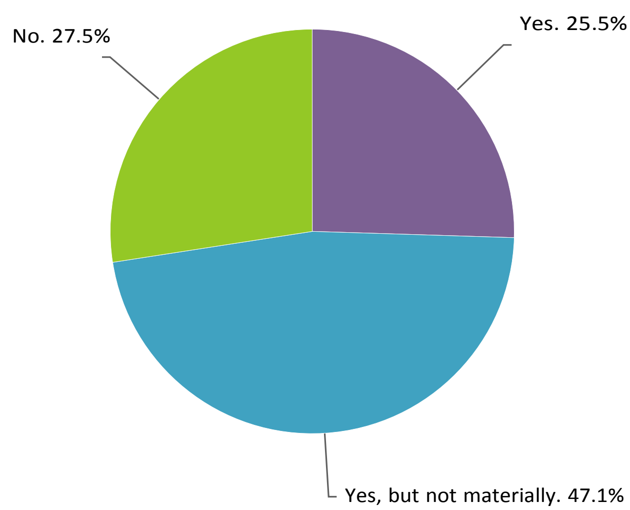
Non-performing loans and leases	7.7%	1
Non-performing debt securities	23.1%	3
Non-performing other interest bearing balances	53.9%	7
Provisions	23.1%	3
All four	38.5%	5
	Total	13

Short-term interbank claims

The Committee proposes to apply a preferential risk weight to short-term interbank claims, so as not to negatively impact market liquidity in interbank markets. Short term interbank claims having an original maturity of 3 months or less that are not expected to be rolled over may receive a risk weight 20 percentage points lower than the risk weight determined in accordance with the abovementioned look-up table for the general treatment, subject to a risk weight floor of 30%.

CD – Q3: *Do respondents have views on the proposed treatment for short-term interbank claims?*

32. 87% of the RJs have confirmed that the rationale for allowing a concessional risk weight for short-term interbank claims is relevant for their jurisdictions. With regard to the maturity of such short term claims, about 57% of the RJs (29) have indicated that the maturity should be less than three months. About 73% of the RJs (37 out of 51) believe that the preferential risk weight for short term exposures on banks can incentivize banks to shorten their inter-bank maturities, but 47% believe that such shrinking of maturities may not be material.



Respondent comments on exposures on banks

- Banks are subject to higher minimum capital requirements due to multiple reasons, including the imposition of DSIB capital requirements. Additional capital may also be imposed by way of a supervisory directive to an individual institution, after having considered the nature and complexity of the institution's operations. As such, it may be inappropriate for such an institution to enjoy a lower risk weight solely due to its higher capital level.
- The risk weights table does not seem to be in line with the SIFIs instructions where additional capital charge is to be maintained by large/ significant entities.
- The answer is more "yes" than "no" although a higher observed capital level per se does not necessarily mean that the bank is more reliable. The bank may take on more risk, including those not subject to capital requirements under Pillar I which is reflected in higher (economic) capital number on its book but the resulting relationship between its (net) risk and capital level is ambiguous;
- We consider Tier 1 as practically as good as CET1. Such answer was not available.
- The definition of NPA proposed by the BCBS is different from the definition of non-performing loans adopted by [country name] banks. As such, we are unable to determine whether the proposed definition for NPA will lead to higher or lower NPAs for [country name] banks. Nevertheless, by taking NPL as a proxy to NPA, the net NPA ratio can be an effective measure for distinguishing a bank's exposure to credit risk.
- Non-performing interest-bearing balances should be defined more precisely for correct assessment;
- The denominator of the NPA ratio includes investments in Government paper as well. Huge investment by the banks in Government papers (which is 0% risk weighted/ default free) would drag the net NPA ratio down.
- Because of different definitions of Default.
- Net NPA ratio is an indicator of risk into account the risk cover, but partially because it does not take into account the guarantees. The implementation in the various jurisdictions of a homogeneous Net NPA ratio would require a clarified (the definition of non-performing assets is it converges with the failure of the IRB?) And a probably significant effort of convergence. The criterion for the award of the weighting could be limited to CET1 already incorporates the credit risk level that confronts the borrowing bank.
- Respective banks also provide assurance, but not through external auditors
- In different jurisdictions different prudential requirements are imposed on banks (both the number of requirements and numerical limits, sometimes information may be classified) which will lead to inconsistency among jurisdictions and incorrect risk assessment for exposures deriving from cross-border transactions compared to domestic ones. So, setting a complete list of

prudential requirements the breach of which leads to RW 300% seems more likely;

- Consideration should be given to the potential volatility of capital ratios particularly where a breach is a short term or solo occurrence for an institution.
- It is challenging to gauge whether the reliance on CET1 and NPA ratios of the consolidated bank (in the absence of the ratio for the solo bank) would lead to an overestimation or underestimation of risk. However, this is not a major concern for [country name] as more than 95% of the banks' assets are held by institutions applying Basel III.
- The given answer is "Yes, can overestimate risk" or "Yes, can underestimate risk" (the questionnaire failed to check both answers). The Common Equity Tier 1 ratio on a consolidated basis seems more relevant as a predictor of the failure of a bank.
- We understand that the answer is yes, but can not state categorically that the difference would be marginal, underestimated or overestimated;
- It is mentioned that the maturity of the short-term claims be less than 3 months, while in the consultative paper under "Treatment for short-term claims" such claims are defined as having an original maturity of 3 months or less. So we recommend sticking to the definition stated in the consultative paper.
- In our regulations, we define 'short term interbank claims' as claims with a maturity of less than 6 months. However, in practice, most of the short term interbank claims are within the 3-month maturity bucket. The proposed new definition to cover claims with duration of 3 months or less may not result in significant shift on maturities of interbank borrowing and lending.
- Option of a lower RW for short-term interbank exposures is already incorporated in the framework and it seems more likely not to revise it not to negatively impact market liquidity;

EXPOSURES ON CORPORATES

Choice of risk drivers

CD – Q5: *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?*

33. Although about 61% (31) of the RJs acknowledge that leverage and revenue are appropriate risk drivers, (a) about 53% of the respondents (27) have indicated that leverage either needs to be replaced by a more sensitive risk driver or its computation

needs to be clarified; and (b) about 31% of the respondents (16) have indicated that revenue either needs to be replaced by a more sensitive risk driver or its computation needs to be clarified.

Yes, but computation of **revenue** needs to be clarified.	45.8%	11
Yes, but computation of **leverage** needs to be clarified.	54.2%	13
	Total	24

Revenue needs to be replaced with a more sensitive risk driver.	84.2%	16
Leverage needs to be replaced with a more sensitive risk driver.	15.8%	3
	Total	19

34. From an implementation perspective, it is noteworthy that about 28% of the respondents (14) have indicated that the corporates in their jurisdictions do not provide their data on leverage and revenue. Most likely these could be because the corporates are not obliged to subject their financial statements to independent external audit or even when audited, are not obliged to share these with the banks. About 49% (25) have indicated that these data are to be provided only at annual or longer intervals.

