BCBS D-SIB CONSULTATION PAPER

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Summarized observations

BNP Paribas has been associated to the reactions of various banking associations on the matter. Most of our concerns have been expressed through these channels. However we believe it be useful to highlight those that we consider as particularly critical.

1. Along with the finalised rules on G-SIB this D-SIB framework only focuses on financial stability and overlooks economic considerations. These surcharges on top of the substantially increased Common Equity Tier (CET) 1 requirements under Basel III will undoubtedly hinder the banks' capacity to finance the economy. The long term benefits of such measures are more than ever unlikely to outweigh the immediate costs of making growth stumble.
2. We understand that the D-SIB measures intend to widen the G-SIB framework by addressing the negative externality of banks' failures on domestic economies. It is true that the G-SIB approach does not seem to be the right response to what has been observed in the past. Icelandic or Irish banks, Northern Rock or cajas regrouped into Bankia that went bust or called for recapitalisation would never have been identified as G-SIBs. This fact does not mean yet that these failures resulted from systemic risk but rather from bad management, excessive concentration, particularly in the real estate market, and eventually shy supervision. The contemplated capital surcharge would not have prevented nor solve any of these cases
3. In short, both G & D-SIB surcharges are economically untimely and unjustified. This is particularly true for universal banks with diversified international activities that have proved to be the most resilient through financial crisis and that will unduly have to bear a quasi-permanent burden without real incentive or possibility to reduce their so called "sifiness". This statement has already been developed on many occasions, unfortunately to no avail.
4. We appreciate that the BCBS has opted for a principle based approach to D-SIB instead of the formulaic one used for G-SIB. Yet the question remains on how much flexibility could be granted without raising insurmountable level playing field issues across jurisdictions and keeping implementation sensibly harmonized at the international level. In that context we would suggest that the BCBS elaborates the terms of a "constrained discretion approach" that would keep the supervisory community on common grounds.
5. We welcome the clarification that the G-SIB and D-SIB frameworks do not add. Indeed, the failure of a D-SIB that is also a G-SIB would not have a double impact. The BCBS could yet have gone one step further and recognize that the potential systemic consequences of a hypothetical default of a D-SIB are by essence lighter than the ones of a G-SIB. In that regard, the "Higher Loss Absorbency" requirements of a D-SIB cannot but be lower than

that of a G-SIB. Greater D-SIB surcharge would directly challenge the methodology elaborated by the FSB, which we can hardly imagine justifiable.

6. The BCBS stipulates that national authorities may decide any additional requirements and other policy measures they consider to be appropriate to address the risks posed by a D-SIB. "Any additional requirements" is too broad to be considered as an internationally agreed principle. It opens doors to national discretions departing completely from any harmonisation or international consistency. We recommend that the BCBS specify the meaning of "additional requirements" and eventually provide a limited list of measures which can be envisaged without duplication with any other existing or upcoming prudential requirements.
7. The regulatory capital allocation within a banking group that could result from D-SIB surcharges is a true concern. We understand that home and host supervisors are urged to cooperate but the objective of such a dialogue is not clearly set. It should certainly be aimed at identifying and setting the relevant surcharges on a consistent basis together with the G-SIB one when it exists. The only answer to this exercise should not be to request additional capital at the parent company level; capital traps at the subsidiary level must also be avoided in order to keep untouched the parent company capacity to support its subsidiaries. Actually, the approach described in point 5 is perfectly consistent with this objective as the sum of the D-SIB surcharges, including the one at the parent company level on a standalone basis, if requested by the home supervisor[1], would not then be greater than the consolidated G-SIB surcharge. This consolidated G-SIB surcharge should be set as an absolute cap by the BCBS to keep the whole framework in line with the FSB directions.

8. In the European context, the identification of D-SIBs should take into account the single market principle and therefore be operated at the European level.
9. The interaction with the other existing capital requirements beyond the ones resulting from the G-SIB framework should be carefully thought through and specified as comprehensively as possible. The D-SIB surcharge should be fully integrated into the Pillar 2 assessment in order to avoid duplicating and cumulating with other prudential measures while bank's specific add-ons may not be ruled out, for example in case of excessive concentration.
10. We welcome the idea that the effective resolution regimes account for one of the mitigating element for D-SIB requirement.

11. Lastly, some details for implementation seem to be missing as the enforcement date and the phase-in arrangements. We hope that the BCBS actually meant to enforce this framework within the same G-SIB timeline.

Best regards,

[1] Home supervisor should keep the right to exempt the parent company of the D-SIB or G-SIB surcharge on a standalone basis when the requirement is complied with at the consolidated level.