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UniCredit Group's reply to the BCBS consultation on G-SIBs

1 Executive Summary

UniCredit welcomes and fully supports the efforts of the Basel Committee on Banking Supervision (BCBS) to share their view and involve the industry for suggestions and comments on the methodology for identifying global systemically important banks (G-SIBs). UniCredit also agrees that it is advisable to remove negative systemic externalities imposed on the financial system and economic system at large. At the same time, UniCredit believes 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, that have delivered financial market integration, risk diversification and economies of scale and scope (the Vienna initiative is often quoted as an example and this seems to be rarely spelt out in the FSB/BCBS approach);
- 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 and thus to define clearly under which conditions it could be classified as such also for proposed methodology;
- to note that focusing primarily on individual capital surcharges is not the best strategy to reduce the systemic importance of G-SIBs, as such objective would be best achieved by an appropriate interactive mix of other instruments, as described below;
- to avoid introducing discretion/judgment by national supervisors that would be particularly inappropriate in the case of cross country groups, enhancing instead in this context the role of the supranational authorities and of the college of supervisors;
- any chosen methodology to be transparent, replicable and based on certifiable data;
- to limit the application of the capital surcharge for G-SIBs should be to the consolidated group only, avoiding duplications for subsidiaries.

In the following, we summarize some key recommendations made by UniCredit. The second part of this document further develops and adds on these issues.

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2 KEY RECOMMENDATIONS

1. An integrated and dynamic framework for setting capital surcharges

Capital surcharges should be set within an integrated and dynamic framework in accordance with all other tools for risk mitigation and clear rules for time to time revisions should be set ex ante.

a. The classification of each bank as systemically relevant, the consequent capital surcharges and any associated additional regulatory measure should be based on an <u>integrated assessment of all provisions to reduce systemic risk</u> including the quality of the overall supervisory and regulatory framework in which the bank operates (e.g. integrated supervisory framework for cross-border banks), as well as measures undertaken by the bank itself (e.g. crisis management and resolution plans). We do appreciate that the regulatory community is addressing the externalities posed by G-SIBs through a menu of approaches (loss absorbency requirements as well as cross-border recovery and resolution frameworks). However <u>we do not agree with the view</u> stated in paragraphs 5 and 6 <u>that</u>

these different tools address different components of the externality issue (respectively, loss absorbency addresses the probability of failure and resolution frameworks addresses the overall consequences of a failure) and that they should therefore be implemented separately and independently from one another.

First, many of the measures envisaged in resolution frameworks (e.g. the FSB consultative document and the EU framework for bank recovery and resolution) – like early intervention mechanisms, enhanced coordination among supervisors, improved resolvability etc. – also reduce the probability of failure and not only the impact of a failure.

Second, if resolution frameworks were able to reduce considerably and eventually cancel out the effects of failure of G-SIBs and hence their externalities (given that the size of the negative externality is strictly linked to the costs of the G-SIB's recovery and resolution), then absorbency requirements addressing the probability of failure and of the externality that would arise, would be less compelling and eventually redundant.[1] To this end, it should be envisaged to dynamically **assess** not only the degree of systemic risk of the individual G-G-SIBs but also the evolution of the effectiveness of the resolution frameworks**: the more effective becomes the recovery and resolution framework the lower must progressively become any individual capital surcharge.**

b. The process of definition and classification of the capital surcharges and all additional regulatory measures should be defined within a dynamic framework, allowing for revisions that should be clearly set and planned in advance. In particular, this dynamic framework should contemplate adjustments in the *scores* of G-SIBs and in the consequent capital surcharges following:

i) changes in the ongoing characteristics used to classify G-SIBs (e.g. when size is reduced or when exposure to interbank lending is reduced), as already partly envisaged in section D of the BCBS document;

ii) changes in the regulatory and supervisory framework affecting *a given* bank (e.g. the setting up of a common supervisory area);

iii) the adoption by banks of additional complementary measures to reduce their systemic relevance (e.g. adoption of recovery and resolutions plans).