35. *The Committee is considering whether for companies that provide guarantees or have other material off-balance sheet liabilities, banks should adjust the leverage driver. For example, an adjustment could at least be made where an obligor's auditors consider its off-balance sheet commitments to be material. The leverage driver should be adjusted by adding to Total Assets the sum of off-balance sheet exposures.* About 88% of the respondents have supported the proposal to adjust leverage. About 44% of the respondents have indicated that leverage should be adjusted for all corporates – even when the corporates are not guarantors and even when their off-balance sheet items may not be material. About 27% have indicated that leverage should be adjusted when the off-balance sheet commitments are material and 17% have indicated that it should be adjusted when the corporate is a guarantor.

Yes, should be adjusted for all corporates.	44.2%	23
Yes, for all corporates who are guarantors.	17.3%	9
Yes, for all corporates who have only material off-balance sheet commitments.	26.9%	14
No.	11.5%	6
	Total	52

36. About 57% of the respondents have indicated that the auditors in their jurisdictions are not obliged to declare when a corporate's off-balance sheet commitments are material. However, even when there is no such obligation, the auditors comment on the size of the OBS items in 28% of the jurisdictions.

Yes, auditors are obliged to declare when a corporate's OBS items are material.	43.1%	22
Auditors are NOT obliged to declare, but they comment on the size of the OBS items.	27.5%	14
Auditors are NOT obliged to declare, AND they do not comment on the size of the OBS items.	9.8%	5
No.	19.6%	10
	Total	51

CD – Q7: *Do respondents think that the risk sensitivity of the proposal can be further increased without introducing excessive complexity?*

37. With regard to whether the risk sensitivity of the proposals can be further increased without introducing excessive complexity, 61% have indicated that this can be achieved through a combination of (a) more clarification (17%), (b) inclusion of more risk drivers that are easily verifiable (35%), and (c) by allowing banks to use external ratings (10%). Another 19% have indicated that this can be achieved by substitution of risk drivers.

No.	19.2%	10
Yes, with more clarification.	17.3%	9
Yes, by substitution of risk drivers.	19.2%	10
Yes, by allowing banks to use external ratings.	9.6%	5
Yes, by including more risk drivers which are easily verifiable.	34.6%	18
	Total	52

38. About 85% of the respondents (45) have indicated that the risk sensitivity can be further improved with the inclusion of additional risk drivers like industry sector and external ratings.

Project financing

39. As per the proposed changes the risk weight for equity exposure to corporates will increase from 100% currently to 300% for investment in equity that are traded on recognized stock exchanges and 400% for those that are not. In this regard, 81% (38) of the RJs have indicated that it will influence project financing by banks in EMDEs, where banks may currently fund projects at the development stage, through equity finance. The proposed treatment of corporate equity exposures is expected to exert material or significant influence in 49% of the jurisdictions (material in 32% (15) of the jurisdictions and significant in 17% (8) of the jurisdictions). The influence is expected to be marginal in 32% of RJs (15).

Yes, significantly.	17.0%	8
Yes, materially.	31.9%	15
Yes, marginally.	31.9%	15
No.	19.2%	9
	Total	47

Exposure to non-retail SMEs

> ***CD – Q6:*** *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?*

40. With regard to exposure to non-retail SMEs[5], the CD requires banks to treat these as exposure on corporate and therefore rely on their revenue and leverage for determining the risk weights. As to whether the leverage and revenue risk drivers are appropriate for assessing the credit risk in SMEs, 88% of the respondents have indicated that either these are not appropriate (24%) or that they are not sure (65%).

Yes.	11.8%	6
No.	23.5%	12
Not sure.	64.7%	33
	Total	51

41. The proposed risk weight for exposures to SMEs that may not qualify for inclusion as a retail exposures will increase from 75% to at least 100%, and can go up to 130%. As to whether the risk weight bucketing for exposures to non-retail SMEs (that will be classified as corporate exposure) is appropriate, 56% of the respondents (29) have confirmed that it is. About 31% indicate that the cliff effect of the risk weight for such exposures increasing from 75% (when they are eligible for inclusion in retail asset class) to 100 to 130% when they move to corporate asset class needs to be addressed, and about 10% who consider that though the risk-weight bucketing is not appropriate, the difference would be manageable.

Yes.	55.8%	29
No, but difference would be manageable.	9.6%	5
No, the cliff effect needs to be addressed.	30.8%	16
No.	3.9%	2
	Total	52

42. As regards the potential impact of the proposed treatment for non-retail SMEs, 14 RJs have indicated that it will have an adverse impact on banks' lending to SMEs. Of these 12 have indicated that banks' lending to SMEs will be adversely or very adversely affected, and the impact is expected to be marginally adverse in 2 RJs.

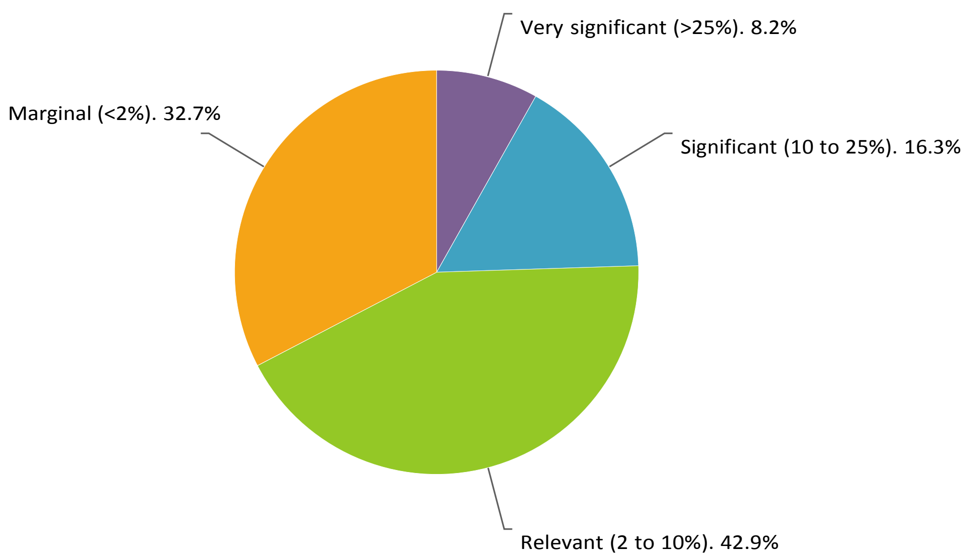
[5] These are exposures on SMEs that may not be eligible for inclusion as a 'regulatory retail exposure'

Very adversely	28.6%	4
Adversely	57.1%	8
Marginally adverse	14.3%	2
	Total	14

Specialized lending (SL)

