February 20, 2015

Frank Pierschel and Caio Fonseca
Co-Chairs, Task Force on Standardized Approaches
Basel Committee on Banking Supervision
Centralbahnplatz 2, Basel, Switzerland

Re: Industry comments on the QIS for the proposed Credit Risk SA

Dear Messrs. Pierschel and Fonseca:

The undersigned associations fully recognize the importance of the proposed revisions to the credit risk standardized approach (SA) and would like to stress that our members are ready and committed to assisting the Basel Committee's Task Force on Standardized Approaches (TFSA) in completing its work. We are therefore writing to you ahead of our meeting in Frankfurt to highlight a number of issues with the current Quantitative Impact Study (QIS) that we believe require urgent consideration and to provide suggestions on how some of the inherent difficulties in the exercise may be overcome. We hope that these comments will contribute to the Basel Committee reaching the goals it has set out to achieve with the revision of the credit risk SA.

We are concerned about the ambitious timeline that the Basel Committee seems to have set for assessing the impact of the proposed revisions to the credit risk SA. While we appreciate that there is an overall timetable for completing global regulatory reform, we find the current QIS timeline to be too short and are concerned that it may be counter-productive to ensuring that a suitably calibrated SA is delivered. The consultation document on the proposed revisions was issued on December 22; subsequently, the QIS template and instructions were issued on February 2, with banks requested to submit the completed template as early as March in some jurisdictions. The proposed revisions to the credit risk SA are extremely important not only to SA banks but also to internal ratings-based (IRB) banks, particularly in light of the planned SA-based floor. As such, ensuring the QIS is given sufficient time to allow institutions to provide "extensive and good quality data will be crucial in supporting an appropriate calibration of the revised standardized approach".[1]

[1] Page 26 of the BCBS consultative document on *Revisions to the Standardized Approach for credit risk*

At this point in time, a large proportion of the data that is required by the QIS is either not available in institutions' systems, or, where it is present, is not available in such a way that it could be reported. This is because much of the data requested currently does not form part of institutions' capital processes and there is currently no requirement to report it. We fear that requiring banks to submit data within a few weeks, for an exercise that calibrates minimum capital requirements across the globe will be unrealistic and will not allow the Basel Committee to meet its goals of a risk sensitive and comparable credit risk SA. We would nevertheless be happy to discuss in more detail what firms are currently able to produce within reasonable timeframes.

We are also of the view that the Basel Committee on Banking Supervision (BCBS) should consider an extension to the due date for the QIS that coincides with an extension to the comment period on the proposed revisions to the credit risk SA. Design issues and interpretation questions are likely to come to light as part of the QIS estimation process and so critical issues can be missed if the industry must comment on the proposals prior to being able to fully participate in the QIS.

We also consider that it is important that this not be just a one-off QIS exercise, as this is unlikely to produce the information required to calibrate the proposals appropriately. Instead, multiple QISs for the credit risk SA should be planned, similar to the ongoing Fundamental Review of the Trading Book (FRTB). We also strongly encourage the Basel Committee to consider conducting the credit risk SA QIS in phases, focusing each phase on at most a couple of major exposure categories. This will allow institutions to focus on data accuracy and completeness, which will ultimately contribute to a successful calibration. To provide the greatest insight, we suggest that the phases should be prioritized to focus on the areas where the Basel Committee and the industry believe that the SA may be in the greatest need of fundamental change (e.g. where advanced internal ratings-based approach (AIRB) risk-weighted assets (RWAs) are frequently greater than SA RWA; where SA RWAs are considered to be unrepresentative of risks). Should the BCBS wish to explore this approach further, we would be happy to work with the Committee to derive sample portfolios with a view to ensuring the results are meaningful.

We set out some specific comments on the QIS in more detail below:

- The QIS instructions generally refer to the credit risk SA consultation paper in providing guidance to banks. However, there are substantial areas in the consultation paper that need further clarification, and which we will of course raise at the Frankfurt meeting and in our official comment letter due in late March. However, conducting a QIS without a consistently understood and applied rule-set could lead to unreliable results that would not be appropriate for calibration purposes. Coordinating these interpretation issues between banks and national supervisors, and between national supervisors and the Basel Committee, will require a significant amount of time that will use up the limited time allotted to banks to complete the templates. With a phased approach, these interpretation issues can be addressed in an orderly and effective fashion.

- In practice, the current reporting deadline means that a lot of the information requested will not be completed. This is because, in order to assign exposures to the new risk weight categories, significant manual work will be needed to slot data into the new categories and to apply the new risk drivers to such data, e.g. extracting information on common equity tier 1 (CET1) ratios and non-performing assets (NPA) (which we doubt will be readily available for any bank in the anticipated definition), corporate revenues and leverage and retail debt service coverage from disclosures or databases, merging this information with exposure data and then filling in the templates is a significant undertaking. Similar issues will be encountered with loan-to-value (LTV) data for mortgages since, in many jurisdictions, the information will not be easily available in existing firm systems used for regulatory capital calculation (even where LTV is a driver of probability of default (PD) or loss given default (LGD) in banks' models, it is unlikely that LTV data will be stored in the datamarts used for regulatory capital calculations alongside the necessary PD and LGD information).

- Some of the proposed risk indicators, even when relevant and consistently interpreted, are not published by corporates or banks. This would translate to a 300% risk weight for a significant portion of banks' exposures for QIS purposes. On the other hand, using proxy data will lead to an inadequate calibration exercise. As a result, a suitably accurate credit risk SA QIS can only be conducted when the definitions of the proposed risk drivers, and their disclosures, are well-defined and harmonized across jurisdictions. The risk drivers should also be intuitively risk sensitive, available and accessible without undue burden on the banks.

- It would be useful for the industry to better understand the need for the existing credit risk SA to be part of the requirements for assets currently on IRB. The provision of the information necessary for the proposed credit risk SA as well as the same for the existing SA for IRB exposures, which IRB banks are currently not set-up to do, would increase the reporting burden a great deal with little obvious benefit to the calibration of the proposals. A potential solution could be to remove the requirement to cross-tab both old and new credit risk SA, however we would still argue that this would still not be feasible under the current timescale.

- It would also be informative to have more detail on how the Basel Committee envisages testing the cross-impacts of the various elements of the Basel III framework through the QIS. For example, in the "Floors" template, is the intention to also reflect the new credit risk SA risk weights in the SA for securitization? Ideally, this should be the case to correctly assess the likely impact of the planned floors, but again this would result in additional complexity due to the reasons cited above. In addition, the "Leverage Ratio" template does not seem to reflect the proposed new credit conversion factors (CCFs) for off-balance sheet items. This should be taken into account as well in order to assess the likely impact of the proposals not only on the credit risk SA capital requirement but also on the leverage ratio. Hence, the inclusion of these cross-impacts analyses, which we consider necessary, further highlights the need for more time in conducting the QIS. If these are not covered in the current QIS, the succeeding QIS for credit risk SA that we hope Basel will consider should cover these analyses.

In conclusion, we would like to reiterate our recommendation to extend the deadline of the QIS and for the comments on the consultative document in order to improve the quality of these exercises. Moreover, we think that the revision of the credit risk SA will greatly benefit from multiple-phased and logically-ordered data collection exercises conducted for different exposure categories. We look forward to discussing these issues with you in Frankfurt.

Best regards,

Andrés Portilla
Managing Director
Institute of International Finance

Dave

David Strongin
Executive Director
Global Financial Markets Association

cc: Raquel Lago, Member of the BCBS Secretariat