To leave out any room for uncertainty, we understand that the bucketing approach suggested in paragraph 55 and the annexes, implies that a relevant decrease of the individual

[1]Since the policy objective of reducing the probability of failure of G-SIBs below the one of all other financial institutions, through extra loss absorbency requirements rests precisely on the systemic costs caused by their failure, in principle, if such costs were entirely canceled out by a perfectly functioning recovery and resolution plan, the rationale itself for capital surcharges would be much less compelling.

systemic importance of a G-SIB is accompanied by a consequent reduction of the capital surcharge (i.e. a lower bucket or outright exclusion from the G-SIBs).

A clear design of this dynamic framework, with limited margins for any discretion of supervisors (on this see also point 4 in this note), would provide a strong incentive for the reduction of systemic risk. Special attention should be paid to the effects of annual updates of the bank scores based on new data (paragraph 69), since this might alter significantly the relative position of banks within and across buckets, with potentially substantial effects on competition among similar banks. In any case, updates should be conducted in such a way that banks can properly recognize the effect of their business policies on their position relative to their closest competitors and with respect to their relevant bucket, to allow a precise evaluation of the costs and benefits of such policies on a bank's score, and to guarantee a transparent and competitive level playing field.

2. Global cross-jurisdictional dimension: fine tuning of the definitions and measures

The inclusion of measures of cross jurisdictional activity to classify G-SIBs, as stated by the BCBS document (section 1, paragraph 18), is grounded on two factors that are expected to reinforce the systemic effects of G-SIBs across countries: i) the fragmentation of regulatory environments that may hinder joint supervision and the implementation of resolution frameworks; ii) the global operations of banks, which may channel potential instability and systemic effects across countries. In our view <u>this approach rests on a one sided view of international banking,</u> it discourages useful global market integration and it fails to take into account the positive impact of the international operations of banks on the financial system, in terms of efficient capital allocation, increased competition and also stability. <u>A balanced approach on this issue should adopt a more nuanced definition of i) regulatory and market integration and ii) foreign activities of banks.</u> We discuss these two points in turn.

a. The cross-border dimension of a bank's activity depends to a large extent on the degree of national and international integration of banking and financial markets, on the number of authorities from different countries responsible of their supervision, and on the degree of cooperation among such authorities. Indeed, the cross border dimension of a bank relates to the level of fragmentation and to lack of coordination of the different countries. For this reasons, <u>EU and euro area member states should not, already with the present regulatory framework, be considered on the same grounds as other countries</u> that have significantly less integrated monetary and financial markets and, especially, that do not share a comparable degree of harmonization of the regulatory environment and supranational

institutional supervisory framework (i.e European System of Financial Supervisors). In this respect, **a clear definition of the requirements to be fulfilled for a set of countries to be considered as an integrated area** (e.g., with respect to resolution frameworks, supervisory practices, burden sharing in case of default, and deposit insurance) **should be spelled out ex-ante** in detail. In the event that an integrated area (e.g. the EU) cannot be considered – for various reasons – a single jurisdiction at this stage (paragraph 70), the conditions that are required for this to happen should be clearly defined, so that policy targets can be set in accordance. This would be an important guide for a process of regulatory integration that adequately addresses the potential negative externalities of G-SIBs.

b. The global dimension of banks should be identified making a neat <u>distinction between cross-border activities and local claims and liabilities of foreign subsidiaries</u>. From a supervisory perspective and for their impact as potential transmission channels, once other indicators of systemic relevance like size or interconnectedness are taken into account, local claims and liabilities are unlikely to have any more systemic relevance for foreign subsidiaries than they have for a local bank. A foreign subsidiary with a balanced position in local currency is not systemically riskier than a local bank. If BCBS intends anyway to include also local claims and liabilities of foreign subsidiaries among the indicators of global activities (paragraphs 19-26), local claims should be at least evaluated net of local liabilities.

