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HUNGARIAN FINANCIAL
SUPERVISORY AUTHORITY

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Comments of the Hungarian Financial Supervisory Authority to the the consultative document of Basel Committee on Banking Supervision on *„A framework for dealing with domestic systemically important banks"*

The Hungarian Financial Supervisory Authority (HFSA) appreciates the opportunity to provide thoughts regarding the consultative document of Basel Committee on Banking Supervision on *„A framework for dealing with domestic systemically important banks*", published in June 2012.

The HFSA is an independent, integrated financial supervisor in Hungary responsible for supervision and regulation of all sectors (money market, capital markets, insurance and pensions) and member of the Basel Consultative Group set up by the Basel Committee on Banking Supervision.

General comments

The HFSA welcomes the recent proposal relating to the D-SIB framework, and highly appreciates the work of the Basel Committee in this field. We also consider the **consistency of D-SIB and G-SIB frameworks essential and necessary.** Furthermore we support that **D-SIB principles should be more flexible** compared to the strictly indicator-based G-SIB framework, allowing for the reflection of national macroprudential specificities and permitting appropriate degree of national discretion.

In addition to the above mentioned comments, the HFSA wishes to highlight some of its thoughts on the D-SIB framework set out in the consultation paper and would like to propose additional elements to it.

Specific comments

Besides our general comments we would like to share our views concerning the following principles and points:

- **Principle 3:** We share the view that reference system for assessing the impact of failure of a D-SIB should be the domestic economy.

- **Principle 4, para. 17.:** The HFSA supports that the home government should have the power to fund/resolve foreign operations in the absence of relevant cross-border agreements. Furthermore we suggest to give greater emphasis for that possibility, and to deal with the issue in a more detailed way.

- **Principle 5:** According to Principle 2, the assessment methodology for a D-SIB should reflect the potential impact of, or externality imposed by a bank's failure. In our opinion, this should be better reflected in Principle 5. **Suitability, interconnectedness, substitutability and complexity are good but not exclusive signals of the potential impact.** Therefore **we suggest extending the list of these factors with a point "e) Potential impact of a bank's failure on domestic economy".**

- **Principle 5, para. 21.:** We disagree with the last sentence of this para., therefore we suggest deleting it. Cross-jurisdictional activity can be relevant during the decision making procedure about D-SIB classification. However, some international examples have already shown that even if a bank is not a G-SIB, its foreign activity may have a potential negative effect on the domestic economy, especially when the bank is bailed-out from the central budget.

- **Principle 5, para. 22.:** The HFSA agrees with and supports the possibility of including some country-specific factors by national authorities for the identification of D-SIBs.

- **Principle 6:** We consider it a good practice to reconcile the assessment frequencies under the D-SIB and G-SIB frameworks.

- **Principle 11, para. 41.:** We agree with the general principle that co-operation between home and host supervisors is essential**. However, there can be a reason for an enhanced co-operation between the host supervisors of those countries where the financial group members are D-SIBs.** This host-host co-operation is even more relevant in a case where the parent bank in its home country is not a D-SIB, but two or more of its subsidiaries are D-SIBs in the respective host countries.

- **Principle 11, para. 42.:** According to this point, home and host supervisors should co-ordinate and co-operate with each other on any plan to impose an HLA requirement on a subsidiary bank. It is clear that such a co-operation is needed; however, the incentives for the home and host supervisors may be different. **Host countries should have a priority in this decision, especially if the parent bank itself is not a D-SIB in its home country, but its subsidiary is a D-SIB in a host country.**

As a general remark, we would like to draw your attention to the fact that currently there is only a very limited experience with D-SIBs. It would be extremely important for the Basel Committee to prepare an implementation review within 2 years after the publication of the final document. Based on the experiences from the implementation study, the Methodology should be further developed or updated.

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