Basel Committee on Banking Supervision

Consultative Document

Global systemically important banks – revised assessment framework

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Contents

1. Introduction ........................................................................................................................................................ 1

2. Proposed revisions to the assessment framework ......................................................................................... 2
   2.1 Reporting data ....................................................................................................................................... 2
   2.2 Sample of reporting banks ..................................................................................................................... 2
   2.3 Disclosure requirements .......................................................................................................................... 3
   2.4 Scope of banks subject to the new requirements ................................................................................. 3
   2.5 Application of new requirements to a subset of indicators only .......................................................... 4

3. Implementation date ..................................................................................................................................... 5
1. **Introduction**

The assessment methodology for global systemically important banks (G-SIBs) was first published in July 2013.\(^1\) The current version of the methodology is incorporated in chapter SCO40 of the consolidated Basel Framework.\(^2\) It includes a process of ongoing monitoring and review in order to ensure that the methodology remains appropriate in light of: (i) developments in the banking sector; (ii) progress in methods and approaches for measuring systemic importance; (iii) structural changes; and (iv) any evidence of material unintended consequences or material deficiencies with respect to the objectives of the framework. As part of this monitoring process, the Basel Committee on Banking Supervision has found that the G-SIB framework is sensitive to the year-end values of the indicators reported by banks that participate in the annual exercise. These indicators are used to determine the scores for banks that in turn determine the list of G-SIBs and the applicable higher loss absorbency requirements. The Committee has also found evidence that banks are engaging in window-dressing behaviour to lower their scores in the annual G-SIB assessment exercise. That is, there is evidence that banks take steps to temporarily lower the values of certain indicators at year-end, leading to an underestimate of the systemic importance of these banks. The detailed findings on window-dressing behaviour in the G-SIB framework are set out in the accompanying Committee working paper, published together with this consultation.\(^3\)

The mismeasurement of systemic importance in the G-SIB methodology due to window-dressing activity can result in changes in the allocation of G-SIBs to the buckets used to assign the higher loss absorbency requirements and the misidentification of G-SIBs. Also, bank scores in the G-SIB framework are calculated using a relative methodology, which means that any window-dressing behaviour by banks to artificially lower their G-SIB scores will cause the scores of banks that do not engage in window-dressing activities to increase. These impacts have implications for financial sector resilience and resource efficiency as well as broader unintended consequences for both financial stability and monetary policy.

To address window-dressing in the G-SIB assessment framework, this consultative document seeks comments on potential revisions to the assessment methodology for G-SIBs. Specifically, the Committee is considering requiring the banks that participate in the G-SIB assessment exercise to report and disclose the stock G-SIB indicators based on an average of values over the reporting year, rather than based on year-end values. The Committee has been considering the use of daily, month-end and quarter-end values over the reporting year as potential averaging frequencies. The Committee sees benefits in the use of higher-frequency (ie daily) averaging as the default reporting frequency for G-SIB indicators. Nonetheless, it seeks feedback on the broader range of averaging frequencies.

Moreover, while the Committee is considering the application of high-frequency averaging, in principle, for all stock G-SIB indicators, it will give due consideration to evidence brought forward on data items where the reporting of high-frequency averages might be particularly challenging.

The Committee is also giving consideration to the scope of banks to which the revisions would apply. The Committee sees the benefits of a wide application of the revisions to all banks participating in the G-SIB assessment exercise, but it is also seeking feedback on options that would apply those changes to a narrower set of banks to reduce the reporting burden.

The Committee welcomes comments from the public and market participants on all aspects of this consultative document. Comments must be submitted by 7 June 2024 using the following link:

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Global systemically important banks – revised assessment framework

2. Proposed revisions to the assessment framework

This section sets out the proposed revisions to the assessment framework.

2.1 Reporting data

Paragraphs SCO40.4 to SCO40.18 of the consolidated Basel Framework set out the indicators used to calculate banks’ G-SIB scores. The G-SIB assessment reporting instructions provide detailed guidance on how the data used to calculate those indicators should be reported by banks in the G-SIB assessment sample. Under the current instructions, all stock data must be reported as of the financial year-end, while certain data items must be reported as the cumulative activity over the reporting year.

Under the proposed revisions, the relevant paragraphs of the Basel Framework and reporting instructions will be amended such that the stock data used to calculate the G-SIB indicators are no longer based on financial year-end values but are based on an average of values over the financial year.

