

European Banking Authority
Tower 42 (Level 18)
25 Old Broad Street
London EC2N 1EX

31 October 2013

Dear Sir/Madam

Standard Chartered PLC response to EBA Consultation paper on the draft regulatory standards on the method for the identification of the geographical location of the relevant credit exposures

Standard Chartered PLC (the "Group") is an international banking group listed on the London, Hong Kong and Bombay stock exchanges. It operates in more than 70 countries, principally in Asia, Africa and the Middle East.

We welcome the opportunity to comment on the above Consultation Paper (CP) and our *general comments* are as follows:

The Group recommends the use of a definition of geographic location that aligns with that already proposed under Common Reporting (COREP) for the 'country of residence of the ultimate obligor', as this will ensure consistency of credit risk reporting to the EBA and reduce the reporting burden for institutions associated with the calculation of the countercyclical capital buffer (CCB) requirement.

We would also welcome further guidance from the EBA on the proposed mechanism that will be employed within the EU for the collection and dissemination of the CCB rates for each of the member states and that of third countries.

Our responses to the *specific questions* raised in the CP, where applicable, are as follows:

Q1. Do you agree with using the obligor principle for the practical implementation of the CCB? If not, could you provide specific examples where this principle would not work in practice and explain why an alternative option, for instance the guarantor principle, would work better?

The Group agrees with the use of the obligor principle for identifying the geographic location of the majority of its credit risk exposures which aligns with the Group's approach to credit risk management. The use of country of incorporation of the obligor also aligns with credit risk reporting requirements. However, consideration should also be given to the location of the guarantor or collateral provider where significant collateral or guarantors reside in a different geographic location to that of the original obligor.

The requirements under COREP for the reporting of the geographic location of credit risk exposures (CR GB) specifies the use of the 'residence of the obligor' but also requires that consideration is given to the effects of credit risk mitigation (CRM) when reporting the 'country of residence of the ultimate obligor'. In other words, both the 'residence of the obligor' and the 'country of residence of the ultimate obligor' is reported under COREP, however, the calculation of the CCB necessitates only one approach to be used.

We, therefore, recommend that the EBA align the principle for identifying the geographic location of credit risk exposures for the purpose of the CCB with that of the 'country of residence of the ultimate obligor' in order to recognise the effects of CRM and provide consistency of reporting to the EBA with the credit risk capital requirement.

Standard Chartered Bank
1 Basinghall Avenue
London EC2V 5DD

Tel +44 (0)20 7885 8888

www.standardchartered.com

Standard Chartered Bank is incorporated in England with limited liability by Royal Charter, 1853 Reference Number ZC18
The Principal Office of the Company is situated in England at 1 Basinghall Avenue, London, EC2V 5DD
Standard Chartered Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority

Q2. Do you agree with using the place of income for specialised lending?

The Group considers it more appropriate to assess the country of obligor on the basis that it is independent of the product provided. If the EBA aligns to the general principle for identifying the geographic location of credit risk exposures with that proposed under COREP as the 'country of residence of the ultimate obligor', there should be no need to consider exceptions, such as specialised lending.

Identifying exceptions for products like specialised lending would require institutions to enhance their regulatory reporting infrastructure to capture the data points required in order to determine the country of income for specialised lending exposures, therefore, increasing the costs associated with the EBA's proposed methodology for this asset class.

We, therefore, would not support the proposal for specialised lending for both of the above reasons.

Q3. Should other exposures, such as residential or commercial mortgages, also use the guarantor principle? If yes, please justify the answer.

Yes, the Group considers in the majority of cases that the primary source of repayment of residential and commercial mortgages is the original obligor, regardless of the collateral and guarantees in place. However, as mentioned above, the guarantor principle in recognising the CRM aligns itself most closely with the COREP calculation of credit risk capital requirement, including circumstances where the bank considers the creditworthiness of the guarantor or collateral provider to be worse than that of the original obligor.

As per our response to Q2 above, the Group considers it more appropriate to assess the country of obligor on a basis that is independent of the product provided. As already recommended, the EBA should adopt a general principle for determining the location of credit risk exposures that aligns with the proposals under COREP, and we recommend that this should be on the basis of 'country of residence of the ultimate obligor'.

Q4. Do you agree with the inclusion of a threshold for credit risk exposures? Would this threshold lead to any substantial reduction in the burden for institutions? Should guidance be provided on the re-calculation frequency?

Given the markets in which the Group operates, the threshold level is such that we do not expect to benefit from these proposals and are, therefore, not expecting any reduction in our reporting burden. We would, however, expect to assess the threshold level at each reporting period and would welcome further guidance from the EBA on the re-calculation frequency.

Q5. Do you agree with approach chosen and is the approach sufficiently clear? If not, please describe the best method for allocating the total specific and IRC capital charges and describe its rationale and practical implementation.

We agree with the proposed approach as this would ensure consistency in the application of the requirements across institutions. However, institutions may have separate reporting processes and systems associated with their assessment of own funds requirements for credit and market risks, therefore, a requirement to assess these risks side-by-side for the purposes of the CCB could increase the costs of reporting.

Q6. Do you agree with the inclusion of a proportionality threshold for trading book exposures?

The Group agrees that a threshold test for the inclusion of trading book exposures provides an opportunity for institutions to reduce the reporting burden for immaterial trading book portfolios. It also reduces the reporting burden for those institutions that have approval from their competent authorities for the use of internal models for specific risks and an immaterial trading book portfolio.

Q7. Do you agree with the application of a look-through approach for securitisation exposures? Can the approach proposed be implemented for re-securitisation exposures? Should other exposures such as CIUs also use the look-through approach? If yes, please justify the answer.

For securitisation instruments originated by the Group, we would not support the principle of a look-through approach to determine the geographic location of the underlying obligors for programmes, where we have been able to demonstrate to the satisfaction of the competent authority that the structure passes the significant risk transfer test. In these cases the ultimate risk for the Group no longer lies with the underlying obligors. This would also apply to re-securitisation exposures if originated by institutions.

For securitisation instruments purchased, where the Group increases its credit risk, the EBA's proposal would provide a consistent and relatively straight-forward approach in determining the geographic location of exposures and, therefore, we would support the proposal.

A look-through approach for the purposes of CIU exposures should only be used at the discretion of the reporting institution, given that Article 132 of the Capital Requirements Regulation (CRR) permits institutions to look-through a CIU to the underlying exposures for the purposes of calculating its own funds requirements for credit risk where the information is available. We would, therefore, not support the proposal to require the use of a look-through approach for CIU exposures but rather propose that the EBA align the requirement to look-through to underlying exposures as with Article 132 of CRR.

Q8. Do you agree that the geographical location of exposures should be the location with the highest proportion of the underlying exposures? Would it be difficult to locate all underlying exposures geographically?

As stated in our response to Q7 above, for securitisation instruments originated by the Group, we would not support the principle of a look-through approach, to determine the geographic location of the underlying obligors for programmes, where the Group has been able to demonstrate, to the satisfaction of the competent authority, that the structure passes the significant risk transfer test. In these cases the ultimate risk for the Group no longer lies with the underlying obligors. This would also apply to re-securitisation exposures if originated by institutions.

For asset-backed securities purchased by the Group, it would be acceptable to use the geographic location associated with the majority of the obligors, on a weighted-average basis. For those securitisations backed by obligations relating to movable assets, there could be difficulty in determining the geographic location. However, for such movable assets associated with lease obligations we would normally look to the country of incorporation of the relevant counterparties.

We would be pleased to discuss or expand on these points further at your request.

Yours faithfully



Peter J Roberts
Head, Group Regulatory Reporting

