Paragraph Number(s)	BASEL ACCORD - Recommendations	SAMBA Comments	SAMBA Suggestions

The New Basel Accord – Consultative Document

43	The credit conversion factor for business commitments with original maturity up to one year will be 20%. For commitments with the original maturity over one year, it would be 50%.	The assumption here is that all business commitments / guarantees have the same risk and only the maturity changes the risk profile. We believe the type of commitment or guarantee as well as the tenor should determine the credit conversion factor.	We suggest differentiating between business commitments like payment guarantees and performance bonds – the former having a 100% risk conversion factor while the later could have a lower credit conversion factor.
76	Eligible collateral has been limited to a 5 item list and does not allow for other forms of collateral like third party guarantees or bank guarantees.	This does not take into account a whole class of collateral which is normally available to banks in developed or emerging market countries.	We suggest inclusion of third party guarantees [corporate , banks, etc] and in eligible collateral. The relief obtained from these should be based on the risk rating of the guarantor if better than the obligor.
91	The Accord suggests that 8 percentage points be added to the collateral haircut, if there is currency mismatch.	We believe the use of such a flat rate is not in line with the spirit of the Accord which is attempting to avoid 'one-size-fits-all' approach.	We suggest a scale based on the currencies. The correlation among the currencies should dictate the additional haircut. For example, a mismatch between the dollar and a currency that is pegged to the dollar, should require a lower incremental haircut when compared to currencies with no correlation. This can be achieved by putting the currencies into baskets of dollar linked, French Franc linked, etc.
195	Under the foundation approach, the Loss Given Default [LGD] is set at 50% for senior claims on corporates without specifically recognised collateral. It increases to 75% for subordinated claims.	The number appears on the high side.	We suggest national discretion be permitted in setting of this number based on the local environment.

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Paragraph Number(s)	BASEL ACCORD - Recommendations	SAMBA Comments	SAMBA Suggestions
208 to 212	Methodology for recognising real estate [commercial or residential] as collateral involves meeting of eligibility criteria. Based on the criteria, the LGD would vary between a narrow band.	The calculation to determine the LGD band requires a detailed name – by - name evaluation of the current collateral to nominal exposure.	Given the narrowness of the band, the name-by-name approach does not add value commensurate to the effort in compling the data. It is suggested that one standard for LGD be adopted or allow local supervisory authorities to determine the LGD for the local banks. We believe the LGD should be applied at portfolio levels rather than each individual or name-by name level.
242	As a condition to the use of the internal rating based approach, the Accord requires that there be a meaningful distribution of exposure across grades and concentration of exposures in a particular grade should not exceed 30%.	While we agree with the notion of excessive concentration in a particular risk grade is not suitable, we believe this restriction is not relevant to the risk rating model or application. The concentration of exposure in a particular grade is a portfolio management problem and not a risk rating model weakness.	We suggest that this restriction be dropped. If exposure concentration is an issue at a particular bank, it should be handled by the supervisors in their regular reviews.
264, 265	Banks are required to take into account all relevant information about the client when assigning the risk rating.	Our risk rating model as well as those of many other banks are numerically driven and based upon the balance sheet and income statements. The subjective or qualitative input has very limited impact on the rating results. The subjective data is used to over-ride the rating model output within defined parameters to ensure proper controls, but subjective impact should be minimized.	As subjective data elements differ by client and should not be introduced into the rating model. We suggest the banks be allowed the flexibility in the model they adopt provided the rating model **and** the banks risk management process ensure that all relevant information is taken into account in assigning the final rating.

