

Saudi Banks' Comments on BCBS Consultative Document
Entitled: Capital Floors: the design of a Framework Based
on Standardized Approaches

<u>Questions</u>	<u>Bank 1</u>	<u>Bank 2</u>	<u>Bank 3</u>	<u>Bank 4</u>
BCBS Consultative Document: Capital Floors – The Design of a Framework Based on Standardized Approaches				
<i>Q1. 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?</i>	We welcome the indication given by the Basel Committee that both approaches will be calibrated to the achieve the same level of required capital floor. However, we suggest to the Basel Committee to provide more information that would allow banks to determine the relative merits of both approaches. Initially, an aggregate RWA-based floor seems to support the Basel Committee’s stated objective of simplicity.	Preferably, risk category based floors are more reflective on account of: - No offsetting across different types of risks - Banks have different plans for implementation of advanced approaches and the aggregate floor will not serve the purpose	- Both the methods have pros and cons and therefore it is difficult to select a perfect approach. In our view, “risk category-based floors” will provide more accurate position compared to an “aggregate RWA-based floor” since the banks have different strategies to manage its risk components such as credit, operational and market risk. Additionally, In terms of simplicity, capital floor based on aggregate RWA is more favorable than risk category-based floors. - The floor based on exposure class will not allow offsetting across risk types between each risk class but it will be difficult to interpret and will not achieve the simplicity.	We would prefer risk category based floors rather than an aggregate RWA based floor. We believe that a bank would more likely than not move to advanced modeling approaches in a step by step manner. Therefore, we believe that it would be prudent to have risk category based floors rather than aggregate RWA based floors.
<i>Q2. What are your views on the</i>	Option 1 seems more	We feel that the alignment of capital	Option 1 is simpler and will be	Option 1 refers to an

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<i>relative merits of the two options for adjusting for differences in the treatment of provisioning for credit risk?</i>	appealing on the basis of simplicity and transparency. Moreover, conceptually the adjustment of the capital measurement (numerator) is easy to grasp and to disclose as it has a lot of similarities to the concept of the capital buffers.	(numerator) between standardized and IRB is a better option on account of: • Single definition of capital • Non- consistency of RWAs across the jurisdiction will dis-align the framework Recommendation: • Both of the approaches needs to converge to a single result and there will be no corner solutions in calibration of the floor • Adjustment in numerator will be a better approach	able to convert capital under IRB into standardized approach i.e. The bank will add general provisions to Tier 2 capital under the internally modelled and standardized approach. This will distinguish between provisioning adjustments made to CET1 and Tier 2 capital.	adjustment to the numerator of the capital ratio. This approach would require the following adjustments: • Adding back any deductions from CET1 capital (where total eligible provisions are less than EL); • Removing any additions to Tier 2 capital (where total eligible provisions are greater than EL but less than 0.6% of credit risk RWAs); and • Adding general provisions to Tier 2 capital (up to the limit of 1.25% of credit risk RWAs). • Option 2 refers to adjusting the RWAs by converting them to an “RWA equivalent” and then added to or removed from a bank’s RWAs when calculating its capital floor. This approach avoids making any adjustment to the regulatory measure of

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<i>Q3. Do you have any other comments regarding the design of the capital floor?</i>	As is known, many issues affect how the standardized approach is computed; i.e. national discretions. Even for the same exposure the standardized approach in different jurisdictions may produce different RWAs and thus different floors. If capital floors are going to be designed with the aim to enhance the reliability and comparability of risk-weighted capital ratios, then issues that may produce	No further Comments	The key attribute is the achievement of simplicity while maintaining comparability of Capital ratio across the globe.	capital, but would not distinguish between provisioning adjustments made to CET1 and Tier 2 capital. - We recommend Option 1 by which the “IRB measure of capital” is effectively transformed into a “standardized approach measure of capital”. This should also help maintain parity between banks which are on the standardized approach with those which are on the IRB approach. - We generally agree with the Committee that the standardized approach used by a bank when calculating the capital floor should be the one implemented by the jurisdiction in which it operates and in which it is subject to its regulatory framework. The Committee recognizes that this may produce some variability due to national variations in the implementation of the

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	variation in applying the standardized approach will need to be addressed.			standardized approaches. However, the alternative of applying a prescriptive and uniform set of standardized approaches for the floor may create significant variations between different national implementations of the standardized approaches and the proposed standardized floor.

OTHER COMMENTS

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Capital Floors – The Design of a Framework based on Standardized Approaches

We have the following observations on this topic:

- a. When considering the adjustment for differences in the treatment of provisions, Option 2 would be our preferred approach. We agree with the proposal that the standardized approach should be used as a floor within the jurisdiction in which the bank operates. This will maintain comparability amongst peers within the jurisdiction which may be at different stages of implementation of the various available approaches.