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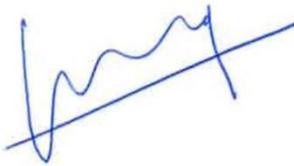
Reference NVB response to the Basel Capital Floors consultation

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz2, CH-4002 Basel , Switzerland

Dear Sir/Madam,

We welcome the opportunity to provide feedback on the consultative document “**Capital Floors: the design of a framework based on Standardised Approaches**” and look forward to an ongoing constructive engagement on this topic. Please note that we will submit a separate response document related to the Revised Standardised Approach for Credit Risk consultation.

Sincerely,



Eelco Dubbeling
Managing Director
Dutch Banking Association

Some Dutch banks contributed to the response letters of IIF, IBfed and EBF; therefore to a large extent we underpin their responses. Next to these responses we also would like to emphasize on the Dutch context through this response letter.

In the following sections we provide our response to the consultation document, attempting as far as possible to be explicit in the solution we would like to see. The document is divided into a succinct executive summary with a supporting annex that includes more detailed arguments and supporting analysis.

Executive Summary

1. Capital floors are not necessary

Basel III addressed many of the shortcomings of Basel II that surfaced during the downturn. There are multiple anchor points in the current Basel III suite (e.g. RWA, Leverage Ratio, Stress Test results, EBA Benchmarking exercises, TLAC & MREL, ICAAP & SREP process, quarterly and annual reports, including Pillar 3 disclosures). All these anchor points together form a robust and complete set of tools to assess the financial position of an institution. Supervisors make good use of these different metrics. From this perspective, capital floors based on Basel III Standardised Approach (SA) are not required

2. The impact of capital floors on the Dutch market could be very severe

Based on a quantitative impact study, the 3 largest Dutch banks estimate that the proposed changes to the capital floor would reduce their own funds ratio by 45–60%. Based on the combined effect of the capital floors and the SA revision proposals, we expect there would be a significant squeeze on available capital, reducing lending to SMEs and residential mortgages particularly, with an impact on economic growth and job creation

The primary driver of this impact is the difference between SA and Internal Ratings Based (IRB) risk weights for residential mortgages and corporates. Please see annex example 1 for more detail

3. The capital floor proposals are not sufficiently detailed for an adequate consultation process

There is insufficient information in the consultation document to support an adequate consultation process. In particular: the method and level for the calibration of the floor; the definition of risk category; and the downstream implications for related elements of the capital adequacy and liquidity frameworks are entirely unclear in the document. Furthermore, it is impossible to adequately comment on the potential for a capital floor based on standardised risk weights before the Standardised Approach framework has been completed. **As such it is absolutely clear a second round of consultation will be required once the framework is adequately specified**, including finalization of the Standardised Approach changes

4. No change should be made in implementation vs. the existing Basel I floor

The NVB and its members feel very strongly that the approach to applying (as opposed to calculating) the capital floor should remain consistent with CRR article 500 (1) (b)¹: all banks should be verified as having sufficient own funds to meet the capital floor requirement without any adjustment being applied to reported RWA levels calculated using IRB models (please see annex example 2); and the floor should remain as a temporary backstop to be removed once there is confidence in the implementation of IRB under Basel III. This aspect is not explicitly addressed in the consultation document, however we feel it is an absolutely essential design principle that should be made explicit. This is most particularly because:

¹ [Banks] shall hold own funds which are at all times more than or equal to 80 % of the total minimum amount of own funds that the institution would be required to hold under Article 4 of Directive 93/6/EEC as that Directive and Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions (1) stood prior to 1 January 2007

- Making direct adjustments to RWA calculations would create a host of wrong incentives for banks (please see annex examples 3–5)
 - There will be a reduced incentive to reduce risk through product structuring (i.e. the inclusion within loan arrangements of certain risk mitigating features such as collateralization or use of trade finance type structures)
 - Within a risk category, there would be a strong incentive to increase economic risk per unit standardised RWA wherever a capital floor bites
 - Banks will have reduced incentives to improve risk frameworks or maintain risk models in some areas if the output of models is overridden
- Adjusting RWAs would make it much more difficult to compare RWA levels, and in particular, understand RWA projections from banks in, for instance, future EBA stress tests. If capital floors have a direct impact on CET1% metrics then this could have significant unintended consequences for triggering of contingent capital instruments.

