Lebanon's Banking Control Commission's Remarks on the Basel Committee’s Consultative Document “Strengthening the Resilience of the Banking Sector”

The Banking Control Commission of Lebanon (BCC) strongly supports the efforts undertaken by the Basel Committee on Banking Supervision (BCBS) to improve the Capital Adequacy Framework. The BCC has a few remarks on the Consultative Document “Strengthening the resilience of the banking sector”, issued in December 2009, as follows:

1 - Unrealised gains:

The BCC considers that Unrealised Gains are volatile and possibly lead to an unstable (and non-transparent) Capital Adequacy Ratio. In order to prevent banks from over-relying on unrealised gains as a component of equity, and given their volatility, a limit (a certain % of Tier 1 Capital) should be imposed. The BCC emphasizes that unrealised gains should be considered as a Tier 2 component and not a tier 1 component. On the other hand, unrealised losses should be fully considered as part of Tier 1.

2- Limits:

Given that the current limitation on Tier 2 capital will be removed, the BCC would like to know whether the BCBS removed the restriction that Subordinated Term Debt must be limited to a maximum of 50% of Tier 1 elements.

3- Criteria for inclusion in common equity, additional Tier 1 and Tier 2 capital:

The BCC suggests that the BCBS specifies what is meant by “Incentive to redeem” for instruments that classify as part of additional Tier 1 or Tier 2 capital.

4- Investments in the capital of certain banking, financial and insurance entities:

Paragraph 100: Regarding the investments in the capital of other banks and financial institutions, the thresholds mentioned are applied to holdings of common stock; we recommend that a threshold be set on Preferred Stock.
5- Building buffers through capital conservation:

Paragraph 256: The BCC would like to know whether the required capital buffer to be built above the regulatory minimum capital requirement under Pillar, will be part of Pillar 2 capital buffers as mentioned under Principle 3 (Paragraph 756, “International Convergence of Capital Measurement and Capital Standards”) or not.