Santander Response

BCBS CONSULTATION ON GLOBAL SYSTEMATICALLY IMPORTANT BANKS – REVISED ASSESSMENT FRAMEWORK

Banco Santander, S.A.

June 30th 2017

Santander welcomes the BCBS consultation paper on “Global systemically important banks - revised assessment framework” and appreciates the opportunity to provide comments. Particularly, Santander welcomes the BCBS’ objective of ensuring that the framework remains consistent with its objectives in the light of any structural change to the global banking system or to banks’ business models.

Santander has participated in the consultation responses coordinated through GFMA and the IIF respectively. However, in this individual response we would like to emphasize some aspects that are of high relevance to us specifically related to the definition of the cross-jurisdictional indicator.

Amendment to the definition of cross-jurisdictional indicator

Introduction

The BCBS sets out that the objective of this indicator is to capture banks’ global footprint. Two indicators in this category are used to measure the importance of the bank’s activities outside its home (headquarter) jurisdiction relative to overall activity of other banks in the sample: (i) cross-jurisdictional claims; and (ii) cross-jurisdictional liabilities. The idea is that the international impact of a bank’s distress or failure would vary in line with its share of cross-jurisdictional assets and liabilities. The greater a bank’s global reach, the more difficult it is to coordinate its resolution and the more widespread the spillover effects from its failure.

Santander considers that the current cross jurisdictional indicator is appropriate to capture banks’ global presence but unduly penalizes international entities.

We welcome the enhancements to the BIS international banking statistics approved by the Global Financial System (CGFS) in September 2015 which introduces additional information that could enable the Committee to enhance the quality of the cross-jurisdictional indicator by excluding activities performed locally by an affiliate in local currency. Indeed, the statistics collect banks’ local positions – positions against residents of the country where they are located – in local currency, to complement the existing data on local positions in foreign currencies. Whilst this is a positive development, **the G-SIB data templates need to be adapted accordingly** (to the BS statistic information) for banks to report this information and subsequently have the information at entity level in order to use this information to address the treatment of local positions of foreign affiliates in local currency within the cross jurisdictional indicator.

We had expectations to see a review of the definition of the cross-jurisdictional indicator, specifically the treatment of local claims funded locally, in this BCBS consultation to revise the G-SIB assessment framework but unfortunately, although the consultation covers other aspects of the definition of the cross jurisdictional indicator, it does not include this specific issue. We regret to see that this has not been addressed in this consultation paper and we strongly encourage the BCBS not to delay this amendment further but to incorporate this revision before finalizing the framework.

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Santander's position – Amendment to the definition of cross jurisdictional indicator

We support the BCBS' objective of *ensuring that the framework remains consistent with its objectives in the light of any structural change to the global banking system or to banks' business models.*

Activities performed locally by an affiliate in local currency should be considered local activities, and not cross-border activities. Therefore, we strongly consider that the cross-jurisdictional indicator should not include activities financed by an affiliate in its home country and currency:

- The local claims in local currency should be excluded from cross-jurisdictional claims indicator, and
- The amounts used to finance local claims in local currency should be excluded from the cross jurisdictional liabilities indicator.

In addition, local claims are financed locally by the subsidiary and therefore these transactions are captured into both the cross-jurisdictional claims' indicator and the cross-jurisdictional liabilities' indicator as currently defined. Hence, we propose to only include in the cross jurisdictional indicator, the higher between the cross-jurisdictional claims and the cross-jurisdictional liabilities. Or another suggestion would be to maintain the current cross-jurisdictional activity indicator in order to capture the global presence of the entity but also to include another indicator in order to evaluate the cross border risk that this global presence generates. The latter indicator could be defined as the current cross jurisdictional activity indicator but excluding local positions of affiliates in local currency.

Other indicators to be considered in the methodology

We consider that recent developments in the resolution framework and analysis justify the inclusion of other dimensions in the methodology such as the resolvability of the institutions.

The resolvability of an institution is critical in assessing the systemic importance of a financial institution and, hence, the magnitude of additional loss absorbency that could be imposed. As the international financial crisis has demonstrated, the social cost of non-resolvability has been very high. Therefore, business models and corporate structures that facilitate resolution should be incentivised.

Thus, we consider that the resolvability of an institution should be factored in the revised methodology.

In that respect, since the current methodology to identify and classify G-SIBs was approved, significant advances have taken place in the resolution frameworks that: 1) substantially reduce the systemic risk of institutions across the board and 2) allow resolution authorities to assess the resolvability of an institution.

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The FSB's Key Attributes and its Guidelines on Effective Resolution Strategies have spurred the necessary changes to minimize cross-border spillovers of instability through preparatory and preventive measures (recovery and resolution plans, resolvability assessments..) and credible and effective resolution tools (e.g. bail-in). It is worth noting that recovery plans contain the necessary measures by which banks can counter at an early stage the first signs of distress and that these measures, in turn, should be geared towards the preservation of financial stability to facilitate, if necessary, any further actions by the authorities if a resolution scenario were inevitable. The credibility and consistency of recovery plans is assessed at EU-level through the SREP annual review which could entail additional capital surcharges.

Furthermore, pursuant to the FSB's Key Attributes which establish the need for authorities to conduct Resolvability Assessment Processes (RAPs), resolution plans at EU-level will include the result of these assessments which shall take due account of the cross-border nature of banking groups.

We would expect that over the coming years, objective criteria to support these assessments should be developed in order to ensure a level playing across the board. Thus, it could be easy to use these assessments as one of the criteria to include in the G-SIBs methodology. This would further incentivize institutions to become more resoluble and hence to reduce its systemic risk.

Moreover, in May 2011, Oliver Wyman[1] performed a detailed analysis of the relative cost of resolution for most of the major banks. The analysis did not attempt to model a widespread systemic failure but rather the stand alone cost of failure of each institution. This analysis found nine key indicators as the most meaningful explanatory variables of cost of failure. Five of them, related to concentration of operations, interdependence, soundness of subsidiary operations and ability to absorb losses, are not included in the methodology for assessing the systemic risk.

An additional conclusion raised when the analysis is performed along different years was that the above mentioned cost may be modified significantly through management initiatives. To that end, we deem very relevant introducing the necessary incentives in the regulatory and supervisory framework that may encourage financial institutions to make the right decisions.

We therefore believe that these indicators could complement the current methodology.

[1] See Annex 1: *Large banks cost of failure analysis* by Oliver Wyman

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Annex 1 – Large banks cost of failure analysis by Oliver Wyman

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