The capital floor should be applied at the highest level of consolidation within the prudential perimeter only. Capital floors at the legal entity or business level should not result in increases to the available funds requirement. (Please see annex example 8)

5. **A sufficient evidence base is necessary before making any change to calibration**

In contrast to many of the other changes that have been made to the capital adequacy framework, no empirical evidence has been presented that changing the calibration of the capital floor would have had any material impact on the likelihood of failure of banks through the downturn. With the host of other changes that have tightened the requirements on banks, it is even less likely to be the case in the future. **Before a change that could have a range of unintended consequences is made, an evidence based justification of the benefits should be provided to the full range of stakeholders**

6. **The capital floor proposals are not coherent with other elements of prudential regulation**

There is a lack of coherence between the capital floor proposals and other elements of the capital, liquidity and accounting frameworks. As examples:

- Capital floors disproportionately impact low risk institutions – particularly those which have limited exposure to Pillar 2 risks (please see example 6 of the annex)
- There are a range of technical details within the capital floor approach that are extremely important but unclear how they will be dealt with. For instance there is no Standardised Approach treatment for the Supervisory Formula Approach
- The downstream implications for other elements of the prudential framework are not clear
 - e.g. if capital floors apply, will the CCF used in the leverage ratio also be changed? What will be the implications of the recent consultation document on accounting for expected loss?

It is essential that these and other related questions are adequately addressed in a second round of consultation

7. **The economic impacts of any change to calibration will be significant**

A more stringent capital floor (both in terms of higher standardised risk weights and/or higher floor levels) will have a range of negative economic characteristics:

- The potential unintended consequences for behaviours are severe including: (a) disincentive to improve and maintain risk models; (b) reduced incentive to use product structuring (collateral, seniority, etc.) to reduce risk and (c) allocation of economic capital towards higher risk exposures (where risk is not captured in the standardised risk weights) (please see annex examples 3–5)
- There are also a range of public policy issues that would arise from the recalibration of capital floors:
 - Capital floors will distort capital allocation decisions - capital will be redeployed from key areas of the financial markets where capital floors bite (e.g. SME and in particular trade finance) (Please see annex example 4 for an illustration of how the capital floor could hit the trade finance segment)
 - As a consequence, economic growth and job-creation will be hit
 - Capital floors are likely to exacerbate the already substantial shift in credit risk to the non-bank sector – lending via investment funds in NL has increased by 18% CAGR² over the last 4 years (please see annex example 7). Given the non-bank sector is not subject to the same degree of supervision as banks, a shift may limit the impact of macro-prudential regulation. Consequently, there is also significant potential detriment for borrowers and retail investors

8. Implementation will take time

The proposed changes to the Standardised Approach will take significant time for banks to implement in systems. A bank cannot change its capital floor calculation to use SA risk weights before it has implemented the revised Standardised Approach. Similarly, the impacts of any change to the capital floor on own funds requirements will not be known until implementation is complete – appropriate time will naturally be required to address any additional own funds requirements that result from the changes

9. Prerequisites for any adjustment to the capital floor framework

In conclusion we are strongly of the view that any changes made to the capital floor framework should respect the following prerequisites:

- Further consultation will be required following a more fully detailed proposal from BCBS
- The application of the capital floor will be consistent with article 500 (1) (b) of CRR IV: i.e. there would be no change to reported IRB RWA levels or deductions from own funds as a consequence of the capital floor framework. The capital floor will be used to test the sufficiency of own funds only
- The calibration will be set in a way that does not systematically increase the amount of capital in any one financial system/country (as this would be indicative of either an issue with SA calibration for the country or a systematic failing in the IRB model approval process)
- The floor would be applied at the highest level of consolidation in the prudential perimeter as a backstop, tested against available capital; i.e. the floor would not be applied at the product, business or subsidiary level

² Compound Annual Growth Rate

- The range of detailed technical questions around the framework will have been exhaustively considered and negative downstream implications avoided
- There will be sufficient time for consultation on the detailed approach following finalization of the Standardised Approach requirements. There will also be sufficient time to implement the changes and suitable transition arrangements

Annex – More detailed perspectives

1. Impact of capital floors in the Netherlands

- Although no calibration is yet provided in the capital floor consultative document, the Dutch banks are very concerned regarding the combined effect³ which could have a very significant impact and therefore potentially could negatively change the banking landscape for both our banks' clients and for the banking industry. Also, too restrictive floors would lead to a distorted and risk-insensitive allocation of capital (shift from low-risk towards high-risk assets and clients), with detrimental effect on economic growth in the European Union, and in the Netherlands in particular.

