

September 20, 2013

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

**Re:** Comment on Discussion Paper: The regulatory framework: balancing risk sensitivity, simplicity and comparability (Paper)

To the Basel Committee;

On behalf of the Global Association of Risk Professionals (GARP)<sup>1</sup>, I would like to thank the Basel Committee for providing this opportunity to comment on an issue of considerable importance to the global financial services industry. In this letter, we set out a proposal for the Committee's consideration that we believe will help add transparency, credibility and clarity to the global risk-based regulatory framework (Framework).

As recognized in the Paper, there is broad agreement that a risk-based capital regime should remain at the core of the Framework for banks. However, as to be expected when implementing such a complex approach to bank capital, debate has arisen around certain issues inherent to the Framework's implementation. For example, and among other things, questions have developed around whether the Framework's benefits have been overshadowed by some of the complexities surrounding its implementation, whether there is sufficient transparency to fully understand how the system's requirements are being implemented, and whether the degree of dispersion in results of various bank risk-based capital calculations are explainable and justifiable.

Many of the issues noted in the Paper are not unexpected, especially with many of the Framework's underlying requirements still considered to be works-in-progress. As such, reviewing its effectiveness from time to time in light of the principles noted in the Paper should be positively viewed by the public and private sectors.

### **Need for Additional Data and Increased Transparency**

As stated in the Paper, "[m]aking meaningful improvements to cross-bank comparisons has the potential to materially improve the effectiveness of the capital adequacy framework". The GARP Benchmarking

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<sup>1</sup> The Global Association of Risk Professionals (GARP) is a not-for-profit, education-focused global association whose membership consists of over 150,000 individual financial risk management practitioners, government regulators, academics and other financial services professionals. GARP's Financial Risk Manager (FRM®) and Energy Risk Professional (ERP®) professional certification programs are now taken by over 37,000 individuals from around the globe each year. GARP also provides financial risk education programs in partnership with central banks and other organizations globally. Of particular importance, however, is that GARP is not an industry lobbying group; its activities are non-partisan and educational driven.

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Initiative (GBI), as explained more fully below, offers that potential through the common development of realistic standardized hypothetical portfolios in partnership with the public sector, plus considerably more.

An important problem identified in the Paper, and which bears on any determinations related to the Framework's success, is the need for clear, objective, transparent and factual data to allow for a complete and comprehensive analysis of the Framework's effectiveness, now and in the future.

Concerns are being voiced that the Framework may be too complex, and that banking institutions may use this complexity to their advantage and to the detriment of the Framework's objectives. However, it's possible these worries are being voiced due to a lack of transparency rather than because of deficiencies in the Framework.

We agree that there is a need for more complete data, increased transparency and a better understanding of how financial institutions are implementing the Framework, as well as a more informed view as to its effectiveness. We also feel there is a need to better understand the reasons why financial institutions' risk-based measures diverge and what may be acceptable levels of divergence.

Recent debates have been colored by questions about the accuracy, completeness or reliability of the data derived from the numerous regulatory studies, leading to differing views concerning the Framework's effectiveness. As we can all agree, the global financial services industry would be better served by an informed discussion and debate centering on issues derived from full, complete and objective facts that can be confidently relied upon by all interested parties.

We fully support vigorous debate around the Framework and how it can be improved. However, a crucial first step to establishing supportable conclusions and a credible path forward is to ensure that the industry and its regulators agree on the accuracy, objectivity and fullness of the data that underlies and supports any of the recommended approaches. This level of assurance can occur if the private and public sectors work together to ensure they are speaking to the same issues based upon data on which there is substantial agreement. Only then can the financial system and its users fully benefit.

GBI, as explained more fully herein, addresses the issues mentioned above and many others raised in the Paper. It can also make a positive contribution to certain of the potential policy and monitoring options enunciated in the Committee's August 2013 Report to G20 Leaders on monitoring implementation of Basel III regulatory reforms (BCBS260).

### **GARP Benchmarking Initiative (GBI)**

In early 2013, GARP formed a study group of G-SIBs and other internationally active banks (Study Group)<sup>2</sup> to study and outline a development plan for GBI. GBI is an industry-driven sustainable entity whose objective is to function as a "public/private partnership" with global regulators. GBI's mission affirmatively recognizes the need to deal proactively with many of the transparency, data and

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<sup>2</sup> Bank of America, Barclays, BNP Paribas, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, Morgan Stanley, Nomura International, Societe Generale, Standard Chartered

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educational issues subsequently noted in the Paper. Further, its development will offer numerous short- and longer-term mutual benefits to global regulators and the global financial services industry.

