Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland

March 7, 2016

Re: BCBS Consultation on Revisions to the Standardised Approach for Credit Risk

Dear Sir/Madam,

China Banking Association (‘‘CBA’’) appreciates the opportunity to comment on the Basel Committee on Banking Supervision Consultative Document: Revisions to the Standardised Approach for Credit Risk dated December 2015.

China Banking Association (CBA) is a nationwide non-profit self-discipline organization of China’s banking sector. CBA serves for
the common interest of its members through the functions of self-discipline, rights protection, coordination and service so as to safeguard lawful rights and maintain market order of the banking sector, and promote the healthy and sustainable development of the industry. By May 2015, CBA has 383 members and 4 observers.

We greatly appreciate the great endeavors you have made to review and improve the Standardised Approach for credit risk, as well as the opportunities you have provided to solicit the industry’s comments on it.

On this important topic, we therefore have solicited member banks’ main comments on different asset classes as below for your reference, which we hope can be helpful. And we sincerely appreciate the great endeavors you have made in the global financial regulatory reforms.

Yours sincerely,

Yang Zaiping
Executive Vice President
China Banking Association
Specific Comments

I. Regarding claims over the property

In the second consultative document, the Committee raises the concept of claims over the property for the first time and applies relatively preferential risk weight, according to their loan-to-valuation (LTV) ratio. At the same time, the Committee proposes strict requirements on the property, including the property securing the exposure must be fully completed.

Suggestions:

Firstly, it is suggested that the criteria of claims over the property be relaxed. The risks are also under the control for a large quantity of the mortgage loans secured by the property, with construction of main bodies completed, already acquiring the government’s approvals of construction and pre-sale, which account for largely in the new house mortgage loans, in comparison with the finished property. As such, we are of the view that the above-mentioned mortgage loans should be also included.

Secondly, it is suggested that the definition of the property be clearly defined. For example, we think that infrastructures, such as road, railway, harbor and airport, which can generate the cash flow like the property, should be included.
Thirdly, it is suggested that classification standards of claims over the property should be further clarified. For instance, we suggest that it should be clear that whether mortgage loans with risks partially mitigated by real restate are subject to real estate exposures (to which ratio of risk mitigation can be defined as real estate exposures).

II. Regarding currency mismatch

In the second consultative document, the Committee proposes to apply a 50% risk weight add-on to exposures of currency mismatch where the currency of the loan is different from that of the borrower’s main source of income with no hedging. However, the empirical data from several Chinese commercial banks shows that there is no significant difference between average risk weights to the loan with currency mismatch and without currency mismatch under the Internal Ratings-Based (IRB) approach. Meanwhile, it is suggested that extra capital requirements should not be proposed, against the backdrops of exchange rate risks with currency mismatch has defined under the framework of market risks. Thus, we suggest that the risk weight add-on for exposures with currency mismatch be cancelled.

III. Regarding off-balance sheet items
In the second consultative document, the Committee significantly sets a higher credit conversion factor (CCF) to unconditionally cancellable commitments. However, we are of the view that the possibilities of risks and losses which really happen are low, due to the contract clauses of unconditionally cancellable commitments being obviously conducive to banks, from the point of risks management. Thus, we suggest that an appropriate CCF to the above-mentioned category should be adjusted lower.