

Consultation: Basel 3 – Draft Rulebook Module CA
Industry Comments and Feedback
February 2014

Industry Comments		
General Comments:	Ref.	CBB's Response
A bank noted that it is essentially unaffected by the proposed changes as its regulatory capital is well in excess of the minimum threshold requirements.	GR-1	Noted.
A bank noted, as a major market participant in the banking industry, endorses all practical initiatives that would lead to reducing the market's systematic risk which would eventually lead to continued economic prosperity and sustainable growth. The Bank also recognizes the importance of the latest capital adequacy measures issued by the Basel Committee and CBB in making financial institutions more resilient to economic shocks. Nonetheless, the Bank remains concerned with the consequences of the new accord on the overall economy and financial institutions ability to adjust their balance sheet structure and/or their capital base within the proposed periods.	GR-2	Noted. The CBB is also concerned about the economy's health. The CBB will carefully assess the overall impact and consider the industry's feedback were applicable).
Components of Capital of Islamic Banks: The module posted as part of consultation is relevant to Volume 1 of CBB rulebook applicable to conventional banks. In case of Islamic Banks, the component of capital specifically the Investment Risk Reserves (IRR) and Profit Equalization Reserves are substantial and are treated as part of Tier 2 capital with applicable maximum limits. CBB guidelines on treatment of these capital component and applicable threshold in case of Basel III accord are still awaited.	GR-3	The CBB is currently drafting Module CA for Volume2 using IFSB's paper and Basel guidelines which will take the specifics of Islamic banks in consideration.
The bank is looking forward to receiving details from the CBB regarding the methodology that will be applied to establish the bank's capital adequacy ratio.	GR-4	Noted
A bank noted that as with the implementation of previous Basel Committee guidelines, the bank is fully supportive of the CBB's efforts to implement Basel 3 in the Kingdom of Bahrain. The bank is also fully supportive of Basel 3's overall objective of aligning the capital requirements of banks with its risk profiles and believes that Basel 3 should be implemented in a way that creates a level playing field between banks operating in different jurisdictions.	GR-5	Noted
A bank's only inquiry was on the actual timetable proposed for implementing these new requirements, would it still follow the last timetable proposed in June 2013 or are there any plans to push back those requirements?	GR-6	The Timetable proposed in June 2013 will continue to apply until further notice.

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<p>A bank noted the following:</p> <ul style="list-style-type: none"> • There is no guideline on treatment of negative minority interest as part of Capital calculation • There is no guideline on treatment of the FX translation adjustment for the Capital calculation • CBB only allow Bank's minority in another Bank, can they extended to all regulated entities such as investment firms? • Can we ask CBB to increase the limit of additional tier 1 and tier 2? Compare to 1.5% and 2%? • The treatment of sharia instruments such as Subordinated Murabaha and tier 1 Sukuk? • The treatment of investment in own shares. Does this include the shares collateralized against facilities provided? • The treatment of investment in associate which is pro-rata consolidated on Solo level 	<p>GR-7</p>	<ul style="list-style-type: none"> • The treatment of minority interest is outlined in Appendix CA-1. If a bank had a negative minority interest this would be a deduction. • Foreign exchange positions (structural and others) are handled in CA-11. • Only bank capital can be shared as per CA-2.3. So minority holdings in other entities would not be included in the parent company's capital. • These limits to the contribution to the minimum Total capital ratio will remain in place. • Volume 2 will cover the treatment of Sharia instruments. • Investments in own shares are deducted as shown in CA-2.4.12-14. Yes this would include own shares used as collateral. • Please refer to Module PCD.
<p>A bank noted that given the far reaching implications of the proposed Basel III regime for the bank's future operations and pan regional viability, it is kindly requested that the CBB carefully assess the overall impact of the recommendations and to positively consider incorporating the suggested changes into the new capital adequacy norms.</p>	<p>GR-8</p>	<p>Please refer to GR-2</p>

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<p>While fully recognizing the independence of all regulators, it is important to note that SAMA has not implemented a solo capital adequacy, has included interim profits and all reserves without haircut in CETI capital and has adopted a minimum 10.5% CAR as stipulated by BCBS, despite the already existing considerable size and market advantages of its regulated entities vis-à-vis regional peers. Similarly, the European Union and United Kingdom have adopted BCBS regulations on an as is basis with initially an 8% CAR in 2014 progressively increasing to 10.5% CAR (including Capital Conservation Buffer) by 2019, which warrants a significantly lower capital adequacy requirement as compared to the CBB proposed CAR of 12.5% from 1 Jan 2015 onwards.</p>	GR-9	<p>The CBB has benchmarked the approach of other regulators both regionally and globally before finalizing its capital ratios. The solo capital requirements were introduced in Bahrain in the early 90s and it has been serving our regulatory objective in an effective way. Thus, these requirements will continue under our Basel III approach.</p> <p>Your interpretation of the draft rules on this subject is not quite right as the draft rule did not specifically address it, i.e. our intention is not to set the solo ratio at 12.5%, but shall be lower. The new solo levels are integrated into the 2nd consultation.</p>
<p>A bank noted that many clauses in the module highlighted as having a change but do not carry any change.</p> <p>Also some sections seem to carry an older version (e.g. CA-11.3 had an amendment in October 2013. However, this version has content from July 2004 version).</p>	GR-10	<p>Noted, will review and amend where necessary.</p>
<p>A bank noted that Basel III's focus is on capital and funding, specifying new capital target ratios and standards for short-term and eventually, long-term funding. Although implementation of these requirements will occur over several years, the implications are immediate. While the ultimate aim is to mandate financial institutions to hold more capital and liquidity, and undertake less risk, there are concerns that there will be also be unintended consequences of lower returns on capital, higher</p>	GR-11	<p>Please refer to comment GR-9 above.</p>

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<p>transaction costs, and slower growth potential. From a GCC perspective, these concerns are amplified at many levels, but notably on the regulation's future impact on the real economy and limited avenues to raise capital due to underdeveloped capital markets. This at a time when markets are showing signs of recovery after several years of stagnation and negative growth could severely dent the banking sectors ability to play its part in potential economic recovery of the country. It is therefore requested that the CBB benchmark its proposed adoption of Basel III rules with other GCC economies and ensure that Bahraini banks are not disadvantaged in any way due to possible stricter adoption of Basel III capital framework.</p>		
<p>A bank appreciated the CBB's initiative to enhance and standardize the definition, segmentation, methodology, and computation of banks portfolios and product exposure. However the complexity and details required by the rules should take into account exemptions with consideration the size, scope and complexity of the institutions in terms of reporting, materiality and disclosure.</p> <p>There are no specific comments on the paper, however it is noted that many of the amendments are related to products and type of exposure that currently not apply to their activities or with minimal impact.</p> <p>One of the major changes reflects on OTC derivatives and hedging instruments covering netting adjustments and discount factor for them. The paper also discusses about limit on specified items (mortgage servicing rights and deferred taxation) in overall CET computation, which are not relevant to them. The disparity in Risk weights between 'speculative grade' and 'unrated' investments which was prevailing for long time has been synchronized in the current amendment.</p> <p>Also, even with some of the credit exposure adjustments, the impact on their capital computation will be very minimal considering their current level of capital adequacy.</p> <p>Considering the abovementioned facts, there are no specific comments on the consultation paper</p>	GR-12	Noted.
<p>A bank believed that the proposal will strengthen capital and liquidity regulations in a more organized manner through a consistent implementation across banking sector. It will improve the banking sector's ability to absorb shocks arising from financial and economic stress and would hopefully reduce the risk of a spillover from financial sector to real economy.</p> <p>Bank capital strength, including how it is assessed by regulators, is a critical area for investors and analysts. With the changes in capital in CA-1 and CA-2, the enhanced capital and liquidity buffer, together with the focus on enhanced risk management standards, may lead to reduced risk of individual</p>	GR-13	Noted.

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<p>bank failures and reduced interconnectivity between institutions. Levels of banks’ regulatory capital are of key relevance in understanding the constraints on the resources available to their managements. Due to proposed changes in module CA, some banks may find it difficult to raise required capital and funding leading to a reduction in different business models and potentially in competition under adverse economic conditions.</p> <p>Overall, the proposed changes and modification clearly sets out the requirements and, whenever necessary, provides detailed guidance on application of proposed policies. However, CBB may wish to consider the following when finalizing the Module CA:</p> <p>Some of the definitions such as Bahrain Conventional Banks, consolidation group, solo, book value, reporting dates, window-dress, financial statements, distributable items, dividend pushers, sufficient resources, externally rated and eligible credit assessment institution in CA-A, CA-1, CA-2, CA-3 and CA-4 can be defined in order to avoid misinterpretations.</p> <p>It is suggested to add a FAQ section to explain the various scenario or calculations such as regulatory capital, regulatory adjustments, minority interest, Capital Conversation Buffers (CCB), Haircuts, as per the provisions of CA-1, CA-2, CA-2A and CA-4.</p>		<p>Certain definitions have been added. Some of the terms mentioned in the list are already described or defined in the current glossary.</p> <p>A good suggestion. We may include this going forward.</p>
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Specific Comments:

Proposed rule	Comments	Ref.	CBB’s Response
<p>CA-A.1.3 This Module also sets out the minimum leverage requirements which relevant banks (referred to in Section CA-B.1) must meet as a condition of their licensing.</p>	<p>A bank noted that the cross-reference to section CA-B.1 does not provide any guidance with respect to calculation of any leverage threshold.</p>	<p>A-1</p>	<p>The cross-reference refers to the banks that have to comply with the leverage ratio requirement and not to the calculation i.e. the scope. The requirement relating to leverage is in Chapter 15. We will amend to make this clearer.</p>
<p>CA-B.1.2 Rules in this Module are applicable to Bahraini conventional bank</p>	<p>A bank inquired if this applies to non-financial subsidiaries as well?</p>	<p>B-1</p>	<p>It does not apply to non-financial subsidiaries if they are not consolidated. The</p>

