June 26, 2017

Mr. William Coen
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Mr. Coen:

Re: Comments on Basel Committee's Consultative document on global systemically important banks - revised assessment framework

The Institute of International Finance ("IIF") is pleased to provide our comments on the Basel Committee's (the "Committee" or "BCBS") Consultative Document on the revised assessment framework for global systemically important banks (GSIBs). We support the continued evolution of this assessment methodology, and we welcome the opportunity to provide our detailed comments.

The industry reiterates our support for the need for a stable and resilient global financial system, while facilitating economic growth. To this end, while we support the Committee's initiative to update and refine the methodology, we believe that the proposed amendments need further refinement in order to support these objectives.

It is important to acknowledge the very significant changes within the industry and financial markets since the 2013 assessment methodology was published. Banks are now much better capitalized and resolvable, riskier businesses and funding sources are less prominent, and bank resolution schemes have progressed substantially. Accordingly, we believe that the cumulative amount of systemic risk in the banking sector has reduced – and in no small part aided by the deliberate efforts of the BCBS and the Financial Stability Board (FSB), and initiatives that include Total Loss-Absorbing Capacity (TLAC), the Liquidity Coverage Ratio (LCR), OTC derivatives market reforms and central clearing.

However, the proposed amendments to the methodology do not seem to reflect the sizeable reduction that has been achieved, and the scoring methodology seems to merely re-allocate the same amount of systemic risk across the cohort of GSIBs, without consideration for the expansion of activities outside of the banking sector. Unfortunately, the GSIB assessment methodology relies heavily on relative rankings, such that the mechanism essentially becomes a zero-sum game across the banking industry. At the very least, we believe the

three-yearly review of this methodology should include an element of re-baselining for actual changes in the absolute level of systemic risk.

In this context, we believe it to be an oversight where the Consultative Document states that "measures that improve resolvability were not considered in the review of the G-SIB framework."[1] Rather, we believe the Committee should continue to pursue the objective assigned in 2013 to "*capture developments in the banking sector and any progress in methods and approaches for measuring systemic importance,*" and to refresh and update accordingly.[2]

We emphasize that capital remains a scarce resource in the banking industry, a point highlighted again in the annual IIF/EY Risk Management Survey, and also in the IACPM's recent survey on the binding constraints that govern banks' balance sheets.[3] Consequently, any changes in the designation methodology that penalize particular activities will create a disincentive for banks to continue those activities. While the Committee states in the Consultative Document that it expects smaller banks to fill the breach where large banks withdraw from a particular market, we note that the specific activities that are targeted by the changes in the methodology are low-margin, high-volume activities. These are not the types of activities that can be quickly devolved into the high-touch business model that is more commonly suited to smaller banks.

Our detailed responses to each of the proposed changes and discussion items contained in the Consultative Document are set out in the following pages, but to briefly highlight our key specific items of concern:

- The proposed removal of the substitutability cap breaches the Committee's 2013 commitment to firstly revise the methodology;[4] this would have a highly idiosyncratic impact on banks that provide services which cannot be readily replaced by smaller banks.
- Including insurance subsidiaries within the scope of the methodology is incongruous with the Basel framework, and creates a potential duplication.
- The definition of cross-jurisdictional activity should acknowledge local transactions undertaken by subsidiaries, asset-liability matching within jurisdictions, and the supervisory changes undertaken in the European Union since the current methodology's publication.
- The introduction of a trading volume indicator is duplicative of existing reforms.

---

[1] Footnote 6 of the Consultative Document

[2] See BCBS, *Global Systemically Important Banks: Updated Assessment Methodology and the Higher Loss Absorbency Requirement* (July 2013), paragraph 39

[3] IIF/EY, *A working set of blueprints to deliver sustainable returns*, Seventh annual global bank risk management survey, 2016; IACPM / Oliver Wyman Financial Resource Management Survey, 2016

[4] Footnote 10 "The cap will be reconsidered as part of the first three-year-review. Revisions to the methodology may allow it to be removed at that time."

