

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

Submitted via website upload

Zurich, March 27th 2015

Credit Suisse response to the Consultative Paper on 'Capital floors: the design of a framework based on standardized approaches' (BCBS 306)

Dear members of the Basel Committee,

Credit Suisse AG (CS) appreciates the opportunity to comment on the Consultative Paper (CP) on "Capital floors: the design of a framework based on standardized approaches" published by the Basel Committee on Banking Supervision (Committee) in December 2014.

CS played an active role in, and fully supports, the response and key findings to the CP provided collectively to the Committee by the International Institute for Finance, the Global Financial Markets Association, the International Swaps and Derivatives Association, and the Commercial Real Estate Finance Council. In this letter, we would like to take the opportunity to provide the Committee with our response to the questions posed in the CP, which are provided in the Appendix. In addition, we would like to highlight general issues related to the proposals in the CP that we consider the most significant:

- **Timing of Proposal** – Due to the current uncertainty in the overall capital framework, we feel it is an inappropriate time to assess the proposal of capital floors. There are currently various consultative papers outstanding to revise the capital framework, including a change in standardized approaches for credit risk, market risk and operational risk, a change in the market risk internal model approach, as well as other rules that have been finalized, but still have significant outstanding issues to resolve, e.g., simple, transparent and comparable aspects of the securitization framework. We feel that the consultative papers and other unresolved issues associated with finalized rules need to be resolved to complete the Committee's objective of an overall capital framework. Once this is complete, an analysis can then be performed to assess a proposal on capital floors, the basis of the floors, and their overall calibration. We encourage the Committee to postpone this proposal until a holistic QIS has been completed, the Committee has fully understood the overall impact of the proposed changes, and the changes have fulfilled the Committee's intended objectives. Additionally, we do not feel that the objective of a comprehensive capital framework to include floors can be fulfilled by the end of 2015 and recommend that the Committee revise its expected timeframe to complete the required due diligence.
- **Introduction of a Capital Floor** – We agree in principle that a capital floor based on standardized calculations could be beneficial to ensure consistency across individual institutions. The floor would also reduce the incentives for rapid growth of businesses where calibration of internally modelled capital requirements is low. However, we believe that the level of the floor needs to be carefully calibrated so that it does not disincentivize banks from developing risk-sensitive internal modelling techniques. Specifically, the floor should be set just below the capital requirements generated by internal models, which have comprehensive risk factor coverage and accurate calibration. The aim should be to prevent

capital being driven by poorly specified internal models only. We would also urge that the Committee implement a "range" for the floor and permit supervisors some discretion on setting of the exact level. This will ensure that bank specific information is taken into account when setting the floor, such as the specific risks of a portfolio, appropriateness of the standardized calculations for these specific risks and level of compliance of internal models. Finally, we would also urge the Committee to consider amending the rules around internal models to address any perceived weaknesses in modeling techniques. This could help meet the objective of preventing growth of businesses where calibration of internal models is too low.

Yours sincerely,



Charlotte Jones
Managing Director
Head of Group Finance

Appendix - Detailed CS comments on questions

Question 1 – Assuming the respective floors were calibrated to achieve the same level of required capital, what are your views on the relative merits of a risk category-based floors and an aggregate RWA-based floor? What are your views on a floor based on exposure class?

As mentioned in the cover letter, we feel it is inappropriate to assess the impact of capital floors at this time due to the uncertainty in the overall capital framework. With all of the draft proposals currently outstanding, we do not feel there is enough information regarding the calibration or the nature of the three floor options to reach an informed position. With regards to an aggregate versus a risk-category floor, a critical issue is how conservative the final standardized approaches will be relative to the internal modelling approaches, how this varies across each risk category, and whether the Committee will set different percentage floors within each risk category to reflect the relative conservativeness. For example, CS would not support risk-category based floors of the same level across all risk categories, where there is variability in the conservativeness of the standardized approach across the risk categories.

Question 2 – What are your views on the relative merits of the two options for adjusting for differences in the treatment of provisioning for credit risk?

We agree with the Committee that consistency should be applied to differences in provisioning under the internal model and the standardized approaches. Specifically, we would favor an adjustment for differences in provisioning similar to that proposed in Option 2 of the CP, where the adjustment is made to RWA. This approach avoids making any adjustment to the regulatory measure of capital. We feel that this is an important point to reduce differences between the regulatory capital framework and accounting standards to avoid confusion and complexity in the calculation of regulatory capital and financial disclosures. However, further clarification needs to be included in a final rule to reflect the mechanics of the calculation. Specifically, additional clarification should be provided on how provisions are to be converted to an RWA equivalent under Option 2, e.g., assumption being a 1250% risk weight based on an 8% capital ratio.