INTESA SANPAOLO
International Regulatory and Antitrust Affairs

**INTESA SANPAOLO COMMENTS ON
THE BCBS CONSULTATIVE DOCUMENT
"GLOBAL SYSTEMICALLY IMPORTANT BANKS: ASSESSMENT METHODOLOGY AND THE ADDITIONAL LOSS ABSORBENCY REQUIREMENT"
JULY 2011**

Introduction

Intesa Sanpaolo is one of the leading banking groups in Italy, with a strong international presence focused in Central-Eastern Europe as well as the Middle Eastern and North African countries. As one of the top banks in Europe, we welcome the opportunity to comment on the Basel Committee on Banking Supervision (BCBS) consultative document on the proposed methodology to identify Global Systemically Important Banks (G-SIBs). We would hereby like to submit some comments related to the general scope of the proposal as well as to provide more specific feedback on the proposed methodology.

General observations

1. Intesa Sanpaolo recognises the systemic risks deriving from banks perceived as systemically important as well as the moral hazard and negative externalities associated with institutions considered as too-big-too-fail. We fully share the BCBS overall objective to protect taxpayers and avoid large-scale public sector intervention. We also support the G20 agenda and parallel efforts to improve resolvability of so-called Systemically Important Financial Institutions (SIFIs). In this respect, we maintain the view that reforms meant to address cross-border risks posed by failing SIFIs as well as shortcomings produced by uncoordinated responses in crisis management must remain a priority on regulators' agenda;

2. As a general remark, we believe that increasing loss-absorbency through additional capital surcharges might not be the most effective regulatory response to address problems associated with failure of large cross-border institutions. In our view, systemic risk should be primarily addressed through mitigating interconnectedness, reducing exogenous systemic risk and enhancing risk-based supervision;

3. Any additional capital and resolution requirements should be proportionally applied to all financial intermediaries, not only to the banking sector. Any framework addressing systemic risks posed by G-SIBs should also be extended to non-financial institutions, so as to avoid arbitrage;

4. It is our understanding that the proposal to enhance G-SIBs loss-absorbency capacity only represents a first regulatory step, which is meant to be proportionally extended to other regional and national SIBs. It is therefore important to maintain a holistic approach among different layers of regulation;

5. Setting a pre-determined list of systemically relevant banks might have the unintended effect to increase moral hazard as well as to create competitive distortions among market players. The risk is that banks might decide to adjust their legal or organisational structure in a way that is not necessarily optimal for the market. There is also ground to believe that large cross-border banks not falling within the scope of G-SIBs would be expected to comply or adjust to

the new requirements without benefitting from the implicit advantages of belonging to the G-SIBs group. Therefore, it is essential that the new measures are implemented through a consistent approach, which should also take into account possible future extension of similar measures to systemically regional and local banks as well as SIFIs and non-financial institutions;

6. Establishing a clear-cut divide line between banks considered as systemically important and others which are not might be conceptually misguided. An ex-ante designation of banks posing a systemic risk might be difficult to adapt to changed conditions and new developments in the market. The real danger is that key emerging sources of systemic risk might be ignored;

7. The proposed requirements might represent an incentive to shift part of the business towards the unregulated banking sector, thus possibly spurring additional systemic risk and adding on to level playing field concerns. Indeed, one should bear in mind that geographical and business diversification of cross-border groups also represents a source of stability to the system, allowing banks to hedge the risks associated with being focused in a few markets and activities only;

8. As showed by the recent agreement on the new minimum capital requirements, markets expectations might not necessarily be in line with the proposed timelines and phase-in periods for the implementation of the new rules. It would thus be preferable that the BCBS define further details on the new measures once more information is also gathered from the markets;

9. The possible introduction of additional capital surcharge should be considered in the context of ongoing regulatory reform aimed at strengthening the banking sector. As showed by several institutional and industry impact assessments, the implementation of the new measures will come at a cost for the banking sector and more generally, for the real economy. This should be taken into account, especially at a time of fragile economic recovery and market volatility;

10. It is regrettable that the MAG impact assessment will only be released after the end of the consultation period. The overall impact of reforms as well as the interplay effects with other regulatory proposals should be duly considered.

Comments on the proposed methodology and the loss-absorbency requirements

11. Intesa Sanpaolo welcomes the efforts of the BCBS to develop a coherent methodology. As argued in the consultation paper, models to capture and measure systemic risk are still at a very early stage of development. Due to continuous developments in market practice and in the concept of systemic risk per-se, it is essential that any designed methodology to identify G-SIBs be flexible and include as many relevant variables as possible. It is also key that any systemic risk-correlated surcharge be proportional to the "systemic risk" of a bank and not leveled on the basis of a flat capital surcharge. In this respect, we believe that the indicators and variables considered should be monitored and reviewed at more regular intervals than what currently proposed (every three to five years);

12. We deem the proposed methodology as generally sensible. The bucketing approach allows for proportionality in the determination of the additional capital requirements. The indicators chosen encompass several relevant and objective variables. Score-based classification according to equally weighted indicators ensures that there is no overreliance on a single indicator and thus provides for a balanced outcome;

13. Although we understand that some of the proposed indicators might be consistent with parallel regulatory reforms, we fear that they might not always provide for an optimal proxy. Calculating the size of a bank on the basis of its total non risk-weighted exposure might be overly-simplistic and lack in risk-sensitiveness. Similarly, notional OTC values might be too crude of an indicator when considering the complexity of a bank;

14. Regarding cross-jurisdictional activity, it is relevant that the EU be taken into account as a Single Market. Therefore, cross-border activities should be calculated on an extra-EU basis only;

15. Recourse to supervisory judgment in determining the degree of systemic risk of a bank must be complementary to the objective scoring, and is thus to be welcomed. However, it is essential to strike the right balance between quantitative and qualitative information. More importantly, global consistency and a level playing field must be ensured. We thus call for the BCBS to develop clear criteria in the definition of qualitative judgment, which have to be applied uniformly across jurisdictions. It should also be highlighted that not all countries possess the same supervisory tools under a Pillar II approach as not all countries have implemented Basel II rules;

16. We see no added value in computing the variable surcharge as an add-on layer and complementing measure to the Capital Conservation Buffer. There might be risks of overlaps and double-counting within Pillar II requirements. In our opinion, it would be appropriate to establish a separate buffer for the systemic-risk correlated capital surcharge;

17. As a general remark, measures aimed at increasing loss absorbency capacity should be carefully assessed. When looking at bail-in debt and contingent capital, interactions with other regulatory stream works should also be taken into consideration.

For any further comments or questions, please contact Intesa Sanpaolo's International Regulatory and Antitrust Affairs Office:

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