The Committee has been giving consideration to a broad range of averaging frequencies, including daily average, average over month-end values and average over quarter-end values. The Committee sees benefits in using the average of daily values over the financial year for the calculation of the stock data items, rather than financial year-end values, as this would negate any window-dressing incentives. Nonetheless, the Committee is seeking feedback on the broad range of averaging frequencies outlined above.

To minimise any additional reporting costs, banks would continue to submit the relevant data only once per year, in line with the current standard. In the case of daily averaging, banks would not be required to submit daily data directly. Instead, they will be asked to submit the calculated daily average value for each relevant data item. Moreover, to ensure adequate data quality control, banks will also be required to submit lower-frequency averages (eg quarter-end or month-end data) for all relevant data items.

The revisions outlined in this document would in principle apply to all banks included in the G-SIB assessment sample (see Section 2.2) and in the G-SIB disclosure sample (see Section 2.3) and for all the stock data items used to calculate the indicators, unless otherwise specified.

Section 2.4 discusses the scope of banks subject to new requirements, while Section 2.5 discusses the potential application of the revisions to only a subset of indicators.

2.2 Sample of reporting banks

The current G-SIB assessment approach uses a large sample of banks as its proxy for the global banking sector. Data supplied by this sample of banks are then used to calculate banks’ scores. Banks fulfilling any

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6 These items include payments activity, underwriting activity, trading volume and central counterparties settlement volume.
of the following criteria are included in the G-SIB assessment sample and are required to submit to their supervisors the full set of data used in the assessment methodology:

1. Banks that the Committee identifies as the 75 largest global banks, based on the financial year-end Basel III leverage ratio exposure measure, including exposures arising from insurance subsidiaries.

2. Banks that were designated as G-SIBs in the previous year (unless supervisors agree that there is compelling reason to exclude them).

3. Banks that have been added to the sample by national supervisors using supervisory judgment.

Under the proposed revisions, point 1 above will be amended such that the 75 largest global banks are no longer identified based on the year-end amount of the leverage ratio exposure measure, but on the average of this measure over the financial year, as specified in Section 2.1.

2.3 Disclosure requirements

The current framework requires that, for each financial year-end, all banks with a leverage ratio exposure measure (including exposures arising from insurance subsidiaries) that exceeded EUR 200 billion in the previous year-end (using the exchange rate applicable at the financial year-end) should be required by national authorities to make publicly available the 13 indicators used in the G-SIB assessment methodology. Banks that do not qualify for the G-SIB assessment sample but whose leverage ratio exposure measure exceeds the EUR 200 billion threshold form part of the additional G-SIB sample. The data from banks in this group do not directly affect the G-SIB scores of banks in the assessment sample.

The disclosure requirements ensure that data needed to calculate the G-SIB indicators are publicly available for all banks that may qualify for inclusion in the G-SIB sample, as described in section 2.2. Accordingly, under the proposed revisions, these requirements will be amended such that the 13 indicators to be disclosed will no longer be based only on year-end values, but on the averaged amounts over the financial year, as specified in Section 2.1 and taking into account any potential adjustments described in Section 2.4 and Section 2.5 below.

The criteria to determine which banks will be subject to the disclosure requirements are expected to remain based on the leverage ratio exposure measure (including exposures arising from insurance subsidiaries) as of the previous year-end.

2.4 Scope of banks subject to the new requirements

The Committee has been giving consideration to the scope of banks that will be subject to the new averaging requirements. In principle, the Committee sees benefits in a wide application of the new averaging requirements, for example to all banks in the G-SIB assessment sample and all banks in the additional G-SIB sample. A wide application would help ensure consistency across all reported and disclosed data, especially given that the G-SIB assessment relies on a relative methodology. It would also help maintain a level playing field across banks participating in the G-SIB assessment exercise, especially with regard to banks’ ability and incentive to window-dress. It would also be consistent with data requirements under the current framework.

The Committee is aware that averaging requirements, particularly a daily averaging requirement for stock indicators, could create an additional reporting burden. This can be more challenging for less
systemic, non-G-SIB banks. Therefore, the Committee is also considering options that would apply the highest-frequency (ie daily) averaging requirement to a narrower set of banks and a lower-frequency (eg month-end or quarter-end) averaging requirement to the remaining banks. For example, one approach could apply the highest-frequency averaging requirement only to banks in the G-SIB assessment sample and to any bank close to the relevant qualification threshold, based on a numerical cutoff, while applying a lower-frequency averaging requirement to banks in the additional G-SIB sample. Similarly, another approach could apply the highest-frequency averaging requirement to existing G-SIBs and to any bank close to the G-SIB identification threshold based on a numerical cutoff, while applying an averaging requirement with a lower-frequency to the remaining banks in the G-SIB assessment sample and to banks in the additional G-SIB sample.

