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Secretariat of the Basel Committee on Banking Supervision
Bank of International Settlements
CH-4002 Basel
Switzerland

Re: The regulatory framework: balancing risk sensitivity, simplicity and comparability

Dear Sirs:

Barclays appreciates the opportunity to comment on the discussion paper issued by the Basel Committee entitled "The regulatory framework: balancing risk sensitivity, simplicity, and comparability." In addition to this comment letter, Barclays has participated in the preparation of the letters submitted by industry trade associations and support the recommendations made therein.[1] We believe that the views and recommendations advanced in those letters collectively offer effective measures to address the questions considered in the discussion paper.

Barclays supports the Committee's objective of improving the coherence and transparency of the regulatory framework and generally considers that the discussion paper offers a reasoned assessment of the trade-offs between risk sensitivity, simplicity, and comparability. In particular, we welcome the Committee's view that a risk-based capital regime should remain at the core of the regulatory framework. Given the clear benefits to all stakeholders, we appreciate the need to consider balance in the regulatory framework, which is prompted by several factors, including:

- the pace of change in the regulatory capital framework, particularly over the past decade;
- material differences in implementation of the framework across jurisdictions, such as between the United States and the European Union; and
- ongoing evolution in the risk profiles of internationally-active banking organisations.

The result is an inability to easily compare risk profiles and, therefore, the adequacy of capital supporting risk. This has prompted increasingly vocal challenges to the credibility of the framework from a range of stakeholders, including the research, investor, political, and supervisory communities, as well as from banking organisations themselves.

While we recognise the drivers prompting the Committee to establish the Task Force on Simplicity and Comparability, we strongly believe that the basis of the existing framework established by the Committee is sound and broadly reflects the

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[1] These include the comment letters submitted by the Global Financial Markets Association, the British Bankers Association, and the European Banking Federation, among others

objectives for a sound capital adequacy framework set forth in the discussion paper.[2] The current framework offers a good foundation for assessing an organisation's capital adequacy, based on several decades of work by the Committee, and reflecting consensus of the supervisory authorities represented on the Committee. This is achieved via measures intended to offer complementary lenses through which to assess capital adequacy: (i) risk-based capital, conservatively measured; (ii) a non risk-based leverage measure so long as it remains a backstop; (iii) supervisory review; and (iv) disclosure.

Complexity is a feature of this framework, driven by a need to capture the risk exposure of internationally-active banking organisations active in sophisticated financial markets. We agree that removing undue complexity would benefit stakeholders, but we underscore that complexity itself is not 'undue' so long as it captures underlying risks, reflects and promotes good risk management, and aligns with banks' risk-taking incentives. We are concerned that the discussion paper reflects a broader trend supporting simplicity for simplicity's sake. A simple calculation, while easy to perform, gives little insight to stakeholders about actual risk profile, or resulting adequacy of capital, and therefore does little to offer a comparable way to assess capital adequacy across firms. Simplicity performed no better in recent financial upheaval, as demonstrated by the challenges that faced U.S. banks that continue to be subject to the 'simpler' Basel I regime.

Rather than a question of simplicity versus complexity, we consider that the key driver working against a well-balanced and comparable framework is a lack of transparency due to inconsistent implementation by national supervisors. Better balance of the objectives set forth in the paper is achieved by encouraging greater consistency in implementation; where implementation differs, these differences should be clearly and transparently communicated. While factors driving implementation differences (such as market specificities or differing accounting frameworks, among others) may not be fully within the remit and control of the Basel Committee, we do believe that by more clearly specifying the implementation terms of agreed changes to the Basel framework, the Committee can achieve a more balanced framework without sacrificing the benefits risk-sensitivity. We are very encouraged that the Committee has established a regulatory consistency assessment programme with that explicit objective in mind.

We appreciate the Committee's consideration of the views set forth in this letter and welcome the opportunity to discuss any part of this letter in greater detail.

Yours faithfully,

Roger Versluys
MD, Head of Regulatory Policy
Barclays plc

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[2] *The regulatory framework: balancing risk sensitivity, simplicity and comparability*, paragraph 29, pp. 7-8

Annex 1: Response from Barclays to questions raised in the discussion paper

Q1. Does the current framework, with its reliance on the risk-based capital at its core, appropriately balance the objectives set out in paragraph 29?