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<p><u>licensees</u> (hereinafter referred to as “the banks”) on both a stand-alone (i.e. including their foreign branches) and on a consolidated group basis (i.e. including their subsidiaries which are consolidated into the group accounts on a line-by-line basis or which are required to be consolidated for regulatory purposes by the Central Bank of Bahrain (‘CBB’)).</p>			<p>rules apply at both the solo balance sheet and the consolidated balance sheet level. Non-financial subsidiaries will be subject to the deduction, consolidation and risk-weighting rules of this Module and Module PCD.</p>
	<p>A bank noted that the Core Principles of the BIS clearly state that “An essential element of banking supervision is the ability of the supervisors to supervise the banking group on a consolidated basis.” (Principle 12 of the BIS Core Principles) i.e. BCBS stipulates only consolidated CAR and does not mandate solo CAR.</p> <p>If CBB decides to implement solo CAR, the following factors merit attention and consideration in establishing the quantitative threshold limit for such a ratio;</p> <p>The proposed new solo CAR of 12.5% is over 50% higher than the originally implemented 8% CAR under Basel II.</p> <p>The proposed new solo CAR is c.20% over the minimum BCBS requirement for capital adequacy of 10.5% (including 2.5% of Capital Conservation Buffer).</p> <p>At the bank solo level, all significant financial investments in subsidiaries and all regulatory adjustments get fully capital deducted from CETI without getting any benefit from un-deployed capital of such investments in subsidiaries.</p> <p>Accordingly setting a higher solo CAR ratio level of 12.5% is highly detrimental to the bank’s CBB supported policy of acting as both an operating not financial holding company and of pursuing a strategy of</p>	B-2	<p>New solo rules are being incorporated into the 2nd consultation with lower ratios.</p>

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	<p>regional expansion through inorganic growth.</p> <p>It is strongly recommended that CBB revises the solo capital adequacy requirement to the BCBS CAR level of 10.5% and adopts a transitional approach to attain this CAR, target level with a 0.5% CAR increment each year, starting from 1 January 2015 (CAR: 8.5%) with the full solo CAR ratio reaching 10.5% as of 1 January 2019.</p>		
	<p>A bank noted that these rules apply to all locally incorporated banks on both stand-alone (Solo) and consolidated group basis CAR calculations. However, the detailed rules contained in CA-B.2.1 and the rest of the module seems to be addressing consolidated CAR calculations only. Minimum solo CAR requirements and thresholds and its bifurcation between various forms of capital have not been provided. It is unclear as to what rules apply for the solo CAR calculations.</p> <p>The rules do not specify the treatment that would be meted out to exposures previously grandfathered by CBB. It is presumed that these will continue to be grandfathered post implementation of the Basel III.</p> <p>When there is not enough additional tier 1 (including both Tier 1 that is recognized as a result of the transitional arrangements and new qualifying Additional Tier 1) to “absorb” additional Tier 1 deductions, are these deductions applied to Common equity Tier 1? Also, when there is not enough Tier 2 (including both Tier 2 that is recognized as a result of the transitional arrangements and new qualifying Tier 2) to “absorb” Tier 2 deductions, are these deductions applied to Additional Tier 1?</p>	B-3	<p>See previous comment on solo CARs. The new solo methodology should address when and how subsidiaries are ‘unconsolidated’ to achieve a solo capital adequacy calculation.</p> <p>Basel 3 does not allow ‘grandfathering’ of exposures. The bank will need to contact the CBB directly for any large exposures of a lending nature. There are transitional arrangements of 5 years for the deductions required in respect of investments. Banks therefore need to increase capital or reduce such exposures accordingly.</p> <p>CA-2.4.18 covers deductions when there is insufficient capital of particular tier.</p>

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	<p>A bank noted that this Section details the minimum capital adequacy ratio (CAR) with revised threshold for each component of capital. However, the same is applicable only for CAR at consolidated level. The rule is not covering the minimum capital adequacy requirement at solo level; whether it will be 8% same as Basel II accord or 10.5% including Capital Conservation Buffer and what would be the breakup of each component of capital at solo level?</p>	B-4	See B-2
	<p>A bank noted that the current Module CA under Basel 2 lays down 8% Solo and 12% consolidated minimum capital requirements (CA-A.3.1) However, this paragraph has been removed; and para CA-B.1.2 in the revised document prescribes uniform application of the framework at both solo and consolidated level thus implying a minimum capital requirement of 12.5%.</p> <p>With reference to this subject, the following is stated:</p> <ul style="list-style-type: none"> • Modification of the solo capital requirements from 8% to 12.5% represent a 56% increase; and would have a significant impact on capital allocation & planning. This increase is made more acute considering the fact that the 2% additional buffer over the BIS specified Basel 3 ratios) would have to be maintained both at Solo and Consolidated level. • CA-2A.2.4 (c) of the module specifies that CCB is only applicable on a consolidated basis. By inference, this implies a Total Capital plus CCB requirement of 10% at the Solo level. However, CA-B.1.2 and CA-B.2.1 together suggest that a CAR of 12.5% needs to be maintained both at the Solo & Consolidated level also. <p>Hence , for setting Solo CAR it is requested that the CBB considers applying BIS specified ratios (without any additional capital charges), and explicitly excluding CCB.</p>	B-5	See B-2.
<p>CA-B.2.1 The transitional arrangements for implementing the new</p>	<p>A bank noted that the CCB of 2.5% kicks in immediately in Bahrain, whereas, Basel III envisages a phased introduction over 4 years (i.e. 4 quartiles of 0.625% aggregating 2.5%). On the other hand, it is noted</p>	C-1	The CBB will follow the timetable outlined in its June 2013 circular. The CCB will

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standards will help to ensure that the banking sector can meet the higher capital standards through reasonable earnings retention and capital raising, while still supporting lending to the economy. The transitional arrangements are as follows:

(a) Implementation of this Module will begin on 1 January 2015. As of 1 January 2015, banks will be required to meet the following new minimum CAR requirements taking each component of capital as defined in chapters CA-2 and CA-2A divided by total risk-weighted assets (RWAs) as defined in Paragraph CA-1.1.3:

Components of CARs		
	Optional	Min Ratio Required
CET 1		6.5%
Add'l Tier 1	1.5%	
Total Tier 1		8%
Tier 2	2%	
Total Capital		10%
CCB		2.5%
CARs		

that CA-2A.3.3 refers to ‘division of buffer into quartiles’ i.e. 4 years (which is line with Basel III). And is, therefore, contradictory to this paragraph.

It may therefore be clarified:

- Whether CCB will be introduced in phased manner over 4 years as per CA-2A.3.3 and if so, what would be the minimum CAR from 2015 to 2018?
- If not (i.e. CCB of 2.5% becomes applicable in 2015), should the minimum Capital Conservation Standard (CCS) given in CA-2A.2.3 be applicable so stringently (it is noted that CCS prescribes restriction on dividend distribution as % of earnings based on the CET1 level. The purpose of CCS is to facilitate in building CCB to 2.5%), given that CCB of 2.5% requirement is met in 2015 itself?
- The minimum CET1 at 6.5% is higher by 2% as compared to Basel. If CCB starts at 2.5% in 2015 itself (it is 0% in 2015 as per Basel), then CAR requirement at 12.5% will be higher by 4.5% as compared to Basel (which is at 8%) at the starting block in 2015.
- The minimum CET1 could become even higher for Domestic Systemically Important Banks (DSIB) whenever the norms are introduced. It is requested that the CBB clarifies by when banks would be required to hold DSIB buffer, and whether it would be during 2015 or at a later stage.
- Additionally, the minimum CAR levels will move up further for all banks when norms on countercyclical buffer are introduced by CBB. Also, the internal target CAR, as assessed under ICAAP, is required to be above regulatory CAR.
- The distinction in CAR between solo and consolidated capital base has been removed. This could impact banking groups having many group entities.

The higher CARs, as above, may place Bahraini banks at a disadvantage in terms of competitiveness if other GCC countries have lower CAR regime.

come into effect immediately.

The CBB will continue discussions on supervisory arrangements for DSIBs. In view of the ratios to be applied, it is not anticipated that any extra DSIB buffer would be applicable in 2015.

