Consultation response

Basel Committee on Banking Supervision

Technical Amendment: G-SIB assessment methodology review process

3 September 2021

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the new approach to reviewing the G-SIB assessment methodology as proposed by the Basel Committee on Banking Supervision ("the Committee") via a technical amendment[1]. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

AFME is registered on the EU Transparency Register, registration number 65110063986-76.

We summarise below our feedback to the consultation.

Industry Feedback

The Committee plans to replace the existing three-year review cycle with a process of ongoing monitoring and review. Furthermore, the Committee states that only if this monitoring work reveals evidence of material unintended consequences or material deficiencies with respect to the framework's objectives will the Committee consider changes to the regime.

AFME believes there are some implications of the Committee's proposed technical amendment which warrant further consideration:

- It is important that, if there is a movement to ongoing reviews, there is a clear timeline for consultation on, and implementation of, any changes to the G-SIB methodology. The cost-effectiveness of new measures still needs to be properly considered with a wide range of parties and the large banks of the G-SIB population will still need time to adjust the data

[1] https://www.bis.org/bcbs/publ/d522.pdf

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collection processes. It should not be assumed that an ongoing review process has shortened this period.

- Following a consultation, the timing and duration of any resulting implementation phase should be formalised. Material changes will require time to implement within banks reporting processes as well as time to ensure such changes can be suitably explained to market participants. In particular, data for new items could take 18 months or more to source and refine, especially if balances are required across a full 12-month period e.g. payments data. In essence, this means an implementation phase-in of 18 months or more should be provided before material changes to reporting become effective. Changes in G-SIB methodology, whether on a 3-Year cycle or on an ongoing basis, must follow the governance of other regulatory capital methodology changes. While additional/changed indicators are currently collected as "memo items" before they become binding, the process remains opaque, as contributing banks do not get any feedback on the impact that the changes may have on their G-SIB score, and ultimately bucket. This lack of transparency is particularly acute given the G-SIB score is a relative score, and therefore, no bank can assess the impact of the changes on its own, without disclosure of the BCBS global denominator. Indeed, addressing this transparency issue would be essential so that regulatory decisions are sufficiently clear, predictable and do not unduly surprise market participants. Indeed, a cliff effect of 50 basis points in CET1 minimum requirement has important consequences to banks' long-term business and capital planning and their capacity to support the recovery. The 1-year timeline allowed for adjustment remains very tight, especially in the current low/negative rate environment.

- At the same time, it will be important for the Committee to have the capacity to make adjustments or workarounds in the short term if it becomes evident that there are technical issues with underlying activities or data-sets. We note that the significant changes introduced in 2018 (mainly the inclusion of the trading volume and insurance subsidiaries) will apply for the first time in 2022 based on 2021 data. Therefore, evaluating the benefits and potential unintended consequences of these methodological changes will be important, but can only occur from 2022 onwards. We also note that the 2018 review left open two important aspects for further evaluation: the cap applying to substitutability floor, and the recognition of the Single Resolution Mechanism in the European Union, which should allow for exempting intra Eurozone assets from the cross-jurisdictional score, as implemented in CRD5. In addition, as the Committee has highlighted that it will also pay particular attention to branches, due consideration should be given to the treatment of cross-border exposures funded locally in local currency, as such exposures are erroneously captured as part of the cross-jurisdictional activity indicator and should be excluded. New structural evolutions should also be taken into account, such as the volatility in gross swaps values as a result of GBP, CHF and JPY LIBOR transition. A short note on this is attached as an appendix.

- More broadly there is a risk that, with shallower ongoing reviews, the G-SIB methodology becomes fossilised and over time less accurately monitors the true G-SIB risks, and therefore, does not set buffers appropriately. For example, it may not detect trends in balance sheet composition or customer inter-connectedness which are modest year-on-year but are meaningful in the medium term. For this reason, we believe that periodic deep-dive reviews, involving industry, academics, regulators and standard-setters remain important. We believe therefore, that the option for these should be retained where there are material developments in the industry or in its regulation.

- In addition, it would be helpful if the Committee published annual reporting instructions earlier in the annual cycle. Ordinarily they are published in January each year, which does not provide sufficient time for banks that report based on a December year-end to implement changes in a controlled manner. This could impact the quality of bank submissions.

We hope these are helpful observations and would be happy to discuss them further if necessary.

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Appendix

LIBOR transition - Treatment of outstanding cleared LIBOR contracts and their potential conversion into RFR-based contracts

The London Clearing House (LCH) has consulted over the years over its conversion process whereby all in-scope LIBOR trades will be converted to RFR equivalents and overlay swaps (to preserve LIBOR representativeness up until cessation date) will be used as a mechanism to preserve any LIBOR fixings until cessation date.

The proposed date for the conversion of GBP LIBOR will likely occur towards the end of 2021. This "overlay swap" approach creates up to 3 new trades to replace 1 IBOR trade. LCH acknowledge that this will result in an increase in gross notional. A similar approach may be used for CHF and JPY LIBOR trades.

Industry foresees the grossing-up of notional derivative amounts proposed by LCH will affect the complexity indicator reported as part of the G-SIB assessment. The impact could be material given the substantial increase in derivative notionals. Moreover, this potential issue overlaps with the introduction of the revised G-SIB assessment methodology and the combination could move banks' scores into higher buckets unnecessarily.

LCH is proposing a change in their rulebook to retain the integrity/completeness of the original trade so that overall risks should not increase. This will not, however, be sufficient to adjust the calculation of the G-SIB score. Members hope the Committee would consider discussing this matter and consider a consistent approach to this LIBOR transition trade representation that preserves economic reality.