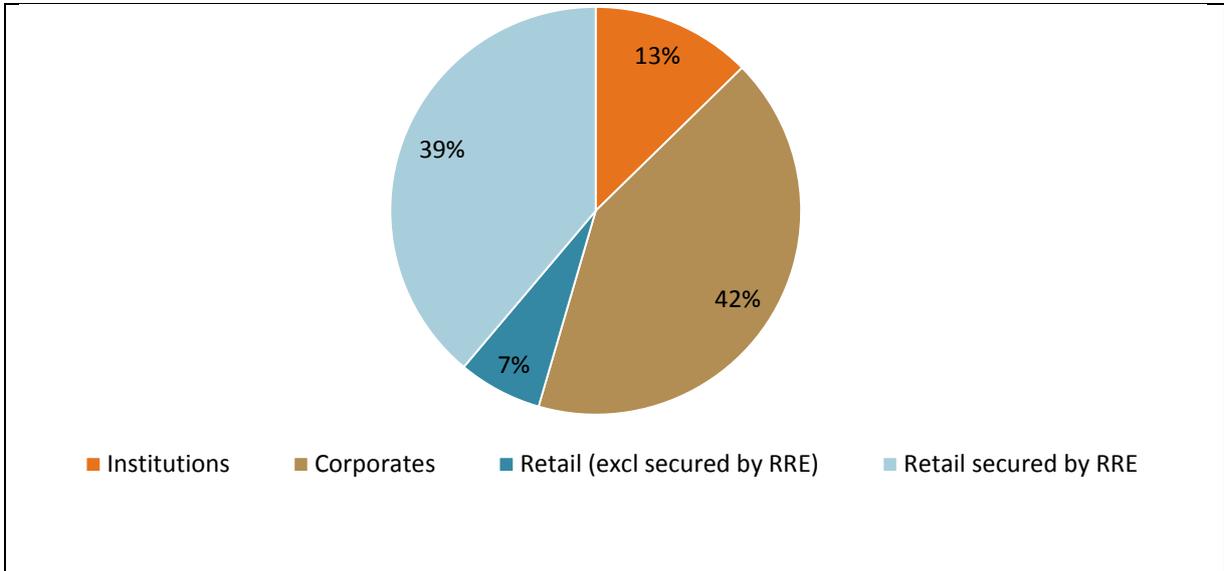
Example 1: Potential impact of proposals on NL banks

As stated in the executive summary, the proposed changes to the capital floors are estimated to have the potential to reduce own funds ratios by between 45% and 60% if applied to RWA

The bulk of the difference is driven by retail mortgages and corporates

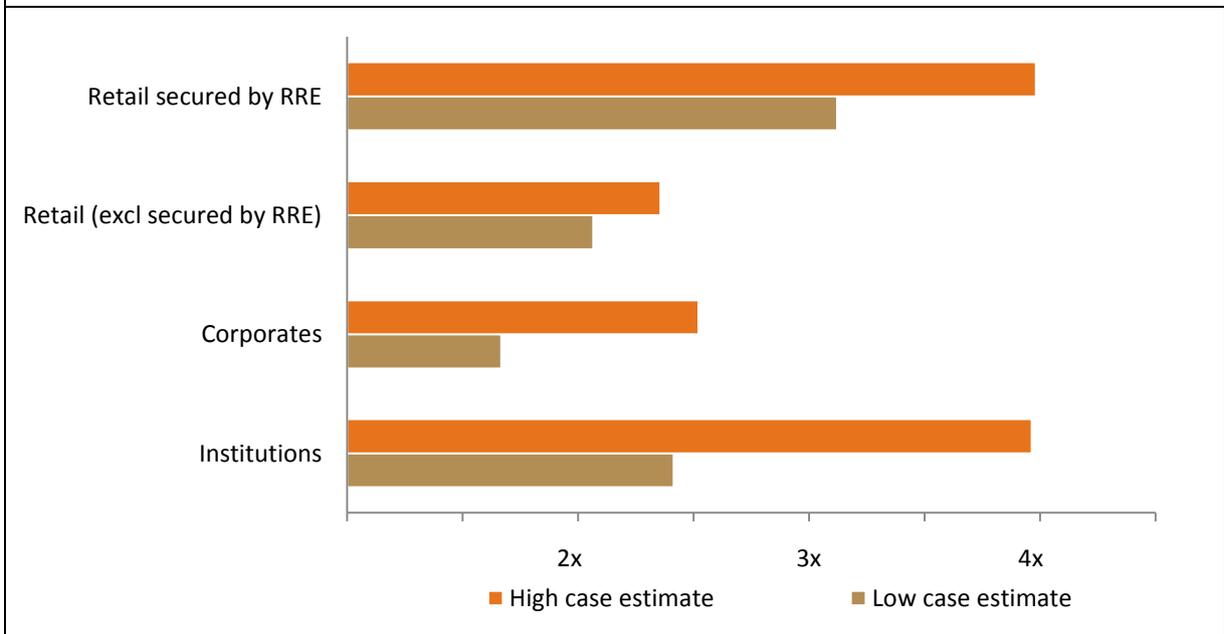
Breakdown of impact on own funds ratio by IRB segment (based on mid-point of high and low case estimates)

