Comments of the KNF - Polish Financial Supervision Authority to the Consultative Document *The regulatory framework: balancing risk sensitivity, simplicity and comparability*, issued for comment by 11 October 2013.

Polish Financial Supervision Authority is pleased to be given an opportunity to provide its comments to the Consultative Document *The regulatory framework: balancing risk sensitivity, simplicity and comparability* issued by the Basel Committee on Banking Supervision.

Answers to questions:

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?

It appears that the current approach to capital requirements ensures fulfillment of objectives set out in par. 29. However it is difficult to say that such approach ensures appropriate balancing of objectives.

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

It appears that the objectives ought to include also the supervisory needs and changes in the supervisory approaches.

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?

It appears that the current approach has devoted more attention to developing methods that are more risk-sensitive rather than to ensuring that the solutions in use are comparable and simplified.

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?

The PFSA suggests that a good solution would be to increase requirements regarding disclosure as well as to introduce benchmarking as mentioned in par. 62. It is worth noting that the compiled and unified version of the Basel capital accord would facilitate the application and implementation of provisions.

The issue of comparability seems to be addressed by the proposals suggesting limitation of the extent to which the national discretions can be used. One needs to remember though about the reasons why this discretions have been introduced. They appear in the areas where the differences across the markets are of such significance that the common risk weights, common indices or other consistent solutions cannot be found, if at the same time risk-sensitivity is to be preserved. Any reduction of the national discretions should be preceded by a thorough analysis of the possible influence of such change.

One of the possible ways to increase comparability between RWAs used is to issue some BCBS guidelines dealing with the practical application of the various discretions.

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

In the course of time, a variety of measures have been introduced in Basel documents in order to tackle particular aspects of particular risks. It might be the case that certain measures now overlap in certain aspects, causing double-counting of various risks and significantly adding to the complexity of the framework. The PFSA believes it might be appropriate to review the construction of these measures in order to identify and possibly remove the areas of overlap.

In the holistic context of simplifying the regulatory framework, a correlation table approach might be used whereby cross-dependencies among all types of risk are identified and mapped so as to yield clarification of the underlying structure and constitute the base for devising a simplified and comparable framework for assessment. Such a correlation table would also serve to eliminate overlaps while at the same time streamlining the assessment of risk, with the significant advantage of not compromising risk sensitivity.

The PFSA understands that comparability is an important outcome of a regulatory framework (as mentioned in paragraph 13), especially from the perspective of investors. In our opinion however, regulatory framework should focus primarily on safety and soundness of financial institutions in order to protect the depositors. For that reason, in our opinion, comparability should only be promoted as a secondary objective and, in any case, should not limit national discretions that allow prudential standards to be more conservative and better tailored to reflect local conditions (paragraph 67).