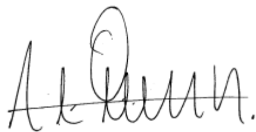
- Inclusion of a new short-term wholesale funding indicator would conflate probability of default (PD) with loss given default (LGD), as well as duplicating existing Basel III standards such as the LCR, Net Stable Funding Ratio (NSFR) and TLAC.

We also elaborate on our suggested adjustments that are not set out in the Consultative Document. As well as recognizing other post-crisis reforms that have reduced systemic risk and addressing the framework's highly relative nature, we also propose that the current review should also address foreign exchange rate volatility.

The IIF reiterates our support for the continued evolution of the GSIB assessment methodology, and we hope our comments are helpful in improving the proposals, to better to achieve their purposes.

As always, the IIF stands ready to provide any necessary expansions or clarifications on our comments. Noting the complexity of these issues, we welcome continued dialogue on this important matter. If you have any questions on the issues raised in this letter, please contact myself, Brad Carr (bcarr@iif.com) or Hirokazu Masuoka (hmasuoka@iif.com).

Sincerely,



Andrés Portilla
Managing Director, Regulatory Affairs

1. Removal of the cap on the substitutability category

The IIF suggests that the Committee recalibrate the factors of the substitutability category prior to pursuing any removal of the current 500bp cap.

In the 2013 assessment methodology framework, the Committee applied a cap on the substitutability indicator to manage what it admitted was an out-sized impact on certain banks that are active in the provision of payment, underwriting and asset custody services. Furthermore, the Committee's 2013 assessment methodology stated that the cap would be reconsidered based on: "Revisions to the methodology may allow it to be removed at that time."[5]

That 2013 statement strongly indicates that adjusting the methodology to address its skewed impacts would be a prerequisite to removing the cap. However, the Basel Committee's proposal overlooks this prerequisite step, and is instead looking to remove the cap as an isolated action.

The proposed uncapping would have a highly idiosyncratic impact on one specific group of banks. As a result of competition, business models, client demand and regulatory mandates in different jurisdictions, there are only certain banks that are able to provide cost-effective, high-volume payment, underwriting and asset custody services, thereby contributing to the substitutability category's skewed distribution.

In addition, the skewed distribution reflects the inclusion of assets under custody in the assessment framework, which as an off-balance sheet metric representing client assets held in safekeeping, does not translate well into a framework that otherwise seeks to assess on-balance sheet financial activities. Furthermore, custodian banks specialize in the provision of fee-based services to their clients, as opposed to deploying their own balance sheets to take on credit or market risk.

In the Consultative Document, the Committee states that the use of the cap could reduce banks' incentives to become less systemically important. Given that the provision of custody and payment services are businesses that have natural economies of scale (with consequential incentives for concentration), it is unlikely that there would be such a pathway to reduce systemic importance. Furthermore, penalizing the firms that offer these services will very likely result in a number of unintended consequences that would substantially outweigh any perceived benefit. The existing capping (for the purpose of easing the skew) does at least preserve an incentive for banks to keep providing services that help to preserve stability and provide liquidity in financial markets.

We also note the substantial progress that has been achieved in recovery and resolution since the 2013 framework's publication, and this should be factored into how

[5] See footnote 10 of BCBS, "Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement", July 2013

substitutability is viewed and how its component parts are calibrated. Where the intent of the GSIB framework is to address the systemic risk associated with the potential failure of a firm that provides an essential service that cannot be readily replaced, we would stress that the custody, payments or underwriting business of an otherwise-failed bank can now effectively be continued via the recovery and resolution processes that have been put in place since the 2013 methodology.

The IIF stresses that the Committee should recall the position stated in the 2013 assessment methodology, and that any removal of the cap should be accompanied by an appropriate revision to the methodology.