GBI's mission is to define, calculate and distribute risk metrics based on pre-defined sets of underlying financial instruments to provide an objective means to assess a bank's risk measures, resulting in a more transparent basis for:

- Comparing bank approaches to risk measurement by portfolio type
- Benchmarking a single bank's risk approach to those of other banks globally on an "apples to apples" basis
- Understanding the drivers of differences in bank risk assessments
- Educating the markets about risk-related issues and approaches.

GBI will operate according to a strict set of principles that will include legally compliant customer and data sharing protocols, while being respectful and fully mindful of competition and anti-trust laws.

As an industry-driven initiative working in partnership with the public sector, GBI will allow for the first time continuous cross-border and global comparison of institutions' risk measures as calculated on defined and regularly updated, realistic benchmark portfolios, providing a basis for informed evaluation of a firm's approach to risk measurement. And, it will impartially facilitate a meaningful comparison of risk-taking levels and capital adequacy, while providing a common data set from which objective and unbiased analysis and education can be derived.

GBI's results will provide a basis to directly address and/or objectively debate many of the issues set out in the Paper. Further, they will allow for a more fully informed discussion among and between regulators and the financial industry built around a more accurate, complete and sustained data history than what currently forms the basis for certain regulatory decision making and financial industry discussion.

### **Public/Private Partnership**

The global financial system is dynamic, interconnected and increasingly complex. Material issues exist around data collection and analysis, global and regional regulatory approaches and their harmonization, and information sharing and transparency.

GBI's approach includes inviting regulators from around the globe to "partner" in developing the data envisioned in its mission in a transparent manner and fully supportive of their charge to protect the public interest. This will allow the global regulatory community to take advantage of the practical expertise and greater capacity industry practitioners possess in developing risk-related methodologies, measurements and their related explanations. Regulators will be offered the option to provide regular input into GBI's hypothetical portfolio development processes, whose resulting portfolios will be used to objectively assess bank risk-related approaches. Further, GBI will allow regulators to audit its results and processes and review, for the first time on a global basis in one forum, the objective results of financial institutions running their risk measures against a common set of realistic hypothetical portfolios.

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Practitioners, working in close consultation with regulators, are better suited to developing and sustaining an activity such as GBI. The approach we are suggesting will significantly mitigate concerns about data accuracy or completeness, and effectively eliminate the need to question whether certain regulatory and industry discussions and debates are taking place with the best set of available facts.

### **Summary**

GBI is an industry-driven initiative that uniquely recognizes and promotes the maxim that the global financial services industry and its global regulators need to work together to address matters of systemic risk. GBI can also assist in affirmatively addressing many of the issues delineated in the Paper.

Given the global financial market's dynamics and complexities, studies and changes to the Framework that preserve and build upon its admitted benefits can only be done with confidence if all parties work in concert. Regulatory studies and revisions can no longer be debated and adopted by any country, region or industry in isolation. Marketplace interconnectedness demands a cross-border approach. GBI, working in transparent and objective partnership with regulators, can provide results that reflect the high level of trust and comfort required of the public and private sectors, allowing for more robust and informed debate based on agreed, comprehensive and transparent fact sets.

GBI's approach offers material time and cost savings to regulators and the financial services industry. While its development will require a very substantial effort on the part of the financial services industry, and close coordination with the public sector, the industry will be happy to undertake this task to allow for greater transparency and understanding around the Framework.

If GBI and the regulatory community worked together to achieve a level of trust and confidence that would allow each to rely on GBI's results, regulators would then have the option to reallocate resources to others areas of importance. Simultaneously, this would reduce, and focus, the very substantial costs currently being incurred by the industry to deal with multiple hypothetical portfolio exercises, among other studies, which have resulted in narrowly defined results offering unclear guidance to regulators and the industry.

If the global regulatory community were willing to work with GBI in developing this unique effort, we are confident that its value proposition will ultimately be sufficient to include most if not all G-SIBs and internationally active banks. Coverage of this nature would present an unprecedented opportunity to learn more about the Framework and its successes, and provide global regulators and financial industry participants comprehensive, accurate and fuller data to be used in their discussions and decision making. It will also offer financial service industry participants the currently unavailable peer benchmarking information they consider so important.

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Please feel free to contact me with any questions concerning these comments. And, again, thank you for this opportunity to respond to the issues raised in the Paper.

Yours truly,

A handwritten signature in black ink, appearing to read 'Richard Apostolik', with a long horizontal line extending to the right.

Richard Apostolik  
President & CEO