Please note that the comments expressed herein are solely my personal views

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**Your Ref: Comment letter on Consultative Document**
**- Global systemically important banks: Assessment methodology and the additional loss absorbency requirement**

Dear Sir.

Thank you for giving us the opportunity to comment on your consultative document on Global systemically important banks: Assessment methodology and the additional loss absorbency requirement. I will first make some general comments, and then discuss some more detailed points.

Indicator-based measurement vs model-based approach

As a starting point I certainly agree that your indicator-based measurement approach forms a reasonable proxy for assessing the systemic importance of global systemically important banks (G-SIBs). However, such an approach is very retrospective in nature, utilising past data covering historic transactions. This may not be responsive or flexible enough over time, and is rather broad to capture the relative nuances between different G-SIBs. You mention that another option would be to develop a model-based approach in order to estimate individual banks' contributions to systemic risk.[1] I would support this as a more flexible and tailored approach generally, which could also be used to test various scenarios and stresses. I agree that such models are at a very early stage of development,[2] but I would at least recommend that you should signal an ongoing intent to move from an indicator-based measurement to a model-based approach in the future. Such a signal is in itself important, and would help to manage expectations here going forward.

[1] See footnote 4 of the consultative document.
[2] Ibid.

Structural issues with the indicator-based measurement approach

Although I agree with you that the indicator-based measurement approach is relatively simple and more robust that currently available model-based measurement approaches, it has the limitation of being a relative measure. The indicator-based measurement approach considers a bank's indicator compared with the universe of banks included in the measurement. Whilst this relativity is useful for spotting outliers, or ranking the banks, it does not provide meaningful information about the universe of banks as a whole. It certainly does not provide information about the system itself, or how much systemic risk there is, or what level of systemic risk is considered acceptable. The indicator-based measurement approach could actually increase the herd mentality amongst banks, such that no bank looks out of line compared with its peers. The indicator-based measurement approach should ideally be complimented with an absolute measurement approach, which would measure, monitor and communicate the absolute level of systemic risk, so that authorities could properly supervise the system and take active measures when appropriate.

Specific comments on the indicator-based measurement approach

Size: several indicators other than size correlate strongly with size. This has the effect of making size the most important indicator, compared with interconnectedness for example.

Interconnectedness: this applies equal weight to the "intra-financial system assets" and "intra-financial system liabilities" indicators. I would suggest that a greater weighting should apply to intra-financial system liabilities, as this would better measure the systemic impact due to interconnectedness if a particular bank were to experience financial distress.

Substitutability: I would argue that there is very little activity that would not be substitutable during a crisis. For example, there is little evidence so far of any problems related to the substitutability of "values of underwritten transactions in debt and equity markets". Perhaps you could reconsider your decision to weight all of the indicators in one category equally, and consider a more tailored approach instead.

Other issues

Data quality: I appreciate your acknowledgment that "the data used to construct the indicator based measurement approach currently may not be sufficiently reliable or complete",[3] and that you expect national jurisdictions to "prepare a framework in which banks will be able to provide high quality data for the proposed indicators".[4] I would recommend stringent peer review of the said frameworks, coupled with applying greater capital surcharges in those jurisdictions with inadequate data quality post-implementation. I would further suggest that you should ensure that national jurisdictions also apply consistent accounting methodologies (preferably IFRS), especially where subjective treatments apply, such as on Level 3 assets[5] for example.

[3] See paragraph 71 of the consultative document.
[4] See paragraph 72 of the consultative document.
[5] Usually very illiquid assets with unobservable inputs, typically model assumptions.

Supervisory judgement and resolution: you state that the quality of the policy/resolution framework within a jurisdiction should not play a role in the G-SIB identification process.[6] However, you then mention that a national supervisor could impose higher capital surcharges for G-SIBs that do not have a credible recovery and resolution plan.[7] I would question this asymmetric treatment. Surely a bank with an effective and credible recovery and resolution plan should have this reflected in their assessed systemic importance?

Supervisory process: paragraph 65 of the consultative document broadly outlines the process for incorporating supervisory judgement. For completeness, this process should include, or reference the "dispute resolution process", and the agreement mechanism amongst the BCBS, FSB and home and host supervisors.

Yours faithfully

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[6] See paragraph 56 of the consultative document.
[7] See footnote 16 of the consultative document.