BBVA comments on BIS Proposal on Countercyclical Buffer

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From a global bank perspective, BBVA supports the goal of reducing procyclicality and the vulnerability of the banking system in periods of systemic risk, and finds attractive the idea of implementing a countercyclical capital buffer through a single internationally consistent objective based on agreed principles and on jurisdictional reciprocity. However we would like to stress our worries arising from the BIS issued proposal.

First, the credit/GDP ratio is not an adequate variable considering the purpose to adjust the procyclicality of the capital requirements. Especially the emerging markets would be penalized as a result of their ongoing bankarization process. In that vein, they are likely to show a growing credit trend without necessarily indicating an unsustainable evolution. Moreover, the proposed methodology permits the accumulating process (a buffer increase in upswing phases) but does not allow a desaccumulating one (a reduction in the buffer when downward trends begins because the ratio is a lag variable to capture a slowdown in the economy). The underlying reason is that the ensuing GDP fall (denominator) after a downturn makes the ratio keep increasing which triggers a higher buffer. Therefore we think that sounder analysis should be realized in order to determine a set of variables easier to identify which would better capture the economic cycle such as i.a. the GDP. The methodology and the variables should depend on clear, fair and transparent rules.

Second, the introduction of judgment factors into the decision process should be avoided as it would lead to create discretionalities across jurisdictions and to the establishment of an uneven playing field. Clear, transparent and predictable rules must be implemented.

Third, while we support the idea of a countercyclical buffer, concerns arise from market misinterpretations as markets do not focus on the buffer evolution, but only on the capital ratio.

Fourth, in order to impede the discretionalities across countries and market misinterpretations, we would like to stress the strong necessity to clearly differentiate the buffer from the capital ratio. Therefore, we suggest a buffer constituted by increase retained profits, excess of provisions compared to expected losses, and contingent capital.