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Basel Committee – Discussion paper on the regulatory framework: balancing risk sensitivity, simplicity and comparability

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as the legal representation of the whole banking industry in Austria, welcomes the opportunity to express its views on the Basel Committee discussion paper "The regulatory framework: balancing risk sensitivity, simplicity and comparability" and would like to submit the following comments.

To begin with we would like to stress that while we believe that an overhaul of the current framework is not necessary, specific adjustment could be made in order to ensure the better functioning of the entire framework. It is also important for us that the BCBS does not depart from its commitment to provide advanced tools to measure, manage and monitor risks in the financial system and does not move towards a prudential framework based merely on leverage ratios and standard approach. We believe that the current Basel III framework is sufficiently balanced in that it allows for adequate risk sensitive capital measurement for large as well as smaller banks. Especially additional floors would not make the system simpler rather they would add additional layers to the regulatory framework, which is already complex enough.

In general, we would also like to stress that any further work on the current framework should only be done with a view to ensuring its stability and continuity. Banks are constantly faced with new regulatory changes, which may potentially cause unnecessary uncertainty and risk. Such possible negative consequences should be duly reflected in the work of the BSBC.

With regard to the six questions set out in the discussion paper, we would like to make the following comments:

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

The current framework, with its combination of approaches to assess the capital adequacy of banks for credit risk, provides for a sound minimal standard that is adequate for internationally active banks but also suitable for smaller banks. However, there might be some deficiencies of the framework that need to be addressed.

It is in particular the area of bank and supervisory practices that requires further convergence. While we believe that a certain level of divergence among banks can be justified, further work on this problem would lead to enhanced comparability of data between banks, which would as a consequence increase investor confidence in the banking industry.

Turning to the objective to support a reasonable level playing field between banks, it must be noted that the current framework does sufficiently reflect the structure of the credit market due to its enhanced risk sensitivity. However, if the BCBS were to abolish the risk sensitivity of the current framework, this would lead to significant negative effects on the level playing field. Moreover, one major source that still has a negative impact on the level playing field are the different accounting standards used for example in the United States and the EU. In the case of European banks this means that they, inter alia, due to their adherence to the IFRS, are placed at a disadvantage in comparison to US banks. The use of IFRS in the EU means that netting rules are more stringent than those of jurisdictions where the IFRS are not being followed. It creates a substantial difference that affects the solvency assessment of EU banks in comparison with competitors with regards to the leverage ratio and also to other measures like the average risk weight.

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

Enhancing the understanding of the current framework would be an important objective to be considered in the review process. This would allow relevant stakeholders to become easier and more familiar with the relevant aspects of the framework, thus leading to more comparability and convergence.

Another objective to be considered is improved supervision in terms of convergence and comparability. With regards to the EU we believe that this objective is already sufficiently tackled with the Single Rulebook Concept.

3. **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 framework in general strikes the right balance between simplicity, comparability and risk sensitivity. However, as has already been noted, comparability still remains to be improved. It must also be noted that while achieving more simplicity is desirable, this should not be done at the expense of the risk sensitivity of the regulatory framework, as only this approach takes sufficient account of the complexity of banking activities.

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

With a view to reducing differences in bank and supervisory practices, we believe that the limitation of national discretion, e.g. by monitoring and disclosing its use, could help to improve the balance between simplicity, comparability and risk sensitivity. We also concur with the BCBS that the availability of a readily accessible source of well-structured information would help those tasked with enforcing and complying with the regulatory framework. We therefore welcome the BCBS's efforts to consolidate all the standards and to improve its website.

We are concerned that increased disclosure requirements could not promote the intended transparency but rather make the regulatory framework more complex. Banks already have to adapt to new disclosure requirements, both originating from the international and domestic level. Hence, adding an additional burden may create a counterproductive effect.

With regards to the effectiveness of the leverage ratio we would like to reiterate that it should only be used as a non-binding benchmark and not replace models or the risk-sensitive approach in general. Strict leverage ratios could set the wrong incentives in that they favour certain asset classes. The business that remains on balance sheets will be the higher-risk business because a leverage ratio requires the same amount of equity backing regardless of the risks incurred.

We ask you to take our comments in due consideration.

Yours sincerely,

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