



REVISION OF THE BASEL CAPITAL ACCORD AND EUROPEAN CAPITAL ADEQUACY RULES

GENERAL ANSWER OF THE BELGIAN BANKERS' ASSOCIATION ON THE CONSULTATION

The Basel Committee presented in January 2001 an elaborate draft of new regulations following the consultation it had organised between June 1999 and March 2000. This time, the time schedule is too tight, all the more because many aspects still need further precision. The European Commission works along the same way in order to lay down a directive.

Basic points of view

The Belgian Bankers' Association (ABB) continues to **agree with the underlying philosophy** of both draft documents, which however need to be harmonised and substantially improved in many respects.

This regulation calls for **a pragmatic application, in accordance with economic reality** instead of a strictly legal interpretation.

Ensuring a level playing field is a major concern. This prevents options from being left to the national supervisory authorities. The authorities concerned should consult each other before any individual capital increase which has an effect on an international group. An existing or still to be created supranational body should see to it that the local recognitions are accepted everywhere and disclosed, as well as take care of the arbitration, if needed, between decisions taken by the national supervisory authorities. The supervisory authorities of the Member States of the Basel Committee and the European Union should create as soon as possible the consultation procedures which should enable them to make their measures convergent.

One should make it easier to **introduce the new system gradually**. Imposing a full application of a more advanced approach would be going too far. On the contrary, it must be possible to have a flexible access to it, for each activity, portfolio and entity of a group. The ensuing gain in capital requirements should be accepted as these methods are confirmed by the facts. The advantages of switching to the use of the advanced methods must be clearly enhanced.

The incompatibilities with the **International Accounting Standards (IAS)** must be removed, but the latter must also be adapted in order to take into account the negative consequences fair value may have as for capital, provisions and results.

It is very important that the Basel Committee explains to the government authorities what are the **tax implications** of the Accord. This is a determining factor for a transparent, efficient and non-discriminating regulation. The Committee should be able to speak with authority in this field on the strength of the acknowledged role of this institution.

Due to the **time schedule**, it is not possible to make a proper analysis. It should be possible to add technical reactions to this point of view.

Technical amendments

There are a lot of these and they are especially important for the following aspects :

- As for calculating **the non-consolidated capital**, there should be no obligation to deduct consolidated holdings in banks and financial



institutions.

- In the **standardised system**, a positive differentiation for short-term exposures should apply to all kinds of counterparties;
- external ratings must be treated uniformly;
- retail activities must cover very small enterprises.
- The **internal ratings based approach** should define retail activities by customers to whom *scoring* can be applied;
- an internal ratings based approach must be allowed when its parameters are consistent with the external ratings systems;
- all techniques which lead to risk mitigation, including insurance, should be allowed.
- Including the **operational risks** is unacceptable without a strong improvement of the mechanisms proposed. The latter do not take the techniques for managing and mitigating these risks sufficiently into account. The capital requirements should be a minimum and must not be added to the capital used for hedging other risks.
- In **pillar 2** (assessment of the bank's individual situation), the criteria must be the same for all authorities and must be disclosed (except for their individual aspects).
- In **pillar 3** (enhancing market discipline by adequate disclosures), the number of disclosures is too high and these are too delicate. The European draft goes into the direction of an adequate solution. There is a need for consistency with the IAS and the national standards.

The **European regulations** should have a general character in the European directive and leave the technical aspects to a specific and flexible decision-making process (the so called « comitology »).

Future work

As one had already feared, the time schedule for this consultation has been too tight, although one can understand why: the Committee considers it as its task to approve the Accord by the end of the year in order to make it come into effect in 2004 and to replace the current system, which is very generally deemed to be very insufficient.

As a consequence, it has not been possible to make an analysis of the draft Accord and directive as profound as one had wished to, and so it will be necessary to add to this point of view further technical reactions on the additions the Basel Committee still has to provide concerning many aspects, which sometimes are very important, such as the exact calibration of the parameters depending on the results of the on-going simulation, for which there is also not enough time. Most importantly, it is not possible in this context to make concrete proposals in reply to the questions put forward in the draft, nor to suggest any calibrations for the parameters before the result of the simulations is known.

Further documents of the Basel Committee should therefore be provided as soon as possible within the framework of a flexible consultation procedure.

Annex