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Secretariat of the Basel Committee
on Banking Supervision (BCBS)
Bank for International Settlements
CH-4002 Basel, Switzerland

Dear Basel Committee members:

Re: CBA[1] Comments on the BCBS consultative document: *Identification and management of step-in risk*

We thank you for the opportunity to provide comments on the BCBS's consultative document, *Identification and management of step-in risk* ("consultative document"). We welcome the fact that the proposed framework (the "Framework") entails no automatic Pillar 1 capital or liquidity charge in addition to the existing Basel standards. We appreciate that this second iteration of the Framework was issued in the form of Guidelines, to permit flexibility in terms of adoption at the local jurisdictional level. Given the complex and idiosyncratic nature of step-in risk, we concur that banks should be able to complete their own self-assessment of step-in risk, and thus choose the most appropriate response for any step-in risk that may be identified. We believe that individual banks are in the best position to understand their own risks, and therefore support the fact that the Framework attempts to reinforce better risk management.

While we appreciate that the Framework is intended to be in near final form, we would like to offer some suggestions for improvement in the interest of contributing to a final Framework that is practical, provides due consideration for other standards/regulation to avoid duplication, is consistently applied, and does not impose a significant economic or operational burden. We note that part of the reason for significantly increasing the quantity and quality of regulatory capital under Basel III was to protect against the types of risks contemplated in the Framework. However, introducing another regulatory framework that is forward looking in nature with an overly broad scope presents significant operational challenges in terms of implementation. We urge the Committee to consider making the Framework less operationally burdensome by narrowing the focus in terms of the entities and relationships that are in scope. Furthermore, we recommend adopting a principle of first relying on information that is already collected by supervisors for other purposes such as recovery and resolution planning, before requiring the reporting of the same data under this Framework. This would help alleviate the operational

[1] The Canadian Bankers Association works on behalf of 62 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 280,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions and works with banks and law enforcement to help protect customers against financial crime and promote fraud awareness. www.cba.ca.

burden related to the banks' required self-assessment process, and minimize duplication of effort, including the reporting to supervisors.

We provide comments on key issues below and more detailed comments in the attached appendix.

Scope of coverage

We agree with the BCBS's observation that a number of policy developments, many initiated by the Committee, have helped to address step-in risk since the 2008 financial crisis. Banks already face increased capital and/or liquidity charges in accordance with existing or contemplated (in the case of the revised securitization framework) rules for many, if not all, of the entities in scope under the proposed Framework. We are concerned that a requirement to hold any additional capital would represent double counting, be overly punitive, and not be aligned with the underlying risk. As such, we believe that the Committee should provide national supervisors with the discretion to conclude that step-in risk related to certain exposures is sufficiently captured by existing regulations. We provide some examples below.

<u>Securitization vehicles</u>

We believe that the LCR requirements, leverage ratio requirements, and the revised securitization framework have effectively identified and addressed any step-in risk that banks may have in relation to securitization vehicles. In fact, capital and liquidity requirements for such entities in some cases could be the same as if the entity was consolidated. We further believe that when banks have met the operational requirements for significant risk transfer, additional capital requirements should not be imposed for securitization vehicles under the Framework.

Furthermore, the Canadian banks have implemented IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities* that address the appropriate accounting treatment and disclosure requirements, respectively, for such vehicles. As such, identifying these entities again for the step-in risk framework appears unnecessary and does not result in the identification of any new entities not captured by accounting guidelines.

We believe that the current risk-based capital framework and international accounting standards provide a sufficient and reasonable basis for excluding securitization vehicles from the scope of coverage. Where the relevant capital and accounting standards noted above have been implemented, we request that national supervisors be given the flexibility to exclude securitization vehicles. If the Committee believes that reputational risk is still not adequately reflected by the current capital framework, we suggest that revisions be made to the existing framework rather than introducing a new framework.

<u>Significant investments</u>

Significant investments in commercial entities attract 1250% risk weight and significant investments in financial entities require a capital deduction subject to a 10% individual and 15% basket CET1 threshold. The non-deducted portion of the significant investments in financial entities is then subject to a 250% risk weight. Given this Pillar I capital requirement for unconsolidated significant investments, we believe that any additional capital requirement would be overly punitive.

