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Scotiabank

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Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel, Switzerland
baselcommittee@bis.org

Dear Sir/Madam:

Re: Comments on the Basel Committee Banking Supervision's Consultative Document: A framework for dealing with domestic systemically important banks

Thank you for the opportunity to comment on the Basel Committee Banking Supervision's (BCBS) Consultative Document: A framework for dealing with domestic systemically important banks ("D-SIBs"). In offering these comments, we believe it is important to reiterate our support for appropriate measures designed to strengthen regulation and thus make the global financial system more stable.

Scotiabank is a leading multinational financial services provider, and Canada's most international bank. We operate in more than 55 countries, many of which we operate as a local personal and commercial bank. Scotiabank's total assets were $659 billion as at April 30, 2012.

The proposed framework for D-SIBs is principle-based and allows local regulators a degree of national discretion in identifying D-SIBs. The intent is that the identification and final assessment of D-SIBs be left to the discretion of local regulators. We agree that local regulators are positioned to identify banks that would be systemically important in their domestic economy and are best suited to recognize the effects of individual banks on their economy.

In our view, the global systemically important banks ("G-SIBs") methodology – which is the basis for the proposed D-SIB methodology - captures the global footprint of banks through cross jurisdictional activity and interconnectedness without consideration of inherent differences in resolvability through recovery actions. The G-SIBs impact assessment's concentration on Loss Given Default does not take into account differences in the likelihood of defaulting nor the prospects to recover from a specific crisis.

A bank with an interconnected, global operation has a different risk profile in a recovery scenario than an international bank with a series of local personal and commercial banks that have their own infrastructures with limited interconnectedness. As well, these local personal and commercial banks are subject to local regulation and would also normally be afforded liquidity support from local central banks.

In particular, it is important when assessing individual institutions within the context of the overall banking sector in a jurisdiction that the benefits from diversification of a bank's business model be taken into consideration. A diversified earnings base normally leads to less volatile earnings, which drives more consistent internally generated capital. Internally generated capital is considered the first level of loss absorption, followed by existing capital on hand. Broad diversification across business activities, as well as geographies, provides diversified streams of income that supports quality earnings.

As observed in our own Recovery planning process, Scotiabank's diversification across geographies and businesses affords us a number of recovery or de-risking options. Diversification provides the option to allow severability of parts of the business in a crisis, without significantly reducing the viability of the organization and does not impact the systemic importance to the domestic economy.

Diversification, by its nature, reduces concentration risk. Solvency issues that have occurred in the past for certain banks have often arisen from excess concentrations in asset classes, often within certain geographic locations. The merits of diversification have been evidenced in the recent European crisis. Using Spain as an example, the diversified international-based Spanish banks have proven to date to be much more financially resilient compared to domestically focused mono-line Spanish banks. This is primarily due to the benefits of diversification.

The draft framework notes that the purpose of higher loss absorbency requirements for D-SIBs is to reduce the probability of failure compared to non-systemic institutions. In our view, diversity across jurisdictions and businesses which results in lower concentration risk in any one jurisdiction also reduces the probability of failure. This ensures that the failure of any one component of the consolidated group will not have a significant impact on the domestic economy.

We recommend that the proposed D-SIBs principles explicitly factor in the benefits of a well diversified banking model, particularly one that includes geographic diversification through locally run personal and commercial banking operations, when determining the size of a D-SIBs capital buffer.

We appreciate your consideration of our comments as you finalize the D-SIBs framework.

Yours truly,

Sean McGuckin

cc: Julie Dickson – Superintendent, The Office of the Superintendent of Financial Institutions, Canada