

**RESPONSE TO THE BASEL COMMITTEE'S REQUEST FOR COMMENTS ON THE
CONSULTATIVE DOCUMENT "A FRAMEWORK FOR DEALING WITH DOMESTIC
SYSTEMICALLY IMPORTANT BANKS"**

Buenos Aires, 31 July 2012

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland

*Ref.: Consultative Document "A framework for dealing
with domestic systemically important banks" – Fit &
Proper's comments*

Dear Committee Members,

I am pleased to submit the following Fit & Proper's comments and suggestions in response to the Consultative Document "*A framework for dealing with domestic systemically important banks*", issued by the Basel Committee on Banking Supervision (BCBS) on June 29th, 2012.

Fit & Proper LLC provides advisory and consulting services on issues related to banking supervision and regulation, central banking, financial institutions and financial inclusion and microfinance, among others. On this regard, Fit & Proper provides services to banking supervisors, central banks, deposit insurance agencies, ministries of finance and multilateral organizations, including the Interamerican Development Bank, the International Monetary Fund, and the World Bank. Fit & Proper and its consultants have experience in more than 30 countries. You can find further information in www.fitproper.com.

These comments were prepared by Javier Bolzico, José Rutman, and Natalia Teplitz.

I would like to express our appreciation to the BCBS for the opportunity to provide feedback on this Consultative Document.

Furthermore, I would like to take the opportunity to congratulate the BCBS and the staff member of the Secretariat of the Basel Committee on Banking Supervision for the good job that they have been doing regarding the assessment and treatment of systemically important banks, contributing to the financial stability.



I would be pleased to provide more information or further discussion on any of these issues. If you have any comments or questions, please feel free to contact us at (54 11) 4719-0704 or info@fitproper.com.

Yours faithfully,

Javier Bolzico
CEO
Fit & Proper LLC

Comments / suggestions on Consultative Document “A framework for dealing with domestic systemically important banks”

GENERAL COMMENTS

The document focuses on higher loss absorbency (HLA) requirements -SOLVENCY- for domestic systemically important banks (D-SIBs). We suggest that the document should also address higher requirements for systemically important institutions regarding liquidity levels and instruments -LIQUIDITY-.

Systemically important banks should not only hold additional capital, but also have greater capacity to deal with a bank run. The financial crisis has demonstrated that systemically important institutions required mainly liquidity assistance from the authorities.

Furthermore, the document should also include, besides a more intensive supervision, restrictions on the acquisition of other institutions and deposit and/or loan portfolios generated by other institutions.

These additional requirements could be included in the document under Principle 12 or as a new principle.

SPECIFIC COMMENTS

1. Principle 1

“National authorities should establish a methodology for assessing the degree to which banks are systemically important in a domestic context.”

This principle states that national authorities are the responsible for establishing the methodology to assess D-SIBs. We recommend including a reference to the need of an adequate coordination among national authorities regarding the design and implementation of the methodology, in order to establish clear responsibilities and to promote timely information flow among the authorities involved.

2. Principle 3

“The reference system for assessing the impact of failure of a D-SIB should be the domestic economy”

We suggest adding, at the end of the principle, the text *“and domestic financial sector (or domestic financial system stability)”*.

When assessing the systemic importance of an institution, it is relevant to assess not only the impact of the institution failure in the domestic economy, but also its impact in the domestic financial sector.

3. Principle 5

“The impact of a D-SIB’s failure on the domestic economy should, in principle, be assessed having regard to bank-specific factors:

(a) Size;

(b) Interconnectedness;

(c) Substitutability/financial institution infrastructure (including considerations related to the concentrated nature of the banking sector); and

(d) Complexity (including the additional complexities from cross-border activity).

In addition, national authorities can consider other measures/data that would inform these bank-specific indicators within each of the above factors, such as size of the domestic economy.”

The paper *“Global systemically important banks: assessment methodology and the additional loss absorbency requirement”* states, regarding the “Substitutability” factor: *“The systemic impact of a bank’s distress or failure is expected to be negatively related to its degree of substitutability as both a market participant and client service provider. For example, the greater the role of a bank in a particular business line, or as a service provider in underlying market infrastructure, eg payment systems, the larger the disruption will likely be following its failure in terms of both service gaps and reduced flow of market and infrastructure liquidity.”*

On this regard, we suggest to expand this definition in order to include whether there are important geographic and sectorial areas in which the institution is the only supplier of financial services. An institution may not be systemically important regarding its size, interconnectedness and complexity, but its failure may leave large areas and sectors unattended.

4. Principle 7

“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.”

The principle states that the methodology employed to assess D-SIBs should be publicly disclosed. Furthermore, the explanation of Principle 6 (paragraph 24) states, regarding G-SIBs, that *“It is expected that the names and buckets of G-SIBs and the data used to produce the scores will be disclosed.”*

However, the document is not clear whether national authorities must publicly disclose the list of institutions that are considered domestic systemically important.

We consider that this issue must be clarified in the text after analyzing its possible impact on moral hazard.