Under paragraph 27 of the consultative document, we appreciate the statement that "Commercial entities and operational service providers (e.g. a telecommunications company) may in general be excluded from the step-in risk analysis". However, we are concerned that the Committee further mentions in the same paragraph that "an exclusive provider of an operational service critical to the business continuity or financial stability of the bank, or a non-financial undertaking bearing significant bank-like risk for the bank should be considered in the scope of the framework". This once again broadens the scope of coverage and presents significant operational challenges for implementation, especially in relation to determining an estimate of the step-in risk impact. Banks have numerous relationships with suppliers which would not be subject to regulatory consolidation but are now scoped into the Framework for at least a cursory review.

Another example of our concern with the broad scope of the Framework in relation to significant investments would be that of a bank acting as a placement agent for a short period of time for a securitization transaction. This type of placement activity would be required to be included in our materiality assessment under the proposed Framework.

We recommend that more guidance be provided for implementation purposes that would narrow the scope of potential commercial entities and operational service providers that would need to be considered under the Framework.

Investment funds

Mutual funds, pooled funds, and ETFs in Canada should be excluded from the self-assessment process because these products are subject to prudential oversight from recognized regulatory bodies (e.g. Canadian Securities Administrator "CSA"). These bodies have already implemented a number of regulatory requirements around liquidity and disclosure. Therefore, the inclusion of investment funds in these requirements could cause inconsistencies and confusion from a regulatory perspective.

In addition, there is no history of banks stepping in to support money market mutual funds with floating Net Asset Values (NAVs), in particular, as investors bear the risk of fluctuations in the value of such funds (though we recognize that floating NAVs are relatively new).

Similarly, segregated accounts should be excluded from the self-assessment process because the assets and liabilities belong to a third party client; as the name implies, the assets and liabilities are segregated from the bank or its wealth management arm. Many of these clients are subject to prudential oversight from recognized regulatory bodies (e.g. pension funds are regulated in Canada by OSFI or their provincial counterparts). It is the clients and not the bank owned asset manager that bears the risk of the underlying investments.

In the absence of a specific exclusion for investment funds from the Framework, we would request that regulators be allowed to consider CSA and other existing regulatory requirements as a basis to form a reasonable collective rebuttal in-line with section 2.2.4 of the consultative document. As such, we would request a broadening of the collective rebuttal provision under the Framework that would allow national supervisors to determine if the industry standards in their country are sufficiently robust to permit an exclusion. Alternatively, we suggest that for implementation purposes, national regulators be given direction to provide guidance in the case of similar funds that are offered within their country to make the assessment process for all banks holding these funds more efficient and consistent.

Unconsolidated entities

We also believe that entities reflected under equity accounting and proportionate consolidation are sufficiently capitalized under Basel III such that identifying these entities again for step-in risk is not appropriate nor of added value. Accounting frameworks adequately ensure that any implicit relationships are reflected on balance sheet. This includes the same measurement and recognition criteria for significant investments and other inter-entity relationships proposed in the Framework. The capital framework currently relies on the accounting framework to ensure the starting point of regulatory consolidation. Since equity accounted and proportionate consolidation entities are already included in regulatory consolidation, we do not believe that further tracking as contemplated by the Framework is required (templates 1 & 2).

We suggest that the Committee specifically address any concerns it may have with either of these two accounting approaches directly under the existing regulatory capital framework and therefore exclude entities reflected under equity accounting and proportionate consolidation from the scope of the Framework.

Relationships between banks and entities
We recommend that more specific guidance be provided for implementation. For example, the definition of a sponsor in paragraph 24 of the consultative document is very broad and could encompass many types of relationships. Under paragraph 24, more guidance would also be helpful with respect to other contractual and non-contractual involvement.

We suggest more narrow and specific guidance be provided to ensure consistent application amongst banks and to reduce the significant operational burden on banks of implementing this Framework.

