Financial Supervision Commission

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

Contact: Roxanne Oldham
Your Ref:
Date: 30 July 2012

Dear Sir / Madam

Re: Consultative Document – A framework for dealing with domestic systemically important banks – June 2012

The Financial Supervision Commission ("the Commission") is pleased to have the opportunity to comment on the consultative document referred to above.

The Commission agrees with and notes the content of the consultative document, but has suggestions to make regarding the lack of reference to branch structures in the document.

Given that the focus of the framework for domestic systemically important banks (D-SIBs) is specifically local in nature, rather than internationally systemic, the Commission considers that there may be some merit in extending the concept of what may constitute a D-SIB in a host jurisdiction (for this purpose Country A) to include branches. For example, due to factors such as: the size of the branch in Country A, the number of retail depositors, the number of employees of the branch, level of lending to the local population, whether any compensation scheme would be triggered in Country A or other matters, the effect on Country A of a failure of the bank (and therefore that branch in Country A) could be domestically systemically important to Country A.

To further illustrate the above, it is also possible that a jurisdiction (Country A) is served by a branch of a non-G-SIB bank, incorporated elsewhere (Country B). It is also possible that the competent authority in the jurisdiction of incorporation – Country B - considers that the bank is not a D-SIB when evaluating the "impact of failure on the local financial system and the local economy" and therefore places no related 'higher loss absorbency' requirements on the bank. However, due to factors as described above the effect on Country A of a failure of the bank (and therefore that branch in Country A) could be domestically systemically important to Country A.

The Commission considers that in order to cover all theoretical situations the principles could cover such scenarios (i.e. the host jurisdiction should be required to assess whether branches

would be defined as D-SIBs, unless such branches are already branches of designated G-SIBs which themselves will be subject to higher loss absorbency requirements). In particular, those competent authorities in jurisdictions that would be systemically affected by the collapse of a local branch of a foreign incorporated bank should be obliged to discuss this assessment with the competent authority in the jurisdiction of incorporation, and the latter jurisdiction (Country B in the example) should be obliged to consider whether to apply any higher loss absorbency measures as a result of the domestic affect on the jurisdiction into which their bank has branched (Country A in the example). It is accepted that in considering whether to permit a bank to branch into its jurisdiction, any host jurisdiction should determine whether the bank is a G-SIB or D-SIB in its home jurisdiction and ensure that it is fully satisfied with home capitalisation etc. before allowing it to proceed. However, as G-SIB and D-SIB principles are relatively recent, some situations as set out above may exist historically, and for the sake of completeness the principles could cover the possibility.

Another possible illustration, which is from the opposite viewpoint of that above, is a case of a jurisdiction in which a bank is incorporated (that is not a designated G-SIB) and the consolidation of their downstream subsidiaries. Such assessments would be improved if they also required the competent authority to liaise with the competent authorities in jurisdictions into which their bank branches. This is to cover a situation where a (non G-SIB) bank incorporated in one jurisdiction has branches in another jurisdiction, and the loss of the branch in the other jurisdiction could be domestically systemic whereas the loss of the whole bank to the jurisdiction of incorporation may not be.

Yours faithfully

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