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Mr. William Coen
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2, CH-4002 Basel
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Re: Comments on the BCBS 2nd consultative document on Revision to the Standardised Approach for credit risk

Dear Secretary General Coen,

Bangkok Bank Public Company Limited ("the Bank") appreciates this opportunity to comment on the December 2015, the 2nd consultative document issued by the Basel Committee on Banking Supervision ("the Committee"), Revision to the Standardised Approach for credit Risk ("the CP2").

The Bank understands that credit risk is the cornerstone of BCBS Capital framework and is the most important risk category for most banks, so it deserves a more thorough review and acknowledgment of how challenging the work of the new SA framework as it is intended to be applicable across all type of banks. However, we would like to provide comments and/or recommendation for the CP2 and its related issues as follow:

General Comments
- The Bank would like to re-iterate our underlying concerns over the Committee's continued decision to move ahead with the revision of current standards with the tendency to maintain most of the frameworks provided in the CP2 which, we feel, would still have diverse impacts and unforeseen unintended consequences on banks, especially amongst emerging market banks, who had spent tremendous costs and efforts in implementing or in-the-process of implementing Basel III and its related guidelines from previous Basel II frameworks.
- The proposed changes in the CP2, though certain revisions had been made, would likely result in more complexity in implementation, and the challenges would be especially acute for emerging market banks where products are simple and limited level of information is disclosed. Further, the required information may not be readily available or at least not in the same definition as expected by the proposals for banks to process. The proposals would therefore likely lead to considerable additional IT investments. Also, the limited information will lead to higher capital charges that could worsen the impact of the proposed revisions. The Committee has always maintained that the Basel regulatory capital framework is intended for internationally active banks to address level-playing field issues. These banks should be the focus of the work on the new CP2 but the proposed revisions cannot satisfy both internationally active banks and local banks.
• The Committee proposed the new guidelines for capital calculation for SA stating of its objective as to harmonize comparability between SA and IRB. However, we are of the opinion that such underlying reasons should not result in the Committee’s efforts to overhaul Basel III, its underlying frameworks as well as other related standards. This is because the Committee and banking industry globally had put so much time and efforts in introducing and implementing the Basel III standards and, to our opinion, successfully introduced the enhanced risk capital coverage applying both the quality and quantity of capital as well as introducing the Leverage Ratio and Liquidity Coverage Ratio (LCR), all of which are on the verge of full implementation or phase-implementation. It is deemed unnecessary to destabilize and to halt such process and momentum with the newly proposed unstable standards such as the CP2.

• Never-the-less, being able to explain the difference between outputs is more important than banks producing the same outputs. We do not believe that arbitrarily enforcing superficial comparability will eventually contribute to financial stability. There is no ground in linking the lack of comparability to the robustness of models. Comparability can be best achieved by creating a capital framework based on the qualified internal models (not result from using different approaches such as SA and IRB), which are largely harmonized in approach with SA, but still reflective of the portfolio risk and the bank’s internal risk management practices and strategies. Under the new standard framework, the comparability goal may not be appropriately enhanced since the concept of comparability means that banks with similar risk profile should have similar capital requirement, but the new standard does not properly reflect risk at the individual bank which operates in different environment such as taxes and accounting standard.

• As for the other objectives to discourage some banks in certain jurisdictions who use its internal model to optimize its capital requirement, there are other methods such as Regulatory Consistency Assessment Programme (RCAP) process that the Committee can utilize to address the shortcoming of enforcing the rules or improper usage of internal model to lower capital requirements by certain participants. RCAP process can provide direct feedback pinpointing such improper attempt of banks to optimize or corner their internal models to the regulators or authorities. Also, local supervisor can exercise its power through Pillar II and Pillar III requirements on specific banks in questions to balance any capital shortfall of either SA bank or IRB bank.

• The Committee should also recognize that there are still other regulations and guidelines introduced by BCBS as well as other regulators, particularly, International Accounting Standards Board (IASB)’s IFRS9, that are related and not clearly harmonized with existing Basel III framework and would undoubtedly impact commercial banks globally. The most important issue is that such newly proposed guidelines use similar terms but may be different in definitions and are still at large for interpretations and implementations. We believe these new regulations and guidelines need to be implemented consistently and given an opportunity for the market to learn to use them before further changes be introduced. Therefore, to properly evaluate the overall impacts on capital, portfolio strategy and business model of a bank, is rather difficult at this stage. Also, the combined effect of all additional measures taken to rectify perceived weaknesses of the existing capital framework, and in particular of the current SA and internal models based approaches, is still partly known.
• To implement new guidelines from both BCBS and other regulators, including IASB, banks need to spend a great amount of time to study and understand the very detail information, and then to make adjustments to their existing data/information infrastructure and processes to accommodate those guidelines. Prioritization for the implementation of each guideline should be considered, starting from the highest to the lowest priority such as the components of regulatory capital requirements (e.g., capital conservation buffer, counter-cyclical capital buffer, etc.), Leverage Ratio, LCR and NSFR.

