Consultative document

A framework for dealing with domestic systemically important banks

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The Basel Committee welcomes comments on this consultative document. Comments should be submitted by Wednesday 1 August 2012 by email to: baselcommittee@bis.org. Alternatively, comments may be sent by post to the Secretariat of the Basel Committee on Banking Supervision, Bank for International Settlements, CH-4002 Basel, Switzerland. All comments may be published on the Bank for International Settlements's website unless a commenter specifically requests confidential treatment.
A framework for dealing with domestic systemically important banks

I. Introduction

1. The Basel Committee on Banking Supervision (the Committee)\(^1\) issued the rules text on the assessment methodology for global systemically important banks (G-SIBs) and their additional loss absorbency requirements in November 2011.\(^2\) The G-SIB rules text was endorsed by the G20 Leaders at their November 2011 meeting. The G20 Leaders also asked the Committee and the Financial Stability Board to work on modalities to extend expeditiously the G-SIFI framework to domestic systemically important banks (D-SIBs).\(^3\)

2. The rationale for adopting additional policy measures for G-SIBs was based on the “negative externalities” (i.e., adverse side effects) created by systemically important banks which current regulatory policies do not fully address. In maximising their private benefits, individual financial institutions may rationally choose outcomes that, from a system-wide level, are sub-optimal because they do not take into account these externalities. These negative externalities include the impact of the failure or impairment of large, interconnected global financial institutions that can send shocks through the financial system which, in turn, can harm the real economy. Moreover, the moral hazard costs associated with direct support and implicit government guarantees may amplify risk-taking, reduce market discipline, create competitive distortions, and further increase the probability of distress in the future. As a result, the costs associated with moral hazard add to any direct costs of support that may be borne by taxpayers.

3. The additional requirement applied to G-SIBs, which applies over and above the Basel III requirements that are being introduced for all internationally-active banks, is intended to limit these cross-border negative externalities on the global financial system and economy associated with the most globally systemic banking institutions. But similar externalities can apply at a domestic level. There are many banks that are not significant from an international perspective, but nevertheless could have an important impact on their domestic financial system and economy compared to non-systemic institutions. Some of these banks may have cross-border externalities, even if the effects are not global in nature. Similar to the case of G-SIBs, it was considered appropriate to review ways to address the externalities posed by D-SIBs.

4. A D-SIB framework is best understood as taking the complementary perspective to the G-SIB regime by focusing on the impact that the distress or failure of banks (including by international banks) will have on the domestic economy. As such, it is based on the

\(^1\) The Basel Committee on Banking Supervision consists of senior representatives of bank supervisory authorities and central banks from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. It usually meets at the Bank for International Settlements (BIS) in Basel, Switzerland, where its permanent Secretariat is located.


\(^3\) See Cannes Summit Final Declaration – Building Our Common Future: Renewed Collective Action for the Benefit of All, 4 November 2011.
assessment conducted by the local authorities, who are best placed to evaluate the impact of failure on the local financial system and the local economy.

5. This point has two implications. The first is that in order to accommodate the structural characteristics of individual jurisdictions, the assessment and application of policy tools should allow for an appropriate degree of national discretion. This contrasts with the prescriptive approach in the G-SIB framework. The second implication is that because a D-SIB framework is still relevant for reducing cross-border externalities due to spillovers at regional or bilateral level, the effectiveness of local authorities in addressing risks posed by individual banks is of interest to a wider group of countries. A framework, therefore, should establish a minimum set of principles, which ensures that it is complementary with the G-SIB framework, addresses adequately cross-border externalities and promotes a level-playing field.

6. The principles proposed by the Committee for D-SIBs would allow for appropriate national discretion to accommodate structural characteristics of the domestic financial system, including the possibility for countries to go beyond the minimum D-SIB framework and impose additional requirements based on the specific features of the country and its domestic banking sector.

7. The principles set out in the document focus on the higher loss absorbency (HLA) requirement for D-SIBs. The Committee would like to emphasise that other policy tools, particularly more intensive supervision, can also play an important role in dealing with D-SIBs.

8. The implementation of the principles will be combined with a strong peer review process introduced by the Committee. The Committee intends to add the D-SIB framework to the scope of the Basel III regulatory consistency assessment programme. This will help ensure that appropriate and effective frameworks for D-SIBs are in place across different jurisdictions.