3. Business models and competition should be explicitly taken into account

Any additional regulatory requirements for G-SIBs, such as capital surcharges, should preserve competition both in the market for internationally tradable activities as well as in the market for non-tradable activities.

a. For **tradable activities**, such as those mainly characterizing the investment banking business model, global competitive pressure *per se* is not a warrant that systemic externalities of investment banking are internalized. A <u>business model concentrating on investment banking activities</u> has proved to be systemically riskier, whatever the competitive framework in which these firms operate, therefore surcharges are well justified. In this case, however, given that the span of activities is inevitably cross-border, competition should be guaranteed by leveling the playing field at the international level, through a strong harmonization across countries of regulatory requirements related to systemic relevance.

b. For **non-tradable activities**, such as those characterizing the retail banking business model, particular attention should be paid instead to guarantee that banks operating in the same national markets are not put on different grounds. In particular, it should not be the

case that local claims and liabilities of a subsidiary of a cross border bank have a different relevance in terms of regulatory requirements with respect to claims and liabilities of domestic banks, because this would adversely affect competition in the domestic market. This is yet another argument for excluding local claims and liabilities in measures of global activities (as mentioned above in 2b).

c. To preserve competition, it is also important that banks that are similar in terms of global systemic relevance and competitors in the same markets (and particularly in the domestic market) are not subject to exceedingly different capital surcharges. This may happen when banks, even if fairly close in their indicators of global relevance, fall in two different buckets and are therefore subject to different capital surcharges. In this case capital surcharges should be adjusted to avoid undesirable market distortions. As already said, it should be avoided that also the revision process that takes place annually generates such distortions. In other words, particular care should be devoted to the distortions that might be induced by any unforeseeable effects on bank ranking and bucketing caused by the annual data revisions.

4. Measures for G-SIBs should not be based on discretion by national authorities, rather they should be transparent, replicable and based on certifiable data

The criteria used to classify G-SIBs should be clear, replicable and based on certified data. Any room to discretionary interventions of national authorities through qualitative judgment (paragraphs 64-67), potential interactions with Pillar 2 (paragraphs 94-95) and especially group treatment (paragraph 90) should be limited to what is strictly necessary and should be allowed only within a clear framework that inhibits ring-fencing and provides a level playing field to all players. If this were not the case, regulatory provisions and their dynamic adjustment might have the effect of increasing the degree of uncertainty in the financial markets, with negative systemic effects.

a. We believe that the supervisory judgment by national competent authorities on this matter should be ruled out. The adjustment of the score of the individual banks on the basis of national authorities' judgment, though based on an agreed process, is not appropriate and may lead to seriously misleading unintended consequences: i) it may introduce national elements of evaluation on risk-profiles, which have in fact a global dimension; ii) it may substantially reduce the transparency and predictability of the process by relevant market participants; iii) it duplicates Pillar II responsibilities; iv) it is likely to lead to unilateral local actions that might be in contradiction with the original spirit of the whole G-SIB exercise; v) it may give way to the introduction of capital surcharges at the local level, specifically for

local subsidiaries, duplicating surcharges already applied at the consolidated level (par. 90). For these reasons, it is our view that **BCBS should limit the discretionary role of national supervisors and limit the application of the capital surcharge for G-SIBs to the Group consolidated level only.**

b. The assessment of the degree of systemic risk of a bank provided by regulators should be entirely **replicable**, in order to allow market participants to anticipate the impact of any change in their bank's business model. In this way, market discipline would positively contribute to the stabilizing effect of regulatory measures. Further discipline in this direction would also come from the inclusion among the indicators of systemic relevance, or at least among the ancillary indicators, of market-based forward-looking measures proposed by the recent academic literature, that should not be dismissed as in footnote 4 and 16. On the contrary, an opaque and non-replicable assessment would increase uncertainty and therefore overall systemic risk.

c. **Transparency** and replicability can only be achieved if the data used to calculate the degree of systemic risk are fully available, reliable and certified by regulatory authorities on the basis of a clear and common standard for data collection. In addition to "disclose the values of the thresholds of buckets and the denominators used to normalise the indicator values" (paragraph 72), the Basel Committee on Banking Supervision should explicitly require "banks to disclose relevant data when the G-SIB policy is implemented". Furthermore, the approach to revise the methodology should be clarified explaining whether, during the three-five years periods between revisions, the position of an individual bank in the buckets is uniquely determined by changes in the numerators of the (relative) measures. Paragraph 69 seems to point in this direction since it currently states that "The bank scores will be updated annually based on new data applied to the numerator in calculating the score", but this point should be made more explicit.