2. Expansion of the scope of consolidation to include insurance subsidiaries for three categories

The Committee mentions in the Consultative Document that it is conscious of the need to maintain consistency with the broader Basel regulatory framework, and the IIF stresses our agreement with this as a key principle. On that basis, we find the proposed inclusion of banks' insurance subsidiaries within the scope of the methodology to be incongruous.

In application of the Basel regulatory framework, all banking and other relevant financial activities within a banking group should be captured through consolidation.[6] Financial entities in a group including subsidiaries should generally be fully consolidated, but the Basel framework excludes insurance activities and entities from the scope of consolidation. It would seem highly peculiar to then deviate from the Basel framework and apply a modified regulatory scope of consolidation solely for the GSIB assessment framework.[7] The Consultative Document suggests that there is an existing inconsistency in that some jurisdictions require the inclusion of insurance subsidiaries in their regulatory scope of consolidation, and some others do not. If there are gaps in some jurisdictions' macro-prudential frameworks, the IIF does not believe it is appropriate to address this via the GSIB framework, given that banking entities are already holding capital to cover insurance activities as discussed below. To address the jurisdictional and business specifics of financial conglomerates, where necessary, it would be more advisable to manage these through current arrangements with competent authorities.

The IIF suggests that prudential capital requirements already reflect banking firms' group-wide businesses, including insurance interests, and the proposal to include insurance subsidiaries in the scope of GSIB score calculation is duplicative of capital requirements that

[6] See BCBS, "International Convergence of Capital Measurement and Capital Standards," (page 7, footnote 6), http://www.bis.org/publ/bcbs128.pdf

[7] There is currently an alignment between the leverage ratio exposure framework and the GSIB indicator to measure size. Both exclude the investment in the insurance subsidiaries that exceeds thresholds set out in the Basel III framework, whereas they capture the amount of the investment within the thresholds. The proposal to include insurance subsidiaries for GSIB purposes would terminate a desirable synchronization.

are already in place. Indeed, in some major banking groups that conduct insurance activities in their insurance subsidiaries, the insurance and accompanying financial risks are an integrated component of the groups' risk management. Subsidiaries engaged in insurance activities are deconsolidated for regulatory capital adequacy purposes, leaving the investment in these subsidiaries to be recorded at cost and reflected in the Pillar 1 framework via a risk-weighting or deducted from CET1 capital (subject to thresholds).

More fundamentally, banking and insurance activities are two different businesses, each with their own specific risks. Firms that conduct both banking and insurance activities benefit from diversification that reduces the probability of financial distress, and the proposal would deny those beneficial effects of diversification. Rather, it would create a systematic bias against banks with insurance subsidiaries, mechanically considering them to be more systemic, and excessively and unnecessarily penalizes banking groups with insurance subsidiaries.

Additionally, insurance regulators already have various tools, such as Solvency II measures and the GSIIs assessment methodology, within the scope of their supervision of insurance entities. The IIF, which also represents insurance firms, will be pleased to give feedback to the work that is being undertaken by the Committee jointly with the International Association of Insurance Supervisors (IAIS) to address existing inconsistencies in the overall GSIB and GSII frameworks. In this respect, the discussion on the inclusion of insurance subsidiaries should at least be postponed until the Committee and the IAIS reach their conclusion.

Lastly, the Committee suggests in the Consultative Document that there might be a regulatory arbitrage risk within a group where bank assets are moved deliberately from banking balance sheet to insurance subsidiaries. It is unclear what situation the Committee assumes, and the industry could offer practical feedback if the Committee could expand on how and why it considers this to be the case.

Given these several areas of potential duplication, the IIF suggests that further discussion is necessary, including clarity as to the Committee's motivations, rather than hastily inserting insurance subsidiaries into the GSIB framework.

3. Amendments to the definition of cross-jurisdictional activity

The proposed revision to the definition of cross-jurisdictional indicators should encompass the proper recognition of areas or situations where there are no (or immaterial) cross-border risks.

