



October 11, 2013

*Submitted via email: [baselcommittee@bis.org](mailto:baselcommittee@bis.org)*

Mr. Wayne Byres  
Secretary General  
Basel Committee on Banking Supervision  
Bank of International Settlements  
Centralbahnplatz 2  
CH-4002 Basel  
Switzerland

**Re: Comment on Discussion Paper: “The regulatory framework: balancing risk sensitivity, simplicity and comparability”**

Dear Mr. Byres:

The Global Financial Markets Association (“GFMA”)<sup>1</sup> appreciates this opportunity to comment on the Discussion paper issued in July 2013 by the Basel Committee on Banking Supervision (“Basel Committee” or “Committee”) entitled “The regulatory framework: balancing risk sensitivity, simplicity and comparability.”

The Discussion paper steps back from the significant regulatory reforms introduced by the Basel Committee and member jurisdictions to consider the resulting complexity in capital adequacy requirements as well as the comparability of capital adequacy ratios across jurisdictions. The Discussion paper raises important questions about the capital adequacy framework (“the Framework”) including: whether reliance on risk-based capital at the core of the Framework appropriately balances varied objectives and the extent to which the framework strikes the right balance between simplicity, comparability, and risk sensitivity. The Discussion paper also asks for comment on nine specific ideas intended to improve simplicity and comparability in the international capital adequacy framework.

GFMA believes that while the risk-based capital framework is not perfect, all elements of it are sound and reflect years of study, practice, and enhancement. Further, GFMA agrees with the

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<sup>1</sup> The Global Financial Markets Association brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) in London and Brussels, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA. For more information, please visit <http://www.GFMA.org>.

Basel Committee that the risk-based capital framework must continue to evolve, and be updated frequently, to be consistent with changing markets, products, and institutions, and as understanding about how to better reflect risk in regulatory capital improves. As part of this, close attention to consistent implementation is warranted. Recent studies by the Basel Committee have identified a number of ways that the implementation of the risk-based framework creates different outcomes, driven by a range of factors including supervisory as well as bank choices and different risk profiles. While some differences may be acceptable, others call for a regulatory response.

GFMA's responses to the consultation questions are guided by some fundamental principles:

- **Risk-based capital requirements should have primacy in the international capital framework.** In the wake of the financial crisis, basing capital adequacy requirements on risk has become even more important, as governments and banks have endeavored to improve the resiliency of banks. Risk sensitivity is necessary to create an accurate risk sensitive measure of solvency and align risk-taking incentives.
- **Complexity is an integral aspect of international risk-based capital requirements.** While GFMA agrees that efforts to refine risk sensitivity over time have led to a highly complex regime, complexity is not inherently bad, but unnecessary complexity is. Considerations of how to balance simplicity and complexity should be centered on how to capture risk in a cost-effective and well-understood way.
- **Simplicity should not be an end in itself.** Simplicity as an objective is too broad of a concept. Without a more nuanced view, adherence to an objective of simplicity could result in unintended consequences, including inappropriate pricing of risk throughout the economy.
- **Regulatory consistency is not incompatible with some variability in risk weightings.** An effective risk-sensitive framework depends on uniform implementation; however, it must be recognized that different business practices and judgments will yield variations in risk-weighted assets that are appropriate and do not need to be eliminated. In fact, the Committee's recent trading and banking book reviews found that up to three quarters of variation among risk-weighted assets could be explained by underlying differences in the risk composition of banks' assets, as intended under the risk-based framework.

We provide below responses to the specific questions in the Discussion paper.