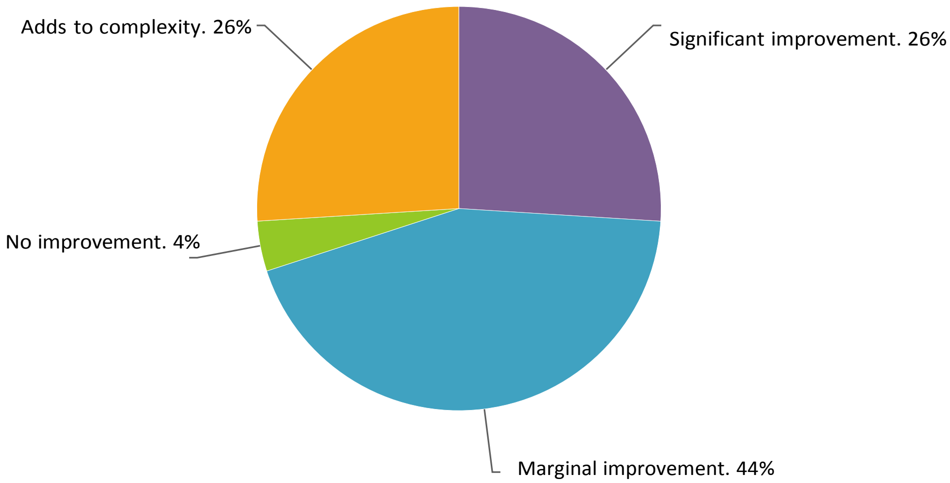
CD – Q8: *Do respondents agree that introducing the specialized lending category enhances the risk sensitivity of the standardised approach and its alignment with IRB?*

43. Specialized lending is significant or very significant in only 12 jurisdictions constituting 25% of RJs. In 33% of the RJs (16), specialized lending constitutes less than 2% of their total assets and in 43% (21) such lending is between 2 and 10%.[6]



44. With regard to whether introducing a specialized lending category in the standardised approach enhances its risk sensitivity, about 74% of the RJs have indicated that the improvement in risk sensitivity is absent or marginal, or that introducing the SL category adds to complexity. (26% of the RJs have indicated that it adds to complexity of the framework, 4% have indicated that there is no improvement, 44% have indicated that the improvement is only marginal.) In about 26% of the RJs (13) introducing the specialized lending category is expected to significantly improve the risk sensitivity of the standardised approach framework.

[6] The responses here are expected to be based on expert judgment and not necessarily on data collected from banks for this survey.



Exposures to debt and equity issued by corporates

The CD proposes that all capital and equity instruments issued by corporates are proposed to be risk weighted as below unless these exposures are deducted from regulatory capital or risk-weighted at 250% under Basel III:

a) 250% risk weight for subordinated debt and capital instruments other than equities;

b) 300% risk weight for equity holdings that are traded on recognized stock exchanges, and 400% risk weight for all other equity holdings.

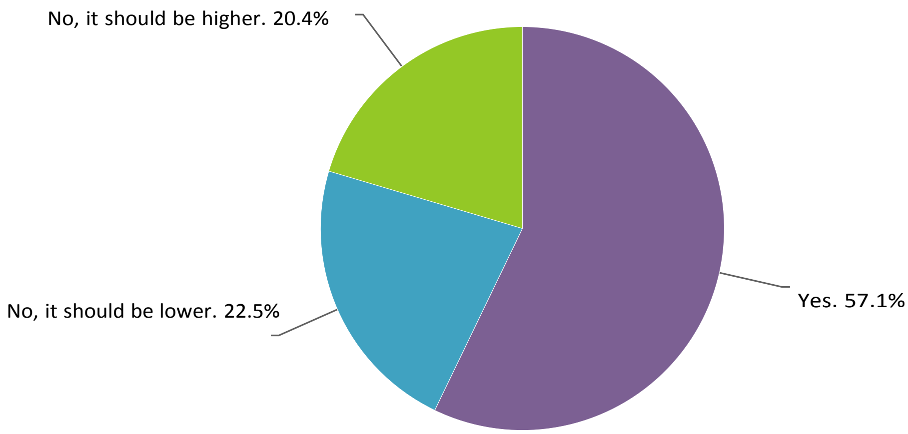
c) 300% risk weight for exposures to corporate with negative equity.

45. In this regards, about 78% of the RJs have indicated that their banks have exposures to corporate equity and other capital instruments. In 65% (33) of the RJs this exposure is a small proportion of total assets (up to 5%) and in 14% of RJs (7) it is between 5 and 25% of total assets.[7]

No.	21.6%	11
Yes, it is a small proportion of total assets.	64.7%	33
Yes, it is a material proportion of total assets (5 to 25%)..	13.7%	7
Yes, it is a significant proportion of total assets (more than 25%)	0.0%	0
	Total	51

[7] The responses here are expected to be based on expert judgment and not necessarily on data collected from banks for this survey.

46. With regard to the risk weight proposed for corporates with negative equity, 57% of the respondents (28) have indicated that this is appropriate. The remaining 43% is more or less evenly split with11 jurisdictions indicating that it should be lower and 10 indicating that it should be higher.



47. The CD proposes to apply the same treatment to the investment in the equity and capital instruments issued by banks and corporates, when these are not deducted or assigned a 250% risk weight under Basel III. The survey results indicate that only 6% of the respondents support this. About 55% have indicated that the risk weight should be more conservative for investment in such instruments issued by corporates, and about 39% support higher risk weight for investment in such instruments issued by banks.

Yes.	6.1%	3
No, treatment of investment in equity or subordinated debt issued by **banks** should be more conservative.	38.8%	19
No, treatment of investment in equity or subordinated debt issued by **corporates** should be more conservative.	55.1%	27
	Total	49

Respondent comments on exposures on corporates

- The BCBS proposes the use of revenue and leverage in determining the appropriate risk weight for exposures to corporates. However, the use of leverage and revenue in a two-factor matrix is relatively more complex (requires significant data extraction and verification) than the existing rating-based approach, with only marginal improvements in risk sensitivity. In [country name], leverage carries a 10-25% weight in a typical IRB model for exposures to large corporates, while growth, turnover ratios or behavioral factors are more predictive risk drivers for exposures to small corporates and SMEs. We intend to propose for the Committee to consider retaining the use of external ratings (with some adjustment to the calibration of the risk weights), and impose the two-factor matrix only for unrated corporates/SMEs.

