

A response to the
The Basel Committee on Banking Supervision's Consultative
document on the
Consolidated Basel Framework
August 2019

Introduction

UK Finance is the collective voice for the banking and finance industry in the UK. Representing more than 250 firms, we act to enhance competitiveness, support customers and facilitate innovation. Our members are large and small, national and regional, domestic and international, corporate and mutual, retail and wholesale, physical and virtual, banks and non-banks. For many of our EEA and third country headquartered members their London operations are an important hub providing access for them and their clients to the international financial markets. Our members' customers are individuals, corporates, charities, clubs, associations and government bodies, served domestically and cross-border. These customers access a wide range of financial and advisory products and services, essential to their day-to-day activities.

We are pleased to respond to the Basel Committee on Banking Supervision's' [Consultative Document](#) on the Consolidated Basel Framework.

This is relevant to our bank and building society members as they are regulated and supervised according to prudential requirements that are based on the Basel Framework.

This consultation response however focuses on two specific areas that are most relevant to our members that use modelled approaches to calculate risk weighted assets and to banks active in the specialised lending sector or have issued AT1 through SPEs.

Output floor before 2022 (point 1.1 in the BCBS consultation; RCB20 2019 version)

The Basel framework incorporates a floor that limits potential reductions arising from modelled approaches to a proportion of the capital requirement from non-modelled approaches. From 2022, the floor will be based on the standardised approaches published in December 2017 as part of the

final Basel III post-crisis reforms. The Committee acknowledges the impracticality of the floor derived from the 1988 Accord. It puts forward a proposal whereby the banks would calculate the floor based on the current standardised requirements, subject to national discretion.

This proposal would certainly constitute a material new requirement in the framework. In our view it is both unnecessary and impractical. Should the national regulators decide to adopt the proposal, and effectively require banks with internal modelling approvals to implement a parallel calculation for capital requirements on a different approach, it would be a significant change with very little time to implement.

Furthermore, with the framework changing materially in a number of aspects in the 2022 standard (for example the introduction of new asset classes in the credit risk standardised approach), the calculation would not be relevant to the future calculations. Consequently it would be a separate effort of short duration, with no material benefit in terms of improved stability or prudential soundness of the financial sector.

Our members are currently embarking on substantial systems and process changes - at significant cost - to implement the final Basel III framework when it is implemented in their jurisdictions. This is a major endeavour for the industry, and a potential introduction of a new methodology for a floor would constitute a significant diversion from this effort.

We ask the BCBS to withdraw the proposal to implement an interim floor. Instead, the current arrangements already set up by the national supervisors should continue.

SPE/SPV terminology (point 1.11 in the BCBS consultation)

The Committee points out that the current Basel standards use “special purpose entity” (SPE) and “special purpose vehicle” (SPV) interchangeably and without making a clear distinction between the two. To promote consistency across the framework, it proposes to replace all references to SPVs with SPEs.

The definition for SPE is included in section CRE40 Securitisation: General provisions; para 40.21 of the consolidated framework, 2019 version:

“An SPE is a corporation, trust or other entity organised for a specific purpose, the activities of which are limited to those appropriate to accomplish the purpose of the SPE, and the structure of which is intended to isolate the SPE from the credit risk of an originator or seller of exposures. SPEs, normally a trust or similar entity, are commonly used as financing vehicles in which exposures are sold to the SPE in exchange for cash or other assets funded by debt issued by the trust.”

Our members are concerned that the Committee has taken the definition of “SPE” from the securitisation framework, as this does not necessarily work in the other areas.

In addition to securitisation, the terms “SPE”/“SPV” are used in the credit risk and the capital sections of the framework. In the credit risk sections, the term is used in Specialised lending, the Residential, Commercial Real Estate and Land Acquisition, development and construction exposures in the standardised approach of the 2022 version.

For instance, the part of the definition of SPE “*and the structure of which is intended to isolate the SPE from the credit risk of an originator or seller of exposures*” does not apply to Specialised Lending, where the special purpose entity would not be isolated from the ‘originator’ or ‘seller’.

To be appropriate, the reference to SPE would need to be removed from the credit risk sections, or the definition of SPE should be amended to remove the reference to ‘originator’ or ‘seller’ in the context of credit risk and capital sections of the framework.

Similarly, in the capital section (CAP), references made to credit risk of originator or seller of exposures in the definition of SPE does not fit within the context of capital issuance. It would therefore be preferable for the definition to be made looser with reference to examples rather than being so definitive. The first part of the definition would seem appropriate: ‘*An SPE is a corporation, trust or other entity organised for a specific purpose, the activities of which are limited to those appropriate to accomplish the purpose of the SPE*’.

We note, however, that there is an FAQ, which allows national supervisors to provide additional guidance on the definition of SPEs for CAP purposes (refer to CAP 10.26 FAQ1). This could mitigate the problem. We also acknowledge that by 2022, AT1 and T2 capital issued by SPEs will no longer be eligible, therefore issuance of capital from SPEs is becoming less important.

Other than these two items that we would ask you to consider, our members have not identified material issues in the consolidated framework.

Responsible Executive

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