**Question 1: Does the current framework, with its reliance on the risk-based capital at its core, appropriately balance the objectives set out in paragraph 29?**

GFMA strongly supports the Basel Committee's belief that an internal-models based, risk-sensitive capital regime should remain at the core of the international bank capital framework. GFMA believes that the objectives enumerated in paragraph 29 and set forth below are largely met by the current risk-based framework, assuming that the leverage ratio remains in a backstop role:<sup>2</sup>

- *Objective: Produce a sound minimum standard of capital adequacy for internationally active banks but also be capable of application to smaller institutions.* The Framework indeed provides a sound minimum standard, particularly following the post-crisis revisions that strengthened the quality and quantity of capital. The Framework also is well-designed to apply to smaller institutions by virtue of the options for standardized approaches.
- *Objective: Deliver a well-understood measure of capital adequacy that is comparable across banks and over time.* Both of these concepts hinge on the risk-based framework being well-specified and consistently implemented – although even then it must be acknowledged that the Framework may not be well-understood by the general public. This objective is at the heart of this Discussion paper and we will have more to say on this below.
- *Objective: Support a reasonable level playing field.* The current Framework, where risk-based capital is the primary requirement, does support a level playing field, to a far greater extent, for example, than a simple leverage ratio would. In a level playing field, similar risk exposures would be subject to similar capital requirements -- a core feature of a risk-sensitive framework. Here too, however, the objective depends on consistent implementation of the Framework, which requires continued effort. We will make some suggestions about this below.

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<sup>2</sup> GFMA joined several trade associations in providing comments to the Basel Committee on its June 2013 Basel III leverage ratio framework and disclosure requirements consultation. The September 20, 2013 letter, which can be found at [<http://www.gfma.org/correspondence/item.aspx?id=536>], agrees with the Basel Committee that the leverage ratio should remain in a backstop role, and that the proposed revisions undermine that goal.

- *Objective: Take into account the effects of capital requirements on banks' risk-taking incentives; e.g. when faced with regulatory constraints on their capital (and therefore the size of their balance sheet), to seek higher-risk assets as a means of boosting expected returns.* This objective is met by the Framework, as aligning capital requirements with risk is aimed at avoiding such distortions in risk-taking incentives.
- *Objective: Promote improved risk measurement and management within banks.* The risk-based capital regime has created or strengthened the tangible incentives for robust risk measurement – and indeed has resulted in banks making significant strides in the measurement of credit, market, and operational risk. We strongly urge the Committee continue to encourage and support the use of internal models. Risk management improvements have also been underscored through Pillar 2 and through thoughtful application of “use” tests.

***Question 2: Are there other objectives that should be considered in reviewing the international capital adequacy framework?***

GFMA believes that any regulation should include cost effectiveness among its objectives. Thus, regulation should incorporate the concept of proportionality, ensuring that the regulation is suitable to achieve the identified aim and that it is the least restrictive alternative available to achieve that aim. Not achieving this objective risks unduly constraining markets. If the regulatory cost of conducting some activities is too high, banks could retreat and undermine market liquidity. GFMA also believes the Committee should consider, as an element of cost effectiveness, the impact of the capital framework on economic growth and job creation.

The Discussion paper's focus on simplicity over complexity may partially reflect an objective of cost effectiveness, but in fact there is a distinction between complexity that is justified by policy objectives and complexity that is unnecessary. We discuss this further under Question 4.

GFMA believes a final objective important to consider is that of regulatory consistency over time, or regulatory stability. When the regulatory framework is in flux it creates uncertainty that can have a dampening effect on markets. Moreover, there are real transition costs to adjusting to significant changes in regulation. This is not to say that the Framework should never change. On the contrary, regular updates are appropriate to keep the risk weights and methodologies current and working as intended. Any fundamental change in the approach, however, should be weighed against the costs it imposes.

***Question 3: To what extent does the current capital framework strike the right balance between simplicity, comparability and risk sensitivity, given the costs and benefits that greater risk sensitivity brings?***

GFMA believes that risk sensitivity of the capital framework is critically important, particularly as the global financial markets gain in complexity and speed of risk transmission. As we noted above, it is important for the Framework to be well-specified and consistently implemented, which takes on-going efforts on the part of the Basel Committee, individual supervisors, and the banks. We believe the Regulatory Consistency Assessment Program (RCAP) studies on risk weighted assets for market and credit risk represent a very constructive start in identifying steps that can be taken to harmonize the internal modelling framework further. We offer more thoughts and suggestions on this later in this response.

