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Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel, Switzerland
baselcommittee@bis.org

Dear Sir/Madam,

Re: CBA¹ Comments on the Basel Committee on Banking Supervision's Consultative Document: A framework for dealing with domestic systemically important banks

Thank you for the opportunity to comment on the Basel Committee on Banking Supervision's (BCBS) Consultative Document: A framework for dealing with domestic systemically important banks. The CBA recognizes that the G20 Leaders have asked the Financial Stability Board (FSB), in consultation with the BCBS, to extend the framework endorsed by the G20 Leaders in 2011 for global systemically important banks (G-SIBs) to domestic systemically important banks (D-SIBs).

The CBA supports the principles-based approach the BCBS has taken in establishing this proposed D-SIB framework. Our comments on the proposed framework are set out below.

The Role of Capital

The CBA believes that banks should be adequately capitalized in order to withstand losses that may occur during periods of financial stress. As a result of minimum regulatory requirements and market demands, Canadian banks have historically held higher capital levels than many of their global peers.

The CBA would like to note that no Canadian bank failed or received a bailout during the recent global financial crisis. While the Canadian banking sector entered the crisis well-capitalized, we attribute these strong capital levels as being only one of several reasons for our members' strong performance during the financial crisis.

The strong performance of the Canadian banking sector prior, during, and after the global financial crisis is widely attributed to the strong regulatory and supervisory framework for the Canadian banking sector and

¹ The Canadian Bankers Association works on behalf of 54 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 274,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions and works with banks and law enforcement to help protect customers against financial crime and promote fraud awareness. www.cba.ca.

the prudent risk management practices of the banks themselves. While adequate capitalization is a significant contributor to the soundness of a bank, it should not be viewed as a panacea.

With this in mind, we would like to highlight the importance of national authorities taking into consideration country-specific factors, such as market structures and legislative and regulatory frameworks, when calibrating the level of the higher loss absorbency (HLA) requirement.

Higher Loss Absorbency Requirements and Systemic Importance

The CBA would like to make the following observation with respect to Principle 10. As we understand the BCBS proposals, domestic regulators are free to determine the HLA requirements for institutions they designate as D-SIBs. Should those D-SIBs also be designated as G-SIBs, we understand that Principle 10, which states, "Home authorities should impose the higher of either the D-SIB or G-SIB HLA requirements..." comes into play.

We believe that home authorities should have the ability to set D-SIB HLA requirements that are appropriate for their domestic situations. We also believe that an appropriate D-SIB HLA requirement would typically be less than the minimum G-SIB HLA requirement and we believe that an appropriate D-SIB HLA for Canada is clearly less than 1%. This would be consistent with the BCBS's stated goal of discouraging banks from becoming G-SIBs.

Higher Loss Absorbency and Common Equity Tier 1

The CBA does not support the statement in Principle 12 that, "The HLA requirement should be met fully by Common Equity Tier 1 (CET1)." While the CBA recognizes the desire of the BCBS to ensure a maximum degree of consistency with the additional loss absorbency requirement for G-SIBs, we believe that national authorities should have the discretion to accept other forms of loss absorbing capital to meet the D-SIB HLA requirement.

The CBA also believes that the BCBS principles should explicitly note that national authorities, based on their discretion, may decide not to impose a HLA requirement on banks that have been identified as D-SIBs. Such a determination could reflect the specific features of the country and its domestic banking sector, such as strong regulation and supervision and sound risk management practices.

Disclosure of Assessment Methodology

Principle 7 of the consultative document states, "National authorities should publicly disclose information that provides an outline of the methodology employed to assess the systemic importance of banks in their domestic economy". And paragraph 27 states, "The assessment process used needs to be clearly articulated and made public so as to set up the appropriate incentives for banks to seek to reduce the systemic risk they pose to the reference system".

While the CBA supports these statements, we believe that banks should be provided with the opportunity to verify their assessment and make informed decisions to reduce their domestic systemic importance if desired.

We thank you for taking our comments into consideration and would be pleased to discuss these issues further at your convenience.

Sincerely,