The Committee is accordingly seeking feedback on approaches to the scope of application of an averaging requirement as described above: (a) apply the same averaging frequency to all banks in the G-SIB assessment sample and in the additional G-SIB sample; (b) apply a higher averaging frequency to banks in the G-SIB assessment sample and a lower frequency to banks in the additional G-SIB sample; and (c) apply a higher averaging frequency to G-SIBs and banks in the reporting sample that are close to the 130 basis point G-SIB identification threshold (based on a numerical cutoff) and a lower averaging frequency to other banks in the G-SIB assessment sample and to banks in the additional G-SIB sample.

2.5 Application of new requirements to a subset of indicators only

The new requirements would apply, in principle, to all G-SIB indicators. However, it might be challenging or not meaningful for banks to provide high-frequency averaged data for certain indicators.

First, some indicators, such as payment and underwriting activities and certain trading indicators, are based on flow, rather than stock, variables. To reduce the reporting burden, the stricter reporting requirements should apply only to stock variables, and the current year-end reporting should continue to apply to flow variables, as outlined in Table 1. Second, some indicators are more difficult to value at a high frequency (eg off-balance sheet items as part of the total exposure measure, or Level 3 assets), or they may be less likely to be targeted for window-dressing.

The Committee will give due consideration to evidence brought forward for specific data items or indicators for which reporting high-frequency averages would be particularly challenging. For those cases, the Committee may consider requiring the reporting of data averaged over a lower frequency (eg based on month-end values instead of daily averages) for such a subset of data items or indicators. On the one hand, this approach would reap the benefits of higher-frequency averaging for most indicators, while accounting for practical difficulties for a selected set of variables. On the other hand, limiting higher-frequency averaging to only a few indicators would introduce inconsistencies between the indicators and could skew window-dressing incentives towards those indicators for which lower-frequency averaging is required.
## Suggested averaging for G-SIB indicators and data items

<table>
<thead>
<tr>
<th>Category (and weighting)</th>
<th>Individual indicator</th>
<th>Stock/flow variable</th>
<th>Period-end averaging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-jurisdictional activity (20%)</td>
<td>Cross-jurisdictional claims</td>
<td>Stock</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Cross-jurisdictional liabilities</td>
<td>Stock</td>
<td>✓</td>
</tr>
<tr>
<td>Size (20%)</td>
<td>Total exposures as defined for use in the Basel III leverage ratio*</td>
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<td>✓</td>
</tr>
<tr>
<td>Interconnectedness (20%)</td>
<td>Intra-financial system assets*</td>
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<td>✓</td>
</tr>
<tr>
<td></td>
<td>Intra-financial system liabilities*</td>
<td>Stock</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Securities outstanding*</td>
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<td>✓</td>
</tr>
<tr>
<td>Substitutability/financial institution infrastructure (20%)</td>
<td>Assets under custody</td>
<td>Stock</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Payments activity</td>
<td>Flow</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Underwritten transactions in debt and equity markets</td>
<td>Flow</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Trading volume</td>
<td>Flow</td>
<td></td>
</tr>
<tr>
<td>Complexity (20%)</td>
<td>Notional amount of over-the-counter derivatives*</td>
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</tr>
<tr>
<td></td>
<td>Level 3 assets*</td>
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<td>✓</td>
</tr>
<tr>
<td></td>
<td>Trading and available-for-sale securities</td>
<td>Stock</td>
<td>✓</td>
</tr>
</tbody>
</table>

* Extended scope of consolidation to include insurance activities.

### 3. Implementation date

The proposed revisions will apply to internationally active banks at the consolidated level. To provide sufficient time for banks to develop a robust and comprehensive reporting process, the Committee proposes an implementation date of 1 January 2027 (ie starting from the end-2026 G-SIB assessment exercise), with a transitional period starting on 1 January 2026. During the transitional period, reporting banks will be required to report both financial year-end values and, on a best-efforts basis, their averaged values as set out in the previous sections. During the transitional period, supervisors will be expected to apply supervisory judgment in cases in which material differences between those values are observed.