See B-2

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CET 1 plus CCB		9%	<p>BDO noted that the rule requires a minimum CET1 ratio of 6.5% compared to 6.0% under Basel 3 standards (December 2010, rev June 2011). This higher ratio may lead to a slightly higher recognition of minority interest than in the Basel 3 standards (December 2010, rev June 2011) and a slightly higher capital ratios. It is assumed that the implications of this higher ratio have been taken into consideration when drafting the regulation.</p> <p>A bank noted that the minimum capital requirements proposed in module CA reflect a 2% step-up over the BIS-specified Basel 3 ratios (i.e. CET 1 of 6.5% vis-a-is 4.5%; total tier 1 of 8% vis-à-vis 6% and total capital of 10% vis-à-vis 8%) and seem excessive in the context of the following:</p> <ul style="list-style-type: none"> • The BIS Basel 3 pillar-I ratios already represent a fairly conservative global benchmark (from perspectives of both quality and quantum of capital) which was derived after incorporating lessons from the financial crisis; • The proposed total Capital plus capital Conservation Buffer (CCB) ratio of 12.5% is prima facie roughly the same as the current CBB total capital requirements under Basel 2. However, implementation of other buffers which are under consideration (e.g. countercyclical buffer in para CA-2A.3.4) could lead to a significantly higher pillar –I capital requirement and also impact the future capital planning process of the banks. <p>In order to maintain the regional and global competitiveness of Bahraini banks, it is requested that CBB considers implementing the BIS Basel 3 ratios without additional capital charges.</p> <p>A bank noted that while the proposal requires banks to maintain a total capital adequacy ratio of 12.5% from 2015 onwards, the Basel Committee’s guidelines allow banks to adopt a phased approach whereby the minimum total capital adequacy ratio of 10.5% is to apply from 2019 onwards. Since the CBB’s existing capital adequacy rules already apply a minimum total capital adequacy ratio requirement of</p>	C-2	Yes, the minimum capital requirements proposed by the CBB in module CA reflect a 2% premium over the BIS-specified Basel 3 ratios.	
Tier 1 plus CCB				<p>(b) The difference between the Total Capital plus CBB of 12.5% and the Tier 1 plus CCB requirement can be met with Tier 2 and higher forms of capital;</p> <p>(c) The regulatory adjustments (i.e. deductions), including amounts above the aggregate 15% limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be fully deducted from Common Equity Tier (CET) 1 by 1 January 2019;</p> <p>(d) The regulatory adjustments will begin at 20% of the required adjustments to CET 1 on 1 January 2015, 40% on 1 January 2016, 60% on 1 January 2017, 80% on 1 January 2018, and reach 100% on 1</p>	C-3	<p>The CBB’s existing capital adequacy rules already apply a minimum total capital adequacy ratio requirement of 12%; therefore banks should be able to comply with the 12.5% minimum ratio without too much difficulty.</p> <p>Please refer to comment C-1 above (last bullet point).</p>
Total Capital plus CBB					<p>A bank noted that while the proposal requires banks to maintain a total capital adequacy ratio of 12.5% from 2015 onwards, the Basel Committee’s guidelines allow banks to adopt a phased approach whereby the minimum total capital adequacy ratio of 10.5% is to apply from 2019 onwards. Since the CBB’s existing capital adequacy rules already apply a minimum total capital adequacy ratio requirement of</p>	C-4

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<p>January 2019. During this transition period, the remainder not deducted from CET 1 will continue be subject to the risk weights given in Module CA-3. The same transition approach will apply to deductions from Additional Tier 1 and Tier 2 capital. Specifically, the regulatory adjustments to Additional Tier 1 and Tier 2 capital will begin at 20% of the required deductions on 1 January 2015, 40% on 1 January 2016, 60% on 1 January 2017, 80% on 1 January 2018, and reach 100% on 1 January 2019. During this transition period, the remainder not deducted from capital will be subject to the risk weights given in Chapter CA-3;</p>	<p>12%, this is reasonable to expect Bahrain incorporated banks to comply with the 12.5% minimum ratio from 2015 onwards. However, the proposal is silent on the minimum capital adequacy ratios for standalone parent banks on a solo basis. The CBB’s current capital adequacy rules require Parent solo banks to have a minimum capital adequacy ratio of 8%. It is proposed that under the Basel 3 regime, the minimum capital adequacy ratios of Parent solo banks should be increased to 10.5% in accordance with the phased approach outlined in the Basel Committee’s guidelines.</p>		<p>The subject of solo CAR is in B-2.</p>										
<p>(e) The treatment of capital issued out of subsidiaries and held by third parties (e.g. minority interest) will also be phased in. Where such capital is eligible for inclusion in one of the three components of capital according to Paragraphs CA-2.3.3 to CA-2.3.5, it can be included from 1 January 2015. Where such capital is not eligible for inclusion in one of</p>	<p>A bank noted that given that CBB is mandating a 2% higher CAR than the BCBS minimum requirements, banks in Bahrain should have the option to source this higher 2% capital requirement through Tier II or better quality capital instruments.</p> <p>Accordingly, it is recommended that the capital mix of 12.5% should comprise of:</p> <ul style="list-style-type: none"> • 7% CETI (including 2.5% of Capital Conservation Buffer) • 1.5% of additional Tier I capital • 4% of Tier II or better quality capital 	<p>C-5</p>	<p>The components of the minimum required Total Capital will remain unchanged.</p>										
	<p>A bank noted that the below table provides a comparison of Basel III minimum ratio requirements and the thresholds proposed by CBB for adoption:</p> <table border="1" data-bbox="548 1101 1455 1398"> <thead> <tr> <th></th> <th>Basel III</th> <th>CBB</th> </tr> </thead> <tbody> <tr> <td rowspan="3"><i>Components of CAR</i></td> <td>Common Equity Tier 1 must be at least 4.5% of risk-weighted assets at all times</td> <td>6.5%</td> </tr> <tr> <td>Tier 1 capital must be at least 6.0% of risk-weighted assets at all times</td> <td>8%</td> </tr> <tr> <td>Total Capital (Tier 1 Capital plus Tier 2 Capital) must be at least 8.0% of</td> <td>10%</td> </tr> </tbody> </table>		Basel III	CBB	<i>Components of CAR</i>	Common Equity Tier 1 must be at least 4.5% of risk-weighted assets at all times	6.5%	Tier 1 capital must be at least 6.0% of risk-weighted assets at all times	8%	Total Capital (Tier 1 Capital plus Tier 2 Capital) must be at least 8.0% of	10%	<p>C-6</p>	
	Basel III	CBB											
<i>Components of CAR</i>	Common Equity Tier 1 must be at least 4.5% of risk-weighted assets at all times	6.5%											
	Tier 1 capital must be at least 6.0% of risk-weighted assets at all times	8%											
	Total Capital (Tier 1 Capital plus Tier 2 Capital) must be at least 8.0% of	10%											

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<p>the three components of capital but is included under the existing treatment, 20% of this amount should be excluded from the relevant component of capital on 1 January 2015, 40% on 1 January 2016, 60% on 1 January 2017, 80% on 1 January 2018, and reach 100% on 1 January 2019;</p> <p>(f) Capital instruments that no longer qualify as non-common equity Tier 1 capital or Tier 2 capital will be phased out beginning 1 January 2015. Fixing the base at the nominal amount of such instruments outstanding on 1 January 2015, their recognition will be capped at 90% from 1 January 2015, with the cap reducing by 10 percentage points in each subsequent year. This cap will be applied to Additional Tier 1 and Tier 2 separately and refers to the total amount of instruments outstanding that no longer meet the relevant entry criteria. To the extent an instrument is redeemed, or its recognition in capital is amortised, after 1 January 2015, the nominal amount serving as the base is not reduced. In addition, instruments with an incentive to be redeemed will</p>		risk weighted assets at all times			
	CCB	2.5%*	2.5%		
	Minimum CARs	CET1: 7%*	9%		
		Tier 1	10%		
		Total Capital: 10.5%*	12.5%		
Phase-in of deductions from CET1 (including amounts exceeding the limit for DTAs, MSRs and financials)*	Begins @ 20% on Jan 2014 towards full deduction at same % on Jan 2018	(CBB begins @ 20% on Jan 2015 towards full deduction at same % on Jan 2019)			
	<ul style="list-style-type: none"> As the table depicts, the minimum ratios proposed are more stringent than the minimum Basel III requirements. As stated above, Basel III rule in its existing form would put extreme pressure on the capital requirement and ROE of local incorporated financial institutions. Making them further stringent using the ‘one size fits all’ approach may be counterproductive for local banking industry. Smaller banks do not have the same access to capital as their larger counterparts or the same risks in terms of their business model. Setting a threshold that is much above the BIS’s own requirements, will have the unintended consequence of making it even more difficult in a recessionary environment to raise sufficient capital. The bank also noted that subparagraph (f)(v) states that for an instrument that had a call and a step-up on or prior to 12 September 2012 (or another incentive to be redeemed), if the instrument was 			<ul style="list-style-type: none"> See comment C-5 above. Banks should note that most of these instruments should be allowed the 10 year phasing out which is 	

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<p>be treated as follows:</p> <p>(i) For an instrument that has a call and a step-up prior to 1 January 2015 (or another incentive to be redeemed), if the instrument is not called at its effective maturity date and on a forward-looking basis will meet the new criteria for inclusion in Tier 1 or Tier 2, it will continue to be recognised in that tier of capital;</p> <p>(ii) For an instrument that has a call and a step-up on or after 1 January 2015 (or another incentive to be redeemed), if the instrument is not called at its effective maturity date and on a forward looking basis will meet the new criteria for inclusion in Tier 1 or Tier 2, it will continue to be recognised in that tier of capital. Prior to the effective maturity date, the instrument would be considered an “instrument that no longer qualifies as Additional Tier 1 or Tier 2” and will therefore be phased out from 1 January 2015;</p> <p>(iii) For an instrument that has a call and a step-up between 12 September 2012</p>	<p>not called at its effective maturity date and on a forward looking basis does not meet the new criteria for inclusion in Tier 1 or Tier 2, it will be considered an “instrument that no longer qualifies as Additional Tier 1 or Tier 2’ and will therefore be phased out from 1 January 2015 . This in turn, puts further pressure on the existing capital base of banks.</p> <ul style="list-style-type: none"> • It will be appreciated if CBB could clarify the difference between the term ‘phased out from January 1 2015’ and derecognized from January 1, 2015’ as they have been alternatively used for different types of instruments throughout the module. 		<p>set out in CA-B.2</p> <ul style="list-style-type: none"> • ‘Fully derecognized’ means an immediate and full exclusion from capital. ‘phasing out’ means that it will be subject to amortization over a 10 year period.
	<p>A bank noted that banks will be required to maintain CET1 ration of 6.5% and Tier 1 ratio of 8% as on January 2015. It is suggested that more time should be given to banks to reach to the desired ratios should be increased gradually on yearly basis to reach to the desired level. Moreover, CET1 of 6.5% and Tier 1 of 10% are on higher side.</p>	C-7	<p>Please refer to comment C-1 above.</p>
	<p>A bank inquired if the CBB can provide a lower solo minimum ratio compared to Group.</p>	C-7	<p>See B2 above.</p>