Indicators of step-in risk
In addition to our concerns noted above, we do not believe that certain proposed indicators of step-in risk add value and can be practically utilized by banks. An example is the indicator of implicit support. In particular, we do not understand how a bank would be expected to assess whether an investor is accepting a lower rate of return on their investment relative to the risk. Please refer to our attached comments for examples of other concerns with specific indicators that are mentioned in the Framework.

Materiality
We appreciate the inclusion of materiality in the Framework and suggest that the determination of materiality be made by individual banks with national regulators assessing and challenging as appropriate. We also propose that the Committee establish a principle that the concept of materiality be applied at the consolidated balance sheet level.

We also recommend that the Committee make it clear that the materiality threshold referred to in paragraph 28 of the consultative document refers to the 'incremental' capital requirements from applying the Framework beyond what is currently required to be held. We are concerned that the Committee fails to note that in other regulations (e.g. the LCR), banks are not only required to measure the amount of support that they might have to provide or the losses that they may incur, but they also have to set aside incremental financial resources to cover the measured amounts. It is very important that banks be allowed to reduce the amounts of capital required to be held in respect of step-in risk under the Framework by amounts already held pursuant to other regulations.

Disclosure
We believe that the targeted measure of disclosure (paragraph 89) should be removed from the Framework. Our view is there should be no requirement for any public disclosure of a bank's step-in risk since it can be easily interpreted as a commitment to step-in, even if it is explicitly stated otherwise. As noted in the consultative document, the disclosure of entities subject to step-in risk could result in self-fulfilling prophecies or moral hazard, as market participants could interpret such disclosures as implying that a bank intends to, or a requirement exists, to step in even where there is no contractual commitment or intention to do so. Such disclosure may also affect the entities' external ratings and be subject to various legal interpretations on the relationship between the entities and the affiliated bank.

We believe that current accounting disclosures for unconsolidated entities are sufficient without additional step-in risk disclosure. The Committee correctly recognizes the creation of the existence of moral hazard by requiring disclosure and we believe that such disclosure should therefore be avoided. Instead, guidance should be provided to national supervisors to further assess whether external disclosure is required proportionate to the step-in risk involved if it is not already sufficiently disclosed by the bank.

Implementation

With many Basel reforms in progress, we recommend that the BCBS take this into consideration and not require the banks to implement all of the new regulations at the same time. Given the subjective nature of the Framework, we also suggest that regulators could monitor step-in risk starting in 2019, and implement the proposed Framework if and when they deem it appropriate thereafter.

We also believe that it is important for the BCBS to provide more practical guidance in the Framework on the calculation of the incremental capital requirements for entities with step-in risk. For exposures that are already captured within the accounting and regulatory capital frameworks (e.g. securitizations, significant investments, etc.) the adjustments required to further consolidate step-in risk exposures are not straightforward. In the absence of such guidance, the consistency and accuracy of the Framework's application across entities and jurisdictions will be reduced.

Finally, we believe that further guidance should be provided in the Framework for supervisors in relation to any potential disputes related to the designation of entities that should be reflected in the step-in risk templates. Banks would like to avoid situations which may arise where a subsidiary jurisdictional supervisor requires a bank to designate locally an entity for step-in risk which is different from that which the parent bank has designated. We suggest that guidance be provided in the Framework stating that the parent bank's supervisor is allowed to confirm entities that should be reported in relation to step-in risk. Where a subsidiary's jurisdiction is in disagreement, a further discussion amongst the supervisors should take place to come to an agreement, possibly similar to that found in the recovery and resolution frameworks. This will avoid a bank having different lists of reportable entities associated with its parent and subsidiaries.

We thank you in advance for your consideration of our comments, and we would be pleased to discuss our submission at your convenience.