d. The **sample of 73 banks** has been computed based on the size and supervisory judgment. It remains unclear if the use of all the five categories for the determination of the sample would have led to a broader list of banks and countries than those listed in footnote 15. We sense that some countries, such as Russia, Austria and Turkey are missing and therefore our direct competitors would be operating with a clear competitive advantage. In this regard, we consider that the appropriate sample will have to be built encompassing all the five indicators, thereby avoiding risk of unjustifiable bias and omissions for some countries and banks. To this end, five lists – one for each indicator - should be compiled and for all banks

in all countries. The first X banks of each list (inevitably with some overlaps) would then be put in a single larger sample list of those banks which will be monitored on a regular basis.

e. **The scope for the ancillary indicators** should be clarified. It is not clear why BCBS has decided to provide a fixed list of ancillary indicators, while, for instance, it has not taken into account the information content coming from additional measures of systemic relevance such as the market based measures. Moreover, the lack of a precise description of the policy objective underlying each ancillary indicator makes such indicators vague and potentially misleading and often a mere duplication of the indicators listed in Table 1. For example, the number of jurisdictions is of little use, if the size and the characteristics of the activities carried out in each jurisdiction is not also included. And, as mentioned above, considering intra-regional (e.g. within EU) jurisdictions on an equal footing with extra-regional jurisdictions may have the perverse effect of hampering useful regulatory and market integration where effectively viable. Finally, the potential redundancy with other measures already included in the baseline list could be exploited by national regulators to alter the proposed weighting of indicators described in Table 1 and negatively affect the overall competitive environment.

In light of these considerations and of the additional motivations developed in the remaining of this document, UniCredit believes that capital surcharges are not the best tool to reduce the systemic risk of G-SIBs. Such objective **would be best achieved by an appropriate mix** of:

i. proper and global implementation of the already agreed Basel III regulatory measures;
ii. effective regulatory and supervisory frameworks for cross-border crisis management and resolution;
iii. adequate empowerment of macro-prudential supervisors, which would be keeping an ongoing, open dialogue with G-SIBs, as well as performing a proper and timely monitoring of systemic signals;
iv. adequate regulatory-led and industry-led tools to address the problem of shadow banking, both improving market transparency and discipline;
v. further strengthening of widespread industry best practices in market infrastructures as well as in certain financial instruments that are relevant for systemic risk management;
vi. creation of a level playing field with mutual regulatory recognition for global financial instruments (for example, derivatives' regulation).

3 FURTHER ARGUMENTS IN SUPPORT OF THE KEY RECOMMENDATIONS

1. An integrated and dynamic framework for setting capital surcharges.

We concur with the definition of the problem…
We agree with the FSB that the problem with G-SIBs is that they implicitly impose a negative externality to the system or the economy: more precisely, their troubles and *a fortiori* their failure, not only may generate costs that are specific to the institution but also other costs that spill over to the rest of the economy. Such spillovers are an externality, since G-SIBs are not paying for the external costs which are induced to the system and which are often not properly taken into account/priced in G-SIB's strategic decisions.

…but not entirely with the proposed solution
FSB/BCBS assume that capital surcharges are an appropriate answer to limit the negative spill-over of systemic risks, but it seems that they do not to take in due consideration that other actions and instruments can also deal with such issue.

Several of the systemic risk features discussed are not exclusively a source of negative externality, but **they may also be harbinger of positive externalities in terms of financial market integration, risk diversification and economies of scale and scope**. This seems to be rarely spelt out in the FSB/BCBS approach.

Although being an easy solution to be implemented, capital surcharges to individual financial institutions are not necessarily the best tool to address systemic risk. Too much emphasis has been given in the recent reform debate to the incentives created by capital requirements in properly managing risk and facilitate orderly resolution. Other instruments may instead be duly considered as possible alternative to capital surcharges, for instance: tools addressing the issue of excessive concentration at sector level (i.e.: concentration on the derivative market, on the CDS market, etc.) or tools for recovery and resolution plans, which have not been given yet enough considerations.