³The combined effect refers to both 1) the capital floors consultative document and 2) the revision to the Standardised Approach framework (also a BIS consultative document). The impact considers Credit Risk RWA only, and the upper end of this range is based on the floor being calibrated at 100% of the revised Standardised Approach result



The particularly large impact on retail mortgages and corporates is in part due to portfolio mix, but is also because of the particularly acute impact of the SA risk weights on the retail mortgage segment. Banks that specialise in residential mortgages are likely to be most impacted.

Estimate of % increase in Standardised Approach RWA and vs IRB RWA by segment (high case and low case)



2. Basel II to Basel III, multiple anchor points, good use of supervisory tools

2.1. Basel III addressed many of the shortcomings of Basel II that surfaced during the crisis

- a) We wish to stress the good progress the BCBS, European and National supervisors & regulators made, in co-operation with the banking industry, after the start of the crisis. Basel III broadened the scope of the rules, addressed the weaker points in the Basel II framework, and increased the capital and liquidity requirements. The current set of Basel III rules (both risk sensitive and non-risk sensitive metrics) provide a comprehensive and robust set of anchor points that facilitate a solid assessment of a single bank or a solid comparison between multiple banks with different risk profiles, business models and jurisdictions
- b) The impact of all these enhancements are reflected in the much higher CET1 ratios, generally positive stress test and AQR results, and the increasing leverage ratios, even though transition arrangements still apply

2.2. Multiple anchor points: together these metrics create a robust and complete overview

- a) There are multiple anchor points in the current Basel suite. Combining these individual information points provide an adequate dashboard to be used by any stakeholder: clients, financial analysts, depositors, debt holders, shareholders, supervisors, regulators, and other stakeholders to effectively assess the risk of a single institution and compare multiple institutions
- b) These anchor points are the various risk and non-risk metrics, such as the current Standardised Approach framework, the IRB framework, the Leverage Ratio, the quarterly and annual reports (including the Pillar 3 disclosures), TLAC & MREL, Stress Test publications, many Basel benchmark studies and the yearly ICAAP & SREP process (the latter only for supervisors). On the one hand every stakeholder might express perceived limitations to a single metric, on the other hand all these metrics combined complement each other and provide a robust and complete overview. In this context, a capital floor is not required: it would diminish the value of the IRB framework by “blending” it with the less risk sensitive Standardised Approach
- c) As a consequence we believe it is important that no change should be made to CRR article 500 (1) (b). Any adjustments to the capital floor framework should be consistent with this article. The implication of Article 500 (1) (b) is shown in the example below:

Example 2 Illustration of application of capital floor consistent with CRR IV article 500 (1) (b)

In the below example an illustration is provided around how the capital floor should be used to verify the bank has sufficient own funds (and not to adjust the RWA directly). Consider the following example

- RWA based on IRB models = €200 BN,
- Own funds = €30 BN
- RWA based on SA = €600 BN
- Own funds/RWA = 15.0%

It is assumed that, for the purposes of the example, the capital floor calibration is set at 80% of the SA RWA. For the purposes of the example it is assumed that the fully phased in own funds requirement is 8.0%. This implies that the bank needs to have sufficient own funds to meet €600 BN x 80% x 8.0% = €38.4 BN

In the example the bank does not have sufficient own funds and therefore would be required to raise a further €8.4 BN, improving its own funds ratio to 19.2%

2.3. Supervisors make good use of all the metrics available to them

- a) In the recent years the BCBS (and in Europe the EBA and recently the ECB) made good use of the tools to prevent or remedy potential shortcomings within individual institutions:
 - A. **Potential model flaws leading to too low risk weights:** significant changes to models processes, benchmark studies and the non-risk sensitive backstop: the Leverage Ratio
 - B. **Potential (risk) management weaknesses:** ICAAP & SREP
 - C. **Potential under capitalization in stress situations:** firm specific and industry wide stress tests
 - D. **Potential failing banks:** resolution tools (TLAC & MREL)
- b) All in all, with all the metrics currently available, and the good use that the BCBS (and European regulators and supervisors) make of these metrics, we see no benefit in creating an additional backstop measure, while we do see the potential negative impact of capital floors once it directly affects portfolios with lower risk and thus lower risk weights