Sincerely,

Attachment

cc: Richard Gresser, Senior Director, Capital Division, OSFI
Brad Shinn, Managing Director, Bank Capital, OSFI
Joanne Marsden, Director, Bank Capital, OSFI

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Overall Comments and Key Issues

- We are concerned that the proposed framework (the "Framework") creates significant asymmetry:
    - If an entity is consolidated, there is no risk of step-in.
    - If an entity is not consolidated, step-in risk (if material) must be analyzed and addressed to the supervisor's satisfaction.
    - We note that GAAP does not determine whether a bank will choose to support an entity beyond its contractual obligations and consequently there is a risk that actual regulatory objectives are not sufficiently met with regard to consolidated entities and there is a risk of over-protection with regard to non-consolidated entities.

- It would be helpful for the Committee to provide more insight into their step-in risk expectations. For example, if a bank holds exactly the same amount of capital against a non-consolidated entity as it would if it consolidated the entity, do the regulators expect banks to identify a step-in risk and hold more capital than it would otherwise hold if the entity was consolidated?

- The BCBS should explicitly recognize that a bank may have more than one relationship with an unconsolidated entity and acknowledge that the bank is allowed to ignore overlapping "step-in' risks when appropriate.

- Although the consultative document acknowledges reforms post crisis, it is unclear if any remaining step-in risks are not covered through these reforms or through the amount of capital already held. Banks would appreciate examples of step-in risk not currently covered by other regulatory frameworks.

- On the list of possible responses, we do not believe that inclusion in the regulatory scope of consolidation is the correct way to address step-in risks. Targeted measures proposed such as considering step-in risks in stress testing, and through the large exposure-like internal limit would be better ways to address step-in risks.

- Because the step-in requirements go beyond contractual obligations, they are much more subjective and are unlikely to be consistently and uniformly applied across all banks resulting in level playing field challenges across banks and across jurisdictions.

- Without understanding local regulatory expectations regarding step-in risk, it is difficult to assess overall impacts.

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Part 1: Introduction (p. 1)

1.1 Objective (p. 1)

- It would be helpful if the Committee could provide more insight into how they view different types of step-in risk mitigants.

- We appreciate that the Committee proposes a more nuanced approach to identifying step-in risk at banks (e.g. the exact same fact pattern could create immaterial step-in risk at one bank and material step-in risk at another bank), but it would be helpful to better understand how supervisors plan to identify step-in risk, assess the materiality of the step-in risk, and determine what steps are necessary to appropriately mitigate the step-in risk.
    - As drafted, implementation may be challenging for both banks and supervisors.

- Although the Framework's stated intention is to be a safety net, such a concept cannot be clearly defined by its very nature. By comparison, Basel Pillar 1 capital requirements are always clearly articulated ensuring their universal and consistent application.

- We disagree with the Committee's intention to not seek to address specific examples but to apply generic lessons to identify situations of step-in risk.
    - The examples provided are not so numerous in nature that they cannot be addressed individually.
    - For transactions and/or relationships in which the Committee believes there is a potential for step-in risk, the Committee should draft specific requirements to ensure that its capital requirements are comprehensively addressed, and that variations of a situation are also specifically addressed.
    - Certain transactions, e.g. significant investments, ABCP conduits, etc., are specifically dealt with under the existing Pillar 1 capital requirements. The step-in risk requirements appear significantly different to the existing requirements; this adds complexity, is not practical, and is unlikely to be consistently applied across institutions.

1.2 Existing provisions (p. 1-3)

We agree that Pillar 2 treatment is appropriate as step-in risk is a broader Framework and this is consistent with the Pillar 2 requirements for reputational risk, stress testing buffers, etc.

Paragraph 4:

- We note that the BCBS acknowledges that regulatory reforms undertaken since the financial crisis have addressed aspects of step-in including implicit support and reputational risk.
    - We would like to clarify what other risks are not covered that warrant this additional Framework?

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  - We also would like to understand how this proposal supplements other rules that have either been established or are in progress? For example, we believe that regulators should amend conflicting provisions in other regulations (e.g. implicit recourse) as this is now picked up explicitly in this Framework whereas it is identified with significant consequences in the securitization capital framework.

- We believe that it is important for the regulators to communicate to the broader market what exactly the Framework covers that other regulations do not in order to help avoid regulatory 'moral hazard'.
  - Investors, creditors and other market constituents may expect banks to step-in given the explicit oversight of step-in risk

- Assuming that a bank holds additional resources against identified step-in risk and the regulators agree with the identification and step-in risk action plans, we would like to clarify if it is acceptable for a bank to then step-in?