***Question 4: Which of the potential ideas outlined in Section 5 offer the greatest potential benefit in terms of improving the balance between the simplicity, comparability and risk sensitivity of the capital adequacy framework?***

1. *Explicitly recognizing simplicity as an additional objective*

GFMA believes that simplicity is desirable, and that no regulatory framework should entail unnecessary complexity. However, GFMA fears that in the complex environment of the modern global financial system, the intuitive appeal of simplicity may unduly shift the balance of regulatory policy away from the other more important objectives of risk sensitivity and comparability, and possibly the overarching goal of financial stability. For example, two simple measures regularly proposed, the leverage ratio and a renewed emphasis on standardized approaches to risk-weighted assets, fail to recognize significant differences in risk profiles through their incorporation of very crude assumptions. Both measures, for example, treat lending to a start-up or to an established multinational as equivalently risky. As both measures treat high-risk and safe assets similarly for capital purposes, perverse and powerful incentives are created for banks to take on higher risk profiles. If the Basel Committee allows simplicity to trump risk sensitivity and comparability, the result is inappropriate pricing of risk, and the cost would be dear – less lending in low-risk asset classes and a corresponding increase in risk to the financial system as a whole, both generating undesirable knock-on effects in the broader economy.

Appropriately, the Discussion paper does not propose that simplicity should be the most important objective – only that it be recognized as an explicit objective alongside others. Still, the concept of simplicity may need to be sharpened if it is not to have unintended consequences. We would suggest that the two complementary objectives of *well understood* and *cost effective*, while overlapping with simplicity, might provide more clarity on the true objective and ensure that simplicity is not adopted just for simplicity's sake.

We acknowledge that complexity affects the supervisory process and that supervisory resources are required for validating internal models. Given real world complexity this is unavoidable, and should not be an argument for unduly simplifying the regulatory framework, though we recognize that it should be unnecessarily complex either. Internal models are created to assess and measure risks. Supervisors need to have a level of understanding of those models and a well-understood framework for assessing the models and model governance. GFMA believes that supervisors and policy-makers need to stand behind the veracity of the models they have reviewed to support the credibility of the regulatory framework.

## 2. *Enhancing disclosure*

The Discussion Paper suggests enhancements to disclosure to aid comparability of capital adequacy measures over time and across banks. Along with considering recommendations recently made by the Financial Stability Board's Enhanced Disclosure Task Force ("EDTF") and those that will be made by a recently established working group regarding Pillar 3 disclosure, the Basel Committee suggests concrete disclosures they believe would improve understanding of model inputs and outputs.

While transparency is very important, disclosure must be balanced with confidentiality concerns and also cost/benefit considerations. Banks are facing significant increases in demands and requirements for reporting and disclosure, from the FSB's wide-ranging G-SIB data template to a myriad of new domestic and regional requirements. Often these initiatives are not coordinated or aligned. GFMA supports the approach that the FSB took with the EDTF, which included banks, and stakeholders such as bank analysts, to consider what data would be both feasible and useful to disclose about risk.

Additional disclosures will be considered by the Pillar 3 working group, and this is appropriate as many revisions have been made to the capital framework. We encourage the working group to consider carefully the costs of the disclosures, the benefits to users, and whether the objectives of potential new disclosures are already being met by some of the many data initiatives already underway.

GFMA supports higher quality disclosures that allow meaningful comparisons between firms. However, we caution against requiring disclosure that will not facilitate meaningful comparison between firms. For example, disclosure of the results of standardized calculations will only serve to highlight how standardized models are less finely calibrated, therefore yielding different outcomes, and will impart no information about the quality of a firm’s internal model. Similarly, disclosure of the results of hypothetical portfolios will only be useful when the portfolios have been sufficiently defined and tested, and the exercises are sufficiently targeted to identify the real drivers of RWA differences, to help determine what are acceptable and unacceptable modeling choices and variations in RWA. GFMA supports disclosure of appropriately defined measures of model performance.