3. IRB framework

According to the BCBS, the objective of the capital floor is to: **Mitigate model risk and measurement errors stemming from internally modelled approaches**

- a) We should be mindful of the positive push that the IRB framework gave to the risk management approaches of banks. The incentives to maintain these improvements should be retained. Capital floors however jeopardise this, as shown in the example below

Example 3: Illustration of disincentive to strengthen risk management organisations

In the example below the impacts on RWA of moving a standardised portfolio to IRB are shown. In the example, while the IRB risk weight for the SA portfolio would be lower than the SA risk weights, there would be no benefit from the migration as the capital floor is already binding and therefore reducing the IRB risk weight has no impact on the overall RWA

Illustration of reduced incentive to move portfolios from standardised to IRB

| | Exposure | Current Risk Weight | SA risk weight | Risk Weight if moved to IRB | RWA current | RWA SA | RWA if SA portfolio is migrated to IRB | RWA floor (assuming 80% calibration) |
|-----------------------|----------|---------------------|----------------|-----------------------------|-------------|--------|--|--------------------------------------|
| Standardised exposure | 200 | 100% | 100% | 60% | 200 | 200 | 120 | |
| IRB exposure | 1000 | 52% | 78% | 52% | 520 | 780 | 520 | |
| Total | 1200 | | | | 720 | 980 | 640 | 784 |

- b) In case of flaws or even in case of perceived flaws in the IRB framework, the actual IRB issues should be tackled via instructions to supervisors, or potentially by strengthening through law, rather than via crude floors. Most relevant areas for further strengthening of the IRB rules and reducing the variability of RWAs are shown below (with reference to the recent IIF proposals):

A. When to allow IRB models:

Set clear rules in which cases data is of sufficient quality and quantity to build a proper internal model. If too little data is available (low data portfolios): propose a prescriptive alternative

B. Rules for building models:

Provide more specific rules for example:

- Definition of default (DoD)
- How to measure day past due (DPD)
- Loss given default (LGD) discount rate
- LGD downturn definition (What is a downturn? How to factor it in a data set if it is missing? etc.)

- How to apply levels of conservatism (into models) given model uncertainty:
- Etc.

C. Determining when a model's results are adequate:

- Minimum requirements for back-testing results (When is it good enough? When should a portfolio be migrated to FIRB or even SA?)
- c) After these further improvements to IRB, and taking into account the current tools the supervisor has to ensure proper usage of these models, all stakeholders can embrace the IRB framework in full. Reference is made to the IIF RWA Task Force final report, including approximately 100 recommendations for the harmonisation of modelling approaches
- d) If risk weights are floored by a non-risk sensitive capital floor, it limits the incentive to introduce risk mitigating features into the terms of a facility collateral, and means that risk measures may no longer reflect the risk profile of the underlying portfolio. This is illustrated in the example below, using trade finance as an example:

Example 4: Disincentive to introduce risk mitigating product structures

The counterparties in trade finance transactions are often of sub-investment grade counterparty risk. Trade finance structures therefore provide significant risk mitigation through the structuring of the deal (at the expense of additional operating costs). The effectiveness of structures tends to be significant:

