Dear BIS BCBS,

My name is KiTae Yang who works for S&P Risk Solutions.

I read carefully the report several times: guidance on accounting for expected credit losses.

Thanks a lot for issuing this well-organized guidance.

My lesson from this report is that the fundamental rule never changes.

BTW,

May I make some comments as below?

As far as I understand, one of IFRS 9 intentions is to help a bank to achieve counter-cyclicality as a financial 'institution' (rather than just financial company) through the bank's preventing the cliff effect of provisioning based on such as stage -2, life-time expected credit losses.

However, in some sense, major banks' herd behaviors to stage 2 with PIT PD, in case of such global X-event shocks, might deepen pro-cyclicality unlike the basic intention such as counter-cyclicality. Or banks might prefer short-term loan which could result in more serious concentration risk in terms of re-financing risk in order to avoid or mitigate the effect of stage 2.

What I learn from the repeated-credit-failure history as a former credit rating analyst is: ***even good-intention policy could result in unexpected non-linear effect.***

What about 'also and carefully' mentioning in this report such as potential down-side risk relating to the implementation of IFRS 9 for sound risk ***man-age-ment*** beyond risk administration?

Great thanks for reading my naïve opinion.

With Warmest Regards

KiTae Yang

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Dear BIS BCBS,

My name is KiTae Yang who works for S&P Risk Solutions as a Workout LGD Developer since 2006 year.

Firstly I deeply appreciate for the organization's elaborate effort to Guidance on accounting for expected credit losses.

Also I (as former rating analyst and professor in the financial accounting areas) truly agree with the appendix part such as the importance of the definition over stage 2.

BTW,

May I make some comments as below?

(1) There is the part of model output/performance in the report as the below table.

(iii) Model output/performance *– The model should be validated in accordance with internally established standards for acceptable performance. This includes the level of acceptable discriminatory power, stress-testing thresholds, backtesting thresholds and any other relevant validation standards. All means to assess model performance, such as stress testing, backtesting and benchmarking, should be evaluated with the most appropriate measures selected. Where performance thresholds are significantly breached, remedial actions to the extent of model re-development or re-calibration should be considered.*

(2) BIS BCBS could ***'additionally'*** include ***'stability tests'*** for the areas of workout LGD and CCF in this sentence: All means to assess model performance, such as stress testing, backtesting and benchmarking, should be evaluated with the most appropriate measures selected.

(3) As BIS BCBS mentions as the below table (*Working Paper No. 14, Studies on the Validation of Internal Rating Systems*): It is difficult to perform back-testing and bench-marking test for workout LGD areas since workout LGD has such characteristics ***non-normality, non-linear and non-binary***.

Benchmarking and backtesting. This section demonstrates that benchmarking exercises on LGD are especially difficult due to the high number of factors that affect these estimates. More research is needed to establish comparison procedures between different LGD estimates. Furthermore, the report is not explicit on how to carry out backtesting (i.e. comparisons between realised LGD and LGD estimates). For instance, a direct comparison between long-run default-weighted LGD estimates and "point-in-time" LGD observations in a specific year may not be meaningful. Further research in this field is needed.

(4) If there are only mentioned back-testing and bench-marking tests in the report, it might hinder a bank from elaborately thinking, making and managing ***stable LGD RDS which is in line with reference, representativeness and reliability of the bank's historical and empirical loss experience***.

(5) If BIS BCBS include a kind of stability tests for the area of workout LGD and CCF in the report, banks could effectively recognize and try to achieve the meaning of 'advanced' IRB: robust internal data management for 3R (reference, representativeness, reliability) rather than just relying on mathematical approaches.

(6) And finally (also naturally) could go to the road of use-test (such as expected credit losses) based on robust RDS management.

Many thanks for reading my naïve opinion.

I just wish the banks to recognize the importance of stability tests once again in this report in order to make and manage LGD RDS for understanding the true meaning of AIRB and Use-Test.

With Warmest Regards

KiTae Yang

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Dear BIS BCBS,

I would like to naively express my opinion over this sentence: PD is assessed over a 12-month time horizon while LGD is assessed over the life of the lending exposure (page 25).

Why not wording evaluated rather than assessed regarding "LGD is assessed over the life of the lending exposure". Because the life of the lending exposure is related to forecasting rather than predicting, therefore evaluated is more appropriate word than assessed in case of the above LGD.

Best Regards

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