ABI Associazione Bancaria Italiana

Roma
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Mr. Stefan WALTER
Secretary General
Basel Committee on Banking Supervision
baselcommittee@bis.org

Subject: Global systemically important banks: Assessment methodology and the additional loss absorbency requirement

Dear Mr Walter,

The Italian Banking Association (ABI) welcomes the opportunity to comment on the Basel Committee on Banking Supervision (BCBS) consultation document on the methodology for identifying global systemically important banks (G-SIBs).

ABI supports the objective to address the cross-border negative externalities created by systemically important banks but notes that the solution of capital surcharges is not optimal strategy to reduce idiosyncratic and systemic risk of G-SIBs, especially in the light of the significant number of regulatory reforms already agreed or in preparation to reinforce the resilience and the macro- and micro-prudential supervision, and permit an orderly exit from the market.

At the same time ABI believe that it is important

- to acknowledge the positive externalities and stabilizing role of cross border banks, especially those whose business model is based on retail activities
- to acknowledge that the more effective becomes the recovery and resolution frameworks the lower must progressively become any individual capital surcharge

- to consider the EU or the Euro area as forming a single jurisdiction (or at lease and thus to define clearly under which conditions it could be classified as such) also for proposed methodology.

We would like also to point out that the BCBS proposed methodology should be improved by duly taking into account the riskiness of the different business models adopted by the banks under scrutiny. The crisis clearly demonstrated that the business model run by investment banks is riskier than the one run by commercial banks, both from an idiosyncratic and systemic perspective.

Such risk factor could be easily observed for instance through indicators variables such as the loan-to-deposits ratio.

As regards the practical implementation of the BCBS proposal, in our view it is essential to ensure that inappropriate and unnecessary options for the host supervisors will be introduced; any degree of discretion in such field, in fact, would in turn increase the degree of uncertainty in the financial markets, incentive ring-fencing practices and hamper the level playing field.

In addition, the positive impact of the geographic diversification of G-SIBs on financial stability shall be recognised and any decision shall be agreed within the College of Supervisors.

Regarding the choice of instruments to meet the additional loss absorbency requirements, ABI believes that the use of bail-in debt and going concern contingent capital should be carefully assessed. The possible use of these instruments should also be considered in the context of other regulatory proposals.

The tentative decision to restrict the composition of the capital surcharge to Common Equity Tier 1 should be thoroughly motivated and assessed. It should be kept in mind that meeting the additional capital requirements will come at a cost for G-SIBs, thus reducing their ability to sustain the real economy.

This is a crucial point, since the question of the overall impact of the financial regulatory package in accumulation and their respective interplays remains unresolved and indeed largely untouched.

Yours sincerely,

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