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<p>and 1 January 2015 (or another incentive to be redeemed), if the instrument is not called at its effective maturity date and on a forward looking basis does not meet the new criteria for inclusion in Tier 1 or Tier 2, it will be fully derecognised in that tier of regulatory capital from 1 January 2015;</p> <p>(iv) For an instrument that has a call and a step-up on or after 1 January 2015 (or another incentive to be redeemed), if the instrument is not called at its effective maturity date and on a forward looking basis does not meet the new criteria for inclusion in Tier 1 or Tier 2, it will be derecognised in that tier of regulatory capital from the effective maturity date. Prior to the effective maturity date, the instrument would be considered an “instrument that no longer qualifies as Additional Tier 1 or Tier 2” and will therefore be phased out from 1 January 2015; and</p> <p>(v) For an instrument that had a call and a step-up on or prior to 12 September 2012 (or another incentive to be redeemed), if the instrument</p>			
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<p>was not called at its effective maturity date and on a forward looking basis does not meet the new criteria for inclusion in Tier 1 or Tier 2, it will be considered an “instrument that no longer qualifies as Additional Tier 1 or Tier 2” and will therefore be phased out from 1 January 2015.</p>			
<p>CA-1.3.3 All existing exemptions in respect of PIR review as at 31st December 2013 will cease.</p>	<p>A bank noted that the existing exemption of PIR review by the external auditor should continue till end of 2014 (and not till end of 2013) since the new regulations will be effective only from 1st January 2015.</p>	D-1	<p>The dates will be amended according to the consultation process.</p>
	<p>A bank suggested changing the deadline date for submission of PIR (as of December) from 20th January to 15th February of each year as non-completion of audit of the financials (by the 20th of January) causes many figures reported in the PIR report to be different from final audited financial statements (published).</p>	D-2	<p>The CBB needs to have prompt reporting of banks’ capital adequacy. The CBB understands that there may be subsequent amendments, but the overriding priority is to have a prompt record of the capital adequacy position of a bank.</p>
	<p>A bank noted that since the new CA Module will come into effect from 1st January 2015, it is recommended extending the exemptions till the implementation date of 31st December 2014.</p>	D-3	<p>Please refer to comment D-1 above.</p>
	<p>A bank noted that as per the proposal, the RWAs for market and operational risk are calculated by multiplying the capital requirement by 12.5. This would be correct if the minimum capital requirement is 8% (i.e. $100/8 = 12.5$). However, if the minimum capital ratio is 12.5% the multiplier should be 8 (i.e. $100/12.5 = 8$).</p>	D-4	<p>In the table in CA-B.2.1, there are six different minimum ratios. The multiplier will remain constant in view of the number of ratios. For example a multiplier of $(100/6.5)$ 15.4</p>

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			would have to be used for the CET1 ratio.
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<p>CA-2.1.2 Common Equity Tier 1 capital consists of the sum of the following items (a) to (e) below:</p> <p>(a) Issued and fully paid common shares that meet the criteria for classification as common shares for regulatory purposes (see CA-2.1.3);</p> <p>(b) Disclosed reserves including:</p> <ul style="list-style-type: none"> - General reserves - Legal / statutory reserves - Share premium - Retained earnings brought forward. <p>(c) Audited unrealized net gains arising from fair valuing equities through profit and loss, subject to a 55% discount (see CA-2.1.6(h)(ii);</p> <p>(d) Common shares issued by consolidated subsidiaries of the bank and held by third parties (i.e. minority interest) that meet the criteria for inclusion in Common Equity Tier 1. See CA-2.3 for the relevant criteria; and</p> <p>(e)Regulatory adjustments applied in the calculation of Common Equity Tier 1 (see</p>	<p>A bank noted that while BCBS’s proposed treatment is to align the treatment of these gains with the recent changes in the accounting standard thus moving away from the earlier approach of considering at 45% of reported values, CBB is proposing to continue the Basel II approach of considering unrealized valuation reserves in Tier II capital with a 55% haircut.</p> <p>CBB should also take into consideration that Basel III regulations have significantly reduced the Tier II component in the 12.5% CAR composition and that all regulatory adjustments are deducted from CETI.</p> <p>It is recommended that CBB adopts the BCBS approach of allowing all disclosed reserves in Tier I capital without any haircuts. This approach is also consistent with the IFRS 9 accounting standard requirements.</p>	E-1	The haircuts on unrealized gains will cease. Unrealised gains on all financial instruments will be allowed into regulatory capital.
	<p>A bank noted that:</p> <p>a. BIS recognizes the interim profit/ losses of the bank under common equity, while CBB requires the same to be recognized under Tier2. As it is aware, Tier2 is limited only to 2% of the risk weighted assets, which means a significant amount of the current year profits will not be recognized towards the calculation of capital adequacy. It is requested that the CBB allow banks to recognize the interim profits under common equity in line with BIS guidelines.</p> <p>b. BIS recognizes comprehensive income as part of common equity which does include the change in fair value reserves for both equity investments as well as bonds, while CBB circular stipulates that only 45% of revaluation of equity instruments will be recognized in Tier2 and made no reference to revaluation of debt instruments.</p>	E-2	Disagree. It is a long-standing matter of policy only to recognize audited profits in Tier 1 to avoid excessive volatility. See E1 on unrealized gains.

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CA-2.4).			
<p>CA-2.1.6 For an instrument to be included in additional Tier 1 capital, it must meet or exceed all the criteria below:</p> <p>(h) The bank must have full discretion at all times to cancel distributions/ payments. This means that ‘dividend pushers’ are prohibited. A dividend pusher obliges a bank to make a dividend or coupon payment on an instrument if it has made a payment on another capital instrument or share. Also features that require the bank to make distributions in kind are not permitted;</p>	<p>A bank noted that subparagraph (h) introduced a requirement that for an increment to be included in Additional Tier 1 must give issuing bank full discretion at all times to cancel the payment of distributions or payments. Investors may find bank debt or equity issuance less attracted as dividends are likely to be reduced to allow banks to rebuild their capital bases.</p>	F-1	<p>This is a new requirement to improve the quality of capital. Investors and banks will need to take account of such features in the pricing of Additional Tier 1 products which should add to financial stability.</p>

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<p>CA-2.1.8 Tier 2 capital consists of the sum of the following items below:</p> <p>(a) Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital outlined in Paragraph CA-2.1.10;</p> <p>(b) Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital;</p> <p>(c) Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1. See CA-2.3 for the relevant criteria;</p> <p>(d) Loan loss provisions held against future, presently unidentified losses and are freely available to meet losses which subsequently materialise and qualify for inclusion within Tier 2. Such general provisions/general loan-loss reserves which are eligible for inclusion in Tier 2 will be limited to a maximum of 1.25 percentage points of credit risk-weighted risk assets. Provisions ascribed to identified deterioration of particular assets or known liabilities, whether individual or grouped, must be excluded;</p> <p>(e) Regulatory adjustments applied in the calculation of</p>	<p>A bank noted that unrealized gains arising from fair valuing of equity is included under Tier 2 capital subject to a 55% discount. However, the Basel Accord includes the full value of the gains without any discount under Common Equity Tier 1. Also the CBB regulation does not include unrealized gains/ losses on the Bond portfolio whereas the Basel Accord includes all reported unrealized gains/ losses. Interim profits are included under Tier 2 in the draft; however, the Basel Accord includes this under Common Equity Tier 1.</p>	G-1	See note E-1 on unrealised gains. Basel 3 allows the regulator to decide where retained earnings may go and whether it is subject to audit.
	<p>A bank noted that the proposal refers to interim <u>profits</u> but does not refer to interim <u>losses</u>. To avoid possible misunderstanding or misinterpretation, it is suggested that the rulebook refers to both interim profits <u>and</u> interim losses.</p>	G-2	Interim losses are covered in CA-2.1.2 and CA-2.4. We can cross reference.
	<p>A bank noted that with reference to sub paragraph (f) retained earnings, accumulated other comprehensive income and other disclosed reserves, including interim profit or loss, are included in CETI under BCBS norms with discretion given to national authorities to consider appropriate audit, verification or review procedures.</p> <p>As all adjustments under Basel III are deducted from CETI and considering CBB's proposed procedure of requiring an external auditor review of prudential returns on a quarterly basis, interim profits should be included in CETI.</p> <p>In view of the clearly mandated BCBS requirements for including interim profits in CETI, it is strongly recommended that interim profits duly reviewed by external auditors should be included in CETI.</p>	G-3	Please refer to comment E2 above.
	<p>A bank noted that Tier 2 capital components as per the provision of subparagraph (d) of loan loss provisions and regulatory adjustments of defined benefits pension fund liabilities as per the provisions of CA-2.4.10 may be explained as these item/adjustments can be made on gross or net basis.</p>	G-4	The limit applies to the provisions.