We consider that the current framework appropriately balances the objectives outlined in paragraph 29. We broadly agree with the Committee's description of the trade-offs involved in the design of a capital adequacy framework, but also believe that the framework as internationally-agreed has established sound minimum standards for internationally-active banks, promotes and is aligned with sound risk management, and sets a foundation for a level playing field. While the internationally-agreed framework achieves this balance, the framework is not evenly applied across national boundaries: this remains a principal driver of the inability to easily compare standards as they apply to banks across jurisdictions.

We assess the existing regulatory capital framework against the five objectives in paragraph 29 in Table 1, with further description below.

Table 1. Assessment of current regulatory framework compared to discussion paper objectives

	Objective	Assessment
1	The capital adequacy framework should produce a sound minimum standard of capital adequacy for internationally active banks, but also be capable of application to smaller institutions	☑
2	The capital adequacy framework should deliver a well-understood measure of capital adequacy that is comparable across banks and over time	↔
3	The capital adequacy framework should support a reasonable level playing field between banks	↔
4	The capital adequacy framework should take into account the effects of capital requirements on banks' risk-taking incentives, e.g. when faced with regulatory constraints on their capital (and therefore the size of their balance sheet), to seek higher-risk assets as a measn of boosting expected returns	☑
5	The capital adequacy framework should promote improved risk measurement and management within banks	☑

1. *The capital adequacy framework should produce a sound minimum standard of capital adequacy for internationally active banks, but also be capable of application to smaller institutions*

We believe the current framework meets this objective. Internationally-agreed capital adequacy standards established by the Committee, particularly as recently revised under Basel III standards, are conservatively calibrated to produce sound minimum standards of capital adequacy. The interaction of the standards' risk-based ratios, the leverage ratio (so long as this remains a backstop rather than a binding constraint), together with supervisory review, offers a robust foundation to help ensure the safety and soundness of internationally-active banks. These minimum standards are further buttressed by the incorporation of regulatory capital buffers, associated liquidity standards, and a range of related changes to market structure.

The framework is applicable to all financial institutions, including smaller institutions. The advanced approaches are available to smaller institutions, although many choose to remain on standardised approaches given the costs associated with resource and model development. There is value in offering these alternatives, since as a banking organisation grows and enters new markets, its risk management should become more sophisticated: the advanced approaches reflect these developments in risk management and help to ensure that the capital standards meet the use test.

Given the direction of recent (and proposed) amendments to the framework, we agree with the concept of reducing 'undue' complexity. CVA, for example, is not easily applicable to smaller firms and we note that the proposed move from the existing alternatives of CEM / standardised / IMM for counterparty risk to NIMM / IMM will result in a meaningful uptick in complexity. Moreover, the proposals in the fundamental review of the trading book would be more significantly more complex than the current framework as were the proposals for revisions to the securitisation framework.

2. *A capital adequacy framework should deliver a well-understood measure of capital adequacy that is comparable across banks and over time*

We consider this standard to be partially met, but primarily due to factors outside of the control and remit of the Committee. The capital adequacy framework agreed by the Committee does offer the foundation for delivering well-understood measures of capital adequacy. However, the current state of implementation, driven by differences in accounting standards, implementation practices, market specificities, business models, and supervisory guidance, among others, pose particular challenge to the ability of a framework to deliver a consistent measure of capital adequacy that is comparable across banks and over time.

We are concerned that the notion of delivering a 'well-understood' measure may become conflated with a 'simple-to-calculate' measure. The framework does include a measure that is relatively simple to calculate in the Basel III leverage ratio. However, we note that a measure that is easy to calculate may have the benefit of being easy to understand, but does not deliver a 'well-understood' measure of capital adequacy since it fails to reflect an organisation's actual risk profile.

3. *The capital adequacy framework should support a reasonable level playing field between banks*

We believe this standard to be partially met. The existing framework supports a reasonable level playing field thanks to the long-standing efforts of the Committee to establish an internationally-agreed set of minimum standards. However, as noted earlier, differences in national implementation will work against even the best-designed capital framework. Nevertheless, most jurisdictions implement a reasonably similar version of the Basel-based framework and thereby support a reasonably level playing field. We continue to encourage enhanced supervisory consistency across home regulators and host jurisdictions.