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Paragraph Number(s)	BASEL ACCORD - Recommendations	SAMBA Comments	SAMBA Suggestions
270, 274, 277	Banks are required to estimate Probability of Default [PD] data for each of its internal rating grades. The data is expected to represent a conservative view of a long-run average PD.	The available data with the banks in Saudi Arabia, we believe, is very limited and given the size of the banks, the data may not be statistically sufficient. In addition, we do not believe all banks use the same standard of taking reserves or write-offs. Likewise, it is our understanding that the Saudi banks have not kept a record of such data over time.	All the banks in Saudi Arabia should be allowed to use internal as well as externally available data even though it may not be specific to the Saudi Arabia. The joint-venture banks should be allowed to rely on their joint-venture partners' database for estimating the PD for each rating grade. We suggest, the Basel Committee seeks information from similar-sized banks to build a database. Over time, the information collected would allow the Committee to have specific PD data which all the similar-sized banks could use.
275, 345, 383	The Accord requires that the banks, at a minimum, review their estimates for Probabilty of Default [PD], Loss Given Default [LGD] and Exposure at Default [EAD] every year.	We believe this practice will be counter-productive if the short-term experience of a bank is allowed to influence the estimates. For example, during better times with low loss experience, the existing PD estimates may seem to get too high, leading the banks to lower their default estimates.	Yearly review of the estimates is a good practice but any changes in the data estimates should, at the minimum, be based on some sort of rolling average of several years of data.
297 to 300, 361, 400, 408	The banks are required to have in place sound stress testing processes for use in the assessment of capital adequacy. An independent unit is required to conduct a stress test at least every 6 months.	In several parts of the Accord, the discussion of the risk rating processes slips into generic statements about good risk management practices that banks should follow. Examples of this include statements in the Accord that credit analysis of poorly rated customers must be more in-depth versus better rated customers. Or the comment that banks must consider the risk reducing effect of guarantees and guarantors in determining the residual risks.	We accept this but would emphasize that the Accord should limit itself to the measurement of capital adequacy and leave adherence to prudent risk management practices to the banks and their country supervisors. We suggest that the requirement for 6-monthly stress tests should be left to the banks and their national supervisory authorities. We would also suggest that the Accord should not define risk management practices.

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Paragraph Number(s)	BASEL ACCORD - Recommendations	SAMBA Comments	SAMBA Suggestions
339, 347	In estimating the LGD, the Accord expects the banks to have at hand data about discount effects, funding costs, and direct and indirect costs associated with collecting on the debt. In addition, the banks are also encouraged to monitor the component of loss or recovery as direct loss, time period required for recovery, and administrative costs.	This is a monumental task and can only be achieved after the banks put in place very sophisticated IT systems. The Accord acknowledges the need for an IT infrastructure.	We question the cost / benefit for the banks to undertake such an expense. A simpler form of data gathering needs to be emphasised as this will allow better and quicker adherence by the banks as well as be more cost effective.
366 to 395	The banks are required to have robust systems in place to attest to the accuracy and consistency of its internal estimates for Exposure at Default [EAD]. At a minimum, the bank must regularly compare realised EADs with estimated EADs to demonstrate that actual experience is in-line with expectations. All facilities are to be assigned an estimate of EAD based on current amount drawn, effect of netting, etc.	We fail to understand the need to estimate the EAD for each credit facility. We believe the EAD is the actual exposure at the time of default and does not need to be estimated for the future on a client by client basis. Only on a portfolio basis, the EAD could be a useful tool to convert the contingent and off-balance sheet exposures into a loan equivalent number.	We would suggest that the Basel Committee revisits the need for this requirement.
404	The risk arising in project finance will often have two sources, namely risk associated with the vehicle company and risk associated with the sponsor(s).	There are additional major sources of risk	We would suggest adding sources: project constructors/contractors, completion guarantees, standards of performance to achieve commissioning, idenfication of specific management to run the project once completed, providers of key project feedstocks/inputs and offtakers.