9. Given that the D-SIB framework complements the G-SIB framework, the Committee considers that it would be appropriate if banks identified as D-SIBs by their national authorities are required by those authorities to comply with the principles in line with the phase-in arrangements for the G-SIB framework, ie from January 2016.

II. The principles

10. The Committee has developed a set of principles that constitutes the D-SIB framework. The 12 principles can be broadly categorised into two groups: the first group (Principles 1 to 7) focuses mainly on the assessment methodology for D-SIBs while the second group (Principles 8 to 12) focuses on HLA for D-SIBs.


5 HLA refers to higher loss absorbency relative to the Basel III requirements for internationally active banks. For domestic banks that are not internationally active, HLA is relative to requirements for domestic banks.
11. The 12 principles are set out below:

**Assessment methodology**

**Principle 1:** National authorities should establish a methodology for assessing the degree to which banks are systemically important in a domestic context.

**Principle 2:** The assessment methodology for a D-SIB should reflect the potential impact of, or externality imposed by, a bank’s failure.

**Principle 3:** The reference system for assessing the impact of failure of a D-SIB should be the domestic economy.

**Principle 4:** Home authorities should assess banks for their degree of systemic importance at the consolidated group level, while host authorities should assess subsidiaries in their jurisdictions, consolidated to include any of their own downstream subsidiaries, for their degree of systemic importance.

**Principle 5:** The impact of a D-SIB’s failure on the domestic economy should, in principle, be assessed having regard to bank-specific factors:

(a) Size;

(b) Interconnectedness;

(c) Substitutability/financial institution infrastructure (including considerations related to the concentrated nature of the banking sector); and

(d) Complexity (including the additional complexities from cross-border activity).

In addition, national authorities can consider other measures/data that would inform these bank-specific indicators within each of the above factors, such as size of the domestic economy.

**Principle 6:** National authorities should undertake regular assessments of the systemic importance of the banks in their jurisdictions to ensure that their assessment reflects the current state of the relevant financial systems and that the interval between D-SIB assessments not be significantly longer than the G-SIB assessment frequency.

**Principle 7:** National authorities should publicly disclose information that provides an outline of the methodology employed to assess the systemic importance of banks in their domestic economy.

**Higher loss absorbency**

**Principle 8:** National authorities should document the methodologies and considerations used to calibrate the level of HLA that the framework would require for D-SIBs in their jurisdiction. The level of HLA calibrated for D-SIBs should be informed by quantitative methodologies (where available) and country-specific factors without prejudice to the use of supervisory judgement.

**Principle 9:** The HLA requirement imposed on a bank should be commensurate with the degree of systemic importance, as identified under Principle 5. In the case where there are multiple D-SIB buckets in a jurisdiction, this could imply differentiated levels of HLA between D-SIB buckets.

**Principle 10:** National authorities should ensure that the application of the G-SIB and D-SIB frameworks is compatible within their jurisdictions. Home authorities should impose HLA
requirements that they calibrate at the parent and/or consolidated level, and host authorities should impose HLA requirements that they calibrate at the sub-consolidated/subsidiary level. The home authority should test that the parent bank is adequately capitalised on a stand-alone basis, including cases in which a D-SIB HLA requirement is applied at the subsidiary level. Home authorities should impose the higher of either the D-SIB or G-SIB HLA requirements in the case where the banking group has been identified as a D-SIB in the home jurisdiction as well as a G-SIB.

**Principle 11:** In cases where the subsidiary of a bank is considered to be a D-SIB by a host authority, home and host authorities should make arrangements to coordinate and cooperate on the appropriate HLA requirement, within the constraints imposed by relevant laws in the host jurisdiction.

**Principle 12:** The HLA requirement should be met fully by Common Equity Tier 1 (CET1). In addition, national authorities should put in place any additional requirements and other policy measures they consider to be appropriate to address the risks posed by a D-SIB.

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**A. Assessment methodology**

**Principle 1:** National authorities should establish a methodology for assessing the degree to which banks are systemically important in a domestic context.

**Principle 2:** The assessment methodology for a D-SIB should reflect the potential impact of, or externality imposed by, a bank’s failure.

12. A starting point for the development of principles for the assessment of D-SIBs is a requirement that all national authorities should undertake an assessment of the degree to which banks are systemically important in a domestic context. The rationale for focusing on the domestic context is outlined in paragraph 16 below.