### 3. *Using additional metrics*

The Discussion paper proposes additional metrics to assess banks’ solvency, including a standardized suite of resilience measures. GFMA supports the principle behind adoption of a resiliency suite, to avoid over-dependence on individual measures (including the leverage ratio) as indicators of bank resilience. In fact, banks have always monitored risk in a number of ways, including with models.

However, GFMA does not believe it is practical – or helpful – to mandatorily add the proposed measures to banks’ existing supervisory disclosure obligations. Market participants can easily create many of the proposed metrics with publicly available data more regularly, and in a more timely fashion, than banks can provide through their supervisory disclosure processes.

If the Basel Committee decides to develop a standardized suite of resilience metrics and related disclosure obligations, GFMA suggests these be developed in line with other supervisory reporting initiatives such as the FSB G-SIB data template and similar regional initiatives, other emerging disclosure requirements, and in consideration of banks’ reporting burden. Moreover, any additional metrics should be risk-sensitive to avoid confusing investors and regulators by providing metrics that appear simple but mask risk.

### 4. *Ensuring the effectiveness of the leverage ratio*

The Discussion paper notes the current Basel leverage proposal issued in June, and also puts forward other ideas to “ensure effectiveness of the leverage ratio.” These include adopting (1) a “buffer” structure for the leverage ratio similar to that being implemented for risk-based capital requirements; and (2) stronger leverage ratio requirements for G-SIBs.

The intended role of the leverage ratio under Basel III is to serve as a backstop to the risk-based ratio. GFMA strongly supports the risk-based approach to capital and is concerned about any proposals that would result in a leverage ratio becoming a binding ratio rather than a backstop for some or all banks, for some or all of the time. Increasing the stringency of the leverage ratio through the use of buffers, or increasing requirements for G-SIBs, would expand the role of the leverage ratio and could undermine the public policy benefits of the risk-based approach. If this happened, virtually none of the Basel Committee’s objectives set forth in paragraph 29 of the Discussion paper would be met. Rather than balancing the objectives of risk sensitivity, simplicity, and comparability, the leverage ratio as currently proposed is deficient in each dimension: it is not risk-sensitive, it is not simple – the denominator is in fact quite complex – and it does not result in comparable results due to the inconsistencies in the way the denominator captures exposure.

Finally, for reasons described above, GFMA believes that giving a “simple” leverage ratio a primary role in the capital framework would only mask the real complexity of banking, in ways likely to lead to new risks and economic distortions.

5. *Utilizing additional floors and benchmarks to mitigate the consequences of complexity*

Retaining the risk sensitivity of the capital framework is not only important for ensuring that capital is commensurate with risk, in individual banks as well as the system as a whole, but also to maintain incentives for banks to continue to improve their risk measurement and management systems. GFMA believes that any steps toward implementing additional floors and benchmarks could undermine this goal, and would not lead to additional simplicity or comparability, for several reasons.

First, many floors, benchmarks, and other safeguards against model risk already exist in the capital framework. A rigorous global leverage ratio has been adopted, although the specific definition is still being finalized. Pillar 2 has since its inception been a safeguard against the potential of risks not being reflected correctly in the Pillar 1 calculations, and it is being strengthened by the stress testing requirements implemented or under development in many jurisdictions. And, as the Discussion paper notes, there are many floors embedded within the credit and market risk model requirements themselves.

Moreover, additional floors or similar safeguards against model risk do not improve comparability of outcomes. On the contrary, such constraints could mask true variations in risk,



and would not necessarily assign the correct risk weight or capital level to variations in risk that are due in whole or in part to model risk. This would also lead to the mispricing of risk, and therefore misallocation of economic resources.