Paragraph 6:
- What are the 'broader' risks associated with banks' involvement in funds that are not addressed by the other regulations?

Paragraphs 8 and 9:
- These paragraphs require banks to address risks which are step-in risk by their very nature. What is the proposed Framework meant to pick up which is not being covered by the existing frameworks that are mentioned?

1.3 The continuing need for guidance (p. 3)

Paragraph 12:
- Could the BCBS please provide an example of step-in situations 'that are of a different nature to those seen in the past".

1.4 Structure of the framework (p. 4)

- What is anticipated in terms of the frequency of the banks' self-assessment of step-in risk?

- We note that the step-in risk Framework leverages concepts such as materiality and potential mitigants which are generally not appropriate considerations under other Basel capital requirements frameworks due to their potential for misuse and misrepresentation of the true underlying risks. Similarly, the Framework's reliance on a supervisory assessment as a supplement for the lack of clarity and comprehensiveness in its definitions has few, if any, precedents within the Basel III capital framework.

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Part 2: Definitions and scope (p. 4)
2.1 Step-in risk (p. 4-5)
2.2 Entities and relationships under scrutiny (p. 5-7)

• Since the capital framework requires adequate capital to absorb losses within a catastrophic stress (insolvency) scenario without the benefit of any inter-risk diversification, it would be overly conservative and duplicative to include the potential for step-in losses. In this scenario, the health of the bank is at risk which significantly reduces the likelihood that it would step-in to an entity that it is not contractually bound to support.
 	
• We also believe that unconsolidated entities (as the initial screen) under section 2.2.1 is far too broad. As well, due to the differences between accounting and regulatory consolidation, the universe of entities will be potentially conflicting creating regulatory compliance challenges for banks.
    o If a bank consolidates an entity for regulatory or accounting purposes in one jurisdiction but does not consolidate that entity for regulatory or accounting purposes in another jurisdiction, what should it do?
    o In the worst case, the bank must maintain different jurisdictional step-in risk policies and reports which in light of the regulatory progress made since the financial crisis would be very complex, burdensome and costly.
 	
• **Paragraph 22:** What is meant by the parenthetical in this paragraph?
 	
• **Paragraph 27:** What is contemplated in this paragraph?

Part 3: Identification of step-in risk (p. 7)
• It is not clear how a bank would distinguish between a mid-life deal event (e.g. covenant breach/ renegotiation) and step-in risk. Examples of such deals could include Lines of Credit, backstop liquidity facilities, and swaps. There are occasions where banks accept a partial write-down today in exchange for something with the expectation that it will generate a smaller expected loss because of the loss recognition when measured against a large potential loss in the future. We are concerned that such circumstances would be very difficult to capture under the Framework and create significant operational challenges with implementation. As such, we would request that the scope of coverage be limited.

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3.1 Nature and degree of sponsorship (p. 8)
• If a bank provides 100% support and is holding capital against the entire support, we would like to understand the logic behind holding even more financial resources because of possible step-in risk? • **Paragraph 37:** What is meant by a full sponsor of an entity? Is there a partial sponsor contemplated?
3.2 Degree of influence (p. 8)
• **Paragraph 38:** This section implies a very different standard than what is drafted in paragraph 2. • The degree of influence on an entity does not automatically result in increased step-in risk. We believe that the benefits to the bank (during a stress) from stepping-in should be the primary indicator of step-in risk.
3.3 Implicit support (p. 8)
• We note that paragraphs 41 and 42 appear misguided. Banks and other credit providers can enhance deals. Investors evaluate the package of protections and make their own determination. It should not be that because a bank enhances a position, the conclusion is there is step-in risk.
3.4 Structured entities/variable interest entities and highly leveraged entities (p. 8-9)
• Securitizations use structural leverage as a technique to provide credit enhanced exposure to investors. Certainly, the most junior tranches in a transaction could employ more leverage than the leverage at the securitizing entity. However, at the top of the capital structure (e.g. the AAA tranche), the leverage is often less than the leverage associated with the securitizing entity. As a result, this guidance is extraordinarily difficult to implement. • Pillar 1 capital requirements are in relation to credit, market, and operational risk. Application of step-in risk may result in an incorrect gross-up of the bank's balance sheet and an overstatement of its credit risk capital requirements. Legal entities may be constructed to