13. Paragraph 14 of the G-SIB rules text states that “global systemic importance should be measured in terms of the impact that a failure of a bank can have on the global financial system and wider economy rather than the risk that a failure can occur. This can be thought of as a global, system-wide, loss-given-default (LGD) concept rather than a probability of default (PD) concept.” Consistent with the G-SIB methodology, the Committee is of the view that D-SIBs should also be assessed in terms of the potential impact of their failure on the relevant reference system. One implication of this is that to the extent that D-SIB indicators are included in any methodology, they should primarily relate to “impact of failure” measures and not “risk of failure” measures.

**Principle 3:** The reference system for assessing the impact of failure of a D-SIB should be the domestic economy.

**Principle 4:** Home authorities should assess banks for their degree of systemic importance at the consolidated group level, while host authorities should assess subsidiaries in their jurisdictions, consolidated to include any of their own downstream subsidiaries, for their degree of systemic importance.

14. Two key aspects that shape the D-SIB framework and define its relationship to the G-SIB framework relate to how it deals with two conceptual issues with important practical implications:

- what is the reference system for the assessment of systemic impact; and
- what is the appropriate unit of analysis (ie the entity which is being assessed)?
15. For the G-SIB framework, the appropriate reference system is the global economy, given the focus on cross-border spillovers and the negative global externalities that arise from the failure of a globally active bank. As such this allowed for an assessment of the banks that are systemically important in a global context. The unit of analysis was naturally set at the globally consolidated level of a banking group (paragraph 89 of the G-SIB rules text states that “(t)he assessment of the systemic importance of G-SIBs is made using data that relate to the consolidated group”).

16. Correspondingly, a process for assessing systemic importance in a domestic context should focus on addressing the externalities that a bank’s failure generates at a domestic level. Thus, the Committee is of the view that the appropriate reference system should be the domestic economy, ie that banks would be assessed by the national authorities for their systemic importance to that specific jurisdiction. The outcome would be an assessment of banks active in the domestic economy in terms of their systemic importance.

17. In terms of the unit of analysis, the Committee is of the view that home authorities should consider banks from a (globally) consolidated perspective. This is because the activities of a bank outside the home jurisdiction can, when the bank fails, have potential significant spillovers to the domestic (home) economy. Jurisdictions that are home to banking groups that engage in cross-border activity could be impacted by the failure of the whole banking group and not just the part of the group that undertakes domestic activity in the home economy. This is particularly important given the possibility that the home government may have to fund/resolve the foreign operations in the absence of relevant cross-border agreements. This is in line with the concept of the G-SIB framework.

18. When it comes to the host authorities, the Committee is of the view that they should assess foreign subsidiaries in their jurisdictions, also consolidated to include any of their own downstream subsidiaries, some of which may be in other jurisdictions. For example, for a cross-border financial group headquartered in country X, the authorities in country Y would only consider subsidiaries of the group in country Y plus the downstream subsidiaries, some of which may be in country Z, and their impact on the economy Y. Thus, subsidiaries of foreign banking groups would be considered from a local or sub-consolidated basis from the level starting in country Y.

19. The assessment of foreign subsidiaries at the local consolidated level also acknowledges the fact that the failure of global banking groups could impose outsized externalities at the local (host) level when these subsidiaries are significant elements in the local (host) banking system. This is important since there exist several jurisdictions that are dominated by foreign subsidiaries of internationally active banking groups.

Principle 5: The impact of a D-SIB’s failure on the domestic economy should, in principle, be assessed having regard to bank-specific factors:

(a) Size;
(b) Interconnectedness;
(c) Substitutability/financial institution infrastructure (including considerations related to the concentrated nature of the banking sector); and
(d) Complexity (including the additional complexities from cross-border activity).

In addition, national authorities can consider other measures/data that would inform these bank-specific indicators within each of the above factors, such as size of the domestic economy.
20. The G-SIB methodology identifies five broad categories of factors that influence global systemic importance: size, cross-jurisdictional activity, interconnectedness, substitutability/financial institution infrastructure and complexity. The indicator-based approach and weighting system in the G-SIB methodology was developed to ensure a consistent international ranking of G-SIBs. The Committee is of the view that this degree of detail is not warranted for D-SIBs, given the focus is on the domestic impact of failure of a bank and the wide ranging differences in each jurisdiction’s financial structure hinder such international comparisons being made. This is one of the reasons why the D-SIB framework is being proposed as a principle-based approach.