- The BCBS's proposed 300% risk weight for an exposure to a corporate with negative equity is appropriate as negative equity is an indication of weaknesses in the financial standing of a corporate entity.
- The size criteria (through sales) led to define weights for stronger SMEs and large corporates. However, the risk on the SMEs is linked to specific factors (sectoral, geographic, humans) that the bank can diversify by pooling a large number of SME loans in its portfolio. The weighting grid restraint does not seem to take into account the granularity of the loan portfolio to SMEs.
- Both risk-drivers should be defined more precisely for correct and consistent implementation among jurisdictions;
- Revenues should be adjusted by GDP/capita or by a similar ratio.
- Related to adjusting leverage driver for corporates we recommend having a clear and specific criteria to define the guarantees and the material off-balance sheet liabilities.
- Auditors may express concerns although it is not common practice (the case should be extraordinary);
- Section 83 of the Financial Institutions Act, 2008 requires auditors to report, among other things, transactions that have a material or significant impact on the financial position of the licensee or financial holding company or large exposures that have the ability to jeopardize the institution.
- Information relating to turnover and financial leverage is not always exhaustively recorded in bank information systems.
- Both risk-drivers should be defined more precisely for correct and consistent implementation among jurisdictions;
- Corporate entities are not required to provide periodic reports to the Central Bank.
- According to the Law on Accounting and Auditing in the [country name], large and medium-sized companies publish semi-annual and annual financial reports, while small companies publish only annual reports. According to the question
- Quarterly for listed companies
- Only Limited companies disclose their financial statements annually.
- We answered yes at least quarterly, but we are referring to large corporates
- Checks are carried out by banks, but do not guarantee the quality of financial information provided by some companies.
- Banks in [country name] have a large range of corporate counterparties (from private funds to large internationals' funding vehicles to personal investment vehicles and some more normal corporates) and they treat the classes

differently and collect different types of data. None of it has any bearing on Pillar 1 regulatory capital requirements and hence we have not imposed any requirements in respect of data verification. The answer, I suspect, is that they verify some data and they don't verify other data. For example, I doubt a personal investment company has an auditor. I couldn't fit this response with any of the options – its "Some", not "No" or "Yes".

- On Corporate Exposures - Default risk weight of exposures to SMEs would be at least 100% considering the level of revenue that they need to meet in order to qualify for a lower risk bucket. SMEs in our jurisdiction may not generate more than 5 Million euro, but do not necessarily have higher credit risk
- There are some parts in the consultative paper that need further clarification: 1.SMEs The treatment of the SMEs needs more elaboration as it is not clear enough under which claim it falls.
- Big shift from 75% to 100% for SMEs not qualified for retail exposure treatment poses a concern for our SMEs. This would greatly affect lending to the sector given the higher risk weight. This would likewise impact the financial inclusion programs being espoused by the government. In this case, some form of national discretion is necessary to allow a more appropriate domestic treatment of exposures to SMEs.
- Sensitivity may be increased by increasing the risk weights.
- Industry sector is not considered to be a risk-driver for estimating corporate exposures and the use of external credit ratings is counter to the BCBS/FSB goal;
- Question 23 asks if the 300% risk weight is appropriate for a corporate with negative equity. We have no data to support an opinion in either direction. I didn't want to skew the results of the survey by putting in a completely unsupported guess.
- Question 25(ii) (re impact on EMDE project finance) presents a similar problem to Q23. We're not an EMDE country and we don't see a lot of EMDE project finance.
- On the proposed treatment for specialized lending, the higher risk weights may not significantly affect the project financing models in [country name]. This is due to the practice of [country name] banks which provide financing to SPEs instead of through direct equity financing.
- Much more prudential requirements are imposed on banks than corporates, banking supervision is stricter;
- Proposal to apply risk weights 300% and 400% for exposures to equity of other banks and corporates (in case they are financial entities) unless this exposures are deducted from regulatory capital or risk-weighted at 250% under Basel III in our opinion may be realized only in case Basel III is not implemented because under these conditions there is no particular exposure left either undeducted from capital or not risk-weighted at 250%. These higher RWs may be applied to exposures to equity of commercial entities.

- Regarding the obligor's revenue, currency and economic indicators have to be taken into consideration to identify the revenues in each jurisdiction.

Retail exposures

CD – Q9: *Can 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?*

48. A clear majority of the respondents do not consider it necessary to increase the risk sensitivity of the retail portfolio. About 60% of the RJs (31), have indicated that there is no need to increase the risk sensitivity for treatment of retail exposures. The remaining 21 RJs, have indicated that risk sensitivity can be improved on the basis of the borrowers' past track record (14), availability of security / collateral to the bank (11), loan recovery through payroll deductions (12) and the borrowers DSCR (11).

Repayment through payroll deductions	57.1%	12
Exposure is secured or not	52.4%	11
Borrowers' debt service coverage ratio	52.4%	11
Borrowers' past record of payments	66.7%	14
Other	9.5%	2
	Total	21

Exposure to SMEs

49. In a vast majority of the RJs (74%), banks' exposures to SMEs will qualify as a retail exposure. Among the remaining 26% of the RJs, 6 (12%) have indicated that they are not sure about the size of the SME exposures that will be excluded from the retail asset class, and 5 (10%) have indicated that the exposure to such ineligible SMEs will be material (range of 5 to 25% of total assets) and 2 have not provided a response.

50. Of the 11 jurisdictions where some SME exposures might be excluded from the retail portfolio, for 2 RJs NPAs in the SME portfolio is lower than the NPAs in the retail portfolio; for one it is lower than the NPAs in the corporate portfolio, and for one it is lower than the bank's average NPAs. 7 of the 11 jurisdictions have indicated that none of the above apply with regard to the NPA rate in SMEs portfolio.

Lower than the bank's NPA ratio.	9.1%	1
Lower than the NPA ratio for corporate exposures	9.1%	1
Lower than the NPA ratio for retail exposures	18.2%	2
None of the above	63.6%	7
	Total	11

Treatment of exposures in foreign currencies

Exposures where the lending currency differs from the currency of the borrower's income are subject to the risk of foreign exchange rate volatility. As observed in different jurisdictions, foreign exchange rate volatility is a factor external to the borrower that affects its debt-servicing capacity. Portfolios denominated in foreign and domestic currencies can exhibit markedly different default patterns. Banks with a significant portion of their loans denominated in foreign currencies to borrowers with income in a different (ie their own domestic) currency may see the credit risk of the borrowers rise as a consequence of rapid changes in foreign exchange rates. To take account of this higher risk, 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. To keep the framework simple, it is proposed to apply this risk-weight add-on only to retail exposures and claims secured by residential real estate, based on the assumption that borrowers assigned to these categories are mostly individuals, or micro-firms, which generally do not manage or hedge their foreign exchange risk.

CD – Q 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?*

51. A vast majority of the RJs (70%) are in favour of a risk weight add-on for foreign currency exposures on clients whose income is not in the same currency, but about 22% of RJs are in favour of addressing the inherent risk through Pillar 2. About 46% of RJs (23) agree that the risk weight add-on should be applied to all such exposures. About 24% of RJs (12) have indicated that the proposed risk weight add-on should apply to such exposures above a cut-off (5 RJs) or only to specific sub-categories of the retail portfolio (to be identified) (7 RJs).