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Paragraph Number(s)	BASEL ACCORD - Recommendations	SAMBA Comments	SAMBA Suggestions
421	The extent to which the minimum requirements underpinning the IRB approach to project finance need to differ from those for corporate exposure	Historical analysis of project finance loans vs. corporate loans needs to be conducted to determine if any differentiation exists for amending the IRB approach. Definitial problems may exist as banks' historical databases may not conform to definition proposed in **402.** The available data for project finance with the banks in Saudi Arabia is even more limited than for other classes of loans. [Repeat SAMBA comment re 270, 274, 277.]	Same suggestion as for 270, 274, 277.
481	The Accord proposes, the Loss Given Default [LGD] numbers for sovereigns be the same as that for corporates.	Intuitively it would seem that the LGD of sovereign exposure would be lower than corporate exposure. If this is true, equating the sovereign exposure to corporate would unnecessarily penalise the banks with high sovereign exposure by requiring them keep higher levels of capital. We believe the LGD number should also take into account the currency as exposure to a sovereign, in their own currency, should clearly attract a very low LGD.	BIS should review the data on sovereign defaults to more accurately reflect the risk of sovereigns. It would be useful for corporates and banks if the sovereign had an external public rating to establish benchmark or reference point.

Paragraph Number(s)	BASEL ACCORD - Recommendations	SAMBA Comments	SAMBA Suggestions

The Standardised Approach to Credit Risk (Claims on Sovereigns and Central Banks) – Supporting Document

	The New Basel accord provides for preferential treatment on capital allocation for claims on sovereigns and central banks for the following two investor categories: i) Local currency investments in government debt instruments held by domestic banks. ii) Local currency investments in government debt instruments held by foreign banks. The recommendation accommodates for a preferential treatment under the condition that a local currency claim on a sovereign should also be funded in the national currency.	A) The new standard could disrupt the flow of funds from offshore markets to local markets, as it gives an incentive to foreign investors to borrow local currency to fund their offshore investments. Under the new guidelines, foreign investors would have an incentive to borrow local currency, while the fundamental reason for any country to allow foreigners to invest in local instruments is to attract capital flows. Implementation of this change could also result in an increase in the leverage (due to mismatches in funding) in local markets on account of foreign speculative investors.	A more comprehensive evaluation of changes impacting the flow of funds in emerging markets is recommended. These changes could lead to an increase in speculative flows, resulting in unwarranted stress on local markets.
		B) The standard would be difficult to implement in terms of data monitoring and reporting. The examples covered by BIS is a very simplistic approach toward the issue, without taking into account the full range of scenarios that could potentially develop in a complex balance sheet. For example, a bank might have a net cross currency funding exposure vis-à-vis borrowing foreign currency to fund local currency assets, to fund its local currency corporate risk assets, while it has full funding in local currency for its government securities portfolio. The standard does not provide any guidelines for such a scenario.	All possible balance sheet scenarios should be evaluated with discretion given to the national supervisory authority on guidelines, which are more suited to the local environment.

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The Internal Ratings-Based Approach - Supporting Document

125, 249, 250	The Accord suggests a maturity of 3-years under the foundation approach and is seeking comments from the industry.	It is very difficult to comment on the appropriateness of assuming an average 3-year maturity for assets given the variety of banks and the environment.	We suggest BIS drops the maturity measure in the foundation approach. Or simply, use the maturity to downgrade exposure by some factor like one sub-grade for every 2 years of tenor. Under this example under 1-year exposure to a client with risk rating of '5' would drop down to '6+' if exposure was 4 years.
152 to 187	These paragraphs deal with risk weights given to assets.	The whole section is made very complex with very detailed mathematical formulae to calculate risk weights. While banks may not want to admit it, these calculations seem to be beyond the current capability of most banks in the emerging markets. We would question the overall value of such fine-tuning of the risk weights.	We suggest a more simplified method for calculating risk weights which is more in line with reality and designed to be user friendly. We believe the results of a less complex methodology would still be very valid as the concept is based on estimates.
185 to 188	The Committee has sought comments from banks on the specific issue as well as the broader issue of how to ensure adequate coverage of both Expected Loss [EL] and Unexpected Loss [UL] within the context of regulatory definitions of capital.		We believe the EL should be covered by specific loan loss reserves and these should not be part of the regulatory capital. The UL should be covered by having in place sufficient general loan loss reserves. As these general loan loss reserves are to cover unexpected losses i.e. their purpose is not dissimilar to that of capital, these reserves should be included as part of the regulatory capital.