21. Consistent with this view, it is appropriate to list, at a high level, the broad category of factors (e.g., size) that jurisdictions should have regard to in assessing the impact of a D-SIB’s failure. Among the five categories in the G-SIB framework, size, interconnectedness, substitutability/financial institution infrastructure and complexity are all relevant for D-SIBs as well. Cross-jurisdictional activity, the remaining category, may not be as directly relevant, since it measures the degree of global (cross-jurisdictional) activity of a bank which is not the focus of the D-SIB framework.

22. In addition, national authorities may choose to also include some country-specific factors. A good example is the size of a bank relative to domestic GDP. If the size of a bank is relatively large compared to the domestic GDP, it would make sense for the national authority of the jurisdiction to identify it as a D-SIB whereas a same-sized bank in another jurisdiction, which is smaller relative to the GDP of that jurisdiction, may not be identified as a D-SIB.

23. National authorities should have national discretion as to the appropriate relative weights they place on these factors depending on national circumstances.

**Principle 6: National authorities should undertake regular assessments of the systemic importance of the banks in their jurisdictions to ensure that their assessment reflects the current state of the relevant financial systems and that the interval between D-SIB assessments not be significantly longer than the G-SIB assessment frequency.**

24. The list of G-SIBs (including their scores) is assessed annually, based on updated data submitted by each participating bank, but measured against a global sample that is largely unchanged for three years. It is expected that the names and buckets of G-SIBs and the data used to produce the scores will be disclosed.

25. The Committee believes it is good practice for national authorities to undertake a regular assessment as to the systemic importance of the banks in their financial systems. The assessment should also be conducted if there are important structural changes to the banking system such as, for example, a merger of major banks. A national authority’s assessment process and methodology will be reviewed by the Committee’s implementation monitoring process.

26. It is also desirable that the interval of the assessments not be significantly longer than that for G-SIBs (i.e., one year). For example, a SIB could be identified as a G-SIB but also a D-SIB in the same jurisdiction or in other host jurisdictions. Alternatively, a G-SIB could drop from the G-SIB list and become/continue to be a D-SIB. In order to keep a consistent approach in these cases, it would be sensible to have a similar frequency of assessments for the two frameworks.
Principle 7: National authorities should publicly disclose information that provides an outline of the methodology employed to assess the systemic importance of banks in their domestic economy.

27. The assessment process used needs to be clearly articulated and made public so as to set up the appropriate incentives for banks to seek to reduce the systemic risk they pose to the reference system. This was the key aspect of the G-SIB framework where the assessment methodology and the disclosure requirements of the Committee and the banks were set out in the G-SIB rules text. By taking these measures, the Committee sought to ensure that banks, regulators and market participants would be able to understand how the actions of banks could affect their systemic importance score and thereby the required magnitude of additional loss absorbency. The Committee believes that transparency of the assessment process for the D-SIB framework is also important, even if it is likely to vary across jurisdictions given differences in frameworks and policy tools used to address the systemic importance of banks.

B. Higher loss absorbency

Principle 8: National authorities should document the methodologies and considerations used to calibrate the level of HLA that the framework would require for D-SIBs in their jurisdiction. The level of HLA calibrated for D-SIBs should be informed by quantitative methodologies (where available) and country-specific factors without prejudice to the use of supervisory judgement.

28. The purpose of an HLA requirement for D-SIBs is to reduce further the probability of failure compared to non-systemic institutions, reflecting the greater impact a D-SIB failure is expected to have on the domestic financial system and economy.

29. The Committee intends to assess the implementation of the framework by the home and host authorities for its degree of cross-jurisdictional consistency, having regard to the differences in national circumstances. In order to increase the consistency in the implementation of the D-SIB framework and to avoid situations where banks similar in terms of the level of domestic systemic importance they pose in the same or different jurisdictions have substantially different D-SIB frameworks applied to them, it is important that there is sufficient documentation provided by home and host authorities for the Committee to conduct an effective implementation review assessment. It is important for the application of a D-SIB HLA, at both the parent and subsidiary level, to be based on a transparent and well-articulated assessment framework to ensure the implications of the requirements are well understood by both the home and the host authorities.