No.	8.0%	4
No, but should be addressed through Pillar II	22.0%	11
Yes, for all such exposures.	46.0%	23
Yes, only for exposures above a cut-off point.	10.0%	5
Yes, only for exposures to specific sub-categories (to be identified).	8.0%	4
Yes, only for exposures to specific sub-categories above a cut-off point (to be identified).	6.0%	3
	Total	50

Respondent comments on retail exposures

- The eligibility criteria for retail therapy are already in place in the [country name] regulations on the standard approach: destination, product, low individual value (2 MDH), grain (0.2%).
- RW 75% to retail is not applied under current capital adequacy regulation;
- Under the Basel II standards, exposures included in the regulatory retail portfolio must fulfill four criteria (i.e. orientation criterion, product criterion, granularity criterion and low value of individual exposures). In meeting the 3 granularity criterion, the Basel II text allows for national discretion to be exercised in ensuring that the portfolio is sufficiently diversified. [country name] has adopted all four criteria and has exercised the national discretion by imposing the 0.2% limit suggested in the Basel text (i.e. *'numerical limit that no aggregate exposure to one counterpart can exceed 0.2% of the overall regulatory retail portfolio'*) to meet the granularity criterion. Based on our experience, the criteria have not resulted in the exclusion of any SME exposures.
- On Regulatory Retail Portfolio, Q. 27 - Loans with repayment through payroll deductions have a different risk profile compared with an ordinary unsecured personal/consumption/credit card loans. Somehow, collections from loans under payroll deduction are more assured. Also, explicit agreements/contracts to deduct unpaid balances from separation/retirement benefits are accomplished by borrowers.
- The add-on for currency mismatches in the balance sheet of the borrower should apply to all exposures, not only retail and real estate ones.

EXPOSURES SECURED BY RESIDENTIAL REAL ESTATE

Operational requirements

52. With regard to the proposed treatment of exposures secured by residential real estate, 75% of the respondents (38) have indicated that operational requirements (finished property, legal enforceability, prudent value of property) are clear and will facilitate consistent application across jurisdictions.

53. Thirteen jurisdictions (25%) do not agree that (a) the operational requirements are clear and (b) these will facilitate consistent application across jurisdictions. Of these. 10 RJs have indicated that there is a need for more details for all criteria to improve consistency of implementation, and 3 have indicated that there is a need for clarifying the requirements for unfinished property, particularly an apartment in multiple unit apartment buildings, property valuation by banks' experts, and need for enforceability in all jurisdictions.

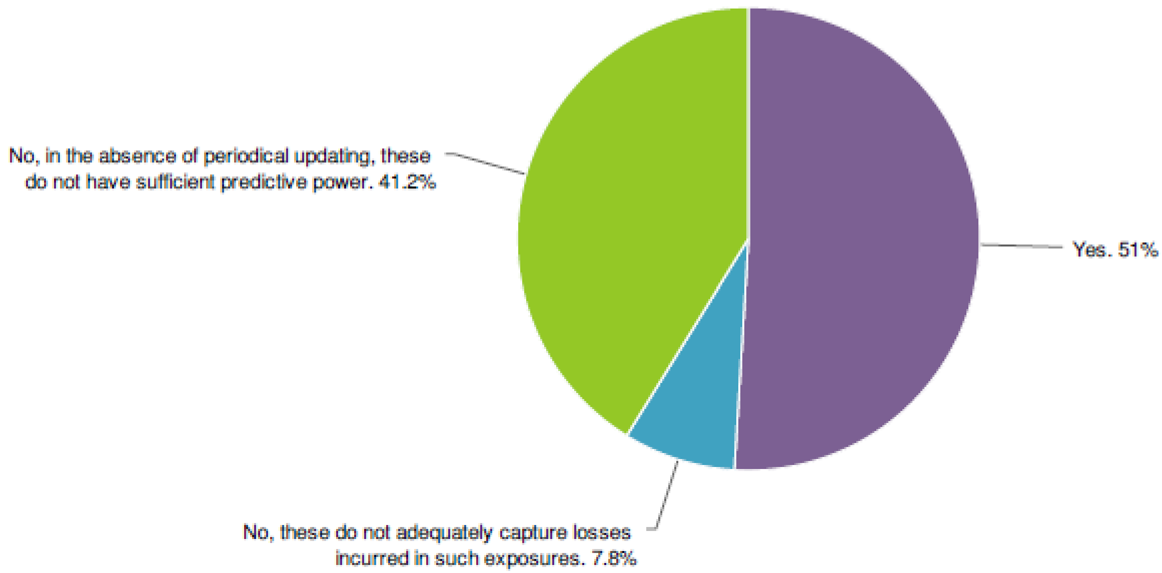
Unfinished property – clarify about apartments in multiple-unit apartment buildings	25.0%	3
Prudent value of property – clarify valuation by banks' experts	25.0%	3
Legal enforceability – clarify why enforceability in all jurisdictions is necessary	25.0%	3
Need more details for all criteria to improve consistency of implementation	83.3%	10
	Total	12

Choice of risk drivers

The CD has proposed that the risk weight applicable to exposures secured by residential property will be as determined by the exposure's loan-to-value (LTV) ratio. In the case of exposures to individuals, the risk weight will be determined by taking into account the debt service coverage (DSC) ratio also.

CD – Q10*: 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?*

54. As to whether the chosen risk drivers (LTV and DSC ratios) have sufficient predictive power of loan default and/ or loss incurred for exposures secured by residential real estate, 51% have agreed, 41% have indicated that in the absence of periodical updating, these do not have sufficient predictive power, and the remaining 8% have indicated that these do not adequately capture losses incurred in such exposures.



55. About 75% of the respondents have indicated that there is a need to supplement the LTV ratio by the DSC or any other ratio, where the counterparty is not an individual.

Yes, need not be supplemnted by any other risk driver.	24.5%	12
No, should be supplemented by DSC.	42.9%	21
No, should be supplemented by some other risk driver.	32.7%	16
	Total	49

Implementation issues

56. About 43% of the respondents (22) have indicated that the banks in their jurisdictions collect relevant information and can compute both LTV and DSC ratios. However, 37% of the respondents have indicated that there is a need for additional and specific guidance to ensure consistent calculation of LTV and DSC ratios, 14% have indicated that their banks can compute the LTV ratio but not the DSC ratio, and 10% have indicated that their banks are not familiar with the computation of both ratios.

Yes, can compute both ratios.	43.1%		22
Yes, can compute LTV ratio but not DSC ratio.	13.7%		7
Yes, can compute DSC ratio but not LTV ratio.	0.0%		0
Yes, but they need additional and specific guidance to ensure consistent calculation of LTV and DSC ratios	37.3%		19
No they are not familiar with computation of LTV and DSC ratios.	9.8%		5
		Total	51

***CD – Q11**: 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.)*

57. The CD currently does not require the LTV and the DSC ratios to be updated. The risk weights will be determined on the basis of these ratios at the time of origination. In this context, about 68% of the RJs have indicated that either one of the ratios, or both should be updated at least annually.

