

# Dynamic Provisioning & Bank Capital Integrity: Banking Supervision

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It looks as though the "Dynamic Provisioning" (DP) approach or technique to the computation of Bank Capital in the context of Banking Supervision is gaining the ascendancy in the UK and Europe as a solution to ensuring banks hold sufficient reserves such that a credit crisis never occurs again. In reinforcing the tripartite arrangements to Banking Supervision and Regulation in the UK, the Chancellor appears to be favoring this approach which developed in Spain and it has to be said was successful (relatively). One challenge that Dynamic Provisioning gets around is the issue of procyclicality of capital buffers, perceived to be a problem with Basel II. In effect what DP does is to integrate Basel II Pillar One and Pillar Two by making total capital explicit and transparent over the business cycle. DP requires however an econometric model of the business cycle to drive the capital estimates

**predicated on outlooks for default (as a function of the business cycle). This is an interesting approach since finally an accounting standard is being putatively harnessed to an econometric technique.**

Below some important references to the concept of Dynamic Provisioning;-

[The Bank of England \(2002\)](#) [1]

[Banca d'España \(Web Page\)](#) [2]

[Banca d'España \(presentation\)](#) [3]

[PROCYCLICALITY AND FINANCIAL REGULATION: Charles Goodhart](#) [4]

[Accounting Standards Board \(UK\):](#) [5]

[Banque de France](#) [6]

[Markit Magazine](#) [7]

[Freshfield Bruckhaus Deringer](#) [8]

[Financial Stability Forum \(FSF\)](#) [9]

[The Economist's City Lecture: Lord Turner](#) [10]

[Basel II in FORTIS](#) [11]

[KPMG IFRS Briefing Sheet](#) [12]

[Mario Draghi](#) [13]

[The review of the UK tripartite arrangements prepared by PriceWaterhouseCoopers](#) [14]

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**Links:**

[1] <http://www.bankofengland.co.uk/publications/fsr/2002/fsr13art6.pdf>

[2] <http://www.bde.es/provesta/proestae.htm>

[3] [http://ec.europa.eu/internal\\_market/accounting/docs/conference\\_052009/saurina\\_en.pdf](http://ec.europa.eu/internal_market/accounting/docs/conference_052009/saurina_en.pdf)

[4] <http://www.bde.es/informes/be/estfin/numero16/ief0116.pdf>

[5] [http://ec.europa.eu/internal\\_market/accounting/docs/conference\\_052009/mackintosh\\_en.pdf](http://ec.europa.eu/internal_market/accounting/docs/conference_052009/mackintosh_en.pdf)

[6] <http://www.banque-france.fr/gb/instit/telechar/discours/2009/090323.pdf>

[7] <http://www.markit.com/assets/en/docs/markit-magazine/issue-4/18-on-the-scrap-heap.pdf>

[8] [http://www.freshfields.com/publications/pdfs/G20/Regulatory\\_capital\\_reform.pdf](http://www.freshfields.com/publications/pdfs/G20/Regulatory_capital_reform.pdf)

[9] [http://www.financialstabilityboard.org/publications/r\\_0904g.pdf](http://www.financialstabilityboard.org/publications/r_0904g.pdf)

[10] [http://w3.cantos.com/09/econ\\_cit-901-eywxa/video/q&a.pdf](http://w3.cantos.com/09/econ_cit-901-eywxa/video/q&a.pdf)

[11] [http://www.holding.fortis.com/shareholders/media/pdf/Basel\\_II\\_Fortis.pdf](http://www.holding.fortis.com/shareholders/media/pdf/Basel_II_Fortis.pdf)

- [12] [http://www.kpmg.com.co/NIIIF\\_USGAAP/archivos/IFRS\\_Briefing\\_Sheet\\_Issue\\_131.pdf](http://www.kpmg.com.co/NIIIF_USGAAP/archivos/IFRS_Briefing_Sheet_Issue_131.pdf)
- [13] [http://www.bancaditalia.it/interventi/integov/2009/draghi\\_100609/draghi\\_100609.pdf](http://www.bancaditalia.it/interventi/integov/2009/draghi_100609/draghi_100609.pdf)
- [14] [http://www.pwcresearch.com/uc/admin/8ec5/images/The\\_Tripartite\\_Review\\_Preliminary\\_Report.pdf](http://www.pwcresearch.com/uc/admin/8ec5/images/The_Tripartite_Review_Preliminary_Report.pdf)
- [15] <http://asymptotix.disqus.com/?url=http%3A%2F%2Fwww.asymptotix.eu%2Fcontent%2Fdynamic-provisioning-bank-capital-integrity-banking-supervision>
- [16] <http://www.asymptotix.eu/category/tags/basel-iii>
- [17] <http://www.asymptotix.eu/category/topics/dynamic-provisioning>
- [18] <http://www.asymptotix.eu/category/topics/fair-value>
- [19] <http://www.asymptotix.eu/category/tags/john-angus-morrison>
- [20] <http://www.asymptotix.eu/category/topics/mccreevy>
- [21] <http://www.asymptotix.eu/category/tags/stress-test>
- [22] <http://www.asymptotix.eu/category/topics/transparency>