30. The level of HLA for D-SIBs should be subject to policy judgement by national authorities. That said, there needs to be some form of analytical framework that would inform policy judgements. This was the case for the policy judgement made by the Committee on the level of the additional loss absorbency requirement for G-SIBs.6

31. The policy judgement on the level of HLA requirements should also be guided by country-specific factors which could include the degree of concentration in the banking sector or the size of the banking sector relative to GDP. Specifically, countries that have a larger banking sector relative to GDP are more likely to suffer larger direct economic impacts of the

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6 Annex 2 of the G-SIB rules text sets out the various empirical analysis conducted by the Committee, such as the expected impact approach, that informed the policy judgement of the Committee.
failure of a D-SIB than those with smaller banking sectors. While size-to-GDP is easy to calculate, the concentration of the banking sector could also be considered (as a failure in a medium-sized highly concentrated banking sector would likely create more of an impact on the domestic economy than if it were to occur in a larger, more widely dispersed banking sector).7

32. The use of these factors in calibrating the HLA requirement would provide justification for different intensities of policy responses across countries for banks that are otherwise similar across the four key bank-specific factors outlined in Principle 5.

**Principle 9:** The HLA requirement imposed on a bank should be commensurate with the degree of systemic importance, as identified under Principle 5. In the case where there are multiple D-SIB buckets in a jurisdiction, this could imply differentiated levels of HLA between D-SIB buckets.

33. In the G-SIB framework, G-SIBs are grouped into different categories of systemic importance based on the score produced by the indicator-based measurement approach. Different additional loss absorbency requirements are applied to the different buckets (G-SIB rules text paragraphs 52 and 73).

34. Although the D-SIB framework does not produce scores based on a prescribed methodology as in the case of the G-SIB framework, the Committee is of the view that the HLA requirements for D-SIBs should also be decided based on the degree of domestic systemic importance. This is to provide the appropriate incentives to banks which are subject to the HLA requirements to reduce (or at least not increase) their systemic importance over time. In setting the HLA requirement, national authorities can set multiple buckets with different requirements.

**Principle 10:** National authorities should ensure that the application of the G-SIB and D-SIB frameworks is compatible within their jurisdictions. Home authorities should impose HLA requirements that they calibrate at the parent and/or consolidated level, and host authorities should impose HLA requirements that they calibrate at the sub-consolidated/subsidiary level. The home authority should test that the parent bank is adequately capitalised on a stand-alone basis, including cases in which a D-SIB HLA requirement is applied at the subsidiary level. Home authorities should impose the higher of either the D-SIB or G-SIB HLA requirements in the case where the banking group has been identified as a D-SIB in the home jurisdiction as well as a G-SIB.

35. National authorities, including host authorities, currently have the capacity to set and impose capital requirements they consider appropriate to banks within their jurisdictions. The G-SIB rules text states that host authorities of G-SIB subsidiaries may apply an additional loss absorbency requirement at the individual legal entity or consolidated level within their jurisdiction.8 The Committee has no intention to change this aspect of the status quo when

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7 Another factor that could be relevant is the funding position of the banking sector, whereby more foreign wholesale funding could increase the transition costs (deleveraging) facing both the financial sector and the domestic economy in the event of a crisis.

8 Paragraph 89 of the G-SIB rules text states “the assessment of the systemic importance of G-SIBs is made using data that relate to the consolidated group. To be consistent with this approach, the Basel Committee will apply the additional loss absorbency requirement to the consolidated group. However, as with the minimum requirement and the capital conservation and countercyclical buffers, application at the consolidated level does not rule out the option for the host jurisdictions of subsidiaries of the group also to apply the requirement at the individual legal entity or consolidated level within their jurisdiction.”
introducing the D-SIB framework. An imposition of a D-SIB HLA by a host authority is no different (except for additional transparency) from their current capacity to impose a Pillar 1 or 2 capital charge. Therefore, the ability of the host authorities to implement a D-SIB HLA on local subsidiaries does not raise any new home-host issues.

36. National authorities should ensure that banks with the same degree of systemic importance in their jurisdiction, regardless of whether they are domestic banks, subsidiaries of foreign banking groups, or subsidiaries of G-SIBs, are subject to the same HLA requirements, ceteris paribus. Banks in a jurisdiction should be subject to a consistent, coherent and non-discriminatory treatment regardless of the ownership. The objective of the host authorities' power to impose HLA on subsidiaries is to bolster capital to mitigate the potential heightened impact of the subsidiaries' failure on the domestic economy due to their systemic nature. This should be maintained in cases where a bank might not be (or might be less) systemic at home, but its subsidiary is (more) systemic in the host jurisdiction.