The expected loss for a BB SME unsecured exposure would be around 0.4%

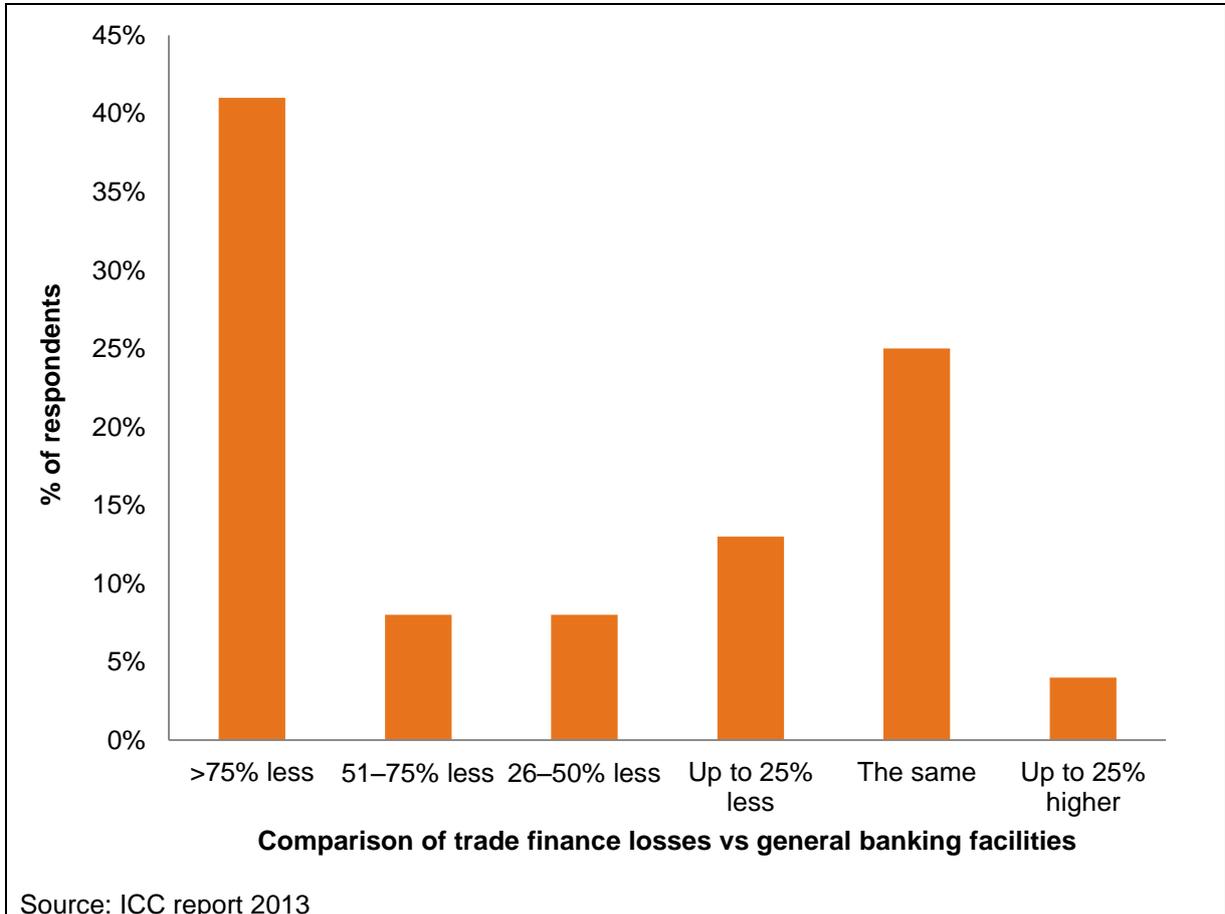
The expected loss for a BB trade finance exposure would be around 0.06% (based on the ICC report survey – see chart below)

The IRB RWA for a BB SME unsecured exposure would be around 100%

The IRB RWA for a BB trade finance exposure would be around 45%

Based on the latest SA consultation document, it is reasonable to expect trade finance exposures would obtain a SA risk weight of greater than 120%. As a result, assuming an 80% capital floor calibration, if the capital floor is applied to an individual trade finance exposure, then the RWA requirement would be only marginally below the RWA requirement if the exposure was unsecured ($80\% \times 120\% = 96\%$ vs. 100% IRB risk weight for unsecured). As a result, there would be no incentive from a capital perspective to structure the transaction as a trade finance deal. There may be a reduction in actual losses; however this will be low in most macro-economic scenarios and less likely to offset the extra costs of structuring

Results of survey of losses in traditional trade products versus general banking products



- e) **The IRB RWA is a very important metric within the Basel III suite and internal models gave an additional boost to solid risk management. We should further strengthen IRB wherever needed. Complementary to IRB there are several metrics (e.g. SA, Leverage Ratio), which together form a comprehensive set of metrics for supervisors and other stakeholders. From this angle there is no need for capital floors**

4. Ensure adequate capital levels across the banking system

According to the BCBS, the objective of the capital floors is to:

Ensure the level of capital across the banking system does not fall below a certain level.

