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

30 June 2017

Consultative document "Global systemically important banks - revised assessment framework"

Dear Mr. Coen,

UBS would like to thank the Basel Committee on Banking Supervision for the opportunity to respond to the consultative document "Global systemically important banks - revised assessment framework". Our response should be considered complementary to the industry associations' responses[1] to which UBS contributed.

UBS supports the evolution of the G-SIB assessment methodology. As G-SIBs have become much more resilient through the build-up of capital and liquidity, changed risk profiles and significant investments to improve their resolvability, we think the framework and methodology should be enhanced in three ways:

- First, we believe that the framework should take into account the steps taken by the industry to build up Total Loss-Absorbing Capacity (TLAC), to cope with the Liquidity Coverage Ratio (LCR), as well as the efforts on OTC derivatives market reforms and central clearing and would encourage the BCBS to review the calibration of the G-SIB framework.
- Second, the G-SIB assessment methodology should rely less on relative rankings which make the mechanism essentially a zero-sum game across the banking industry. A firm's surcharge should reflect any actions taken to reduce the systemic risk, e.g. de-risking or down-sizing.
- In addition, we observe that national authorities impose capital and other requirements on G-SIBs within their jurisdictions without explicitly linking them to the BCBS framework, and would rather welcome an internationally consistent regime which reflects the risk profile of a bank across countries.

We believe that further discussions are required on issues, in particular in light of the continued risk of business activities migrating out of the regulated part of the financial sector.

We would also like to emphasise that the methodology should not address risks which are already addressed elsewhere in the prudential framework or should not be inconsistent with other regulatory incentives. In this regard, we would like to specifically highlight our concerns on (i) the inclusion of a new indicator for 'short-term wholesale funding', (ii) the introduction of a 'trading volume indicator', (iii) the weighting of 'cross-jurisdictional activity' for banks with a small home market, and (iv) the inclusion of TLAC instruments in the 'securities outstanding indicator'.

[1] Association responses by the Global Financial Markets Association (GFMA), the Institute of International Finance (IIF) and the British Bankers' Association (BBA).

The introduction of a new indicator for 'short-term wholesale funding' funding' seems duplicative, especially if it would not consider whether banks have taken action to compensate for short-term debt issuance, e.g. by investing proceeds in HQLA. The proposed indicator seeks to deal with areas that are addressed by other parts of the prudential framework already:

- LCR and NSFR require banks to hold a significant amount of high-quality liquid assets and have stable funding for their assets which reduces significantly the risk of fire sales and penalizes directly the use of short-term wholesale funding.
- G-SIBs have to comply with TLAC requirements that also drive firms' funding mix towards longer-tenor debt instruments and a more diversified funding profile.
- The minimum capital requirements for market risk ensure that banks capitalize the risks of market illiquidity and short-term profit-and-loss volatilities.

We are further concerned that the introduction of a 'trading volume indicator' and subsequently the modification of the weightings in the substitutability category would create additional double-counting across several categories. Given that trading book measures are already included in other categories, a bank's international trading of securities with a financial counterpart would be accounted for in the categories of complexity, size, and interconnectedness. The introduction of a 'trading volume indicator' would therefore overly disincentive banks' trading activities and could harm the sound development of global capital markets.

A third area of concern relates to the relative weighting of the 'cross-jurisdictional activity' indicator (claims and liabilities) compared to the 'total exposure indicator'. In particular for banks with a small home market, the double counting of cross-jurisdictional activity in addition to the total exposure indicator results in a disproportionate disadvantage when compared to banks with a large home market. We suggest reconsidering whether the identical weighting for these two indicators appropriately captures different risk profiles.

Furthermore, we suggest to exclude TLAC instruments from the 'securities outstanding indicator' as these instruments were designed to reduce the impact of failure and ensuring orderly resolution of the group without interruption of critical economic activities and without recourse to public funds. The inclusion of these instruments in the 'securities outstanding indicator' creates a contradictory regulatory incentive and penalizes banks for the issuance of TLAC instruments through a higher nominator.

We are finally concerned that the revision of the disclosure requirements will lead to additional costs for implementing governance and IT systems changes to ensure compliance as the Pillar 3 report must be published in conjunction with the consolidated financial statements, which is in advance of the 30 April deadline for the G-SIB assessment. We therefore ask the BCBS to re-consider how this update revises the timings for delivery of data for G-SIBs with calendar-year reporting and to allow the Pillar 3 report to contain a link / cross-reference to the bank's official investor relations website.

We encourage the BCBS to follow a transparent process of providing feedback on the comments received to this consultation and would be happy to discuss with you any comments you may have. Please do not hesitate to contact us if you have any questions.

Yours sincerely,

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