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Subject: CSOB response to the BCBS consultation on a framework for dealing with domestic systemically important banks (D-SIBs)

Introduction

The CSOB welcomes the opportunity to share with the Basel Committee (BCBS) our views on the proposal for a framework for dealing with domestic systematically important banks (D-SIBs). It is understood that policy makers continue with efforts to complement the framework for the global systemically important banks (G-SIBs) with putting forward similar framework for D-SIBs.

General Comments

The Basel Committee believes that there may be banks, which are not globally significant, but on a domestic level, could have local repercussions. To address this, the BCBS recommends that local authorities / regulators introduce an assessment framework to identify domestic systemically important banks and then – if found appropriate - require these banks to meet higher loss absorbency (HLA) requirement for D-SIBs. HLA refers to higher loss absorbency relative to the Basel III requirements for internationally active banks - additional capital (CET 1) or other measures that D-SIB would need to take to ensure that it can absorb greater shocks and losses.

The CSOB considers that the most effective policy tools to address the systemic risk threats are improved supervision and resolution frameworks. The additional capital surcharge should be only a complementary measure as such measures would imply high costs in terms of economic growth.

The potential (uncontrolled / unlimited) increase in required levels of capital is expected to result in a substantial reduction in the ability of large banks to perform their core intermediation functions and provide funding to the broader economy through loans, investments, and trading activities. This will impact large bank customers and counterparties through a reduction in available financial resources, reducing the pool of funds readily accessible for borrowing, investing, and trading and, thus, erode the ability of banks to serve as engines of economic growth.

Key points

1. The assessment methodology set out by the Basel Committee requires national authorities to establish a methodology for assessing the degree to which banks

are systematically important in a domestic context and the calibration of the HLA required, thus **allowing for high degree of national discretion**.

BCBS should elaborate more specific criteria and thus limit the possibilities for different interpretations and wide range of implementation practices.

2. We understand that the level of the systemic importance differs widely among particular countries; however, if it is only up to a local Supervisory Authority to decide which bank will be D-SIBs, it will lead to a **distortion of the international level playing field,** hence the **multilateral cooperation and coordination among the local Authorities is regarded as crucial**.

3. We believe that the **local Authorities currently have and use other effective tools** to require a bank to hold more capital and/or introduce other measures such as to improve its risk management, laid down by the regulation embodied to **the Pillar 2 – the Supervisory Review Process (SRP),** which will remain a cornerstone of the new Basel 3 as well. Within the SRP, also the systemic importance shall be / already is reflected.

   Therefore the D-SIBs surcharge should be fully integrated into the Pillar 2 discussions to avoid duplication of prudential measures.

   We are of the opinion that within the SRP the local Authorities already assessed the systemic importance / risk of each institution (and discussed the point on the Colleges of Supervisors), thus they should not use the possibilities given by the proposed Framework just to further increase their capital requirements.

4. The penalising extra-capital requirements posed only on the D-SIBs would ultimately result in disadvantageous position with regards to other institutions (regulated or non-regulated) on the local market, although it is obvious that the possible D-SIBs are usually more closely examined by the Supervisors and have probably better risk, value and capital management than the non D-SIBs.

5. The **proposal gives to the local Authorities a high degree of discretion** in both the identification methodology and in determining the additional capital requirements. This is in fact a divergence from the idea of the new capital accord – to have one unified / single rulebook in order to safeguard the (international-wide) level playing field.

   Thus we are of the opinion that both the identification methodology and the additional capital requirements setting shall be clearly specified in the Proposal, the latter as a limited fixed range which should be aligned with the G-SIBs framework-given levels.

The CSOB believes that the current proposal should be reconsidered. Any possible future proposal should take into account domestic regulatory environment in which banks operate, their capital positions, demonstrate that the benefits exceed the costs of reduced economic growth; and address other concerns highlighted above.