Firstly, we question the inclusion of activities that are financed by an affiliate in its home country and currency. Such transactions are not "cross-jurisdictional" in their nature, and if the concern is that the affiliate may be systemically important in its own local market, this is

often already under local DSIB requirements, depending on the applicable resolution scheme. The industry also requests that the Committee clarifies which balances should be included- especially on the liability side and how bearer debt should be disclosed- i.e. where the holder is unknown.

Secondly, we highlight the criticality of recognizing asset-liability matching by global banks within jurisdictions. For instance, in a scenario where a bank both issues loans and raises funding for matching amounts within a given 'offshore' jurisdiction, the methodology would count both the assets and liabilities; whereas if a bank only issued loans offshore and funded these from their headquarters (in what would truly be a cross-jurisdictional transaction) only the loans would count. This seems unduly punitive against lower risk business models.

Thirdly, we also note that the Committee stated in 2013 that it would review for the structural changes in regional arrangements, particularly in the case of the European Union, as actual changes are made.[8] However, despite the regulatory and supervisory changes implemented in the Eurozone area since 2013 (including the Capital Requirement Regulation and Directive, the Single Supervisory Mechanism and the Single Resolution Board), the Committee persists in treating intra-Eurozone activity as cross jurisdictional for the purposes of GSIB classification.

These concerns have not been addressed in this Consultative Document, and we consequently believe that the individual indicators that are used to capture the cross-jurisdictional activity category do not reflect what is intended in the assessment. If the idea is to factor in the potential complexity of a cross-border bank liquidation, then this should be done by excluding areas where cross-border activities are significantly less risky, and focusing on the amount of cross-border transactions conducted by any of the legal entities within a group rather than on the whole activity outside the parent headquarters.

Hence, a clear distinction should be made between cross-border activities and local claims and liabilities of foreign subsidiaries. From a supervisory perspective, once other indicators of systemic relevance like size or interconnectedness are taken into account, local claims and liabilities are unlikely to have any more systemic relevance. Furthermore, foreign subsidiaries and local banks, operating in the same national markets, should be able to compete on common grounds.

In order to exclude activities performed locally by an affiliate in local currency, the Committee could utilize enhancements in the BIS international banking statistics that were approved by the Committee on the Global Financial System (CGFS) in September 2015.[9] These statistics now collect banks' local positions (i.e. positions against residents of the country where they are located) in local currency, to complement the existing data on local positions in foreign currencies, enabling a practical solution for this calculation.

If the BCBS decides to maintain local claims and liabilities of foreign subsidiaries among the indicators of global activities, local claims should be at least evaluated net of local liabilities.

[8] BCBS, "Global systemically important banks: assessment methodology, and the additional loss absorbency requirement," November 2011 (paragraph 70), http://www.bis.org/publ/bcbs207.pdf.

[9] Stefan Avdjiev, Patrick McGuire and Philip Wooldridge, "Enhanced data to analyse international banking," *BIS Quarterly*, September 2015, http://www.bis.org/publ/qtrpdf/r_qt1509f.htm

With respect to the proposal of including derivatives in cross-jurisdictional claims and liabilities, the progress in OTC derivatives market reforms should be recognized. Substantial amounts of derivatives trading are now centrally cleared through central counterparties, reducing the systemic risks resulting from bilateral trading, which was not the case when the current GSIB assessment methodology was finalized. Since the spillover risks of potential failures of global banks in OTC derivatives markets have been addressed by those reforms, the IIF suggests that at least a distinction be made between centrally cleared and non-centrally cleared derivatives transactions by exempting the centrally cleared transactions from this indicator. If the non-centrally cleared derivatives are to be included, the IIF seeks confirmation in the GSIB assessment reporting instructions that intragroup transactions continue to be excluded. Furthermore, this change would create additional double-counting across several categories as derivatives and other trading book measures are already included in other categories such as size, interconnectedness and complexity.