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<p>Tier 2 Capital (see CA-2.4);</p> <p>(f) Current interim profits which have been reviewed as per IFRS by the bank's external auditor;</p> <p>(g) <u>Asset revaluation reserves</u> which arise from the revaluation of fixed assets from time to time in line with the change in market values, and are reflected on the face of the balance sheet as a revaluation reserve. Similarly, gains may also arise from revaluation of Investment Properties (real estate). These reserves (including the net gains on investment properties) may be included in Tier 2 capital, with the concurrence of the external auditors, provided that the assets are prudently valued, fully reflecting the possibility of price fluctuation and forced sale. A discount of 55% must be applied to the difference between the historical cost book value and the current fair value to reflect the potential volatility of this form of unrealised capital;</p> <p>(h) Unrealised gains arising from fair valuing equities:</p> <p>(i) For unrealized gross gains reported directly in equity (audited or reviewed), a discount factor of 55% will be applied before inclusion in Tier 2 capital. Note for</p>			
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<p>gross losses, the whole amount of such losses should be deducted from the Tier 1 capital;</p> <p>(ii) For unrealized net gains reported in income, a discount factor of 55% will apply on any such unrealized net gains from unlisted equity instruments before inclusion in Tier 1 capital (for audited gains) or Tier 2 capital (for reviewed gains) as appropriate.</p>			
<p>CA-2.1.10 For an instrument to be included in Tier 2 capital (see CA-2.1.8(a)), it must meet all the criteria below:</p> <p>(a) It is issued and paid-in;</p> <p>(b) It is subordinated to depositors and general creditors of the bank;</p> <p>(c) It is neither secured nor covered by a guarantee of the issuing bank or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank depositors and general bank creditors;</p> <p>(d) It must have a minimum maturity of at least 5 years and it will be amortised on a straight line basis in the remaining five years before maturity and there are no step-</p>	<p>A bank required clarification that the maturity of 5 years is from the date of issuance and not from the effective implementation date of 1st January 2015.</p>	<p>H-1</p>	<p>The effective date is that of issuance.</p>

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<p>ups or other incentives to redeem;</p> <p>(e) It may be callable at the initiative of the bank only after a minimum of five years and the bank must not do anything which creates an expectation that the call will be exercised. The bank may not exercise such a call option without receiving written prior approval of the CBB and the called instrument must be replaced with capital of the same or better quality; or the bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised. In all early call situations, any replacement of existing capital must be done at conditions which are sustainable for the income capacity of the bank;</p> <p>(f) The investor must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation.</p>			
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<p>CA-2.3 <i>Minority Interest Held by Third Parties in Consolidated Subsidiaries</i></p>	<p>A bank noted their understanding on the following requirements:</p> <ol style="list-style-type: none"> 1. On the minority interest they agree with what is proposed in the module regarding distributing the minority interest Tier 1 and Tier 2 capital. This will represent fair allocation and the ratios produced from the distribution will show more accurate position. 2. They understood that instruments issued by consolidated subsidiaries of the Bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 will be part of tier 2 capital for the Bank. 	<p>I-1</p>	<p>That is correct.</p> <p>They will be allowed for banking subsidiaries.</p>
<p>CA-2.3.1 In order for minority interest arising from the issue of common shares by a fully consolidated subsidiary of the bank to be recognised in CET1, it must meet the following conditions:</p> <ol style="list-style-type: none"> (a) The instrument giving rise to the minority interest would, if issued by the bank, meet all of the criteria for classification as common shares for regulatory capital purposes; (b) The subsidiary that issued the instrument is itself a bank; and (c) The subsidiary meets the limits outlined in Paragraph CA-2.3.2. 	<p>A bank suggested for sub paragraph (b) that any entity subject to regular prudential review by CBB be considered as Bank for the purpose of calculating CAR.</p>	<p>J-1</p>	<p>Only banking subsidiaries' eligible capital instruments will be allowed as part of regulatory capital (consolidated).</p>
<p>CA-2.3.3 Additional Tier 1 capital instruments issued by a fully consolidated subsidiary of the</p>	<p>A bank noted regarding the treatment of capital issued out of subsidiaries, how should the surplus capital be calculated if the subsidiary is not regulated on a stand-alone basis but is still subject to consolidated supervision at the parent level.</p>	<p>K-1</p>	<p>The subsidiary must itself be a bank and therefore it is regulated as per CA-2.3.2 (b), otherwise its capital cannot be</p>

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<p>bank to third party investors (including amounts under Paragraph CA-2.3.2) may receive recognition in Tier 1 capital only if the instruments would, if issued by the bank, meet all of the criteria for classification as Tier 1 capital. The amount of this Additional Tier 1 capital that will be recognised in Additional Tier 1 will exclude amounts recognised in CET1 under Paragraph CA-2.3.2 and will be calculated as follows:</p> <p>(a) Total Tier 1 of the subsidiary issued to third parties minus the amount of the surplus Tier 1 of the subsidiary attributable to the third party investors;</p> <p>(b) Surplus Tier 1 of the subsidiary is calculated as the Tier 1 of the subsidiary minus the lower of: (1) the minimum Tier 1 requirement of the subsidiary plus the CCB and (2) the portion of the consolidated minimum Tier 1 requirement plus the CCB that relates to the subsidiary; and</p> <p>(c) The amount of the surplus Tier 1 that is attributable to the third party investors is</p>		<p>included in the consolidated capital.</p>
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<p>calculated by multiplying the surplus Tier 1 by the percentage of Tier 1 that is held by third party investors.</p>			
<p>CA-2.4.2 Goodwill and all other intangibles must be deducted in the calculation of Common Equity Tier 1, including any goodwill included in the valuation of significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation. With the exception of mortgage servicing rights, the full amount is to be deducted net of any associated deferred tax liability which would be extinguished if the intangible assets become impaired or derecognised under IFRS. The amount to be deducted in respect of mortgage servicing rights is set out in the threshold deductions section below.</p>	<p>A bank inquired if this applies to significant investments accounted for using the equity method?</p>	<p>L-1</p>	<p>Yes, any goodwill or intangibles must be deducted.</p>
<p>CA-2.4.15 Reciprocal cross holdings of capital that are designed to artificially inflate the capital position of banks will be deducted in full. Banks must apply a “corresponding deduction</p>	<p>A bank noted that the second paragraph seems unrelated to what precedes it - what is meant here?</p>	<p>M-1</p>	<p>This is not a paragraph; it is a subtitle for the next paragraph.</p>

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<p>approach” to such investments in the capital of other banks, other financial institutions and insurance entities. This means the deduction should be applied to the same component of capital for which the capital would qualify if it was issued by the bank itself. The above adjustments (CA-2.4.2 to CA-2.4.15) must now be aggregated and applied to CET1 to obtain a subtotal (CET1a). This new adjusted CET1a is used for the purpose of calculating the next adjustment.</p> <p><i>Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity</i></p>			
<p>CA-2.4.16 The regulatory adjustment described in Paragraph CA-2.4.17 applies to investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity. In</p>	<p>A bank noted that the rule needs to be reviewed in depth as it has a high adverse impact for investment banks. The most common business for all investments banks is to seek attractive equity investments for future returns. If the rule is applied it would basically mean that banks would not be able to make equity investments, even if they are well diversified, beyond 10% of their CET1a. This would basically make investment banking business unsustainable.</p>	<p>M-2</p>	<p>This is a measure by the Basel Committee to eliminate double gearing of capital in the banking system (see para 20 of Basel 2).</p>

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<p>addition:</p> <p>(a) Investments include direct, indirect and synthetic holdings of capital instruments. For example, banks must look through holdings of index securities to determine their underlying holdings of capital;</p> <p>(b) Holdings in both the banking book and trading book must be included. Capital includes common stock and all other types of cash and synthetic capital instruments (e.g. subordinated debt). It is the net long position that is to be included (i.e. the gross long position net of short positions in the same underlying exposure where the maturity of the short position either matches the maturity of the long position or has a residual maturity of at least one year);</p> <p>(c) Underwriting positions held for five working days or less can be excluded. Underwriting positions held for longer than five working days must be included; and</p> <p>(d) If the capital instrument of the entity in</p>			
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<p>which the bank has invested does not meet the criteria for CET1, Additional Tier 1, or Tier 2 capital of the bank, the capital is to be considered common shares for the purposes of this regulatory adjustment.</p>			
<p>CA-2.4.20 The regulatory adjustment described in CA-2.4.21 applies to investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation where the bank owns more than 10% of the issued common share capital of the issuing entity or where the entity is an <u>affiliate</u> of the bank. In addition:</p> <p>(a) Investments include direct, indirect and synthetic holdings of capital instruments. For example, banks should look through holdings of index securities to determine their underlying holdings of capital;</p> <p>(b) Holdings in both the banking book and trading book are to be included. Capital includes common stock and all other types of cash and synthetic capital instruments (e.g. subordinated debt). It is the net long position that is to</p>	<p>A bank noted that the definition of significant investment has been changed (reduced from 20% of investee capital to more than 10% of investee capital), in case of Banking, Financial & insurance companies; in such cases, individual holdings exceeding 10% of CET1c must be deducted from the CET1c of the bank to the extent of excess; the aggregate of such holdings (post such deduction) exceeding 15% CET1c, must be further deducted from CET1c.</p> <p>In case of Investment in Banking, Financial and Insurance entities of not more than 10% of issued common share capital of the investee entity (which is not treated as significant investment), if the aggregate of such holdings exceed 10% of Bank's CET1a, then the excess must be deducted across all capital category proportionately. This is a new addition.</p> <p>Currently, individual holdings of 20% above of investee capital (Banking, Financial & insurance companies) are to be deducted from capital; similarly there are deduction norms under qualifying holdings (i.e., excess over 15% of Bank's capital base on individual basis and 60% in aggregate to be deducted from capital base). Please advise whether the current deduction norms on qualifying holdings will still continue.</p> <p>A bank suggested for subparagraph (c) that 5 days holding period for underwriting commitments be extended to 90 days to bring it in line with the requirements of CM module and for practicality purposes.</p>	<p>N-1</p> <p>O-1</p>	<p>The new rules apply with effect from 1st January 2015. This means Module CM (qualifying holdings) will need to be harmonized with the new Module CA.</p> <p>The 5 days holding period will stay and the requirements for CM Module will be amended as per the proposed requirements in Basel 3. Note</p>