In addition, establishing floors or benchmarks is itself a calibration decision that would have to be either model or judgment based. This also has risk of error, but this error would not be subject to back-testing, model validation or other type of corrective mechanism.

Additionally, and related to the above point, imposing additional constraints on the modelling of credit or market risk, as the Discussion paper acknowledges, could reduce the incentives for banks to develop and maintain sophisticated risk measurement and management models. This trade-off should not be taken lightly. First, it must be recognized that banks have always managed themselves on a variety of bases, including strategic objectives, internal limits and investor demands, in addition to regulatory constraints. Undue regulatory restrictions such as model constraints have the potential to overtake these other important considerations. Second, the advent of the internal models based approaches in Basel II, coupled with parallel supervisory urging, prompted large banks to make significant strides in risk modelling, and development of data and systems. The state of risk modelling is still a work in progress, but its role in the capital framework provides a continual motivation for improvements and refinements in models and model risk governance.

Furthermore, we caution against the imposition of model constraints with the objective of providing additional comfort that risks are adequately capitalized. That is, conservatism should not be built in to risk models. Accuracy (i.e. risk sensitivity) should be the primary objective of the RWA calculation. Conservatism to ensure adequate capitalization should be achieved through the minimum capital ratio requirements. Where there is uncertainty around a modelled variable (e.g., for portfolios with less quality data) the best modelled outcome should be used. Introducing conservatism to the RWA calculation will not only result in a double-count, but also decrease the comparability of RWA figures where different degrees of conservatism are applied.

Conservatism would be more effectively introduced by the use of buffers. These additions would not restrict models and decision-making the way floors would and, accordingly, would not hinder comparability or restrict ability for risk managers to meet 'use test' requirements. Relying on add-ons or overlays for adjustments allows internal models to more richly capture risk, and which can then be adjusted for supervisory purposes; in contrast, with the use of floors, model estimates are restricted, inhibiting their usefulness for internal risk management and forcing some decoupling of internal and supervisory risk management models.

GFMA does not support imposing additional model constraints, but believes that we need to be constantly vigilant about addressing improving the methodology, the assumptions, and the risk weights in the risk-based framework. We welcome, for example, the development of the Non-Internal Model Method. GFMA believes that the Framework is fundamentally sound, but that several steps can be taken to improve and update it. We provide a suggested way forward under Question 5.

*6. Reconsidering the linkage between internal and regulatory models*

The Basel Committee asks whether internal risk management models and regulatory capital models are fundamentally compatible, given the former's focus on maximizing risk-adjusted returns and the latter's focus on estimating tail risk to creditors and the financial system. The Committee also asks whether use tests should be refined so that certain links between internal regulatory models (e.g. conceptual foundations, data sources) are strengthened and other elements (e.g. confidence levels, time horizons) are severed.

As we have said earlier, GFMA believes that there is great benefit to alignment between regulatory measures of risk and banks' internal risk measures. Whether regulators intend it or not, risk-based capital regulations influence business decisions heavily and GFMA believes that regulations that stray from internal risk practices in a material way could create perverse incentives or, perhaps worse, make it more difficult for management to truly understand the bank's risk profile. GFMA does not consider it appropriate for internal and regulatory models to diverge greatly.

As we indicated above, if regulators want to build in more conservatism into models, it should be accomplished using buffers, so risk sensitivity can be retained. This would also facilitate application of the use test. In addition, we do support looking at ways that the use test can be made more user-friendly. It should not be a source of uncertainty to banks, but rather simply a principle of the capital framework that internal risk models should align with those in the risk-based capital rules. Where there are differences between internal model results for risk based capital purposes versus those for risk management, these should be justified by business reasons.