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provide the bank full protection against losses incurred on specified exposures within the entity. In these instances, other third party creditors are directly exposed to certain positions which should not be represented as guarantees to the bank due to step-in risk but outright ownership of the loan exposure by the creditor. In these instances, if the underlying borrower defaults and the third party creditor is insolvent, step-in risk should acknowledge the minimal impact to the profitability and solvency of the bank from this type of structure.
3.5 Liquidity stress/first-mover incentive (p. 9)
• It is not clear how the risks discussed in this section are not already covered elsewhere in the existing rules as well as in stress testing regimes. • The examples include funds that do not exercise any type of redemption penalty. However, for all bank-sponsored funds, banks simply pass on what they can realize/liquidate in the market, and to our knowledge, there was no evidence of liquidity support even during the financial crisis, outside of the constant-NAV money market funds in the US.
3.6 Risk transparency for investors (p. 9)
• **Paragraph 50:** The examples include entities that cannot be rated or where the rating depends on a range of unsupported assumptions. The banks will not know what assumptions are used by rating agencies. We are concerned about the high level nature of such examples as this may cover a broad territory.
3.7 Accounting disclosures (p. 10)
• We agree that banks may already be disclosing constant-NAV money market funds but would view this as a mitigant and not an indicator of step-in risk. Similarly, contingent liabilities may be disclosed and reflected in capital already.
3.8 Investor risk alignment (p. 10)
• We believe that the definition of investor risk alignment is too broad and ambiguous to be used as part of the step-in identification criteria. As the counterexample shows, there are laws and regulations to reduce the chance of banks selling inappropriate products and these are present at a client-level. These laws and regulations are best managed by the experts that run and regulate the business rather than for

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inclusion as part of the enterprise-wide step-in risk Framework. In addition, for some of the sales activities highlighted, it is difficult to distinguish and eliminate its overlap with operational risks.
3.9 Reputational risk from branding and cross-selling (p. 10)
• In a world of constrained financial resources due to heightened regulatory requirements, almost all large banks look to use their balance sheet and financial resources with clients that have the deepest relationships. We believe that identifying cross-selling as a component of an indicator of step-in risk is too broad.
3.10 Historical dependence (p. 11)
• No comments
3.11 Regulatory restrictions and mitigants (p. 11)
• To the extent that there are material regulatory consequences related to a bank 'stepping in' and those consequences fall shy of the contemplated 'prohibition' concept, the regulators should remove the step-in consequences to the extent that they require banks to identify and put in place a step-in risk management program under this proposal. For example, the 'implicit recourse' concept should be removed from the securitization capital framework.
Part 4: Potential responses to step-in risk (p. 11)
• Allowing banks to self-identify and self-assess step-in risk is a sound and fair practice, however, it could create inconsistency among banks and jurisdictions, especially if regulatory reporting will be impacted (sections 4.1 & 4.2). This will complicate comparison of regulatory metrics (e.g. capital ratios, LCR). • Regulators must acknowledge that banks should be able to determine the step-in response and thus should not be required to default to the step-in risk Framework if other frameworks capture the risk appropriately.

