OFÍCIO FB-0652/2024

São Paulo, June 07, 2024.

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2, CH-4002 Basel, Switzerland

Ref: "Global systemically important banks – revised assessment framework - consultative document"

The Brazilian Banks Federation (FEBRABAN) is grateful for the opportunity to comment on the Basel Committee's public consultation on the "– Global systemically important banks – revised assessment framework".

We welcome the Basel Committee's continued focus on designing and improving the regulatory framework. In that sense, Febraban believes that considerations to the current proposal should be taken into account in order to avoid some unintended consequences and costs and suggests the Committee to consider the following points in the review.

The prudential regulatory framework that addresses systemically relevant institutions at a global level was first published around 10 years ago by the Basel Committee. Starting in 2016, eligible institutions already began observing additional capital requirements related to their individual systemic importance.

In parallel with this, jurisdictions locally defined their rules for identifying and treating institutions considered domestically relevant. These methodologies have been published in Brazil since 2015, and additional capital has been required from the largest local banks since 2017.

Such track record has certainly provided regulators with a certain power to analyze the current methodology, as well as lessons learned that should be used in order to improve the regulations currently in force.

This is a dynamic process that should be part of the new international regulatory environment. It should be aimed at addressing observed weaknesses, as well as correcting inefficiencies generated and the disproportionate costs ushered in by the implementation of the standards.

In this dynamic process, the balance between costs and benefits should always be present, with the aim of maintaining the global financial system efficient and profitable, which has contributed to preserving its resilience and soundness.

Av. Brigadeiro Faria Lima / 4300, 4º andar
04538-132 / São Paulo SP / Brasil

55 11 32449800
febraban.org.br

In this regard, we believe that it would be necessary to consider several points in the proposal currently under public consultation, which we list below.

Proportionality and Complexity

The definition of the cut-off for providing information to determine systemic relevance was defined based on the total value of assets (banks with leverage exposures greater than €200 billion). However, there is a huge difference between the size of the institution, as defined by leverage ratio exposures, and the criteria defined for applying additional capital requirements for systemic relevance.

Only a small portion of institutions eligible for the systemic relevance cut-off (leverage exposures greater than €200 billion**) actually fits into the ranges that receive additional capital. Among the banks that submit information on systemic relevance, less than 38% of the main total sample are subject to additional capital. When including the banks in the additional sample, only 25% of those that provide information are subject to additional capital.**

This proportion is even smaller if we consider only banks that operate near the lower and upper limits of the buckets – those that could potentially have a concrete interest in a window-dressing event. **These institutions would represent only 10–15% of the total number of banks subject to submitting information.**

In the case of Brazilian banks, considering the four purely local institutions that take part in the sample, the maximum individual indicator of systemic relevance is around 40 points, denoting their low complexity and systemic relevance at a global level. The value is much lower than the 130-point limit of the first bucket, which requires additional capital for global systemic relevance.

In this regard, we consider it extremely inefficient and disproportionate to impose such a high compliance cost on all institutions, without any compatible additional prudential benefit.

Furthermore, most (if not all) of these institutions are already normally subject to additional capital requirements to address domestic relevance in their jurisdictions and these institutions are subject to rigorous local supervision programs and assessments.

Surely these supervisors have a much greater sensitivity and power of observation of institutions in each jurisdiction that would be at levels close to the thresholds of the additional global systemic capital ranges. And, in this case, they themselves could act (via local supervision) to restrict any inappropriate practices of regulatory arbitration.
We also observed that some parameters are not normally subject to high volatility, such as the size criterion, and – depending on the characteristics of the local markets in each jurisdiction – the total indicator has a relevant concentration in a few sub-indicators.

Proposals:

Considering the points mentioned above, we understand that there would be no need to request a higher frequency for most indicators, for all institutions in all signatory jurisdictions.

Therefore, with the aim to bring greater effectiveness to the rules, avoid unnecessary costs, and preserve global systemic proportionality and complexity, our suggestions would focus on the following:

1. **Maintain an annual frequency for all institutions, and leave the role of monitoring, identifying, inspecting and restricting the use of window dressing to local supervision.** This proposal stems from the huge difference seen between the indicators (size and composition), the systemic complexity of the institutions and the particularities of the jurisdictions, which practically makes it impossible to have a model that is applicable to everyone fairly.

   If this proposal is not accepted, we opt for proposal c) in the public consultation document: apply a higher averaging frequency to G-SIBs and banks in the reporting sample that are close to the 130 basis point G-SIB identification threshold. To do so, we suggest observing the following points:

   a. **Not change indiscriminately the current frequency of preparing and submitting annual information to all institutions in the main sample and the additional sample**

      i. **Maintain the current annual frequency for submitting information at least to those institutions with a global systemic relevance indicator below 100 points**. This criterion takes proportionality into account, preserves less complex institutions at a level of global systemic relevance, and avoids window dressing for Bucket 1 of additional capital; and

      ii. **Define the institutions subject to submitting information that would be more frequent, based on a range of proximity to the threshold value of each bucket, e.g., from 10% to 15%**. In fact, this would concentrate the scope of the regulatory standard, and would operationally overload only those FIs potentially subject to the window-dressing event.

2. **Not request daily and monthly information. This recurrence brings a huge cost of compliance and does not guarantee a compatible prudential benefit.**

   a. **Any change in frequency should be at most quarterly, in line with the institutions' recurring publications of financial statements, risk management statements, and Pillar 3 statements**. It is unnecessary to request a high frequency for low-volatility information, or information with low representativeness, in the institutions' final systemic relevance indicator. If the local supervisor identifies any signal of window dressing, he/she should have the prerogative to change the frequency of that entity specifically, without unnecessarily burdening everyone else.

3. **Make the criteria for defining G-SIBs eligible for annual assessment more dynamic, or update the cut-off parameter every three years.** The current BIS methodology defines that banks with leverage exposures greater than €200 billion must take part in the annual "G-SIB assessment exercise." This amount was defined in the first document dated July 2013, i.e., over 10 years ago. Bank assets are influenced, among other factors, by inflation and interest rates in each location, as well as the changes in the local currency vis-à-vis the euro.

   Therefore, it would be desirable for the assessment-defining cut-off to be reevaluated periodically. A perennial alternative would be to define the criterion as a proportion of some dynamic parameter. For example, it could be 0.2% of the total size parameter of the G-SIBs indicator of the main sample, equivalent to the current €200 billion.

   In Brazil, for example, the criterion for additional capital requirements for D-SIBs is based proportionally on GDP. Institutions with leverage exposures/GDP ratio < 10% are not subject to the additional capital requirement for D-SIBs.

Once again, we appreciate the opportunity to comment on revisions to the "**Global systemically important banks – revised assessment framework**". Should you have any questions on the issues raised in this letter, please contact the undersigned com.gestao.riscos@febraban.org.br.

Very truly yours,

Tatiana Grecco
Director of Risk Management Committee

Jayme Soares Alves Neto
Deputy Risk Director

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Assinaturas

Jayme Soares Alves Neto
jayme.alves@febraban.org.br
Assinou

Tatiana Grecco
tatiana.grecco@itau-unibanco.com.br
Assinou

Tatiana Grecco

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