*7. Limiting national discretion and improving supervisory consistency*

The Basel Committee, in part building on recent research demonstrating that discretion of national supervisors can have a material impact on the outcomes of capital calculations, is undertaking a review of current uses of national discretion to assess the need for, and extent of,

their use. The Discussion paper also proposes building a database of discretions and their use to aid comparison.

GFMA supports the Basel Committee's efforts to systematically consider national discretion in the international framework, both formal and informal, and create a database cataloguing these. GFMA believes this exercise will be useful, particularly if supervisors were required to explain the rationale for the exercise of national discretion. Clearly supervisors should retain the ability to use appropriate discretion in dealing with individual institutions, but national and regional implementation of the Framework should be harmonized. In addition, banks should be permitted to disclose how their capital calculations per national requirements compare to such calculations under a literal application of Basel III.

GFMA also supports select recommendations outlined in the Basel Committee summaries of the trading book and banking book reviews conducted as part of the RCAP, such as harmonizing supervisory practice and national implementation requirements. GFMA believes additional study of potential approaches to harmonization and implementation suggested by those reviews would help the Basel Committee strike the right balance between comparability and risk sensitivity. Another important goal will be preserving the effectiveness of internal models in identifying the relative riskiness of different exposures and portfolios.

GFMA also recommends that to improve supervisory consistency in the application of the framework, and therefore reduce a significant source of the variation of RWAs across firms as identified by the Basel reviews, the Basel Committee should work to standardize implementation approaches across jurisdictions, particularly on model assessment and approval, to guide application of the Basel framework by the different national supervisors. GFMA understands that this may be one of the outcomes of the RCAP, which GFMA fully supports.

Finally, GFMA recommends additional review of the impact of supervisory discretion on capital ratio calculations, such as the impact of Pillar 2 practices (like those used to compensate for deficiencies in Pillar 1), their scope for intervention in setting specific model attributes, and the extent to which these are applied in some jurisdictions but not others for similar given portfolios.

#### *8. Improving the accessibility of Basel Committee documents*

GFMA appreciates the accessibility that currently exists on the Basel Committee website and welcomes the fact that Basel Committee has initiated a process to consolidate all the Basel

standards into a single, accessible, structured set of documents. We also welcome the Committee's work to supplement this with improvements to the website, designed to make the standards even easier to find, navigate and understand. GFMA believes this will be very useful and strongly encourages the Basel Committee to continue its work here. We recommend that as part of this initiative, the Basel Committee publish a comprehensive version of the Basel III capital rule.

*9. Addressing factors driving complexity in a more fundamental manner*

The Basel Committee describes longer-term thinking that could include a fundamental re-examining of the factors that drive complexity in the Framework. Fundamentally different approaches to capital adequacy that could be explored include using tangible leverage measures, moving towards the coupling of a leverage ratio and standardised risk-based asset approach, or using a pre-commitment approach that would require banks to keep capital above a threshold multiple of their income volatility. The Committee also describes moves to rebalance the weight of the three pillars of Basel and to reduce future banking risk and complexity.

GFMA considers this thinking highly premature. Admittedly, any new approach to the international capital adequacy framework would take a good deal of advance thought and research, but the implementation of Basel III is at a very early stage. As we noted earlier, there is a cost to constantly changing regulation, including transition costs as well as market uncertainty. In addition, many other significant areas of financial reform are only beginning to take hold, including revisions to resolvability regimes and approaches, significant revamping of market infrastructure for numerous types of banking transactions, structural reforms such as limits on trading activities, just to name a few. There are so many moving parts that it would be impossible to conduct valid research and analysis on the impact of additional fundamental changes until the current revisions begin to take hold.

When fundamental revision does take place in the future, GFMA encourages the Basel Committee to take into consideration the impact of the many regulatory improvements noted above on the soundness and resilience of the banking system, including the reduced systemic risk brought about by improvements in resolution regimes.