No, both should be updated at least annually.	50.0%		25
No, DSC should be updated at least annually.	10.0%		5
No, LTV should be updated at least annually.	8.0%		4
Yes.	32.0%		16
		Total	50

***CD – Q12:** 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?*

58. As to whether the use of a fixed threshold (for example, 35%) for the DSC ratio is an appropriate way for differentiating risks in the respondent jurisdiction and

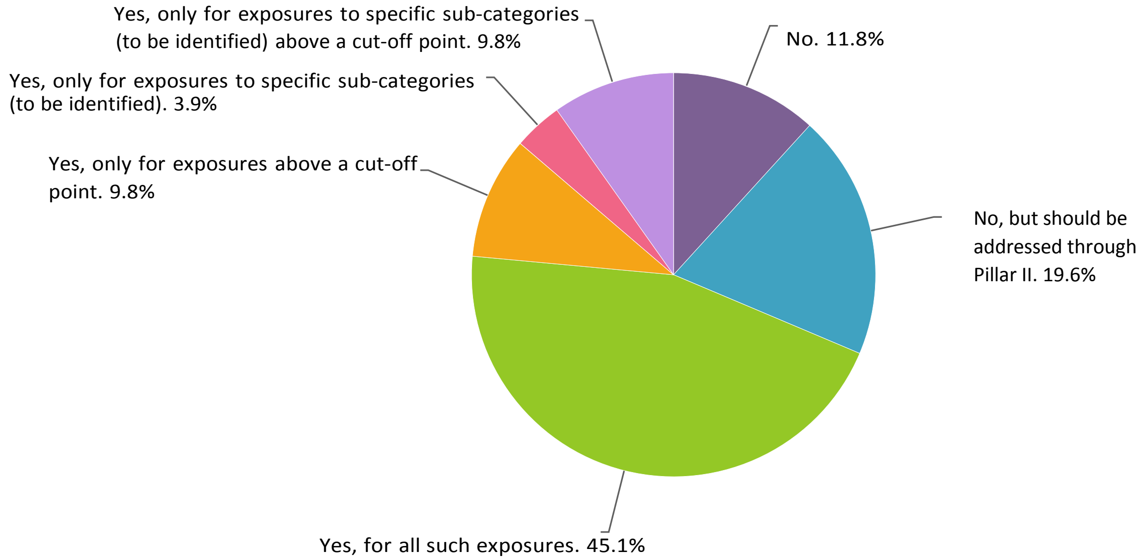
ensuring comparability across jurisdictions, about 64% (32 RJs) have indicated that it is. As regards whether a different threshold should be considered, 11 (of the 18 jurisdictions that do not support a fixed threshold) have suggested alternatives that can be summarized to include (a) the threshold to be determined by national discretion or local conditions – 5 RJs (b) specific thresholds as perhaps relevant to the RJ - 4 RJs, and (c) a range rather than a fixed threshold – 2 RJs.

30%	1
40%	1
45%	2
Based on national dicretion	1
National Discretion	1
Variable depending on local conditions	1
a range	1
it shouldn't be fixed	1
If BCBS decides to use DSC, we propose for the threshold to be determined by the national supervisor	1
value of the threshold should be difference across jurisdiction depend on the real estate environment of each country. (national discretion)	1

Treatment of exposures in foreign currencies

CD – Q16: *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?*

59. With regard to treatment of loans in foreign currencies that are secured by residential real estate, the responses are similar to those for such loans in the retail portfolio. A vast majority of the RJs are in favour of a risk weight add-on for foreign currency exposures on clients whose income is not in the same currency. Sixteen RJs (31%) have indicated that the proposed treatment is not appropriate, and 10 of these have indicated that this should be addressed through Pillar II treatment. Of the remaining 69% who agree that the proposed risk weight add-on is an appropriate approach, about 24% of RJs (12) have indicated that the proposed risk weight add-on should apply to such exposures above a cut-off (5 RJs) or only to specific sub-categories (to be identified) (7 RJs).



Respondent comments on exposures secured by residential real estate

- We would like to suggest to reconsider (or expand) national discretion as regards unfinished property for exposures secured by residential real estate. E.g. in [country name] the emphasis is placed in that the property is intended for the permanent housing of a single family. In EMDEs it is usual to have larger families living under the same roof, so a maximum of 4 family members may be restrictive.
- The use of DSC is less accurate for seasoned loans in [country name]. Hence, [country name] banks rarely select the DSC ratio as a risk driver in credit risk models for origination. Even where the DSC ratio is used, it is typically only useful for the first 6 to 12 months as income and debt levels may change significantly in the longer term. Based on [country name] experience, behavioral factors (e.g. delinquency, utilization rate) are more predictive factors, although the use of such factors may increase the complexity of the framework. On average, behavioral drivers constitute a 65% weight in credit risk models. We propose for the BCBS to consider allowing national supervisors to determine the appropriate risk drivers.
- Marginal impact
- It would be more prudent to update the DSC ratio and the value of the property, but at the same time it would be more burdensome for banks
- Question 33 (re DSC/LTV at origination) presents a slightly different problem. I think that it makes a lot of sense to update both LTV and DSC data - to reflect changes to the risk profile. But not annually. In short, I oppose all the options presented.
- I think it needs to be much more flexible. A core principle might be that banks should reflect updates they are aware of. This might be enough if its combined with a principles re consistency and robustness – a standard but not a rigid one. This would allow a bank to put in place robust systems to refresh the data (every year or every five years, say), after which it will be more accurate in its

capital measurement and it will typically see lower risk weights over time (so there is an incentive to do something). I think this incentive suffices. So I agree with the high level concept of updating but strongly oppose creating a specific standard re frequency (for example, I can imagine that in some countries banks, in Pillar 1 at least, would not update data).

Credit risk mitigation

***CD – Q 22:** What are respondents' views on the above alternative ways to define eligible financial collateral?*

60. As to whether the alternative definition for senior debt securities (using the concept of 'investment grade') will yield similar results as the current criteria based on external ratings of the financial collateral, 78% of the respondents (40) do not agree. About 41% have indicated that it can lead to inconsistent application across banks and across jurisdictions, 24% have indicated that it can lead to reliance on individual bank's decision on "eligibility" of the financial collateral, 10% have indicated that this can lead to fewer eligible collateral and 4% have indicated that this can lead to additional eligible collateral.

Yes.	21.6%	11
No, can lead to reliance on individual bank's decision on "eligibility" of the financial collateral.	23.5%	12
No, can lead to inconsistent application across banks and across jurisdictions.	41.2%	21
No, can lead to fewer eligible collateral.	9.8%	5
No, can lead to additional eligible collateral.	3.9%	2
	Total	51

61. With regard to the proposed changes to the definition of eligible guarantors, 22% of the RJs (11) have indicated that the proposed changes will render some of the current guarantors as ineligible. Some of those guarantors that will become ineligible, include other unregulated financial institutions (5 RJs), individual guarantors (4 RJs), specialized or developmental financial institutions that are not majority state owned (2 RJs), and mutual guarantee schemes (1 RJ).