4. Modification of the weights in the substitutability category and introduction of a trading volume indicator

The IIF does not believe that the trading volume indicator is a true measure of systemic importance. The IIF requests that the Committee share its background analysis and rationale of the proposal with the industry. Introducing the trading volume indicator as a new metric by simply dividing the existing indicator weight in half seems also arbitrary. Given that trading book measures are already included in other categories, a bank's trading of complex securities internationally with a financial counterpart would be counted in complexity, size, and interconnectedness, which overly disincentivizes banks' trading activities and could harm sound development of a global capital market.

Furthermore, the post-crisis regulatory reforms have significantly impacted banks' business models. Banks' trading activities now face higher capital charges because of higher risk weights, higher capital requirements and larger deductions from equity capital. Market-making activities, that are capital and funding intensive businesses for banks, have been particularly impacted by the new regulatory requirement. Risks in banks' trading book activities are already being addressed in the minimum capital requirements for market risk, with substantial impacts on the viability of banks' market-making and trading activities. In many jurisdictions, banks reduced their trading-related activities to preserve their capital buffers. Thus, the current regulatory environment already disincentivizes banks from market-making activities and from increasing trading volumes.[10]

Because of lower profitability due to the competitive nature of securities markets, large banks' withdrawal from market-making and trading activities cannot easily be replaced by the provision of such activities by smaller banks and securities firms, contrary to the

[10] "More stringent regulatory requirements to contain systemic risks in the financial system, in turn, have scaled down dealers' risk-taking capacity;" – see Committee on the Global Financial System, "Fixed income market liquidity", January 2016, page 16

Committee's expectation. The proposal of the Committee to include the trading volume indicator into the substitutability category is unnecessary.

If the trading volume indicator was to be included, the Committee should exclude trading volumes made with intergroup counterparties from the scope of the indicator, whereas the overall GSIB assessment methodology is based on consolidated data. The IIF believes capturing intragroup transaction is not an appropriate factor to measure substitutability and function as an effective way to capture systemic risk. From a reporting perspective, including intragroup trading volumes makes it difficult for banks to produce high-quality data of the indicator, which contradicts Principle 2 of the review of G-SIB assessment methodology.

5. Revisions to the disclosure requirements

The IIF welcomes the change that allows banks to update their disclosed figures if they are changed after the review by the Committee, which aligns with the Pillar 3 disclosure requirements published in March, 2017.[11] If the data used to calculate the GSIB scores differ from those previously disclosed, banks would update the indicators by disclosing to the public accordingly. The IIF asks the Committee to confirm that the revision doesn't necessarily have to involve a restatement of entire Pillar 3 report or financial filings, and could be updated via other channels, such as on a bank's website available to the public by signposting in the corresponding annual or interim Pillar 3 reports.[12] In order to maintain the consistency of the disclosure requirements and the comparability of disclosed data across jurisdictions, the IIF request the Committee to clarify if the proposal in the Consultative Document overrides footnote 31 of the 2017 Pillar 3 disclosure requirements.[13] The IIF and its members think it would make it more appropriate and convenient for market participants to calculate scores if the Committee or the FSB could publish individual institutions' final positions with data used to calculate the GSIB scores as part of the disclosure of global aggregate numbers.

6. Further guidance on bucket migration and associated HLA surcharge

The IIF is broadly supportive of this proposal. With the annual update of GSIB status positions and the potential movements over time, the clarification of the timing under which capital can be released in the event of a downward bucket migration helps to improve

[11] See BCBS, "Pillar 3 disclosure requirements - consolidated and enhanced framework", page 4 https://www.bis.org/bcbs/publ/d400.pdf
[12] On signposting, see BCBS "Revised Pillar 3 disclosure requirements," paragraph 20 and 21 on page 5, https://www.bis.org/bcbs/publ/d309.pdf
[13] See BCBS, "Restatements are only necessary if considered so by the national authority or on voluntary basis," footnote 31 on page 47, https://www.bis.org/bcbs/publ/d400.pdf

banks' ability to manage their capital efficiently. This helps to allow banks to allocate capital for services that provide credit and liquidity within the market.