4. *A capital adequacy framework should take into account the effects of capital requirements on banks' risk-taking incentives, e.g. when faced with regulatory constraints on their capital (and therefore the size of their balance sheet), to seek higher-risk assets as a means of boosting returns*

We believe that the framework, with risk-based capital at its core, is designed to align risk-taking incentives with capital requirements, and therefore meets this objective. This alignment is closest for those banks that are able to meet supervisory standards to use the advanced approaches. We are concerned, however, that a specified objective of ensuring simplicity in the framework (rather than, say, undue complexity), such as that proposed in paragraphs 48 and 49 of the discussion paper, will work against this objective. We are also concerned that this objective may be undermined by changes to features in the leverage ratio, which is an existing 'simple' measure, particularly if the measure becomes a binding constraint on capital. Please refer to Barclays' recently-submitted comment letter on BCBS 251.

5. *A capital adequacy framework should promote improved risk measurement and management within banks*

We believe the current framework meets this objective. We consider that the capital adequacy framework, based on risk-based capital, has worked to promote effective risk management across the range of risk disciplines and, critically, is supportive of the use test. As noted above, we are concerned that a focus on simplicity, to the extent it results in an undue departure from risk-sensitivity, would detract from this feature of the framework.

Q2. Are there other objectives that should be considered in reviewing the international capital adequacy framework?

Differences in supervisory implementation of internationally-agreed capital requirements are a key driver in differences across banks. We encourage the Committee to consider agreeing an additional objective of establishing standards that will be consistently implemented, either through minimizing the opportunities for national discretion or otherwise. This would serve to support the other stated objectives, prove cost effective for banks (especially those that are subject to a number of different regulatory regimes) and for supervisors, enhance transparency for all stakeholders, and improve the overarching aim of safety and soundness.

Q3. To what extent does the current capital framework strike the right balance between simplicity, comparability and risk sensitivity, given the costs and benefits that greater risk sensitivity brings?

We believe that the current capital framework generally strikes the right balance between simplicity, comparability, and risk sensitivity. The framework offers firms and supervisors measures that are simpler to calculate in the standardised approach and Basel III leverage ratio. Similarly, challenges in comparability are largely driven by differences in supervisory implementation of the framework across jurisdiction: more consistent implementation, with any differences from the internationally-agreed framework transparently disclosed, would go a long way to addressing issues with comparability. We strongly encourage the Committee to seek to ensure that the internationally-agreed framework is implemented consistently on a national basis and we are encouraged that the Committee has established a regulatory consistency assessment programme with that objective in mind.

While the question is framed to highlight the costs and benefits of greater risk sensitivity, we encourage the Committee to consider equally important the costs and benefits of greater simplicity. As expressed previously, we welcome the Committee's view that a risk-based capital regime should remain at the core of the regulatory framework for banks.

Q4. Which of the potential ideas outlined in Section 5 offer the greatest potential benefit in terms of improving the balance between simplicity, comparability and risk sensitivity of the capital adequacy framework?

Of the objectives set forth in Section 5, we consider that limiting national discretion and improving supervisory consistency, and enhancing disclosure offer the greatest potential benefits among the several ideas outlined. We also appreciate the proposed objective of improving the accessibility of Basel Committee documents, which we understand the Committee has already initiated. Since these documents represent consensus of supervisory authorities, and are the foundation of subsequent national implementation, we consider that any added accessibility will help to support more consistency in implementation. We also think that the more accessible the documents, the more accessible the framework will be to non-experts.

Q5. Are there other ideas and approaches that the Committee should consider?

We believe the balanced objectives can be met with the maintenance of a risk-based capital regime at the core of the framework, but supported by enhancements to disclosure and greater supervisory coordination in implementation. The points are raised and discussed in earlier paragraphs.

As a general matter, we consider that an effective regulatory capital framework should be risk sensitive, reflect and promote sound risk management processes, and ensure appropriate capital incentives to hold lower risk exposures. As the Committee reflects on any revisions to the framework to account for the objectives set forth in the discussion paper, we propose the following key principles:

- Clearly communicate a policy objective: specify the risks a rulemaking is being developed to protect against and why the proposed rulemaking achieves that objective.
- Specify the options that were considered and why an option was chosen to meet the policy objective.
- Engage stakeholders on a regular basis to fully account for regulatory implications on business practices.
- Ensure that Basel Committee documents are clear and accessible, and clearly specify why and how the rule should be implemented.
- Periodically conduct a holistic review of the framework to ensure coherence and adherence to specified objectives.