Press release

GFMA, ISDA, IACPM and JFMC respond to the Basel Consultation on Internal Risk Models

June 22, 2016

London – June 22, 2016: The Global Financial Markets Association (GFMA), along with the International Swaps and Derivatives Association, Inc. (ISDA), the International Association of Credit Portfolio Managers (IACPM) and the Japan Financial Markets Council (JFMC), today responded to the Basel Committee on Banking Supervision's consultation on *Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches.* The full response is available here: http://gfma.org/correspondence/item.aspx?id=820.

The response highlights that the proposals amount to "the most significant conceptual change to the capital framework since the advent of Basel II, and, rather than improve the measurement and understanding of risk, would more likely do the opposite". The Basel Committee's previously stated objective of maintaining risk sensitivity is missing from the present consultation.

The response notes that the removal of risk sensitivity would distort capital allocation decisions and pricing to the detriment of banks' customers and the global economy. Corporate lending, capital markets activity, project finance deals, aircraft, shipping finance and commodities finance, all necessary to support investment and economic activity, would be particularly affected by the proposals. Moreover, economies where market financing is still developing would also be likely to feel these effects more acutely. Consequently, these proposals are inconsistent with the pursuit of the growth agenda at the global level.

The response raises concerns that the cumulative effects of the current suite of Basel Committee proposals are all leading to increased risk-weighted-asset levels, with decreasing marginal benefits for society. A comprehensive analysis is required to avoid disproportionate and unnecessary increases in capital requirements.

The objectives set out in the consultation can be achieved without restricting internal modelling in the way and to the extent proposed. This is particularly true as major investments on the part of both industry and the regulatory community are under way to reduce unwarranted differences in modelled outcomes. These efforts should be allowed to take effect before fundamental changes are introduced.

The Associations put forward a number of alternatives for the Basel Committee to consider – for example, a constrained-IRB approach for exposures to banks and other financial institutions, where probability-of-default and loss-given-default risk parameters are set at regulatory prescribed levels.

For exposures to corporates, where there is sufficient data, including pooled data, internal modelling approaches should be retained across the board. The response also recommends that firms be allowed to continue modelling their specialised lending exposures when they can prove that they have the expertise and specialism required to structure and monitor these deals appropriately.

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As the proposals currently stand, they are more likely to increase the complexity of the capital framework and reduce comparability between firms. It is in the economy's best interests to maintain real internal models. The Associations' key concerns and alternative suggestions are set out in more detail in their full response.

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About the GFMA:

The Global Financial Markets Association (GFMA) 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, visit http://www.gfma.org.

About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 850 member institutions from 67 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

About IACPM

The International Association of Credit Portfolio Managers (IACPM) is an industry association established in 2001 to further the practice of credit exposure management by providing an active forum for its member institutions to exchange ideas on topics of common interest. Currently, there are over 90 financial institutions worldwide that are members of the IACPM. These institutions are based in 20 countries and include many of the world's largest commercial wholesale banks, investment banks and insurance companies, as well as a number of asset managers. The Association represents its members before regulatory and administrative bodies in the US and internationally, holds bi-annual conferences and regional meetings, conducts research on the credit portfolio management and risk management related issues, and works with other organizations on issues of mutual interest relating to the measurement and management of portfolio risk. For more information about IACPM, please visit http://www.iacpm.org.

About JFMC

The Japan Financial Markets Council (JFMC) is an association which includes representatives from five Japan-based institutions and five international firms active in Japanese capital markets. Its aim is to ensure that authorities deciding on regulatory initiatives that have a global impact are aware of and take into account the effect of new regulations on Japanese capital markets. For more information: http://www.japanfmc.org/