7. A proposed transition schedule

The IIF is broadly supportive of this proposal. In the event of any delay in finalizing this revised methodology, there should be an accompanying update of the initial schedule.

8. Inclusion of a new indicator for short-term wholesale funding

While the IIF acknowledges that a concentration of short-term funding can be a source of liquidity risk, we do not consider the inclusion of such a measure in the GSIB methodology to be an appropriate policy response.

The GSIB framework is intended to address loss given default (LGD) issues, as distinct from the probability of default (PD).[14] Given that the degree of reliance on short-term wholesale funding is a driver of PD, the proposed introduction of a short-term wholesale funding factor into the GSIB framework contradicts the framework's underlying objective.

As Paul Tucker, formerly of the Bank of England and now chair of the Systemic Risk Council, observed recently: "The designation phase isn't, or shouldn't be, about the probability of failure. It's about: if this thing fails, will the world end? Can the authorities cope?" He added that once the matter is framed by LGD, "the kind of factors the authorities focus on in thinking about whether or not to designate become obvious."[15]

The risks posed by an over-reliance on short-term wholesale funding were highlighted during the crisis, and banks have consequently adjusted their funding structures. This move has been entrenched by the LCR. The LCR, which ensures banks have sufficient high quality liquid assets to survive a significant stress scenario, significantly reduces risks of fire sales and directly penalizes (or disincentivizes) the use of short-term wholesale funding, while GSIBs have also had to comply with TLAC requirements that also drive towards longer-tenor debt instruments and a more diversified funding profile. The NSFR will also reduce risks of fire sales triggered by a bank run. It is also notable that research conducted by academics and the public sector have suggested that the liquidity requirements have benefits of lower probability of systemic crises due to a lower degree of interconnectedness, less reliance on short-term bank funding, and a lower likelihood of asset fire-sales.[16] Additionally, the minimum capital requirements for market risk have addressed risks of

[14] BCBS, Global systemically important banks: assessment methodology and the additional loss absorbency requirement, November 2011, http://www.bis.org/publ/bcbs207.pdf

[15] Joanna Wright, "Madness in the method: Basel grapples with GSIB riskometer", *Risk*, April 20, 2017.

[16] See BCBS, "Literature review on integration of regulatory capital and liquidity instruments," March 2016, page 26

contagion caused by potential asset fire sales, ensuring banks capitalize the risks of market illiquidity and short-term profit-and-loss volatilities.[17]

Consequently, the existing Basel III framework already has the short-term wholesale funding factor addressed within its scope, directly disincentivizing banks from relying on such funding sources. The BCBS was right to address that issue, but it has done so, and this new proposal unnecessarily conflates liquidity with capital, just as it conflates PD with LGD. It would introduce a new measure when an effective one is already in place.

Bringing the short-term wholesale funding factor into the GSIB framework is duplicative of existing Basel III requirements, and even within the GSIB framework, where interbank transactions are already captured in the interconnectedness category. Risks arising from interconnectedness are also addressed by the large exposure framework.

Introducing a short-term wholesale funding factor could penalize the more secure and stable transactions, such as repos collateralized with higher-rated government bonds, without distinguishing from other unsecured deposit or interbank transactions. Since the crisis, banks have reduced interbank lending and have instead purchased high quality liquid assets in response to changing capital and liquidity requirements. The introduction of this new factor could put yet more unnecessary strains on the interbank lending market. The consultative document states that the NSFR (and LCR) may lack the flexibility needed to limit social losses. However, we don't see how including the short-term wholesale funding factor into the framework adds any flexibility or would change that suggested situation. It merely adds duplication.