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<p>be included (i.e. the gross long position net of short positions in the same underlying exposure where the maturity of the short position either matches the maturity of the long position or has a residual maturity of at least one year);</p> <p>(c) Underwriting positions held for five working days or less can be excluded. Underwriting positions held for longer than five working days must be included;</p> <p>(d) If the capital instrument of the entity in which the bank has invested does not meet the criteria for CET1, Additional Tier 1, or Tier 2 capital of the bank, the capital is to be considered common shares for the purposes of this regulatory adjustment.</p>			<p>that the 5 days period only applies for financial entities and not to commercial entities.</p>
<p>CA-2.4.24 The amount of the three above items that are not deducted in the calculation of CET1d will be risk weighted at 250% (see CA-3.2.26).</p>	<p>A bank noted that on one interpretation of this section, if the bank were to invest in <10% of a target’s capital, and if the sum of such investments exceed 10% of the bank’s capital, the excess is subject to a 250% capital requirement. As a corollary to this, it’s not clear what happens to investments of >10% of the target.</p>	<p>P-1</p>	<p>If a bank invests in another’s capital it is weighted at 250%. Any holding that exceeds 10% of the bank’s own capital must be deducted.</p>
<p>CA-2.4.25 The following items receive a 1250% risk weight:</p> <p>(a) Certain securitisation exposures outlined in Chapter CA-6;</p> <p>(b) Non-payment/delivery</p>	<p>A bank noted that a risk weighting of 1,250% is consistent with a regulatory capital adequacy requirement of 8%. A 1,250% risk weight with an 8% minimum capital requirement is the equivalent of a dollar-for dollar-capital requirement (1,250% x 8% = 100%), which is economically equivalent to a deduction from capital of the surplus exposure beyond threshold levels, as was the case under Basel II.</p>	<p>Q-1</p>	<p>The risk weighting of 1,250% is applicable irrespective of the applicable ratios (whether CET1, T1, Total Capital) and is no longer linked to a single CAR of 8%.</p>

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<p>on non-DvP and non-PvP transactions; and</p> <p>(c) Significant investments in commercial entities. The materiality threshold for these investments is 15% of Total Regulatory Capital for individual significant investments and 60% of Total Regulatory Capital for the aggregate of such investments. Please refer to Paragraph CA-2.4.20 for the definition of 'significant' for the purpose of this paragraph.</p>	<p>However, a risk weighting of 1,250% is inconsistent with a 12.5% capital requirement and would require a considerably greater amount of capital which is more than the amount for which the asset is carried on the balance sheet. Specifically, a 1,250% risk weight with a 12.5% minimum capital requirement is the equivalent of asking for \$156.25 of capital for \$100 of exposure ($1,250\% \times 12.5\% = 156.25\%$).</p> <p>In the bank's view, the risk weighting of assets is intended to ensure that a bank has sufficient capital to absorb losses in value of an asset – which in the worst case can be 100%. They are unable to understand the rationale behind requiring an amount of capital which is in excess of 100% of the amount for which the asset is carried on the balance sheet, and they are not aware of any such requirement under regulatory regimes elsewhere, including the Basel III accord.</p> <p>It is strongly felt that the maximum appropriate risk weighting for significant investments in commercial entities under the CBB's minimum capital requirement regime of 12.5% should therefore be adjusted to 800%, which would result in a dollar-for-dollar or 100% capital requirement and is economically consistent with a capital deduction as was the case under Basel II. Any higher risk weighting is punitive and illogical.</p> <p><u>Significant Investments in Commercial Entities</u></p> <p>Both CA-2.4.25(c) and CA-3.2.26 refer to risk weightings of 1,250% for significant investments in commercial entities.</p> <p>However, CA-3.2.31 addresses the risk weightings to be assigned to private equity and real estate assets that are temporarily underwritten on a bank's balance sheet pending completion of syndication and it states that a risk weighting of 100% will apply during the underwriting period.</p> <p>This distinction between temporary balance sheet positions during an</p>		
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	<p>underwriting period and acquisitions of assets that are not being underwritten is sensible. However, it is not reflected in either CA-2.4.25(c) or CA-3.2.26.</p> <p>The bank believes that both CA-2.4.25(c) and CA-3.2.26 should expressly refer to underwriting as an exception as follows (new text is underlined):</p> <p>“CA-2.4.25 The following items receive a 1250% risk weight:</p> <p style="text-align: center;">...</p> <p>(c) <u>Except as provided in CA-3.2.31</u>, significant investments in commercial entities....”</p> <p>“CA-3.2.26 Investments in listed equities must be risk weighted at 100% while equities other than listed must be risk weighted at 150%. <u>Except as provided in CA-3.2.31</u>, significant investments in commercial entities....”</p>		<p>Agree.</p> <p>Agree.</p>
	<p>A bank noted that significant investment in commercial entities will be risk weighted at 1250%. The materiality threshold for these investments is 15% of Total regulatory Capital for individual significant investment and 60% of Total regulatory capital for the aggregate of such investment. Clarification is required from the CBB if bank's investment in property will be treated accordingly to this rule and any large exposure with regard to investment property will be risk weighted at 1250%. From the definitions, it is not clear if the investment property will be categorized as a commercial entity. If not, then the bank will continue deducting the large exposure from Tier 1 capital as it is done in the current Basel II CAR calculation.</p>	<p>Q-2</p>	<p>See CA-3.2.29</p>
	<p>A bank noted that the proposal requires “significant investments” in commercial entities to be risk weighted at 1,250%. This needs to be aligned with the CM and PCD sections of the current rulebook.</p>	<p>Q-3</p>	<p>The CBB will align with CM and PCD. In addition, the CBB will clarify if deductions</p>

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	<p>Currently, Section CM 5.5.1 of the CBB’s rulebook defines a “large exposure” and PCD 2.4.2 requires “large exposures” in excess of 15% of the Bank’s capital base to be deducted from regulatory capital. The CBB needs to provide specific clarity on the large exposures that should be risk-weighted at 1,250% and those that are to be deducted from regulatory capital.</p>		<p>will continue or whether a 1,250% RW would apply.</p>
	<p>A bank noted the following two observations:</p> <p>a) The list includes significant investments in commercial entities along with applicable materiality thresholds. However, other exposure e.g. single obligor limits, connected party exposure limits exceeding of which requires capital deductions are not covered. It needs to be clarified that the exposure not in compliance of CM modules will be continue to be deducted or risk weighted at 1250%.</p> <p>b) The applicable RW rate of 1250% is actually the reciprocal of 8% minimum capital charge. In case of CBB where the minimum capital adequacy ratio is 12%, the applicable RW rate would be 833%. The banks will be worse off to apply a risk weight of 1250% on the items which currently required to be deducted.</p>	<p>Q-4</p>	<p>See Q-3 above.</p>
	<p>A bank inquired about the investment in commercial entities above 15% limit, the risk weighting of 1250% is on the excess or the full exposures? Should it be considered that CBB approved the exposure?</p>	<p>Q-5</p>	<p>The 1,250% risk weighting is on the excess exposures.</p>
<p>CA-2A.2.4 Set out below are a number of other key aspects of the requirements: (a) Elements subject to the restriction on distributions: Items considered to be distributions include dividends and share buybacks, discretionary payments on other Tier 1 capital instruments and discretionary</p>	<p>A bank noted that subsection (c) requires that the conservative buffer be applicable at group level. This means that all restrictions on profit distribution due to any shortfall in the conservative buffer requirement will be applicable at consolidated level. The implementation of these restrictions may prove to be difficult due to possible differences in relevant regulatory rules at the host countries where these subsidiaries are operating.</p>	<p>R-1</p>	<p>There may be losses in one subsidiary and profits in another and so the CBB will look purely at the consolidated level in respect of distributions.</p>

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<p>bonus payments to staff. Payments that do not result in a depletion of CET1, which may for example include certain scrip dividends, are not considered distributions.</p> <p>(b) Definition of earnings: Earnings are defined as distributable profits calculated prior to the deduction of elements subject to the restriction on distributions. Earnings are calculated after the tax which would have been reported had none of the distributable items been paid. As such, any tax impact of making such distributions are reversed out. Where a bank does not have positive earnings and has a CET1 ratio less than 9%, it would be restricted from making positive net distributions.</p> <p>(c) The framework applies at the consolidated level, i.e. restrictions are imposed on distributions out of the consolidated group.</p> <p>(d) Banks should not choose in normal times to operate in the buffer range simply to compete with other banks and win market share. To ensure that this does not happen, the CBB will impose</p>			
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<p>time limits on banks operating within the buffer range on a case-by-case basis. In any case, the CBB will take enforcement measures to ensure that the capital plans of banks seek to rebuild buffers over an appropriate timeframe.</p>			
<p>CA-3.2.26 Investments in listed equities must be risk weighted at 100% while equities other than listed must be risk weighted at 150%. Significant investments in commercial entities above the 15% and 60% CET1 materiality thresholds (see CA-2.4.20 to CA-2.4.25) must be weighted at 1,250%. Significant investments in the common shares of unconsolidated financial institutions and Mortgage Servicing Rights and Deferred tax Assets arising from temporary differences must be risk weighted at 250% if they have not already been deducted from CET1 as required by Paragraphs CA-2.4.20 to CA-2.4.24.</p>	<p>A bank noted that CA-2.4.25(c) refers to the materiality threshold for significant investments in commercial entities as being 15% of Total Regulatory Capital for individual significant investments and 60% of Total Regulatory Capital for the aggregate of such investments. It is also noted that Appendix CA-3 refers to a threshold of 15% of CET1 for significant investments in the common shares of unconsolidated financial institutions and such investments are the subject of CA-2.4.20 to CA-2.4.24.</p> <p>However, CA-3.2.26 refers to materiality thresholds of 15% and 60% of CET1 without restricting the scope to significant investments in the common shares of unconsolidated financial institutions, while also cross-referencing to CA-2.4.20 to CA-2.4.25.</p> <p>The bank believes that this is an error and the references in CA-3.2.26 to materiality thresholds of 15% and 60% of CET1 need to be amended to limit their scope to significant investments in the common shares of unconsolidated financial institutions, rather than to apply more broadly to significant investments in commercial entities.</p> <p>If that is not the case, they strongly feel that materiality thresholds of 15% and 60% of CET1 are not practical as this would be inconsistent with CA-2.4.25(c).</p>	<p>S-1</p>	<p>The text for this paragraph comes from para 90 B3 and paras 35-39 of B2 and they are consistent and correct.</p> <p>CA-3.2.26 refers only to investments in commercial entities and not to financial institutions.</p> <p>The materiality thresholds refer to commercial entities only.</p> <p>The materiality thresholds are set by both Basel 2 and 3.</p>
<p>CA-4.3.7 These are the standardised supervisory haircuts (assuming daily mark-to market, daily</p>	<p>A bank noted that the ‘equal to or below’ & ‘equal or above’ signs do not appear in the table (prevalent in current guideline). CBB may clarify whether it is an omission or a change.</p>	<p>T-1</p>	<p>Yes, it is a change. This is as Basel 3 paper. Will insert equal and below.</p>