Paragraph Number(s)	BASEL ACCORD - Recommendations	SAMBA Comments	SAMBA Suggestions

Continuation of: *The Internal Ratings-Based Approach - Supporting Document*

199	In the rating grade structure, the Committee believes that a grade should only qualify as such if the bank management has provided specific criteria that distinguishes the grade from others.	This would be possible only if there were very few specific risk grades and thus a distinction between them was very clear and apparent. The rating system criteria being proposed by Committee requires a minimum of 9 grades and this by necessity would only be identified as different shades on a risk profile as opposed to having very specific distinguishing criteria. We believe this requirement would not be met by banks using sub-grades.	We suggest to the Basel Committee that such a ruling is not practical and should be dropped.
200	For the internal rating systems of the bank to be considered acceptable, the Committee is recommending that the exposures should have a meaningful distribution across grades with no excessive concentrations in any particular grade. The Committee is proposing a ceiling of 30% of the gross exposure per grade.	We believe the Committee is missing the point – concentration of exposure in a particular grade is **not a** weakness of the rating model but a weakness of the banks portfolio management process. Therefore, this ceiling is inappropriate.	We would ask the Basel Committee to eliminate such a limitation being placed on the rating models the banks use. National supervisory authorities, as part of prudent risk management, could ask the banks to ensure their exposure is distributed across grades.

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217	The Accord allows for adjustments to be made when applying PDs based on the current default data.	We believe this a slippery slope which the Accord should stay clear of. Using current data to adjust the PDs would make the whole PD concept, which is based on long historical data, a meaningless exercise. The banks would be able to use short-term loss experiences to influence the PDs. Additionally, the supervisory process would have to cope with the subjectivity of each banks current estimates versus their long-term estimates.	We suggest to the Basel Committee that allowing the banks the flexibility to adjust PDs based on current data, is imprudent especially when the Accord desires for the banks to use the long-run average estimates over an entire economic cycle. Also see our comments to Paragraphs 275, 345 and 383 of the main ***The New Basel Accord*** document.
225	Minimum historical observation period for estimating PDs is given as 5-years.	We understand that most of the data available with the banks does go back several years but 5 years does not cover an enitre economic cycle.	
226	The proposals in the Accord require banks to collect and store substantial historical data on borrower defaults, rating decisions, rating histories, ratings margins, information used to assign ratings, the party/model that assigned the ratings, PD estimate histories, key borrower characteristics and credit facility information.	This data collection and IT systems needs should not be underestimated. Most banks including the top banks in the OECD countries, do not currently have this capability. It will take many years and very substantial amounts of funds to achieve this capability. Banks with excess capital, as is the case in Saudi Arabia, will question the cost / benefit of such an investment.	The sophistication in systems is the way forward but its benefits at present are not apparent. Banks will be reluctant to adopt these unless they can see a clear benefit, particularly value vs. cost. Maximum flexibility should be given to at the country level to the national supervisory authorities to ease-in the Accord as and when the local banks become ready.

