

Committee of European Banking Supervisors  
CP10@c-eps.org

30 October 2005

Dear Sirs,

**Guidelines on the implementation, validation and assessment of Advanced Measurement (AMA) and Internal Ratings Based (IRB) Approaches (CEBS CP10)**

**Comments from Standard Chartered Bank**

Standard Chartered Bank appreciates the opportunity to comment on the CEBS consultative document 10: Guidelines on the implementation, validation and assessment of Advanced Measurement (AMA) and Internal Ratings Based (IRB) Approaches (CP10), issued in July. We support activities that are aimed at enhancing consistent cross border implementation of the new regulatory capital framework.

We have contributed to the development of the combined industry response (ISDA, LIBA and BBA) to CP10 and support the comments made. Given the detailed nature of those comments, we limit this note to highlighting those issues that we consider to be the most important. These are

- the practicalities of cross-border implementation of the capital adequacy framework;
- the timing of issuing further regulatory guidance; and
- priorities in the implementation of IRB approaches.

**Cross-border perspective**

Standard Chartered Bank is supervised by the UK Financial Services Authority but has operations in over 50 countries. Consequently efficient resolution of the cross-border implementation issues arising from the Capital Requirements Directive and the corresponding capital rules elsewhere in our markets is essential for our overall compliance with the new capital adequacy framework.

Our business is mainly located in Asia, Africa and the Middle East; United Kingdom is the only country within the European Union where we have assets. There is no common legal framework for our regulators, unlike for firms operating solely within the European Union. Our ability to comply with the new regime across all the jurisdictions that we operate in rests totally on voluntary coordination and cooperation between our supervisors.

In our view CP10 fails to recognise the complexities and practicalities arising from cross-border implementation of a global organisation. The paper focuses solely on the activities of the supervisors in the European Union (EU), and overlooks the interaction with supervisors outside the EU. It is natural that EU supervisors are looking to develop common guidance to

enhance consistency of application and coordinated approach to implementation. However, for this to have any real impact, it is essential for this guidance to take into consideration the non-EU supervisors. The fact is that internationally active firms have significant operations outside the EU, and they have to satisfy the requirements of all host countries, not a subset. Guidance which ignores this fact does not help to solve the copious, significant issues that arise from different supervisory practices, banking laws and differently operating financial markets.

The scope of national supervisors to cooperate with supervisors from other jurisdictions may be limited by their legal and prudential responsibilities. At the same time, it is in the interest of supervisors and banks alike to avoid duplicated application processes and inconsistent compliance requirements. It is necessary for the implementation guidance to embrace the lack of common legal framework across all relevant jurisdictions, and produce solutions for practical issues faced both by firms and supervisors.

In our view, urgent priority ought to be given to development of pragmatic guidance aimed at global application. The complexities and challenges that arise from different national implementation schedules, restrictions of available approaches, multiple application processes, differing standards for validation of rating systems, incompatible national discretions and interpretations and varying expectations for regulatory reporting need to be urgently addressed to ensure that the new framework is capable of being implemented.

## **Timing**

Uncertainty relating to the requirements we are imminently expected to comply with is one of our key concerns. Firms aiming for implementation from the outset of Basel II have had to make decisions about key features of the rating models, data collection and storage and systems development. Altering requirements and shifting interpretations during this time create significant amount of additional ambiguity that delays and complicates the already colossal task. We are therefore puzzled why CEBS issued CP10 on the one hand late in the process, but yet before the final Directive text was available, indeed before the final Basel Accord guidance was published on key topics such as the Downturn Loss Given Default.

Moreover, as the CEBS guidance has to be adopted by the national supervisors, the firms have to wait for further instructions from their supervisors on to what extent, how and when they intend to adopt the guidance. Our own national supervisor has already started the review process. In effect this requires us to provide evidence for compliance against requirements as they have been interpreted to date. CP10 will inevitably have influence on the views that our lead supervisor will adopt, but it will take time to obtain clarification on the detailed topics. Consequently, firms that are intending to apply for early implementation of IRB and AMA are obliged to re-evaluate their compliance against yet another document, the status and relevance of which is not clear.

It should be clearly recognised by CEBS as well as by national supervisors that by the time this guidance has been finalised and subsequently adopted by the national supervisors, it will be inevitably too late for those banks that aim for early implementation to change solutions without delaying their planned start dates. It would not be reasonable if these banks were expected to comply with the new interpretations of the CRD text from the outset. CEBS and national supervisors should indicate when these particular interpretations are intended to take effect, recognising that in some cases national supervisors have already issued draft guidance on the same topics, and allowing a realistic lead time for the firms to respond to the

new requirements. We strongly believe that the implementation of the new framework needs to be approached in an evolutionary manner, allowing time for continuous improvement in rating systems and more generally risk management.

### **Priorities**

It is acknowledged in CP10 (paragraph 4) that the topics were limited due to the tight time frame and the paper did not cover the whole range of areas originally intended by CEBS. In light of our comments in the preceding section, we wonder what exactly has defined this time table. It is indicated that the topics covered are those that CEBS considers as having priority, but it is not clear to us how the topics included in CP10 have been chosen, why these have been considered as the priority ones, and whether all the issues covered are considered by CEBS to have the same priority. The document refers to further work that CEBS is intending to undertake on the implementation, validation and assessment of AMA and IRB approaches, but it is not disclosed when the work will be concluded, and what it will consist of.

We would find it helpful if CEBS could clarify what specific topics are considered the most important in the implementation of the CRD, what further output on the relevant topics can be expected and when these will be issued.

### **Concluding Remarks**

We believe that CEBS has potential to make a positive contribution to convergence of cross-border implementation of the CRD and Basel II. We strongly encourage CEBS to incorporate considerations and proposals of how the implementation in jurisdictions outside European Union could be efficiently dealt with. This is a key issue that the internationally active banks already have to manage.

We look forward to further dialogue with CEBS, which we expect to take place mainly through the industry bodies and our national supervisor.

*For any queries on these comments please contact:*

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