The systemic risk dimension of global market activity requires an adequate global governance and is therefore both a regulatory and legal issue. Systemic stability cannot for example always be achieved through individual capital surcharges. Alternative tools, like credible resolution plans and adequate frameworks for dealing with cross-border crises management, and sustainable burden-sharing agreements could instead be more effective. From that perspective, the role of the regulator in combining different tools for achieving systemic stability and calibrating their efficacy is of crucial importance.

We advocate an adequate framework to better manage risks in the collateralized funding markets. Within an integrated framework to address the problem of systemic risk, it is important to introduce adequate measures to deal with liquidity mismatch, concentration and roll over risk in the collateralized funding markets. Basel III, including the liquidity ratios, does not specifically address the cross-border dimension of these risks. Standard contracts should be extended as far as possible among all financial players, both in Europe and outside Europe.

Market infrastructures need strengthening: activities in Central Clearing Counterparties (CCP) may help increasing transparency, efficiency and manage counterparty risk. However it is

important that the authority properly monitors the risk control measures adopted by the CCP in order to avoid that their unexpected generalised changes have unintended disruptive consequences.

Level playing field and mutual recognition in regulation for global financial instruments such as derivatives' regulation is necessary. We fully support the efforts towards a constructive and open bilateral and multilateral US and EU dialogue with market participants. Global instruments require a global regulatory framework and a coherent supervisory framework where mutual recognition is a key pillar. The objective should be to address the damaging effects of divergence, since a fragmented system will inevitably lead to difficulties for authorities to monitor and prevent the to build-up of systemic risks.

Regulatory acknowledgment of market conventions which promote transparency, asset quality, simplicity/standardisation and liquidity, such as the market-led initiative Prime Collateralised Securities (PCS), aimed to support the real-economy assets, should be highly supported.

Macro prudential supervision and market transparency for all financial players should be strengthened. An adequate transparency framework should allow market discipline to effectively work, and supervisors to perform their role/duty in a powerful way. We share the view expressed by the FSB to promote macro-prudential measures, such as regulatory measures for mitigating pro-cyclicality or policies to strengthen market infrastructure to lower contagion risks. Higher transparency of the shadow system is a key and crucial factor. "*Lack of transparency in markets can lead to abusive behavior and facilitate violations of competition rules".*[2]Lack of transparency is "*making increasingly difficult, for authorities and risk managers,* ***to monitor where […] risks are concentrated*** *[..]. It is therefore becoming increasingly important for risk managers, in both the private and the public sectors, to understand which risks are being accumulated by what financial entities*."[3]

2. Global dimension: fine tuning of the definition and measures

<u>The systemic risk dimension of cross-jurisdictional activity is both a regulatory and legal issue</u>

Regulatory improvements, including efficient frameworks for international crises management, should be given due consideration. "Global dimension" is not only relevant in absolute terms, but also with respect to the environment in which a bank operates. For instance, in the case of the EU, cross-border/Cross-jurisdictional activity should be calibrated in a way that takes into consideration the specificities of a region with increasingly integrated prudential supervision and with common monetary policy for the Euro area. "Big size" banks in EU are cross-border integrated banks that have been increasingly providing credit supply to Eastern European countries via the internal capital markets, thus contributing to financial stability during the crisis.
In the event the EU/Euro area perimeters cannot be considered into the methodology at this stage, it should be required that the global or "regional" authorities, such as the EU legislators, **define** the "**Regional Conditions" to be satisfied by 1 January 2016** so that the European Union (and the Euro area perimeters) may be duly considered.

[2] Joaquin Almunia, in an e-mailed statement reported by the WSJ on May 2nd 2010
[3]Trichet (April 2007) "Some reflections on the development of credit derivatives"

<u>The activities of foreign subsidiaries in retail host markets are a powerful tool for the international market integration of non-tradable banking services, particularly within the EU.</u>