62. As to whether the Basel Committee should allow other forms of collateral as eligible collateral for capital adequacy purposes, about 28% of the RJs (14) have

indicated that this should be the case. Some of the items of additional collateral proposed include receivables, movable collateral, and big ticket capital equipment.

1	Garantías muebles; maquinaria y equipo.
1	Liquid collaterals
1	Receivables
1	Receivalbles based on Audited Data Real Estate Collateral based on validated appraisal process
1	Warehouse receipts. They have low risk and are used in many countries.
1	land, vehicle
1	movable assets such as motor vehicles, furnitures and other household items, cattle. Majority of borrowers do own such assets and if allowed for purposes of collateralization, they may have access to credit and therefore increase the level of financial inclusion in developing countries
1	Movable Collateral. It is important to us because it would facilitate the access to credit for a large number of SMEs.
1	Big ticket capital equipment are often used to collateralize project financing, particularly for big projects which are critical for economic growth. In such cases, the collateral is critical to the projects and hence are indispensable for the project sponsor, thereby forming a crucial value as collateral.
1	a. Financial receivable as eligible under IRB. b. CRE/RRE c. other physical collateral like land etc. However, the eligibility conditions for all the above should be spelt clearly for these to be considered as eligible collateral.
1	Movable collateral like equipment, inventory and receivables, If there is an efficient secured Transaction law.

Respondent comments on credit risk mitigation

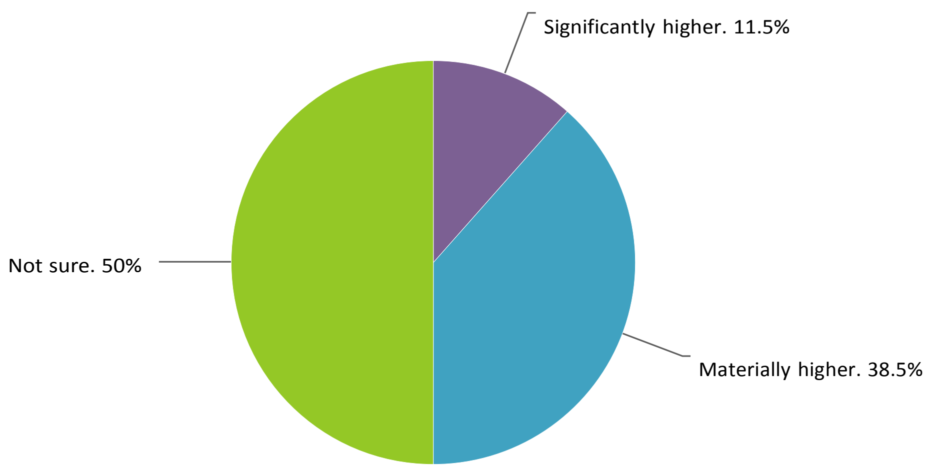
- Both second and third options, i.e. 2. No, can lead to reliance on individual bank's decision on "eligibility" of the financial collateral. 3. No, can lead to inconsistent application across banks and across jurisdictions.
- We should avoid direct or indirect references to CRAs, therefore we wouldn't agree to use the concept of "investment grade".
- The proposed guarantor eligibility criteria are broader than the existing ones due to inclusion of related parties (b) who are currently not considered eligible protection providers (para 124 Basel II and para 46 Annex 11 Basel II).
- Question 45 re guarantor eligibility is similar to Q23. We have no data to support an opinion in either direction. I didn't want to skew the results of the survey by putting in a completely unsupported guess. I'm confident the impact is small but this isn't what the question asks and there might very well be a quasi-state or quasi bank entities that slips through the net, depending on fine details of the proposal.

Off-balance sheet items

***CD – Q18**: 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.*

63. As to whether the instruments allocated to each of the CCF categories share a similar probability of being drawn, and whether probabilities implied by the CCF's are accurate, about 46% of the respondents do not agree.

64. As regards the likely impact of the higher CCFs of 10 percent for commitments that are unconditionally cancellable and 75 percent for commitments other than those that are unconditionally cancellable, 50 percent (26 RJs) have indicated that they are not sure, 39% (20 RJs) have indicated that the impact is likely to be materially higher and 12% (6 RJs) have indicated that the impact will be significantly higher.



Past due loans

***CD – Q19:** What are respondents' views on the alternative treatments currently envisaged for past-due loans?*

65. With regard to the proposed treatment of past due loans, the respondents have shared their views on how this asset class can be approached.

a. About 69% (35 RJs) agree or strongly agree that the asset class should be extended to all past due assets – not just past due loans. About 26% (13 RJs) of the respondents have indicated that they neither agree not disagree to this option.

b. About 88% of the respondents (45) have indicated that the definition of NPAs proposed for the risk driver for exposures on banks can be adopted and that this will ensure consistency, 8% (4 RJs) have indicated that the definition should be more conservative, and the remaining 4% (2 RJs) have indicated that it should be less conservative.

c. While about 52% of the respondents agree that assigning a flat risk weight to all past due loans will be a simple approach, about 42% have indicated that this can result in differences in treatment of past due assets in different asset classes, or can impose significantly higher capital requirement for past due assets in select asset classes.

Yes, this will be a simple approach.	52.0%	26
No, it can result in differences in treatment of past due assets in different asset classes.	36.0%	18
Can impose significantly higher capital requirement for past due assets in select asset classes.	6.0%	3
No views.	6.0%	3
	Total	50

d. As regards assigning an add-on to the applicable risk-weight in each asset class, for the past due assets in the respective asset class, which may vary as a proportion of the amount of provisions held, and whether holding a higher level of provisions for past due assets would warrant a lower risk weight than for a performing asset:

    i. About 41% of the respondents have indicated that this will be a simple approach (18%) and can ensure uniform treatment across asset classes (23%).

    ii. All other factors remaining the same, 31% have indicated that the risk weight for past due assets should be higher than for a performing asset.

Yes, this will be a simple approach.	18.4%	9
Yes, it will be a simple approach and can ensure uniform treatment across asset classes.	22.5%	11
Can impose heavy burden.	8.2%	4
No Views.	16.3%	8
All other factors remaining the same, the risk weight for past due asset can be lower than for a performing asset.	4.1%	2
All other factors remaining the same, the risk weight for past due asset should be higher than for a performing asset.	30.6%	15
	Total	49

Respondent comments on past due loans

- We consider it mostly an issue for rules on provision-making than risk-weighting (provisions attributed to non-performing assets reduce capital, moreover they are deducted from assets when computing the ratio);
- Question 43 is problematic to answer. If it was possible, I would tick bullets 1 and 5 – the proposal is a simple approach but it might overstate the risk weight, pretty much depending on the accounting treatment. Personally, I'd favour retaining national discretions in this area – I can't see a one size fits all solution. I favour (1) a simple approach but (2) with national discretion to reduce the risk weight if provisioning is sufficiently robust (i.e. if the accounting rules ensure that the provision reflects the LGD then an add-on is inappropriate as the risk decreases as the loss is crystallized – which requires supervisory assessment of the local accountancy framework). I almost convinced myself to go with just bullet 5 but note that the add-on proposal itself is not the problem, only the related withdrawal of the additional national discretions in the current Basel II approach.

