



Petrou Basel Comment: Effort to Improve Simplicity, Comparability Will Backfire

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Attached is the comment letter filed today by Federal Financial Analytics to the Basel Committee on a consultation seeking to improve the simplicity and curability of global capital rules. “We can’t say enough good about the goals,” said Karen Shaw Petrou, managing partner of the firm. “However, the proposal falls so far short of them as in fact to heighten the complexity risk already dragging down financial markets and creating opportunities for ‘shadow’ firms.” The letter urges the Basel Committee of global banking regulators to:

1. not focus on complex measurements of simplicity and comparability in the capital rules. Instead, Basel should look across the spectrum of pending rules to identify their cumulative effect and unintended consequences so that a more coherent framework results;
2. measure Basel’s work not by these ambiguous goals, but rather by new success metrics not derived from how many rules or how many pages have been released. We recommend success metrics for safety and soundness, consumer/investor protection and financial inclusion; and
3. avoid the search for comparability across national borders, as national law and practice will inevitably differ. Basel’s potential solution to national discretion – increased authority to dictate practice – is, we believe, impractical and sure to be blocked in the U.S. Instead of issuing more rules and demanding that nations adhere to them, our comment urges Basel to step back and, in conjunction with the Joint Forum of insurance and securities supervisors, craft a prudential regime that reflects the cumulative impact of all of these rules, the national practices that necessarily make them different across borders, and resulting regulatory arbitrage opportunities from so complex a framework.

“It’s critical that Basel consider capital, liquidity, and resolvability rules as a whole” Petrou said. “The last of these criteria – resolvability – is the most critical one since it in practice does not matter how little capital a financial institution has if only its shareholders and creditors are put at risk. For Basel to focus solely on ‘simplicity’ and ‘comparability’ in the risk-based capital rules is,” she continued, “to miss the elephant in the room.”

If you have any questions or need additional information, reply by return e-mail or call 202-589-0880.

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