• The Committee should put additional efforts to review and analyze possible impacts on the financial stability of the banking sector in the bank-based economy, where their prime duties are to provide credit and relevant financial services to the real economy. These financial markets, mostly in emerging market economy, still lack the developed capital market or lack in its depth, and have to rely primarily on banking sector to perform the tasks of providing financing alternatives. The Bank is concerned that the combination of the new CP2, the capital floor as well as the leverage ratio introduced earlier, may make the low risk portfolios such as mortgage loan, credit card portfolio, SMEs portfolio as well as certain investment grade portfolio economically unviable, as returns will no longer commensurate with the regulatory cost and the risk embedded. This may cause banks to constrain its lending to these sectors, causing financial and economic chaos as well as pushing the customers toward the shadow banking sector where no such controls exist.

Specific Comments

• The Committee should consider aligning the Risk Weight (RW) of both financial institution and corporates who have external ratings, as we see no special reasons to separate between the two types. Also, the 100% RW applied for up to BBB- rated for corporates should be reconsidered in order to differentiate BBB- rated corporates (considered investment grade) from those with BB- rating and below (considered non-investment grade).

• In addition, as the definition of Investment Grade requires corporates to have securities outstanding on a recognized securities exchange, such requirements would excessively narrows the universe of companies that are eligible for investment grade treatment in many emerging market countries, where capital markets are much less developed and lack of depth as compared to the developed countries. Since having securities outstanding on an exchange is highly correlated with size and certain level of transparency and governance, we suggest the Committee to use the size threshold and acceptable audited financial statements as alternative criterion for investment grade corporates instead.

• The Committee should consider the availability of information provided publicly versus the required additional information proposed in its consultative paper, and should enforce new additional requirement necessary for financial institution to be properly disclosed, as well as allowing sufficient time for banks to implement and to acquire such additional information.

• The prescribed due diligence requirements, while logical in isolation as a method to reduce mechanistic reliance on external ratings, also have potential to bring about undesired issues with comparability. Also such methods need to be aligned with existing process or standard in order to avoid unnecessary burden and the outcome of such processes should also be allowed for better risk weight as well as lower.
- The Committee has suggested the criteria and triggers for assigning bank exposures to SCRA grades using the published minimum regulatory requirements (e.g. leverage, liquidity and risk-based capital ratios) and buffers (e.g. G-SIB surcharge, capital conservation and counter-cyclical capital buffers) established by its national supervisor as implemented in the jurisdiction where the borrowing bank is incorporated. The Committee should also consider how to apply this method to the banks which incorporated in the countries where the Basel III has not yet been implemented or fully implemented. As far as the grading is concerned, the Committee should set separate criteria, guidelines or drivers for banks that adopt different Basel guidelines.

- Concerning the time required to implement such guidelines that require a number of additional and specific pieces of information, the Committee should allow a reasonable amount of time for the banks to prepare and make available such information, i.e. ready to use and easy for verification. This includes enforcement of formal disclosure of such information. In the other words, disclosure of certain pieces of information should be made compulsory as a minimum requirement, so that the information acquired will be transparent, correct and creditable. For example, applying Risk Grade A, B, C to exposures on banks as per Revision in the CP2 would requires information such as Leverage Ratio, LCR, CET1, etc. If the mentioned information is not defined as the minimum disclosure required, it may unavoidably reduce the creditability of such Risk Grade A, B, C and may result in banks, attempting to apply this method, evaluating the very same financial institution, and ending up concluding different outcomes due to different methods in acquiring the same required information. Also, various countries have adopted BCBS guidelines (Basel I, II or III) and accounting standards differently or even implemented only certain guidelines. Their regulators may even adopt phase-in timelines for applying each guideline to become effective independently. These are also significant criteria in deciding whether the certain pieces of data required for calculating Risk Grade and Due Diligence are available or not. Apparently, those who have not yet adopted Basel III are quite unlikely to have Leverage Ratio or CET1 in place. Allowing National discretions to define other available yet comparable data as substitute, will definitely be helpful.

