International Banking Federation

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Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
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1st August 2012

Dear Sir/Madam:

Re: ***Response to the BCBS consultation on: A framework for dealing with domestic systemically important banks (D-SIBs)***

The IBFed welcomes the opportunity to share with the Basel Committee on Banking Supervision (BCBS) its views on the proposal for a framework for dealing with domestic systemically important banks (D-SIBs).

It is understood that international policy makers intend to complete the work initiated in 2011 with the framework for global systemically important banks (G-SIBs) by putting forward a similar one for D-SIBs.

The IBFed considers that the most effective policy tools to address the threats posed by systemic risk are improved supervision and resolution frameworks. Additional loss absorbency, though swifter to implement, can only be a complementary measure. It should be recalled that it implies a cost in terms of economic growth. For this reason, the IBFed would like to remark that the currently proposed D-SIB framework should not replace nor take priority over the current improvements in supervision and resolution tools.

Against this background, the IBFed recommends that the extension of the SIB framework to domestic institutions should be designed with respect for the following principles:

- To put the proposed measures in the context of a wider range of policy tools for systemic risk prevention by giving explicit recognition to the fact that SIB buffers are just a complementary measure that does not entirely address the issue of systemic risk.

- To set limits on the D-SIB capital surcharge

- To avoid as much as possible complexity, conflicting incentives and divergences that could give rise to an uneven playing field.

This IBFed response puts forward suggestions for improvement of the proposed framework so that it contributes to confidence in the banking sector whilst minimising the costs associated with its implementation.

Key points on the assessment methodology

1. The proposed framework allows for a high degree of **national discretion** in the assessment of D-SIBs and the calibration of the higher loss absorbency (HLA) requirement. This is appropriate, since it is systemic risk to the national economy and financial system that is being considered. The IBFed believes that any D-SIB buffers should be generally based upon the actual systemic risk of the institution to the domestic economy and financial system. Sufficient national discretion should be available such that domestic regulators may consider other facts when assigning D-SIB surcharges, such as the size of the domestic financial system and economy and systemic institution regulation and resolution regimes.

2. The framework should secure a **cross-jurisdictional consistency**. National ring-fencing and divergent requirements from different competent authorities of a cross-border group could lead to duplication of operations and resources, loss of synergies and higher funding costs.

3. Clarification should be given as to whether the assessment of systemic importance covers solely subsidiaries that are part of the banking group, e.g., are **non-banking entities** considered?

4. At no point should home authorities assess the systemic importance of an institution by using the consolidated balance sheet of the group regardless of its organisational structure. The model of **standalone subsidiaries**, i.e. autonomous in capital and liquidity, places effective barriers to risk contagion.

5. For banking groups organised in standalone subsidiaries, the costs of potential failures are backed by the respective national deposit guarantee funds. **Taxpayers** only face the costs associated with the potential failure of the subsidiary in their countries.

6. The incentives to **resolvability** and for institution to reduce any determination of domestic systemic risk surcharge should also be taken on board in the proposed model.

7. There must be a clear rationale in the **interplay** between the **G-SIB** and the **D-SIB** frameworks to ensure that the latter does not exceed the former in terms of additional capital requirement; unless such D-SIBs are of unusual domestic systemic importance. Otherwise, arbitrage and conflicting incentives would become evident.

8. In order to ensure consistency between the G-SIB and the D-SIB framework, the G-SIB buffer should be set at a consolidated level while **the D-SIB buffer must only be established at an individual level**. Otherwise, the level playing field within the country would be affected and both frameworks could clash despite being originally conceived to deal with different policy objectives. In our understanding, the D-SIB framework is not supposed to address a question of geographical diversification but the loss given default in the domestic jurisdiction.

9. The IBFed encourages the BCBS to set a **unique framework** for both G-SIBs and D-SIBs with the only exception of the cross-border factor that would only apply to the former. It would avoid complexity, divergence and unfair situations. The framework should be flexible enough as to not prescribe an actual surcharge or surcharge minimum; rather, it should provide national regulators sufficient discretion to reflect differences in the regulatory environment of each jurisdiction.

