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Basle Committee for Banking
Supervision
Bank for International Settlements
CH-4002, Basel
Switzerland

YOUR REFERENCE	OUR REFERENCE	PERSON IN CHARGE	BRATISLAVA
	ODM-318/2001	Ing. Kučera/59533420	31st May 2001

Re:

Comments concerning the New Basle Agreement on Capital Adequacy

After having studied the new Agreement on Capital Adequacy as well as the other consulting documents, the Banking Supervision of the National Bank of Slovakia is submitting the following opinions and comments.

We are supporting the objective of the new framework as a need for closer connection of the capital adequacy assessment with key elements of banking risks and their higher sensitivity.

Once the final version of the Agreement is published and its validity is determined, it will be necessary to ensure compliance of all legislative standards and by-laws with its purport and to determine an adequate timeframe for gradual implementation of the principles, so that their implementation may start in 2004.

Compared to the Agreement in force of 1998, the Draft of the New Basle Agreement is considerably more complex and comprehensive. It concerns several of its parts, also those that more or less relate to the currently valid status, e.g. the standardized method, which is the most simple of the methods used for quantifying the credit risk. Our opinion is that until the preparatory works are achieved and the final version is published, there is space and also need for the simplification of certain detailed parts of the draft.

We believe, that the approach outlined in the draft requiring a value of capital for bank's operation risk with an expected average for banks 20% of the current minimal capital, is more or less an orientation and it will be necessary to precise it for both specialised as well as universal banks.

The proposal is based on the division of losses between expected and unexpected and on the notion of economic capital. It is also based on the principle that unexpected losses have to be covered by economic capital and expected losses by provisions and reserves. An

unexpected loss is the triplication of the standard deviation from the expected loss. Provisions are not a part of economic capital. The approach with respect to provisions as an instrument expressing expected losses does not conform with the accounting principles.

Provisions represent expected losses from the nominal value of loans, not only of their part equal to the level of provisions. As the capital requirements for credit risks are to be determined with respect to risk weighted assets, while assets are taken into account in their net book value including those whose historical pricing has been adjusted by a provision., the result is that expected losses are required to be covered for more than 100%. This strictness needs to be eliminated.

It is also necessary to achieve compliance of the approach to accounting losses with the approach to losses within capital adequacy so that expected losses are covered exclusively and clearly by provisions.

Yours sincerely,

Ing. Tibor Kašiak
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