POSITION PAPER

WSBI Position Paper on the BCBS public consultation on potential revisions to the assessment methodology for global systemically important banks

WSBI (World Savings and Retail Banking Group)
Rue Marie-Thérèse, 11 - B-1000 Brussels

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We would like to thank the Basel Committee on Banking Supervision (BCBS) for the opportunity to comment on the **public consultation on the revised assessment framework for global systemically important banks (G-SIB)**.

The World Savings and Retail Banking Institute (WSBI) would like to provide you with the comments below, which we hope will be considered by the Basel Committee.

- *Advantages of the revised G-SIB assessment framework*

Firstly, we believe that the proposed changes would provide benefits to the current framework. More particularly:

1. These effectively highlight the need for revisions to the G-SIB assessment methodology due to concerns regarding window-dressing behaviours by banks. It clearly outlines the objectives and considerations for the proposed revisions.

2. The proposed shift from year-end values to averaging over the financial year for G-SIB indicators is a positive step to mitigate window-dressing concerns. However, it's essential to ensure that the selected averaging frequencies strike the right balance between accuracy and feasibility for the reporting bank.

3. Moreover, the adjustment to identify the 75 largest global banks based on the average leverage ratio exposure measure over the financial year aligns with the objective of reducing window-dressing incentives. This would promote consistency and fairness in the assessment process.

4. Requiring disclosure of averaged indicators over the financial year enhances transparency and comparability of data. It ensures that stakeholders have access to reliable information for evaluating systemic importance.

5. The consideration of different approaches to applying averaging requirements demonstrates flexibility in addressing potential reporting burdens. However, it's crucial to assess the impact on data quality and consistency across different subsets of banks.

6. The distinction between stock and flow variables for applying averaging requirements is logical and practical. It minimizes reporting burdens while maintaining the integrity of the assessment process.

- *Potential challenges stemming from the proposal*

WSBI, however, would like to highlight that there are indeed **challenges arising from the BCBS' proposal**.

Firstly, it is key to recognise challenges linked to the valuation of certain indicators at high frequencies. In view of this, providing flexibility to report lower-frequency averages for specific variables would ensure practicality without compromising the overall effectiveness of the framework. It is moreover essential to recognize that transition to daily averaging methodologies may necessitate significant infrastructure support and operational adjustments for reporting banks. The requirement to calculate and submit daily average values for G-SIB indicators poses technical challenges that must be addressed.

Moreover, implementing a system capable of capturing, processing, and reporting daily averages will likely require substantial investment in technology and human resources by reporting banks. This includes robust data management systems, automation tools, and staff training to ensure accurate and timely reporting.

Lastly, Since the data to capture for the G-SIB indicators based on regulatory consolidation, imposing daily/monthly averaging could be burdensome and impractical to some of the non-banking subsidiaries, as they generally reconcile their accounts on quarterly basis.

- *Suggestions to improve the proposal for a revised G-SIB assessment framework*

Against this backdrop, we would like to propose some **potential improvements**, in order to **ensure a more proportional G-SIB framework, with reduced reporting requirements.**

While we acknowledge the necessity of addressing the issues arising from window dressing practices, it is our view that the cost of the necessary modifications of bank's information systems that would need to be performed to obtain monthly data and the consequent increase of bank's resources that would have to be assigned to this task could be disproportionate to the potential increase in consistency and reliability of the information reported by the entities. Moreover, obtaining daily data would be hardly feasible. Not only do credit institutions lack the necessary resources, but also, we believe that requiring that kind of effort from banks, is completely disproportionate.

Indeed, in view of the resource constraints faced by reporting banks, regulators should consider a phased approach to implementing this requirement. This could involve gradual rollout timelines, allowing banks sufficient time to upgrade their systems and processes without compromising data integrity.

Ongoing monitoring and support from regulatory authorities would also be essential to address implementation challenges and ensure compliance with new requirements. Regular feedback sessions, workshops, and technical assistance can help reporting banks navigate the transition to daily averaging effectively.

Conducting a thorough cost-benefit analysis would be crucial to assess the feasibility and impact of daily averaging requirements on reporting banks. This analysis should consider the potential benefits of enhanced data accuracy and systemic risk assessment against the upfront and ongoing costs of infra-structure investment.

As it aims to review the current framework, the BCBS should take into account materiality of each entity and their weight in terms of those indicators that are more likely to incentivise window-dressing behaviours during the G-SIB assessment exercise. That would contribute to setting more proportional, risk-sensitive, and meaningful requirements. In particular, we believe that entities that do not qualify as G-SIBs should be required a lower frequency average on the basis that the identification of G-SIB is not as much influenced by their indicators, in comparison to the indicators from more significantly important institutions.

In summary, we think that addressing window dressing practices is necessary, but informational requirements should be proportional to the “window-dressing risks” for the G-SIB exercise generated by the different types of entities and the activities they undertake. ***As such, tailoring reporting requirements to accommodate the prevailing operational realities, it would be more practical to limit the assessment to monthly averages. And quarterly average reporting should be sufficient to achieve the BCBS objectives on this matter.***

About WSBI (World Savings and Retail Banking Institute)

Founded in 1924, WSBI brings together savings and retail banks from 67 countries, representing savings and retail banks worldwide. WSBI focuses on international regulatory issues that affect the savings and retail banking industry and provides a platform for knowledge exchange between member banks. Its aim is to achieve sustainable, inclusive, and balanced growth and job creation. Supporting a diversified range of financial services to meet customer needs, WSBI favours an inclusive form of globalization that is just and fair. It supports international efforts to advance financial access and financial usage for everyone. WSBI recognizes that there are always lessons to be learned from savings and retail banks from different environments and economic circumstances. It, therefore, fosters the exchange of experience and best practices among its members and supports their advancement as sound, well-governed, and inclusive financial institutions.

World Savings and Retail Banking Institute - aisbl
Rue Marie-Thérèse, 11 ▪ B-1000 Brussels ▪ Tel: +32 2 211 11 11 ▪ Fax : +32 2 211 11 99
Info@wsbi-esbg.org ▪ www.wsbi-esbg.org

About ESBG (European Savings and Retail Banking Group)

ESBG is an association that represents the locally focused European banking sector, helping savings and retail banks in 16 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 871 banks, which together employ 610,000 people driven to innovate at 41,000 outlets. ESBG members have total assets of €6.38 trillion, provide €3.6 trillion billion in loans to non-banks, and serve 163 million Europeans seeking retail banking services.

European Savings and Retail Banking Group – aisbl
Rue Marie-Thérèse, 11 ▪ B-1000 Brussels ▪ Tel: +32 2 211 11 11 ▪ Fax : +32 2 211 11 99
Info@wsbi-esbg.org ▪ www. wsbi-esbg.org

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