***Question 5: Are there other ideas that the Committee should consider?***

We believe that greater convergence in the detail of risk-weighting techniques and other aspects of supervisory and industry practice, carried out in a way that maintains risk sensitivity and respects the differences arising from different risk management practices and outcomes,

and bolstered as appropriate by increased disclosure, will lead to a framework that enhances comparability while maintaining the correct incentives for improved risk management and risk sensitive capital allocation. GFMA believes the Basel Committee's emphasis should be on continued refinement of the internal-models based approaches of the risk based capital framework. This emphasis will result in a strengthened capital framework that can and should remain as the core of the international capital regime.

GFMA recommends that:

- The Basel Committee continue to investigate the variations in supervisory practices, including the use of caps and floors applied to model parameters or to risk-weights and practices related to Pillar 2 implementation, and take steps to reduce these differences.
- The Committee consider enhancing periodic “hypothetical portfolio exercises” to be global and representative of actual portfolios. These exercises should strive to be as granular as possible, in order to identify the real drivers of acceptable and unacceptable differences in modelling choices and outcomes. The results of such exercises could be reported to supervisors, who could take appropriate actions when particular banks exhibit results that are materially different from what supervisors might expect. The findings could be made public – not for individual banks but overall results or trends of concern – which could have a salutary effect on public understanding of the capital framework and bank risk management as well.
- Finally, there are some specific areas where revisions or interpretations of the framework would be helpful to reduce practice variations such as:
  - Definitional issues related to the interpretation of concepts such as ‘downturn’ or ‘long run.’
  - Differences that relate to modelling approaches, such as the interaction between ratings philosophy and risk estimation, or the selection of discount rates for recovery cash flows.
  - The treatment of common issues that arise with historical data, such as whether obligors include subsidiaries as well as parents, how to treat data on clients who leave the bank during the analysis period, or what constitutes a ‘cure’ on a troubled exposure.
  - Differences in the length of data series used in calibration of value-at-risk (VaR) models for market risk capital, and the specific time periods used to define Stress VaR.

As we noted earlier, the Basel Committee has identified a number of these and other drivers of differences in risk model results. As the Committee moves forward to address these differences, it will be important to distinguish between aspects that reflect necessary differences due to individual bank judgments and risk management approaches, and needless differences that arise primarily from differences in interpretation or implementation by banks or by supervisors. A careful, thoughtful approach to convergence that reduces unnecessary variation in the range of practice would help reduce inappropriate variation in model results without compromising the benefits of, or reversing the progress brought about by, the internal models based capital framework.

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In conclusion, GFMA appreciates the Committee's efforts to consider the trade-offs inherent in developing and maintaining a global capital framework. GFMA requests that any modifications the Committee makes to the Framework preserve the primacy of risk-based capital requirements over apparently simple but less risk-sensitive measures; embrace simplicity only when it complements other, more important objectives like risk-sensitivity and comparability; consider the impact to institutions – as well as job creation and economic growth – of ideas proposed; and accept that variability in risk sensitivity is a feature of a risk-based framework and is not incompatible with regulatory consistency.

GFMA has a number of ideas of how the Committee can refine the capital adequacy framework in a manner that builds on the years of study, practice and enhancement that have shaped it. We look forward to working with the Committee on these important issues. If you have any questions or need further information, please contact any of the following: David Strongin, Interim Executive Director, Global Financial Markets Association, at 1 212-313-1213 or [dstrongin@sifma.org](mailto:dstrongin@sifma.org); Michael Lever, Managing Director – Prudential Regulation, Association for Financial Markets in Europe, at 44 (0)20-7743-9358 or [michael.percival@afme.eu](mailto:michael.percival@afme.eu); Carter McDowell, Managing Director and Associate General Counsel at the Securities Industry and Financial Markets Association, at 1 202-962-7300 or [cmcdowell@sifma.org](mailto:cmcdowell@sifma.org);

Sincerely,

A handwritten signature in black ink, appearing to read "David Strongin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

David Strongin  
Interim Executive Director  
Global Financial Markets Association