

CENTRAL BANK OF THE U.A.E.

مصرف الإمارات العربية المتحدة المركزي

Date: 29th July 2003
Ref.: 13/ 1409 /2003

Ms. Daniele Nouy,
Secretary General,
Basel Committee on Banking Supervision
Centralbahnplatz 2 – CH-4002
Basel
Switzerland

Fax No. : + 4161 280 9100

After greetings,

Re: New Basel Capital Accord - 3rd Consultative Paper

We have carefully reviewed the third consultative paper issued by the Basel Committee. Several banks in our system participated in the exercise. We do appreciate the 'three pillar' architecture of the New Accord. After studying the contents of the Paper and after having perused all the comments received from the banks in our system, we now put forward the following for the Committee's consideration.

Page 10

(iv) *Claims on Banks – Para 38*

The term, 'original maturity' may be substituted by the term 'remaining maturity', as for short term claims on banks, the original maturity of three months, is deemed by us to be a restrictive definition.

The following may be added at the end of the paragraph: 'or a foreign currency to which the domestic currency is pegged, at the discretion of the National Supervisor'. This leeway may be granted especially to countries whose exchange rate with the pegged currency has remained stable during the past five years demonstrating virtual absence of exchange rate volatility vis-à-vis the pegged currency.

Page 12

(ix) *Claims Secured by Commercial Real Estate – Para 47*

For income generating commercial/residential real estate, the National Supervisors should have a discretion of deciding appropriate risk weights not less than 50 %, after taking cognizance of the circumstances prevailing in their jurisdictions.

Contd. . . 2

- 2 -

Operational Risk

In our view, Operational Risk may be best addressed under Pillar II – Supervisory Review Process.

This will enable the National Supervisor to prescribe a Capital charge consistent with the Operational Risk environment, at the particular bank and also after taking cognizance of the robustness of risk mitigation framework.

Prescribing a mandatory Operational Risk Capital charge, under Pillar I, especially for banks adopting Simplified Standardized Approach, who might not benefit by the New Accord by way of capital reduction under Pillar I, would unnecessarily penalize such banks.

Pillar III – Market Discipline

Banks in our jurisdiction have already adopted Internal Accounting Standards (IAS) and existing disclosures meet the requirements of IAS. Disclosures under IAS seem adequate for non-G10 markets which are not as developed as their counterparts in G10 countries. The extent of public disclosure which could be safely absorbed in a matured and developed market is much more than what could be safely disclosed to all stakeholders in a less developed and smaller market.

In our view, discretion should be granted to National Supervisors to decide which of the additional disclosures prescribed under the New Accord are to be made public and which would be for the sole consumption of the National Supervisor.

We are looking forward to the finalization of the Accord

We thank you for providing us the opportunity to present our views.

Regards,

Yours faithfully,



Executive Director
Banking Supervision and Examination Dept.

VMS/FAA/JR
com:/exam/basel3com.faa