The expansion of global banks in foreign retail markets has been a powerful tool for strengthening market integration, particularly within Europe. A large share of the claims of these banks towards local residents are locally funded. These activities should therefore not be considered as genuinely global. Moreover, given that many of these activities are non-tradable and supplied in competition with local banks, measures treating differently local claims of domestic and foreign banks would introduce unjustified competitive distortions. Also, as for the part of local claims not funded locally but through cross border intra-firm transfers (the internal capital market), this source of funding has also proven to be stable and resilient during the crisis and an efficient tool for allocating capital. Consequently local lending of foreign subsidiaries has been more stable than for local banks. **The global dimension of banks should be identified making a neat distinction between cross-border activities and local claims and liabilities of foreign subsidiaries.**

3. Business model and competition should explicitly be taken into account

<u>The business models of commercial and investment banks should be duly considered</u>

Key differences in business models need to be duly taken into account in the assessment of systemic risk. A business *per sè* may not be inherently risky from the risk management perspective of the individual bank, but can nevertheless have systemic risk implications. Compared to commercial banks, the business model run by investment banks is *ceteris paribus* riskier from a systemic perspective.

In this regard, the competent authorities might include in the list of indicators by investigating the addition of variables such as the loan-to-deposits ratio. This variable, once based on comparable data, is relevant to compute the systemic relevance of relevant financial players.

The reference **market for investment banking** is global, since products are mostly tradable. Competition does not provide an incentive to internalize potential systemic effects and it is therefore not a sufficient motive for reducing surcharges on these activities. **Yet the impact ofregulatory requirements on competition should be evaluated globally, securing a leveled playing field through the harmonization of regulatory requirements.**

On the contrary, **in the case of the non-tradable products offered by commercial banks**, the most dangerous outcome of the introduction of additional regulatory requirements for competition is that of creating an unleveled playing field between domestic banks and foreign subsidiary. **The impact of additional capital surcharges on competition should therefore be evaluated carefully particularly for what concerns domestic markets.**

<u>The bucketing approach is a sensible and realistic compromise, but it needs to be defined with caution.</u>

UniCredit appreciates the efforts by the FSB/BCBS to identify the comparison in terms of pros and cons of the different approaches to capital surcharges proposed. For the reasons highlighted by the FSB, we share the view that a proportional approach, like the bucketing approach, is a sensible and realistic compromise.

The application of the capital surcharge should be applied to the consolidated group only, avoiding duplications at subsidiary level.

However, particular attention should be paid to the effects of annual updates of the bank scores based on new data, since this might alter significantly the relative position of banks within and

across buckets, with potentially substantial effects on competition among similar banks. More specifically, it should be made clear whether the update process will impact only on the score of each bank (the numerator), **leaving the denominator unchanged**, or also on the denominator. Unicredit strongly support the first option that leaves the denominator unchanged since under the second option, banks might not be able to evaluate ex-ante the effects of their business policies, since they would not know in advance the value of the denominator, with negative effects on the incentives to reduce systemic risk taking.
Authorities should carefully assess the impact of thresholds on group of banks which are direct competitors, fairly similar in their systemic relevance, but anyway fall into different buckets and hence are subject to different surcharges. Moreover, the **updating framework should allow each bank to evaluate ex-ante the impact of its business policies in terms of its absolute and relative impact on capital surcharges.**

Bring under bank regulation shadow activities performed by banks
Conduits and SPV currently off balance sheet **should be brought back on balance sheet**, hence being subject to accounting and regulatory requirements (including Basel III liquidity ratios, net stable funding rations, capital requirements).

Balance sheet reclassification should happen across countries, in order to promote a level playing field among jurisdictions.

All activities performed directly or indirectly by banks, such as for instance risk positioning and trading transferred to funds (i.e. hedge funds) should be consolidated and regulated as other bank activities.

4. **Measures for G-SIBs should not be based on discretion by national authorities, rather should be available, transparent, replicable and based on certifiable data.**