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remargining and a 10-business day holding period), expressed as percentages			
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<p>CA-15.1.1 The content of this Chapter is applicable to all Bahraini conventional bank licensees and retail overseas conventional bank licensees.</p>	<p>A bank noted that as per the proposal, there is no longer an option for banks to adopt the IRB approach for calculating credit risk capital. It is requested that the CBB reconsiders this decision and provide Bahrain banks with the opportunity to adopt the IRB approach on meeting the required conditions so that they are not disadvantaged when compared to other regional banks who are applying the IRB approach. This would also provide Bahrain banks with an important incentive to adopt and apply best industry practice in relation to risk management.</p>	U-1	The CBB does not intend to allow the IRB approach at this stage.
	<p>A bank noted that only CA Module 15 is applicable on retail branch of overseas banks hence, they are not able to provide any comments on rest of draft CA Module as remaining changes are applicable only on locally incorporated banks of Bahrain.</p>	U-2	Noted.
	<p>A bank noted that based on the changes, an internal impact analysis was conducted. As regards credit risk, the proposed amendments are not impacting the bank considering the business model that it follows. As regards capital adequacy, the bank's unaudited Capital Adequacy Ratio (CAR) as at 31.12.2013 stood at a comfortable level of 22.62% which predominantly comprises of Tier I capital with the current's year net profit only being shown in Tier II. Thus the bank will be in position to maintain the various CAR thresholds as per the proposed amendments. Similarly, the bank's leverage ratio at 17.9% is currently much above the minimum required level and the bank will be in position to remain/maintain a ratio above the minimum requirement of 3%.</p>	U-3	Noted.
	<p>A bank noted that their leverage ratio is 6.5% which is based on PIR as of 31 Dec 2013. They assume that all liabilities are not cancellable for calculating leverage ratio. It is also noted that that there is no mandatory requirement to maintain capital adequacy ratio as a branch of foreign bank. Hence, it is proposed that the leverage ratio should also not to be applicable.</p>	U-4	Disagree; leverage ratio should be applicable to retail branches of foreign banks. The leverage chapter is to replace the existing gearing chapter in the rulebook.

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	<p>A bank is pleased to provide its response to in particular to section CA-15 on the leverage ratio requirement which is applicable to retail overseas conventional bank licensees.</p> <p>The Bank understands the importance of the leverage ratio to Regulators globally and supports the use of the leverage ratio as a replacement to the current gearing ratio. The CBB’s view to retire the “liabilities driven” metric is welcomed.</p> <p>While the bank firmly believes that the replacement of the current gearing ratio is a positive step by the CBB and aligns it more closely with the positive developments from other Central Banks in relation to Basel 3, there are elements that need to be pointed out as the consultation paper progresses to its final form.</p> <p>Risk Management:</p> <p>Although the bank is not subject to the entire capital requirements from the CBB, it is worth noting from an industry wide perspective, that the leverage ratio is non risk sensitive and could have the effect of constraining the ability to grow the balance sheet irrespective of the quality of assets being underwritten and hence likely to be more binding. Given the lack of risk sensitivity in the leverage ratio, it may lead to sub-optimal capital allocation and may incentivise banks to make poor risk management choices. For example, the inclusion of cash in the measure of leverage could have an adverse consequence during a time of crisis if banks are unable to accept deposits in a flight to quality because they are forced to manage their balance sheets within the constraints of the leverage ratio.</p> <p>By not incentivising good risk management, this could also lead to firms taking on more risky assets should it prove to be a constraint. It is worth noting that during an economic downturn, IRB banks are likely to see their risk weighted assets increase and capital positions decrease due to the procyclical nature of the credit risk calculations, at a time when their leverage positions may improve due to the deleveraging activities normally observed at that point in the economic</p>	U-5	<p>The leverage chapter is to replace the existing gearing chapter in the rulebook.</p>
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	cycle.		
<p>CA-15.2.2 The basis of calculation is the average of the monthly leverage ratio over the quarter based on the definitions of capital (the capital measure) and total exposure (the exposure measure) specified in Sections CA-15.3 and CA-15.4. A minimum Tier 1 leverage ratio of 3% will be tested during the parallel run period from 1 January 2013 to 1 January 2018. Additional transitional arrangements are set out in Paragraphs CA-15.5.1 to CA-15.5.3.</p>	<p>A bank noted that based on the contents mentioned in LR-2.5.5 for branches of foreign banks where their head office is providing a support letter (instead of a cash-based capital) for opening of a retail branch of a Foreign Bank, how the requirements stated in the proposed chapter 15 would be applicable? i.e. 3 % Risk based leverage ratio applicability.</p> <p>Is there any capital requirement under consideration for Foreign branches without tier one capital the proposed ratio could not be tested.)?</p>	V-1	<p>A support letter would not be suitable. See U5 above.</p> <p>Nothing new over and above the current requirements that a retail foreign bank must have capital provided by the head office. Please see W-1 below.</p>
<p>CA-15.3.1 The capital measure for the leverage ratio must be based on the new definition of Tier 1 capital as set out in Paragraphs CA-2.1.1 to CA-2.1.5 of this Module. Data during the transition period will be collected to track the impact of using total regulatory capital and Common Equity Tier 1.</p>	<p>A bank noted that certain Capital instruments like hybrid bonds, which qualify as Capital for existing Gearing ratio computation, but no longer qualify as Tier 1 capital, should be phased out in periodic manner. Some transitional period should be allowed for de-recognition of such instruments from being considered as capital under the new guidelines. For the leverage ratio computation, the capital base can be fixed at the nominal amount of such instruments outstanding on January 1, 2013, and their recognition can be capped at 90% from January 1, 2013, with the cap reducing by 10 percentage points in each subsequent year. This will help in smooth transition to the new leverage ratio from existing gearing ratio.</p>	W-1	<p>A definition of the components for the ratio will be provided to retail branches in due course. Hybrid bonds are not allowed to be part of the capital for the purpose of calculating the leverage ratio.</p>
	<p>A bank noted that under CA-15.3 and CA-15.4, the proposed Leverage ratio that is using the definitions of Capital and Total Exposure and their Risk Based Capital Requirements is not clear and need to elaborate or express it in an equation format.</p>	W-2	<p>See W-1 above</p>

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<p>CA-15.3.3</p> <p>According to the treatment outlined in Paragraphs CA-2.4.20 to CA-2.4.24, where a financial entity is included in the accounting consolidation but not in the regulatory consolidation, the investments in the capital of these entities are required to be deducted to the extent that they exceed certain thresholds. To ensure that the capital and exposure are measured consistently for the purposes of the leverage ratio, the assets of such entities included in the accounting consolidation must be excluded from the exposure measure in proportion to the capital that is excluded under Paragraphs CA-2.4.20 to CA-2.4.24.</p>	<p>A bank noted that in some cases, retail overseas conventional bank licensee makes significant investments exceeding 10% of the equity share capital of the banking subsidiaries / affiliate of its head office. These investments are made by branches solely on behalf of its head office, and branch neither exercise any control nor consolidates the financials of these banking entities with itself for accounting or regulatory reporting purposes. These investments were made using the overseas funds raised outside Bahrain. In such scenarios, the regulatory adjustments, mentioned in paragraph CA-15.3.3 and CA-2.4.20 to CA-2.4.24, from Tier 1 capital of retail overseas conventional bank licensee should not be made.</p>	<p>X-1</p>	<p>See W-1 above.</p>
<p>CA-15.4.2</p> <p>Banks must include items using their accounting balance sheet (i.e. un-weighted) for the purposes of the leverage ratio. In addition, the exposure measure must include the treatments in CA-15.4.4 and CA-15.4.5 respectively for <u>Securities</u> <u>Financing Transactions</u> (SFT) and derivatives.</p>	<p>A bank noted that the framework does not clarify the treatment of cash balances in the leverage ratio calculation. In particular placements held with Central Banks are considered assets with a 100% CCF as are deferred tax assets since on balance sheet items are pooled as one balance. In the bank's opinion this would result in an over estimation of the bank's exposure and capital requirement. It is proposed that a more granular CCF approach to on balance sheet items be adopted.</p>	<p>Y-1</p>	<p>SFTs treatment will follow the Jan 2014 paper by the Basel Committee.</p>