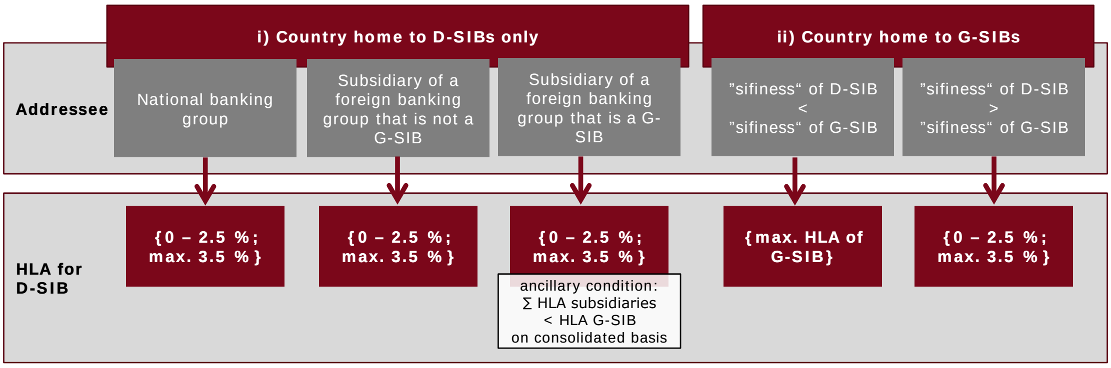
10. The D-SIB surcharge should be fully integrated into the **pillar-2** discussion to avoid duplicating prudential measures such as buffers under Basel III and other macro-prudential measures.

Key points on the higher loss absorbency

11. This proposal gives national supervisors a great deal of discretion in both the identification methodology and – in particular – in determining the **additional capital** requirements. Whilst the capital surcharges for G-SIBs are within a range of 1% - 2.5% and a maximum of 3.5%, no such limits are set for D-SIBs. It is therefore up to national supervisors to decide on the actual size of capital requirements for D-SIBs. For G-SIBs classified as D-SIBs, the cap of 3.5% proposed by the Basel Committee may therefore be exceeded. This freedom means that the G-SIB framework could potentially be undermined by the D-SIB rules.

12. The IBFed is in favour of setting a **fixed range of 0% - 2.5%** (maximum) or ultimately 3.5% on a consolidated basis also for measuring the additional capital requirements for D-SIBs. This fosters capital market transparency and enables banks to plan their capital requirements accurately.

13. A **proposal for setting capital requirements** is illustrated in the following diagram. A distinction is made between (i) countries which supervise solely banks/ banking groups that have obtained D-SIB status but not G-SIB status and (ii) countries which supervise at least one bank/banking group classified as a G-SIB at Basel Committee level:



14. Purely domestic banking groups and subsidiaries of foreign banking groups without G-SIB classification are subjected to a capital surcharge of 0% to a maximum of 2.5% and in special cases to a surcharge of up to 3.5%. The same rules apply to subsidiaries of foreign banking groups classified as G-SIBs, subject to the strict ancillary condition that the capital requirements at **group level may not exceed the relevant G-SIB capital surcharge**. This requires an appropriate coordination process between home and host supervisor.

15. This proposal would ensure that the size of capital requirements is in a predictable range and **interaction between the G-SIB and D-SIB** frameworks is as smooth as possible.

16. The **overall impact** of the capital requirements, a longstanding concern of the IBFed, would become all the more apparent if additional capital were to be required on top of the comprehensive Basel III framework. Systemic risk should be addressed through improved supervision and resolution frameworks. In the current circumstances of arrested economic growth, an updated assessment of the cumulative impact of all measures in place should be undertaken before adding to the already high capital requirement.

Yours sincerely

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