From:	Bruce Porteous
To:	Basel Committee, Service
Subject:	Comments on "Strengthening the Resilience of the Banking Sector".
Date:	Thursday 31, December, 2009 12:52:20
Attachments:	Astin Bulletin Article on Capital Structure.pdf

Dear sir,

I wish to make some comments on the capital aspects of the above consultation document.

I am making these comments in a personal capacity, but please note that I am an actuary working for a major UK life insurance business, with many years experience of financial services, including retail banking.

I have attached an article to which I will refer in my comments below. This was written jointly by me and another experienced actuary, who is a lecturer at Kent University. The article was published in the Astin Bulletin in 2008 and concerns the capital structure of financial services firms.

Referring to the article is can be seen that:

1. As Tier 2 capital is introduced into the capital structure of financial services firms, so diluting and gearing up Tier 1 capital, economic capital, and therefore going concern balance sheet risk, increases. This should necessitate firms to hold more capital to cover this additional risk. Financial services firm regulations (e.g. banking and insurance) need to allow for this fact, for otherwise, customers' security (e.g. depositors and policyholders) will be weakened and compromised as Tier 2 capital is introduced, and Tier 1 capital diluted.
2. Provided that this increase in economic capital is recognised, and additional capital is held to cover the increase (using Tier 1 capital in the attached article), this need not be a bad thing for Tier 1 capital providers (in terms of deflating their returns). The article provides several examples to illustrate this.

In developing proposals to strengthen the resilience of the banking sector, I therefore urge the Basel Committee to explicitly consider the economic capital aspects and consequences of any such proposals. It is imperative that the security of customers is not compromised by proposals put forward.

Please do not hesitate to get in touch if anything is not clear or if you need any further information from me.

Yours faithfully,

Bruce T Porteous.