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<p>CA-15.4.3 SFTs are a form of secured funding and therefore an important source of balance sheet leverage that must be included in the leverage ratio. Therefore, banks must calculate SFT for the purposes of the leverage ratio by applying:</p> <ul style="list-style-type: none"> • the accounting measure of exposure; and • the netting rules in this Module. 	<p>A bank noted that in case of Securities financing transactions (SFTs), limited netting should be allowed with the same counterparty to reduce the leverage ratio's exposure measure. This is in line with latest Basel III guidelines issued in January 2014.</p>	<p>Z-1</p>	<p>To review the updated Basel 3 guidelines issued in January 2014 and to amend accordingly.</p>
<p>CA-15.4.5 Banks must calculate derivatives, including where a bank sells protection using a credit derivative, for the purposes of the leverage ratio by applying:</p> <ul style="list-style-type: none"> • The accounting measure of exposure plus an add-on for potential future exposure calculated according to the Current Exposure Method as identified in CA-4.3.30 to 31 and Annex CA-2 of this Module. This ensures that all derivatives are converted in a consistent manner to a “loan equivalent” amount; and • The regulatory netting rules in this Module. 	<p>The bank believes that CA 15.4.3 does not give enough detail or scope. The Bank proposes adopting the revised proposals of BCBS270 which allows limited netting with the same counterparty to reduce the leverage ratio's exposure measure subject to meeting specific conditions.</p>	<p>Z-2</p>	<p>Please refer to comment Z-1 above.</p>
<p>CA-15.4.5 Banks must calculate derivatives, including where a bank sells protection using a credit derivative, for the purposes of the leverage ratio by applying:</p> <ul style="list-style-type: none"> • The accounting measure of exposure plus an add-on for potential future exposure calculated according to the Current Exposure Method as identified in CA-4.3.30 to 31 and Annex CA-2 of this Module. This ensures that all derivatives are converted in a consistent manner to a “loan equivalent” amount; and • The regulatory netting rules in this Module. 	<p>A bank noted that in case of Derivative exposure, cash variation margin may be used to reduce the leverage ratio's exposure measure. This is in line with latest Basel III guidelines issued in January 2014.</p>	<p>Z-3</p>	<p>Please refer to comment Z-1 above.</p>

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<p>CA-15.4.7 Banks must calculate the above OBS items for the purposes of the leverage ratio by applying a uniform 100% credit conversion factor (CCF).</p>	<p>A bank noted that in case of Off-balance sheet items, instead of using a uniform 100% credit conversion factor (CCF), which converts an off-balance sheet exposure to an on-balance sheet equivalent, the leverage ratio should allow use of the same CCFs that are mentioned in the CA-3.3.1 to CA-3.3.15, subject to a floor of 10%. This is in line with latest Basel III guidelines issued in January 2014.</p>	<p>AA-1</p>	<p>Please refer to comment Z-1 above.</p>
	<p>A bank's leverage ratio (LR) is approximately 4% as required under CA Module 15 which is calculated based on prudential information return (PIR) submitted to CBB as of 30 September 2013. It was noted that all their contingent liabilities are non-cancellable and accordingly factored at 100% as required by draft CA-15.4.7. With simulation run their leverage ratio is improved to 6% when contingent liabilities are assumed as cancellable and accordingly were factored at 10%.</p>	<p>AA-2</p>	<p>See Z-1 above.</p>
	<p>A bank noted that in its paper <i>Basel III leverage ratio framework and disclosure requirements</i> (January 2014), BIS has revised its approach to treatment of off-balance sheet items for the purpose of calculating leverage ratio. Instead of using uniform 100% CCF as proposed earlier, it shall use the same CCF's that are used for capital calculation under standardized approach for credit risk. Based on the amendment by BIS, it is requested that the CBB considers modifying the proposed paragraph accordingly.</p>	<p>AA-3</p>	<p>Please refer to comment Z-1 above.</p>
	<p>A bank noted that as per the proposal, a 100% CCF needs to be applied for all off-balance credit-related contingents for the purpose of calculating the leverage ratio. This is inconsistent with the Basel Committee's January 2014 paper on the leverage ratio, which requires CCFs used for the leverage ratio calculation to be the same as the CCFs used under the standardized approach for the credit risk capital calculation, subject to a floor of 10%. It is proposed that the CBB's treatment of the CCF's used for the calculation of the leverage ratio should be consistent with the Basel Committee's latest guidelines as it is incorrect to apply a 100% CCF for all categories of credit-related contingents. The 100% CCF rule will particularly harm trade finance</p>	<p>AA-4</p>	<p>Please refer to comment Z-1 above.</p>

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	related businesses which are inherently less risky than conventional lending.		
	A bank noted that the current proposal (refer Sections CA 15.4.7 and CA 15.4.8) is clearly inconsistent with the revised BCBS270. For Example, trade contingents are often not intended to convert to assets. Assigning a 100% CCF, clubs trade contingents with Financial Markets derivatives products which are behaviorally very different. They would therefore be supportive of the stance taken by European regulators and recently adopted by Basel in its BCBS270 revised directive and propose that the ratio should use the CCFs used in the Basel framework's Standardised Approach for credit risk under the risk-based requirements for off balance sheet items as outlined in CA 3.3.	AA-5	Please refer to comment Z-1 above.
CA-15.5.1 The supervisory monitoring arrangements for the leverage ratio commence 1 January 2013 and data obtained will be used to monitor banks' leverage data on a quarterly basis in order to assess whether the proposed design and calibration of the minimum Tier 1 leverage ratio of 3% is appropriate over a full credit cycle and for different types of business models. This assessment will include consideration of whether a wider definition of exposures and an offsetting adjustment in the calibration would better achieve the objectives of the leverage ratio.	A bank noted that under CA-15.5 Supervisory Arrangements they need to know what are the templates or arrangements used by CBB to monitor the leverage which is incorporating the minimum Tier 1 Leverage ratio of 3%. And if these are accessible to the licensees or not? And what is the starting date for reporting and the frequency?	AB-1	This will be part of the new PIRB. Reporting has already started as part of the QIS and the CBB will be introducing a revised PIRB in due course. Formal B3 reporting is scheduled to start Jan 2015.
	A bank noted that there is no mandatory requirement for the bank to maintain minimum CAR or Tier 1 capital by considering the fact that the bank is a branch of a bank and accordingly, CBB takes comfort from the bank CAR as far as adequacy of capital is concerned. Similarly, the bank in Bahrain or branches of overseas banks should not be monitored for minimum LR (3%) requirement. Hence, same rule of CAR must apply for assessment of LR.	AB-2	Disagree. Leverage will apply to retail branches of foreign banks and replaces the current gearing ratio requirements.
	A bank has calculated the ratio in accordance with the consultation paper. The results show that the bank can adopt the requirement from the CBB and will meet the 3% threshold on a quarterly basis (taken as the average of the sum of each month's ratio) from 1 January 2013.	AB-3	The ratio must be calculated on the average basis and will be reported on the PIRB on the normal frequency in line

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	The bank recognises that while the current “gearing ratio” is calculated daily, it requests that the CBB allow the leverage ratio to be calculated monthly in line with other Regulators.		with the Basel 3 requirements.
CA-15.5.2 The transition period will comprise a supervisory monitoring period and a parallel run period: (a) The supervisory monitoring period commences 1 st January 2013. The supervisory monitoring process will focus on developing templates to track in a consistent manner the underlying components of the agreed definition and resulting ratio; and (b) The parallel run period commences 1 st January 2013 and runs until 1 st January 2015. During this period, the leverage ratio and its components will be tracked, including its behaviour relative to the risk based requirement. Banks are required to calculate their leverage ratio using the definitions of capital and total exposure specified in Sections CA-15.3 and CA-15.4 and their risk based capital requirement. Bank level disclosure of the leverage ratio and its components will start 1 st January 2017. A disclosure template will be developed and disclosure of the ratio will be closely monitored.	A bank noted that the supervisory monitoring period will commence from January 2013, which has already been passed.	AC-1	PIRB reporting will start January 2015.
	A bank noted that given the inadequacy of the current gearing model for retail overseas conventional bank licensees, it is recommended that the leverage ratio be adopted forthwith to ensure those international banks are regulated using a measure consistent with other jurisdictions. Furthermore, early adoption of the leverage ratio would allow the bank to deepen its own customer relationship business model and allow the Bank to continue its commitment to the local economy and business growth. A bank also noted that there is no reason why the CBB should not follow the guidelines set out by the Basel Committee on Banking Supervision and request that the disclosure of the ratio commence 1 January 2015 instead of 1 st January 2017.	AC-2	January 2018 is the intended start for the disclosure of the leverage. Reporting starts in Jan 2015.

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Specific Comments:			
Glossary terms	Comments	Ref.	CBB's Response
<p>Market risk: Is defined as the risk of loss in on- or off-balance-sheet positions arising from movements in market prices. The risks subject to the capital requirement of module CA are:</p> <p>(a) The risks pertaining to interest rate related instruments and equities in the trading book; and</p> <p>(b) Foreign exchange and commodities risks throughout the bank.</p>	<p>A bank noted that in the glossary, the exclusion of the banking book in the definition is sub-optimal. When a bank takes an equity position, or a forex position, on its banking book it is in fact exposed to market risk.</p>	AD-1	<p>The Capital Accord states that an equity position is put in either the trading book or the banking book and will be subject to either set of requirements. Market risk charges for FX apply to both the banking and the trading book.</p>
Appendix CA-2	Comments	Ref.	CBB's Response
Internal models method	<p>A bank noted that this section allows banks to calculate exposures to counterparty credit risk by using either the standardized method or the current exposure method. The internal models method for calculating counterparty credit risk exposure, which is permitted by the Basel Committee, is not allowed as per the CBB's draft rulebook. However, there are instances in the appendix where the internal models method is referred to. This inconsistency needs to be addressed.</p>	AE-1	<p>The bank may be using a model to calculate general market risk and therefore such references need to be made where banks use such models.</p>
CVA capital charge	<p>A bank noted that this section is overly complex and almost impossible to understand, even for a knowledgeable technician on the subject. It is confusing and lacks clarity. It is recommended that this is rewritten so that it is more comprehensible. This is of particular importance as it is a completely new requirement and calculation.</p>	AE-2	<p>This is the text as written by Basel.</p>