37. An action by the host authorities to impose a D-SIB HLA requirement leads to increases in capital at the subsidiary level which can be viewed as a shift in capital from the parent bank to the subsidiary, unless it already holds an adequate capital buffer in the host jurisdiction or the additional capital raised by the subsidiary is from outside investors. This could, in the case of substantial or large subsidiaries, materially decrease the level of capital protecting the parent bank. Under such cases, it is important that the home authority continues to ensure there are sufficient financial resources at the parent level, for example through a solo capital requirement. Indeed, paragraph 23 of the Basel II rules text states "(f)urther, as one of the principal objectives of supervision is the protection of depositors, it is essential to ensure that capital recognised in capital adequacy measures is readily available for those depositors. Accordingly, supervisors should test that individual banks are adequately capitalised on a stand-alone basis."

38. Within a jurisdiction, applying the D-SIB framework to both G-SIBs and non-G-SIBs will help ensure a level playing field within the national context. For example, in a jurisdiction with two banks that are roughly identical in terms of their assessed systemic nature at the domestic level, but where one is a G-SIB and the other is not, national authorities would have the capacity to apply the same D-SIB HLA requirement to both. In such cases, the home authorities could face a situation where the HLA requirement on the consolidated group will be the higher of those prescribed by the G-SIB and D-SIB frameworks (ie the higher of either the D-SIB or G-SIB requirement).

39. This approach is also consistent with the Committee’s standards, which are minima rather than maxima. It is also consistent with the G-SIB rules text that is explicit in stating that home authorities can impose higher requirements than the G-SIB additional loss absorbency requirement (G-SIB rules text paragraph 74).9

40. The Committee is of the view that any form of double-counting should be avoided and that the HLA requirements derived from the G-SIB and D-SIB frameworks should not be additive. This will ensure the overall consistency between the two frameworks and allows the D-SIB framework to take the complementary perspective to the G-SIB framework.

Principle 11: In cases where the subsidiary of a bank is considered to be a D-SIB by a host authority, home and host authorities should make arrangements to coordinate

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9 Paragraph 74 states that "the additional loss absorbency requirement set out above is the minimum level. If national jurisdictions wish to impose a higher requirement to their banks, they are free to do so."
and cooperate on the appropriate HLA requirement, within the constraints imposed by relevant laws in the host jurisdiction.

41. The Committee recognises that there could be some concern that host authorities tend not to have a group-wide perspective when applying HLA requirements to subsidiaries of foreign banking groups in their jurisdiction. The home authorities, on the other hand, clearly need to know D-SIB HLA requirements on significant subsidiaries since there could be implications for the allocation of financial resources within the banking group.

42. In these circumstances, it is important that arrangements to coordinate and cooperate on the appropriate HLA requirement between home and host authorities are established and maintained, within the constraints imposed by relevant laws in the host jurisdiction, when formulating HLA requirements. This is particularly important to make it possible for the home authority to test the capital position of a parent on a stand-alone basis as mentioned in paragraph 37 and to prevent a situation where the home authorities are surprised by the action of the host authorities. Home and host authorities should coordinate and cooperate with each other on any plan to impose an HLA requirement on a subsidiary bank, and the amount of the requirement, before taking any action. The host authority should provide a rationale for their decision, and an indication of the steps the bank would need to take to avoid/reduce such a requirement. The home and host authorities should also discuss (i) the resolution regimes (including recovery and resolution plans) in both jurisdictions, (ii) available resolution strategies and any specific resolution plan in place for the firm, and (iii) the extent to which such arrangements should influence HLA requirements.

**Principle 12: The HLA requirement should be met fully by Common Equity Tier 1 (CET1).** In addition, national authorities should put in place any additional requirements and other policy measures they consider to be appropriate to address the risks posed by a D-SIB.

43. The additional loss absorbency requirement for G-SIBs is to be met by CET1, as stated in the G-SIBs rules text (paragraph 87). The Committee considered the use of CET1 to be the simplest and most effective way to increase the going concern loss-absorbing capacity of a bank. HLA requirements for D-SIBs should also be fully met with CET1 to ensure a maximum degree of consistency in terms of effective loss absorbing capacity. This has the benefit of facilitating direct and transparent comparability of the application of requirements across jurisdictions, an element that is considered desirable given the fact that most of these banks will have cross-border operations being in direct competition with each other. In addition, national authorities should put in place any additional requirements and other policy measures they consider to be appropriate to address the risks posed by a D-SIB.