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255	The Committee is concerned at the misuse i.e. gaming, of the exposure maturities by the banks to attract lower allocation of regulatory capital.	This is apparent in the zero risk weighting of certain 'under 1-year' exposure. The same exposure attracts 50% risk weight if exposure is a day over I-year. Some banks have resorted to booking 364-day exposures or booking short-term exposures but rolling them over for longer effective maturity.	We would suggest a more gradual approach to this rather than zero and the next stage being 50%. We recommend the following: 0% for tenors 0 to 6 months, 20% for tenors 6+ to 18 months 50% for tenors 18 to 36 months. 70% for tenors greater than 36 months.
258	The Committee is seeking the banks input on the internal relationship between non-performing loan categories and the definition of default.	Samba consider an exposure to be non-performing if interest or principal is unpaid for 90-days. Many such exposures turnaround within a short time and therefore, the 'default' is not triggered till further deterioration occurs.	The definition of default in the Accord [Para 146 of ***The Internal Ratings-Based Approach - Supporting Document***] includes past due obligations of over 90-days. This definition is too tight and some in-between stage should be considered. Maybe the 'default' should be defined as credit remaining non-performing for 180-days or more i.e. additional 90-days since it was classified as non-performing.
265 to 268	The Accord defines four criteria for exposures to be categorised as 'retail'. It further adds that there are challenges associated with certain business lines – particularly small business lending – and additional tests, listed in the Accord, would be necessary to capture these grey areas and to ensure that the approach does not create adverse incentives.	We believe the nature of small business lending differs widely across countries and institutions.	We suggest such definition be left to the discretion of the national supervisory authority in the country, to be defined in accordance with local environment and market practices.

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275	Both approaches rely upon banks providing their own internal estimates of the risk inputs PD, LGD and EL.	In order to compute any of the above, there should be standardized rules for write-off. Due to the very diverse nature of Commmunity Bank portfolio, these components will not provide adequate information in determining risk.	Cards / Personal & Community Banking Loans / Temporary Overdrafts, write-off should be standardised at 180 days past due.
284	The benchmark risk weights detailed are calibrated to a three year maturity period.	Three year period is too long for most asset products, especially those that are undergoing rapid growth.	Thus maximum period of 18 –24 months should be considered.
286	"Given these discrepancies, for the time being the Committee does not propose different risk weight schemes for the different product categories as required for segmenting bank's retail exposures."	Different risk weights should be allocated to each product, due to the varied nature of the product offered by the consumer bank (Cards v/s Personal Loans etc).	Before risk weights could be standardized, the banks under the supervision of the country supervisor, would have to define standard products categories.
306	Assumption is being considered to equate retail risk to 50% of that of corporate lendings.	This should be determined by each individual portfolio's performance, also due to variance in products, there is a difference even in retail risk.	Same comment as above. However, 50% seems like an arbitrary number and therefore difficult to comment on.
322	There is no explicit adjustment for maturity.	Maturity of loans should be taken into consideration Personal Loans are for a fixed tenor and loss rate do differ by tenor.	Maturity should be based on individual banks' product, portfolio performance.
340		Minimum level of segmentation (two basic) are adequate. Inadequate volume exists in order to bifercate into smaller segments.	

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Paragraph Number(s)	BASEL ACCORD - Recommendations	SAMBA Comments	SAMBA Suggestions
356, 357	The PD and LGD are being defined in the Accord as those for Corporates.		We believe the risk of Corporates is different from those of Financial Institutions and this should be reflected in the PDs and LGDs.
376	The Committee expects the banks to augment the information collected from external rating agencies with other resources in proportion to their direct and indirect exposure especially to sovereigns. The bank management is expected to refine the risk ratings by internal credit assessment.	This may be possible for large multinational banks but is impractical for smaller or regional banks. Samba has exposure in over 50 countries but presence in only 3. By default, a bank like Samba has to rely on external rating agencies for country data.	The Committee's expectation is ideal but unrealistic. In many cases External Rating agency reports are the only source available to a non-presence bank.
384	To give direction to this dialogue, the committee has identified two broad approaches that merit further consideration. First a PD/LGD based approach that would be conceptually similar to that adopted for corporate debt. This methodology could be more appropriate for investments that are not primarily held with an intent to resell for capital gains purpose.	It is not clear to Samba that there is a valid connection between the reason for making an equity investment (capital gains, information flow, support of government programs etc) and the risk associated to the investment. Once an investment has been made the potential for loss is dependent on the price paid, the future performance of the venture, movements in FX markets, liquidity and general equity market conditions. In effect a good performance by the company, although critical, is not the only factor impacting value.	We do not agree to the concept of applying different methodologies to a single class of investments based on an "intent" test.
	Developing this methodology would necessitate determining a workable definition of default for equity.	It is hard to conceptualize a definition of default for equity other than that of a decline in value. This decline may not be wholly related to the performance of the company. For example, valuation risk (overpaying) is different from the performance risk of the company.	We do not support the concept of using a debt model to value equity.