- Risk weight for equity holding of 250% is considered too excessive. The Committee should consider retaining the current treatment for public and private equities as defined in paragraph 352 of Basel II or consider separating between listed and unlisted portfolio as the two have different controlling mechanisms. For some banks, investments in such equities are part of long-term customer relationships and should at least be treated depending on the credit quality of their issuers. Also, if some changes are necessary, the Committee should consider avoiding sudden changes in capital requirement arising from this increase. In addition, other newly proposed method, which will result in sudden negative impacts on real business as well as local economy, should be refrained from being part of the guidelines. In fact, at least 3 – 5 years grandfather period should be provided to allow banks and its customers, ample time for necessary preparations.

- Higher credit conversion factor applied to Unconditionally Cancellable Credit Lines (UCC), even though cited in the CP2 as still under review, will have a direct impact on all corporate entities, and on SMEs sector in particular, limiting alternative funding such as capital market. Thus, for those financial institutions who are in bank-based emerging countries where SMEs and corporate entities typically rely on working capital credit lines with commercial banks, the proposed new guidelines, as the rule, will undeniably incentivize banks to reduce or eliminate such liquidity supplementary mechanism, or to pass on these addition cost to customers, which again could possibly
drive them to shadow banking sector as well. Besides, in practice, banks normally have a process to hold loan disbursement and examine its validity of retaining UCC when they face with inappropriate symptoms of borrower’s credit worthiness or deterioration especially for Corporate loans which such practices are normally well understood by borrowers, creditors and local regulators. Also, the proposed frameworks have been based on alignment of risk exposures to accounting figures, however, under IFRS, unconditional commitments are not recognized.

- We understand that the Committee would like to avoid allowing National Discretions; however, the Committee should also recognize the different phase of development of each country. Therefore, National Discretions on certain guidelines to better suit each country’s environments, such as economic circumstances, stage of each local financial market and capital market development, and financial instruments, etc. (which vary from country to country), to support the economic growth of each country while at the same time attempt to comply to the same framework but at different time frame should be allowed. Without taking these factors into consideration, the CP2 may result in unintended consequences to economic and financial system development of some countries (which in turn impact their customers, as well). The banks, who adopted too stringent and rigid guidelines, may hardly absorb the cost and inevitably have to pass it to their customers. As a consequence, it will result in negative impacts to the economic growth of the countries.

- There are also some inconsistencies among certain guidelines. To comply with them will double-penalize banks, in a sense. For example, maintaining LCR ratio will require banks to maintain High Quality Liquid Assets (HQLA) in a very high portion (1st penalty). This will however portray banks in a positive position in this perspective. On the other hand, maintain the same High Quality Liquid Assets for complying with LCR standard when consider applying to the Leverage ratio calculation, which is non-risk based measure, the ratio comes down. So, it will portray banks in a negative position in this perspective (2nd penalty). The Committee should consider harmonizing each guideline so that its impacts are consistent.


- The Bank understands that the committee would like to focus all comments related to only the CP2, but as it turned out in the TFSA forum recently held in Basel that there were a lot of concerns provided by many IRB-bank participants, who may eventually be forced to observe the suggested Capital Floor Rules. We found that a lot of comments and feedbacks, provided by those AIRB banks, were worthwhile to consider as these banks came with their key issues and supporting data/information, which most emerging market banks, basically using SA approach, cannot yet provide. At least from what we found was that each bank brought out the issues which were mostly applicable to its local environment and may not otherwise be applicable to banks globally. This strongly supports our earlier arguments that each country has its own environment that may significantly differ from others. Thus, it is contrary to one of the Committee’s objectives - the banks with similar size and balance sheet may provide different capital outcome as a result of differences in each local environment.

- We would like to reiterate that introducing Capital floors has brought along the potential for compromising the goals of simplicity and comparability since it fails to recognize the quality of the bank’s internal risk management. As such, key parameters, the bank used internally to manage its risk, may be overlooked. Moreover, each bank has its own underwriting standard and ratios that are likely different depends upon its
culture, legal regimes and accounting standard. Also, Capital floors may remove incentives for continuing improvement of risk measurement and management. The objective of the Committee should not result in global increase in capital level, but should rather encourage better risk management which, in the end, would result in appropriate capital level for given risks. The Bank's view is that incentives to maintain and improve internal models have continued and will continue to lead to better risk management and governance processes. We are convinced that this will ultimately increase the resilience of the banking system.

For your kind consideration.

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