- a) If risk weights allocated to a portfolio would be floored, there would be an incentive to increase exposure to higher risk segments. Overall, it will be lower risk portfolios that will be affected most. As a consequence there is a risk that capital allocation will be severely distorted. Currently viable business models (like mortgage and trade & commodity finance business) will be pushed away into the unregulated banking sector. This is illustrated in the examples below:

Example 5: Illustration of incentive to increase risk

The table below shows an illustrative retail mortgage portfolio. The portfolio is skewed towards low risk “standard” mortgages. When the RWA is calculated, the IRB average risk weight is well below the standardised risk weight. If IRB RWAs were adjusted to 80% of the standardised level then the RWA requirement would increase by around 50%. However, if the bank then shifts the focus of the portfolio to higher risk segments, then the IRB RWA increases without any increase in the standardised risk weights and hence no overall increase in RWAs. This is entirely plausible as key risk drivers such as whether property is a Buy to Let, or the customer’s income is self-certified are not reflected in the Standardised Approach. As a result the bank has higher risk and higher return without any increase in the RWA.

Illustration of incentive to shift exposure into higher risk parts of retail mortgage portfolio if SA Risk Weights are used to floor IRB risk weights instead of simply using them to verify the level of own funds (assuming capital floor is set at 80% of SA RWA)

| Retail mortgage Segment | Exposure (starting) | RWA% (IRB) | RWA% (SA) | Implied RWA (IRB) | Implied RWA (80% x SA) | Exposure following “tilt” of portfolio | Implied RWA (IRB) | Implied RWA (80% x SA) |
|-------------------------|---------------------|------------|-----------|-------------------|------------------------|--|-------------------|------------------------|
| Standard 1 | 1000 | 10% | 38% | 100 | 304 | 796 | 80 | 242 |
| Standard 2 | 500 | 12% | 38% | 60 | 152 | 398 | 48 | 121 |
| Standard 3 | 100 | 40% | 38% | 40 | 30 | 80 | 32 | 24 |
| Standard 4 | 10 | 250% | 38% | 25 | 3 | 10 | 25 | 3 |
| Non-Standard 1 | 300 | 20% | 38% | 60 | 91 | 239 | 48 | 73 |
| Non-Standard 2 | 200 | 32% | 38% | 64 | 61 | 358 | 179 | 109 |
| Non-Standard 3 | 50 | 80% | 38% | 40 | 15 | 280 | 224 | 85 |
| Non-Standard 4 | 10 | 250% | 38% | 25 | 3 | 10 | 25 | 3 |
| Total | 2170 | | | 414 | 660 | 2170 | 660 | 660 |

Note: Implications of provisions have been neglected in the interests of simplifying the example

- b) The Dutch banks have average portfolio risk profiles that are below the European and global average risk profiles. These risk profiles are translated into lower than average risk weights under the Internal Rating Based (IRB) approach. That is why any globally set standard, be it the SA revised framework, be it the proposed capital floors could impact the risk weights more negatively compared to most other countries. The example below shows how two banks could have the same relative issue with PD models but only the low risk bank would be affected by the capital floor.

Example 6: Illustration of how low risk institutions are disproportionately hit

To illustrate why a capital floor is the wrong way to address inconsistency in calculation of capital requirements, consider two cases:

- Large Corporate lending focused Bank A – underestimates PD from a “correct level” by around 20%. Average PD is 0.5%, LGD is 45%
 - Average IRB risk weight = 64%, if PDs were “correct”, it would be 76%
 - Standardised risk weight of 100%
- Large Corporate lending focused Bank B – also underestimates PD from a “correct level” by around 20%. However Average PD is 5%, LGD is 45%
 - Average IRB risk weight = 157%, if PDs were “correct” it would be 164%
 - Standardised risk weight = 120%

In the case of Bank A, the capital floor is applied and would result, assuming an 80% calibration of the capital floor, in an RWA of 80% – higher than would have been applied if PDs were corrected. In the case of Bank B, the capital floor would have no impact. As a result, the capital floor punishes the low risk bank more than is appropriate and the high risk bank far less than would be appropriate.

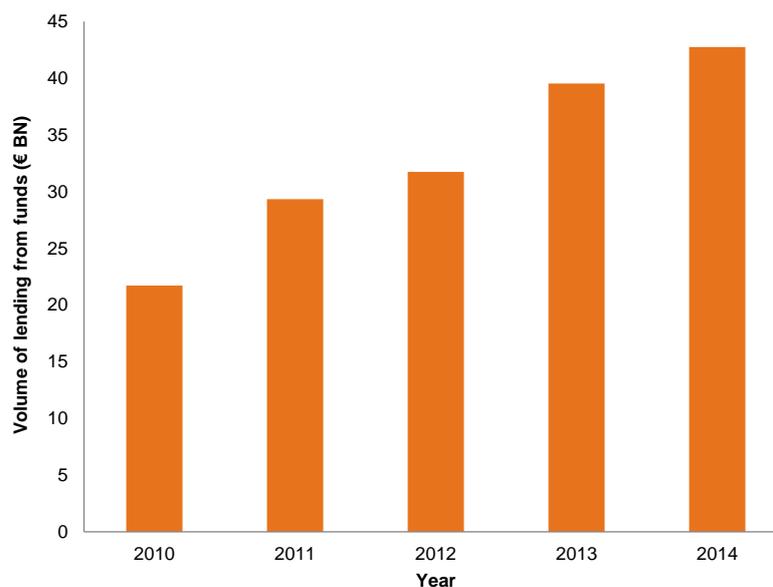
Note – impact of IRB provisioning shortfall has been deliberately neglected to simplify example.