General Comments received from respondents

- The [country name] banking system consists of conventional banks, Islamic banks, investment banks (known as 'commercial banks') and development financial institutions (DFIs). All commercial banks are currently adopting Basel III and all DFIs are currently on Basel I. Most of the assets are held by commercial banks while assets held by DFIs are less than 5%.
- These proposals need a quantitative impact study to assess the impact the increase in capital charges for banks, and the results on loan cost and on access to finance for SMEs especially for EMDE where economy finance is especially bank based.

- Please note that the above information have been provided for commercial banks in [country name]. All these banks follow Standardised approach of credit risk. Below are some of our observations on the Basel proposals. 1. Alternative risk drivers considered here should have features of risk sensitivity, counter-cyclicality, forward looking nature which seem to be absent in some of the cases. The validity of certain risk drivers like revenue, CET1 instead of CET1 above the minimum prescribed may need a re-look. 2. There are definitional issues relating to net NPA, provisioning, LTV etc. 3. Calibration by bunching corporates from lower and higher risk categories in a narrower band vis-a-vis current Standardised approach may result in less risk sensitivity. 4. Proposed calibration also leads to higher RW vis-a-vis present SA framework in many asset classes. This may also cause a non-level playing field between SA and IRB banks and may lead to stability issues during stress.
- We believe that the revised Basel II Standardised approach framework should not eliminate the Simplified Standardised approach. The consultation document is silent on this issue but we consider it to be the simplest and the least burdensome approach for assessing capital adequacy of all banks (not only the largest internationally active ones). It is free of external credit assessment institutions' ratings as well.
- All Banks in [country name] are required to implement Basel III.
- There is still more work required, particularly in regards to the definition of some of the risk drivers, justification for increasing some of the risk weights and a QIS to assess the impact of the changes on standardised banks.
- Most of banks do not have proper structure and complexity to implement such heavy reforms; not engaged in specialized banking nor investment business.
- The alternatives given to the questions do not allow to explain precisely the [country name] view regarding to the proposed credit risk standard. In the [country name] case, the Basel II approach incorporates several aspects of national discretion in order to adapt the regulation to the particular characteristics of the [country name] financial system. Therefore, [country name] answers assume the literal implementation of the credit risk standard revision, even when the standard would not necessarily be implemented exactly as it has been proposed.
- Right now [country name] is still working with Basel I, but the financial institutions have made some advance in internal models (Pillar 1), while the Supervisory is working to improve Pillar 2. Both parts hope to get into Basel II in 2016.
- The proposed revisions to the standardised approach may result in higher costs being incurred, disproportionately, by small banks, in the absence of a simpler model being permitted to be used alongside it. For example, could small banks (to be defined) still use the standardised approach for RWAs as per Basel II, but larger banks use the revised more risk sensitive measures? The general view is that the proposals are starting to align the standardised approach to basic IRB models.

- In [country name] only the standardized approach to credit risk is allowed. 2) Regarding the "General section", BIII is being implemented in [country name] according to the phase-in arrangements.
- As a general comment, the responses provided by the Central Bank of [country name] are constrained by the fact that we have not yet implemented Basel II or Basel III. While our proposal document for implementation of these standards has been released for comment, data on some of the ratios discussed in the paper (for example CET1) is not available. Some answers have therefore been omitted given the lack of data to sufficiently influence an opinion. This notwithstanding, the survey has been completed giving due consideration to the implications for the local financial system. As another general point, the Central Bank supports the increase in risk sensitivity and comparability of the standard. However, there is a cost to capital and in this context the revisions may prove unduly onerous on financial institutions.
- The revised standard has good intention but fails in consistency of interpretation and application in different jurisdictions. Some thresholds are set without regard to the level and nature of jurisdictions e.g. definition of SME of euro 1 Million.
- The estimated impact of proposed changes need a QIS. So, our response on this survey is judgmental.
- There are many significant Changes. We would strongly recommend permitting the use of External ratings in a limited number of areas such as Banks, corporates and sovereigns.
- In general, while we recognize the need for comparability across jurisdictions, we support the inclusion of national discretion for certain exposures as local/domestic environment, legal parameters and government initiatives are major considerations in the implementation of the framework.
- Our country is still in full with the principles of Basel I. That is why many items are not applicable.
- The [country name central bank] supports a general direction of the proposed revisions to the standardised approach for credit risk. All banks in [country name] apply Basel III, as adopted by the EU regulatory bodies, from 1. January 2014. exept G-SII and O-SII capital buffer requirement which will apply from 2016.
- This would also increase risk sensitivity
- The likely impact of the proposed changes is based on expert judgment since we do not have detailed data to give more precise assessment.
- The implementation of the Basel III reform of capital has led to an increase in capital requirements and this was one of his stated objectives following the crisis. As for the reform on the standardized approach to credit risk, it aims to improve the standard approach to make it less dependent on ratings, more risk-sensitive and comparable from one bank to another. But in reality, it will also lead to higher capital requirements which would be likely to constrain the financing of the economies and to a greater extent in emerging countries.

- Part of Question no.49 wasn't answered fully in the survey as it needs collection of some data from the banking sector and a number of exercises to get the accurate results/answers.

ANNEX

List of Respondent Jurisdictions that participated in World Bank Group Survey on the proposed changes to the Basel II – Standardised Approach to Credit Risk

February – March 2015

1	Albania	28	Lithuania
2	Argentina	29	Macedonia
3	Armenia	30	Madagascar
4	Bahamas	31	Malaysia
5	Bolivia	32	Mauritius
6	Bosnia & Herzegovina	33	Mexico
7	Brazil	34	Morocco
8	Cambodia	35	Nicaragua
9	Cayman Islands	36	Pakistan
10	China	37	Palestinian Territories
11	Colombia	38	Panama
12	Costa Rica	39	Paraguay
13	Croatia	40	Peru
14	Czech	41	Philippines
15	Dominican Republic	42	Russia
16	Dubai-DIFC	43	Rwanda
17	Egypt	44	Saudi Arabia
18	Haiti	45	Serbia
19	Honduras	46	South Africa
20	India	47	Tajikistan
21	Indonesia	48	Tanzania
22	Isle of Man	49	Thailand
23	Israel	50	Trinidad & Tobago
24	Jersey	51	Tunisia
25	Jordan	52	Uruguay
26	Kenya	53	Vietnam
27	Lebanon		