

# Response to Basel Committee on Banking Supervision

Consultative proposals to strengthen the resilience of the banking sector

April 2010



The banking industry and its supervisors are debating some of the most important regulatory changes in recent history. These changes are likely to have major implications. The banking sector has already taken extensive steps to strengthen capital ratios, to lower leverage and to reduce liquidity risk.

The aim of the industry and the Basel Committee on Banking Supervision (BCBS) is to create a more resilient international banking sector.

In December 2009, BCBS released its proposals for strengthening capital and liquidity regulations: two consultation papers entitled 'Strengthening the Resilience of the Banking Sector' and 'International Framework for Liquidity Risk Measurement, Standards and Monitoring'.

PricewaterhouseCoopers<sup>1</sup> has welcomed the opportunity to provide feedback on these two papers and submitted its response on 16 April 2010. The headlines from our feedback are as follows:

While we agree with the direction of the proposals and many of its components, we also have concerns that we believe require further careful consideration. In particular:

- The combined effects of the proposed higher capital requirements and the proliferation of buffers seem overly conservative and lack transparency.

- There is no discussion of what constitutes an appropriate level of capital and liquidity in the financial system: this is an ideal time to make an assessment.
- The macroeconomic consequences of the proposals need to be carefully evaluated as do calibration and the timescales envisaged for transition.
- The differing objectives of financial and regulatory reporting lead us to question whether one set of standards can satisfy the requirements of shareholders and regulators (and raises a wide range of implementation issues).
- There needs to be a more balanced focus on systemic factors with less focus on the capital regime and liquidity requirements and more on other regulatory tools.

Our open response to the BCBS covers a number of key areas: quality, consistency and transparency of capital; leverage ratio; accounting considerations; procyclicality; capital conservation; counterparty credit risk; liquidity; and systemic effects.

<sup>1</sup> "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

# Contacts

If you would like to discuss the implications of the proposed changes, please speak to your usual contact within PricewaterhouseCoopers or one of those listed.

## Americas

### Jason Boggs

PricewaterhouseCoopers (Canada)  
jason.boggs@ca.pwc.com  
+1 416 941 8311

### Diana Chant

PricewaterhouseCoopers (Canada)  
diana.chant@ca.pwc.com  
+1 416 365 8207

### Fernando de la Mora

PricewaterhouseCoopers (US)  
fernando.de.la.mora@us.pwc.com  
+1 646 471 5257

### Shyam Venkat

PricewaterhouseCoopers (US)  
shyam.venkat@us.pwc.com  
+1 646 471 8296

## Asia/Pacific

### Christophe Cadiou

PricewaterhouseCoopers (Japan)  
christophe.cadiou@jp.pwc.com  
+81 3 6266 5699

### Cameron Evans

PricewaterhouseCoopers (Thailand)  
cameron.evans@th.pwc.com  
+66 2344 1185

### Richard Groves

PricewaterhouseCoopers (Australia)  
richard.groves@au.pwc.com  
+61 2 826 61499

## Chris Matten

PricewaterhouseCoopers (Singapore)  
chris.matten@sg.pwc.com  
+65 6236 3878

## Europe

### Richard Barfield

PricewaterhouseCoopers (UK)  
richard.barfield@uk.pwc.com  
+44 20 7804 6658

### Patrick Fell

PricewaterhouseCoopers (UK)  
patrick.w.fell@uk.pwc.com  
+44 20 7212 5273

### Simon Gealy

PricewaterhouseCoopers (UK)  
simon.gealy@uk.pwc.com  
+44 20 7212 3513

### Ullrich Hartmann

PricewaterhouseCoopers (Germany)  
ullrich.hartmann@de.pwc.com  
+49 175 265 0 257

### Monika Mars

PricewaterhouseCoopers (The Netherlands)  
monika.mars@nl.pwc.com  
+31 20 568 4537

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