- c) When banks are faced with capital requirements that are higher than is economic, non-banks will have an advantage i.e. the floor will not lead to a level playing field. This will exacerbate the trend towards lending from the non-bank sectors. Example 7 shows the growth in investment fund lending in NL.

Example 7: Growth in lending from investment funds in NL

The volume of lending from the non-bank sector is growing. Further “uneconomic” capital pressures would provide a further catalyst to this trend.

Volume of loans from Investment funds in NL



Source: FSB

- d) If the floor is to be introduced, we urge the BCBS from a timing perspective to postpone setting any floor until all the Basel III adjustments are fully incorporated, phased-in, settled-in and until a thorough assessment of the current set of rules can be made and any potential flaws can be addressed. If this order of events is not followed then the calibration of any capital floor will have been set based on guesswork.
- e) Making direct adjustments to the RWA computation creates confusion for potential investors in Basel III compliant AT1 and T2 capital instruments because of the increase in risk that the conversion/write-down trigger levels of such instruments will be reached. This makes these instruments hard to value, not only because of the proposed SA floor rules themselves, but even more because of the mere fact that, during the (perceived) lifetime of these instruments, regulators can suddenly change the calculation of the trigger metric quite drastically
- f) **We believe supervisors have a more than adequate set of tools to prevent undercapitalization, therefore we see no need for adding capital floors to such a well-equipped toolbox**

5. Types of floors:

- a) There would be no change to reported IRB RWA levels or deductions from own funds as a consequence of the capital floor framework. The capital floor will be used to test the sufficiency of own funds only, consistent with CRR article 500 (1) (b)
- b) The calibration will be set in a way that does not systematically increase the amount of capital in any one financial system/country (as this would be indicative of either an issue with SA calibration for the country or a systematic failing in the IRB model waiver process)
- c) The floor would be applied at the highest level of consolidation in the prudential perimeter i.e. the floor would not be applied at the product, business or subsidiary level. The importance of this is illustrated in the example below:

Example 8: Illustration of impact of applying the floor at a legal entity level

If the capital floor is applied at the legal entity level, then this has the potential to lead to increased capital requirements, even if a Group as a whole is above the capital floor. This is illustrated in the table below showing when a number of legal entities are beneath the floor, this can increase the capital requirements in those entities and therefore increases the total capital requirement for the group as a whole, even though the capital floor should not bind for the consolidated perimeter.

Both the ICAAP & SREP process and also the TLAC (and MREL) concept provide information on, and provide the ability to address the capital distribution of a group.

Illustration of impact of capital floors at legal entity level

| | Exposure (€ BN) | RWA IRB (€ BN) | RWA SA (€ BN) | RWA at legal entity level (assuming 80% calibration) (€ BN) | RWA for consolidated perimeter (€ BN) |
|----------------|--------------------|-------------------|------------------|--|--|
| Legal entity 1 | 100 | 50 | 100 | 80 | |
| Legal entity 2 | 100 | 70 | 90 | 72 | |
| Legal entity 3 | 100 | 40 | 45 | 40 | |
| Legal entity 4 | 100 | 110 | 100 | 110 | |
| Legal entity 5 | 100 | 150 | 100 | 150 | |
| Total | 500 | 420 | 435 | 452 | 420 |

- d) After the implementation of a new SA framework and after a fundamental decision whether the floor is needed for undercapitalization or for comparability, the best choice for capital floors can be substantiated. Without this knowledge, it seems that a single floor set on bank level would be the least worst alternative
- e) The Dutch banks stand ready to work closely with the BCBS to find a formulation that works as well as possible for the industry as a whole

6. Treatment of provisions:

For now, the Dutch banks do not wish to take a strong position on the proposed alternatives. Option 1 seems to be a more correct approach, which makes this alternative more favorable. IRB banks should be able to calculate it. On the other hand, the second option is more simple, which corresponds closer to the BSBC objective.