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385	Second, a methodology based on market risk or stress testing.	Samba considers that this is a well accepted methodology for valuing equity and estimating risk.	We support this approach.
387	In developing an effective treatment, the committee also wishes to take account of the following issues: • Differences in accounting treatments which might require a different approach to equity holdings held at an historical cost that is well below the market price as compared to other holdings. • Developments in ….IAS 39	The allocation of economic capital to an investment should take into account the value at which the asset is shown in the Balance Sheet. To the extent that value includes unrealized gains, put in the equity line under IAS 39, there should be an offsetting adjustment for the addition to equity.	We support this approach.
422 to 457 **Chapter 8**	This chapter covers the Committee's views on granularity adjustment required to ensure the banks portfolio correctly reflects the concentration risk.	While the concept is correct, the adjustment proposal is mathematically too complex.	We suggest a more simplfied approach that can be understood by the bankers, as opposed to mathematicians, who have to apply them.

Paragraph Number(s)	BASEL ACCORD - Recommendations	SAMBA Comments	SAMBA Suggestions

Asset Securitization – Supporting Document

1. Treatment for Originating Banks			
9, 13(b)	1. "Impose…'clean break' between the bank originating assets and the securitisation transaction itself". 2. "The transferee is a qualifying special purpose vehicle ("SPV")…"	The local regulation do not allow incorporation of an SPV.	The Basel regulations should be sensitive to the local legal/regulatory systems and not throw up insuperable hurdles to transacting business. Otherwise, the securitisation business will be dead.
13 c	"The transferor does not maintain effective or indirect control over the transferred assets."	Currently, it is the practice in Saudi Arabia, for banks to purchase receivables from clients, such as car dealers and to simultaneously appoint those same originators as servicers or agents in the collection of the receivables. In this process, the originator *does* maintain effective control and we continually review and audit the client that he maintains his standard of origination and collection.	We recommend that regulations not be so strict as to preclude the securitisation of receivables where practicality is in the interests of all parties for the originator to remain the servicer. The banks should have an audit program to review the client's ongoing management of origination and collection.
14	"If the minimum requirements described above are not met, then the securitised assets must remain in the originating bank's risk-weighted assets for purposes of calculating its risk-based capital ratios".	The effect of this provision would be to discourage any distribution of securitisations to external investors.	We recommend that this sanction be deleted.
17	"Originators or loan servicers may not provide "cash advances" or liquidity facilities to a securitisation transation to cover short-term deficiencies in cash flow…"	Currently, we have temporary overdraft lines available for originator/servicers. If this provision were rigidly enforced, it would complicate relationships with long-standing clients, where we have an array of credit facilities.	There should be a carve-out for relationships where we have credit facilities separately approved.

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Continuation of: ***Asset Securitization – Supporting Document***

2. Treatment for Investing Banks			
27	"…securitisation tranches… rated BB+ to BB- would be risk rated 150%; and rated B+ or below or unrated would be regarded as credit enhancement and accordingly deducted from capital."	The effect of this provision in Saudi Arabia, where ratings are not available would be to discourage banks from holding locally-securitised assets.	We recommend that this provision be deleted in its entirety or ignored in those jurisdictions where ratings are unavailable.