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4.1 Comprehensive measures (p. 12-13)
• Given the broad based guidance provided, it would be difficult to consistently determine the most appropriate measurement alternative for a situation. Given this, we are concerned that regulators may be inclined to choose the most conservative measurement alternative. For example, it would be difficult to substantiate the choice of a conversion factor % as noted in paragraph 78. <u>Regulatory scope of consolidation</u> • It is important that the BCBS acknowledges that when a bank has set aside the same capital and liquidity resources for non-consolidated entities as it would have if the entity were consolidated, the bank has 'in substance' consolidated the unconsolidated entity (without conflicting reporting) and this is an appropriate measure of protection against step-in risk. • **Paragraph 71:** For inclusion in the regulatory scope of consolidation, we are concerned that the first criteria (entity "designed to specifically avoid regulatory consolidation") is too broad. It is important for the Committee to recognize significant risk transfer or mitigation of risk. This is an important component of securitization deals. • **Paragraph 75:** We do not believe the guidance should be limiting as step-in risks may already be addressed through consolidation. <u>Conversion approach</u> • **Paragraphs 77 & 78:** Under the conversion approach, will the Committee prescribe the appropriate conversion factor or will this be defined at the jurisdictional or bank level? If the step-in risk charge is required to be included in capital/liquidity metrics, more prescriptive conversion factors would be required to ensure a level playing field. • **Paragraph 78:** We believe that the probability and not the impact of stepping in should be the primary consideration. We also believe it is important that regulators allow banks to consider capital and liquidity set aside pursuant to other regulations when determining whether the step-in risk is deemed high or low. • We request further clarification of how paragraphs 79, 80, and 81 would work.
4.2 Targeted measures (p. 13-15)
• **Suggested measure:** We believe that the BCBS should include heightened monitoring (and internal and regulatory reporting) as an acceptable response to material step-in risk. • **Liquidity requirements:** In paragraphs 83 and 84, it is likely that banks have already taken into account the 'step-in' risk and it should be acknowledged that when that is the case (even if the step-in risk is deemed to be zero), the targeted measure in this section will have been satisfied. • **Stress testing, provisioning, punitive ex post capital charges, large exposure-like limit:** For paragraphs 85, 86, 87 and 88, the

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same concept articulated in the prior bullet point should apply. • **Disclosure:** As a practical matter, there is nothing that a bank can do to address every market constituents' perception of the moral hazard associated with the suggested public disclosure noted in paragraph 89. As such, we disagree with public disclosure as a potential response.
Part 5: Role of banks (p. 15)
5.1 Banks' policies and procedures for identifying and managing step-in risk (p. 15-16)
• **Paragraph 91**: We believe the 5th bullet should be expanded to allow the banks to define "materiality", not just for the exclusion of "immaterial entities", but also for determining whether the step-in risk is significant or insignificant.
5.2 Regular step-in risk identification and assessment (p. 16)
• We generally agree with the proposal provided that banks have sufficient latitude to decide on how 'regularly' they identify entities giving rise to step-in risk. We would suggest this take place on an annual basis.
5.3 Reporting to the supervisor (p. 16)
• We have the same comment as under section 5.2 above. • We also note that reporting all entities that are deemed immaterial under paragraph 94(a) will be overly burdensome.
Part 6: Role of supervisors and implementation of the framework (p. 16)
6.1 Review of banks' policies and procedures (p. 16-17)
• No comments

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6.2 Review of banks' regular step-in risk self-assessments and remedial actions (p. 17)
• No comments
6.3 Cooperation and exchange of information (p. 17)
• Information shared among regulators pursuant to this section should also be made available to the banks.
6.4 Implementation date and review (p. 18)
• See comments in letter.
Annex 1 – Supervisory reporting templates (p. 19-21)
We believe that what could be scoped into the required templates remains too broad and therefore cannot be effectively operationalized. Compliance with this Framework creates a significant cost burden with no tangible benefits.
Annex 2 – Entity categories (p. 22-25)
In Template 2, the estimation of the potential impact of step-in risk has to be acknowledged as subjective by the regulators. Requiring banks to predict the future in a quantitative sense is unfair. For example, what happens if a bank estimates future step-in risk with no objection from a regulator and in the future the estimate proves to be too small? Would this cause a problem in the regulator's perception of the bank's accuracy of calculations? We believe Template 2 is far too burdensome since it provides no guidance on what regulators expect. If a bank has hundreds of entities, asking for this completed list would be incredibly burdensome with very little practical benefit. Regulators should be required to perform a cost-benefit analysis when additional data is being requested to be tracked by the banks it supervises.