Not all the five categories of systemic features proposedhave the same systemic impact, and therefore induce the same level of externalities
Many of the systemic features have also proved to be an effective way of integrating financial markets, diversifying risk, achieving economies of scale and scope. For example, the globalization of financial activities enables banks to diversify risk geographically, to effectively use internal capital markets to smooth both idiosyncratic and systemic shocks, to integrate financial markets for non tradable activities (i.e.: retail) and to dilute the systemic risk of financial activities across several financial markets. Equally, wholesale funding and inter-bank lending are also useful to reduce the cost of sourcing funds. The nature of the trade-offs between the systemic risk implied in certain financial institutions and their benefits in terms of financial market integration, risk diversification and economies of scale and scope should be taken in due consideration.
The proposed measures of systemic relevance are to a certain extent substitutes, and they are not exhaustive
We appreciate the enormous difficulties of the FSB/BCBS exercise. For example, size is a systemic feature per se, but of course the potential impact of a large bank is higher if it *also* carries out complex activities and it is interconnected with other financial institutions. It is important to clearly define how the degree of complementarity and substitutability between different systemic features is taken into account in the definition of systemic risk.
Reservations on the possible indicators for "Cross-jurisdictional activity"
UniCredit is of the opinion that "cross border claims and liabilities", which are defined according to BIS statistics as "claims that are granted or extended to non residents", are appropriate to be used as indicators for Cross-jurisdictional activity provided that "local claims and liabilities of

foreign bank subsidiaries" as defined by BIS Statistics, are excluded. Underlying data for "local claims and liabilities of foreign bank subsidiaries" proved to be more stable if analyzed over time in aggregate (compared to cross border claims/liabilities), hence one can infer that they contribute potentially less to systemic risk. With reference to the possibility to use the number of jurisdictions in which a bank operates as a possible indicator for "Cross-jurisdictional activity", we deem it to be seriously misleading. In fact, the absolute number of jurisdiction would be used in this case simply as a proxy for systemic risk, without reflecting any benefit associated to a diversification strategy across countries. Second, the absolute number of countries does not account for the peculiarities of the regional dimension in which the bank operates (for example: the EU).

Indicators of systemic relevance should be built based on clearly identified and transparent parameters for which good quality data that are internally certifiable and comparable are available.

An issue that should be accounted for is that if G-SIBs are perceived as too-big-to-fail, banks may have an incentive to be recognized as too-systemic-to fail. A policy implementation may suffer such moral hazard. This is also related to the availability of accurate data as well as transparency in the process that determines which are the G-SIBs and associated policies. As for data availability, some measures of systemic relevance are based on price, other on balance sheet data but others (mainly those related to interconnectedness) are very often unavailable (very often data on bilateral exposure across institutions and for specific products are not usually publicly available).

Against this background, it appears warranted that data used for the determination of the level of capital surcharge shall be clearly defined, based on international standards and internally certified. In view of the relevance of those data, we would expect that external comparisons and peer reviews would be provided by supervisors (for example, EBA in EU)

UniCredit understands that unavailability (or partial availability) and non comparability of data gathered among institutions of different jurisdictions significantly limit the range of methodology approaches to assess systemic risk that can be pursued (in particular when assessing the granularity of the underlying business model, i.e. retail versus investment banking activity). UniCredit expresses its commitment to fully cooperate with the regulator in identifying the current obstacles in the process of data collection and how best overcome them.

UniCredit believes that until capital surcharges on G-SIBs are not fully implemented (2019), full disclosure on sensitive information to the market must be carefully considered as it may not be advisable.

Powers and responsibilities of the entities responsible for macro-prudential supervision (e.g. in EU the European Systemic Risk Board (ESRB)), should be properly designed to achieve this aim. Macro-prudential authorities should be provided with the necessary information, tools, resources and powers to cope with this task of developing an adequate transparency framework and to work *closely* with Senior Risk Managers in the G-SIBs, in order to achieve a far greater transparency and an incremental collaborative mechanism between the public and private sector, both in normal conditions and especially in stress ones. Transparency is crucial also to allow market discipline to properly work. For instance, the percentage of asset segregation on total assets of a bank could be properly disclosed. This would imply several benefits. First: to limit outright the volume of securitization; second, to allow market discipline to effectively work (the higher or lower percentage of segregated assets on total assets will significantly change the risk profile of a bank with significant implications on its cost of funding); third: to maintain a

balance between ABS note-holders and senior bondholders in the context of bail-in (the excessive recourse to ABS issuance would undermine the position of senior bondholders, since the latter would become structurally subordinated, with the risk to make increasingly difficult from the bank perspective to tap the senior investment base).

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