Paragraph Number(s)	BASEL ACCORD - Recommendations	SAMBA Comments	SAMBA Suggestions

Operational Risk – Supporting Document

21	It has been estimated that that operational risk accounts for an average amount of 20% of economic capital. In the absence of loss data, the Committee has used the figure of 20% of current minimum regulatory capital to estimate a provisional multiplication factor (α) for the Basic Indicator Approach and to provide an approach to calibration of the Standardised Approach. The Committee invites banks during the consultative period to provide additional data to assist in more accurate calibration.	Samba's operational loss experience would indicate that an allocation of 20% of economic capital is much overstated. We believe that both the Basic and Standardized approaches over estimate the level of operational risk in the well regulated and controlled Saudi Banking sector.	The Committee should request data on Operational Losses from banks so as to estimate a suitable range of the % of minimum regulatory capital for the national banking systems. We suggest that each national supervisory authority should have the independence to calibrate a range for the sector based on:- a) The characteristics of the national banking industry b) The quality of risk mitigating factors in use – regulation, controls, checks and audits etc. c) A minimum international floor %.
24	However, like the Basic Indicator Approach the capital charge would continue to be standardised by the regulator.	Samba considers that even before banks qualify for the Internal Measurement Approach it will be possible for a regulator to differentiate between banks in the application of the Standardised approach.	We suggest that each national supervisory authority should have the freedom of action to allocate (within the range set for the industry) a different allocation to each bank on the loss experience, systems, controls and other mitigating factors relevant to each bank.

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Continuation of: ***Operational Risk – Supporting Document***

27	Within each business line, the capital charge is calculated by multiplying a bank's broad financial indicator by a "beta" factor.	It is clear from the first paragraph of Annex 3 that the calibration and setting of "beta" factors is a work in progress. In addition the work seems to be based on a small sample of banks. No "beta" factors have been published and it is impossible to assess the impact of the Standardised Approach on Samba.	We suggest the national supervisory authority should gather data from national banks so as to conduct its own calibration exercise and estimate "beta" factors, based on a total allocation suitable for the national banking sector. Alternatively, as the banks operations differ, the national supervisory authority should define a band for each 'beta'. Better managed banks would use the lower 'beta' within the band. Responsibility for approving the use of a particular beta factor would be with the national supervisory authority in the country. [See below for remarks on relative weightings and calibration]
Annex 3 Table 1	The relative weightings for each business line are suggested within bands. These bands are the key factor in calculating "beta" factors and thus capital allocations.	The bands shown do not represent the current level of activity and operational risk within Samba, and we beleive within the Saudi Banking sector. In particular, Corporate Finance, Retail Brokerage and Asset Mangement seem to be over weighted. This will tend to exaccerbate the over allocation of capital further.	National supervisory authority should request banks to supply data for the financial indicators and operational losses for each business line. This should allow for a relative weighting table to be produced for the national banking system. National supervisory authorities should be allowed to set weightings for the national banking sector as part of the calulation of "beta" factors.

Paragraph Number(s)	BASEL ACCORD - Recommendations	SAMBA Comments	SAMBA Suggestions

Principles for the Management and Supervision of Interest Rate Risk – Supporting Document

	The consultative document of Management and Supervision of Interest Rate Risk refers to 13 principles that are applicable to trading and non-trading (banking exposures) activities. The objective of these principles is to capture all aspects of interest rate risk management.	Principle #12 requires banks to hold capital commensurate with the level of interest rate risk they take, while no clear guidelines on capital charge is provided. The document however highlights the importance of supervisory review to capture the risk of insufficient capital to support interest rate risk. The standard accommodates for an unusually high level of erosion in capital (>20% of Tier1&Tier 2) on account of a decline in economic value of accrual (banking) exposures.	We recommend the national supervisory authority should apply a more conservative threshold (>8% of capital erosion) for capital charge on banking exposures.
Annex 3	The rate shock proposed is - 1^{st} and 99^{th} percentile of observed interest rate changes using a one year (240 working days) holding period and a minimum five years of observations.	The rationale for using a one year holding period as per the accord is that, most institutions would require one year to re-structure or hedge their positions to mitigate further losses in economic value should rates appear to be extremely volatile. However, with the availability of various sophisticated financial instruments in the market, the exposures can be hedged within a reasonable period of time – say in about one to two months, so using a one year holding period in the rate shock is excessive.	The holding period to be used in the rate shock measurement process should be a maximum of two months.