We also note that the consultative document suggests that the inclusion of this factor will have little or no impact on individual bank GSIB scores, which merely underlines the unnecessary nature of the move when more effective tools are already in place. For the industry to be able to assess the impact of the short-term wholesale funding factor as a new indicator, further information on calculation methodology is required. The industry is also concerned as to whether the potential short-term wholesale funding factor would exclude corporate short-term wholesale funding, and also about unintended consequences in a time of stress where safer banks are unduly penalized for taking customer deposits during a 'flight to quality'.

Given this inclusion of the short-term wholesale funding factor is separately consulted as an issue for discussion, we ask that the Committee clarifies that it will conduct further necessary consultation with the industry on this point, as opposed to finalizing and implementing it within the methodology in 2019 alongside the other proposals that are set out in Section 2 of the Consultative Document.

[17] BCBS, Minimum capital requirements for market risk, January 2016, http://www.bis.org/bcbs/publ/d352.pdf

Other issues warranting consideration

1. Foreign Exchange Volatility

The IIF understands that the foreign exchange rate issue is neither consulted nor part of the ongoing review process of the GSIB framework. However, the current methodology that uses the financial year-end exchange rate is a material source of fluctuation of banks' scores, making the assignment of banks to GSIB buckets more volatile, and can over-ride the efforts of non-Eurozone banks to reduce or mitigate their systemically important activities.

The IIF suggests there needs to be a fairer and more stable treatment with regard to the exchange rate, to minimize the impact of fluctuations in the foreign exchange market, such as when the Euro moves against other measuring currencies. The current method of applying the 'spot' year-end exchange rate can have a significant impact on banks' final score when converted to a Euro basis, especially given that market volatility towards the end of a year can increase due to fixing activities or less liquidity, whereas such volatility or fluctuation in the currency market has little significance and relevance to the systemic importance of banks.

The IIF suggests that in order to solve this issue, the Committee consider instead applying a rolling average exchange rate across a given set of years (e.g. three), to replace the current fixed rate measured at a single point at time.

2. Implementation of other post-crisis reforms

The IIF urges the Committee to recognize the progress of the regulatory reforms undertaken since the 2013 assessment methodology was published. These include:

- implementation of Basel III, including revised credit and market risk capital requirements;
- liquidity and stable funding requirements;
- the FSB's new recovery and resolution framework, which is now being implemented across jurisdictions;
- counterparty credit risk and large exposure frameworks that are designed to address the risks posed by interconnectedness;
- TLAC, which significantly improves the capacity to absorb losses;
- central clearing and margin requirements for OTC derivatives.

To implement these reforms (partly forthcoming), banks have undergone transformational changes in their business models, reducing their systemic footprint. Thus, the current GSIB designation framework is targeting better capitalized and resolvable entities, in a sector that has become more stable, resilient and transparent since the crisis.

The proposed amendments to the GSIB assessment methodology seem to overlook these changes that have occurred in the intervening years. For the methodology to be current, it is critical that the revision process takes into account the progress of implementation of the post-crisis regulatory reforms and changes in the landscape of the banking industry.

3. Relative Approach

The "relative market share" denominator in the current framework is inconsistent with the goal of reducing overall systemic risk because a GSIB does not benefit from reducing their systemic footprint if the other banks in the sample also reduce their footprint. A firm's surcharge should reflect any actions taken to reduce their systemic footprint, and a designation framework based on a fixed approach that incorporates absolute value of systemic risks will better align to the goal of the GSIB framework.

Such an approach would also improve predictability of banks' future GSIB scores and thus certainty for them to take actions to reduce their scores regardless of other banks taking similar actions. Since it is not our intention that the GSIB scores based on the fixed approach grows as economy does due to its absolute nature, the alternative approach should be at least inflation-adjusted to neutralize the impact by factors unrelated to systemic risks as well as to maintain comparability across the GSIBs.