From: Per Kurowski
Sent: 18 March 2019 19:16
To: Financial Stability Board (FSB), Service <fsb@fsb.org>
Subject: SME financing evaluation

I have not found sufficient strength to sit down and formally write up my comments, because I feel I would just be like a heliocentric Galileo writing to a geocentric Inquisition.

The Basel Committee's standardized risk weights are based on the presumption that what is ex ante perceived as risky is more dangerous to our bank system.

And I hold a totally contrarian opinion. I believe that what is perceived a safe when placed on banks balance sheets to be much more dangerous to our bank system ex post than what is perceived ex ante as risky; and this especially so if those "safe" assets go hand in hand with lower capital requirements, meaning higher leverages, meaning higher risk adjusted returns on equity for what is perceived safe than for what is perceived as risky. The following Basel II risk weights are signs of total lunacy or an absolute lack of understanding of the concept of conditional probabilities.

AAA to AA rated = 20%; allowed leverage 62.5 times to 1.
Below BB- rated = 150%; allowed leverage 8.3 times to 1

The distortion the risk weighting creates in the allocation of credit to the real economy is mindboggling. Just consider the following tail risks.

The best, that which perceived as very risky turning out to be very safe.
The worst, that which perceived as very safe turning out to be very risky.

And so the risk weighted capital requirements kills the best and puts the worst on steroids… dooming us to suffer an weakened economy as well as an especially severe bank crisis, resulting from especially large exposures, to what was especially perceived as safe, against especially little capital.

In relative terms all that results in much more and more expensive credit to for instance sovereigns and the purchase of houses, and less and more expensive credit to SMEs

I am neither a banker nor a regulator but I do believe that the following post helps to give some credibility to my opinions on the issue. And, as a grandfather, I am certainly a stakeholder.

http://subprimeregulations.blogspot.com/2004/11/some-of-my-early-public-opinions-on.html

And here is a more detailed list of my objections to the risk weighting

http://perkurowski.blogspot.com/2016/04/here-are-17-reasons-for-why-i-believe.html

Now if by any chance you would dare open your eyes to the mistakes of your risk weighted bank capital requirements and want more details from me, you know where to find me.

Sincerely

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