September 3, 2021

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
Basel, Switzerland

RE: Technical Amendment – G-SIB assessment methodology review process

Ladies and Gentlemen:

The Institute of International Finance ("IIF") and the International Swaps and Derivatives Association ("ISDA") are grateful for the opportunity to comment on the proposed technical amendment by the Basel Committee on Banking Supervision (the "Committee") regarding possible changes to the G-SIB assessment methodology review process (the "Consultation").[1]

We greatly appreciate the Committee's willingness to apply an evidence-based approach in review of the Basel III policy agenda. The wider efforts of this process through the Committee's Evaluation Framework[2] will help to ensure a continued dynamic approach in measuring the effectiveness of the Basel standards while also addressing lessons learned from the Covid-19 pandemic. This should also crucially assess how the standards have worked generally in achieving the broader goals of financial stability while ensuring economic growth throughout the past decade. Where warranted, technical amendments to the Basel standards can assist in making sure they remain fit for purpose in the current economic and regulatory climate.

We further understand that measures were taken by the Committee to make available bank resources and capacity to focus on the implications of the pandemic and that the Committee is now considering those matters which were adjusted or postponed due to the crisis. This includes an examination of the G-SIB assessment methodology regime, particularly in light of the wider experience from the Covid 19 response.

We believe, however, that the proposed technical amendment concerning the G-SIB assessment methodology warrants additional scrutiny. The global economy has gone through a period of unanticipated dislocation and uncertainty as a result of the pandemic, and financial institutions around the globe have been at the forefront of addressing the consequences of the crisis by ensuring lending has continued to the real economy. This has been achieved through the close cooperation of regulatory and

[1] Basel Committee on Banking Supervision, *Technical Amendment, G-SIB assessment methodology review process,* June 2021.
[2] Basel Committee on Banking Supervision, *Basel Committee work program and strategic priorities for 2021/22*, April 2021

supervisory authorities, helping to mitigate the worst effects of the crisis and address the needs of recovery - which continues at different speeds around the world.[3]

In light of these current circumstances, replacing the three-year G-SIB assessment methodology cycle with a process of ongoing monitoring and review may create an additional layer of uncertainty for global markets at a time when the focus should be on providing confidence in expectations on both the timing and procedures for the regime. The timing also calls into question whether the changes can be fully evaluated via an evidenced-based process and the proposal itself raises issues of transparency and international coherence for the framework.

As such, we believe that, at this time, the G-SIB assessment methodology review process would be better served by continuing the three-year cycle of review. In that context, there are four main areas we respectfully request the Committee to consider as it finalizes its evaluation of the proposed technical amendment.

First, considering that the methodology experienced its latest revision as recently as 2018 with adjustments made on the original 2011 version completed in 2013, further analysis is warranted to assess the strengths and weaknesses of a three-year review cycle in order to fully assess where benefit could be derived through any further revisions (particularly as the most recent cycle was postponed due to the pandemic). This would allow for a comprehensive evidenced-based review and for the Committee to consider the overall impact of the Covid crisis from a clearer vantage point.

In this regard, we note that the significant changes introduced in 2018 [4] will apply for the first time in 2022 based on 2021 data. Therefore, evaluating the benefits and potential unintended consequences of these methodological changes will be important, but can only occur from 2022 onwards. We also note that the 2018 review left other aspects for further evaluation, including the role and treatment of branches (in contrast to that of subsidiaries which tend to rely mostly on local funding in local currency) and the recognition of the Single Resolution Mechanism ("SRM") in the European Union ("EU"). More broadly, additional structural evolutions should also be considered, such as the London Interbank Offered Rate ("LIBOR") transition.

Second, we believe that moving to a methodology of ongoing monitoring and review will leave the process open ended, with a lack of transparency as to timing for review and announcements on the outcomes of reviews. A three-year review cycle which is designed to capture developments in the banking sector and any progress in methods and approaches for measuring systemic importance offers certainty in expectations and manages to address an adequate time horizon for market changes. This is particularly important given that the recent crisis has been an example of how market circumstances can change in ways that could affect the methodology and its indicators, including such issues as the size indicator (which has been impacted by the pandemic crisis as banks' balance sheets have grown, not necessarily making them more systemic and certainly not riskier). This reinforces the importance of having a stable, periodic review of the methodology.

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[3] IIF/FSF/ISDA, *The role of financial markets and institutions in supporting the global economy during the COVID-19 pandemic*, May 2021 (https://www.iif.com/Portals/0/Files/content/Regulatory/05_24_2021_covid19_financialmarkets.pdf)

[4] We note that these changes mainly focused on the inclusion of the trading volume and insurance subsidiaries in the methodology.

More generally, changes in G-SIB methodology should follow the governance of other regulatory capital methodology changes. For example, though additional/changed indicators are currently collected as "Memorandum Items"[5] before they become binding, the process remains opaque, as contributing banks do not receive feedback on the impact that the changes may have on their G-SIB score. Addressing this transparency issue would be important so that regulatory decisions are sufficiently clear, predictable and do not unduly surprise market participants. This can be better achieved through a set three-year review cycle, otherwise issues like the reporting of Memorandum Items should be generally reconsidered (and the points of transparency and the anticipated impact of changes remain to be addressed either way).[6]

Third, the proposed change to the G-SIB assessment methodology may also cause issues for business strategy and consequent capital planning at G-SIBs. The current assessment regime allows clarity and time for G-SIBs to develop business models and strategies in accordance with that framework. Imposing a fundamental change to a well-established and well understood capital requirements framework could impede this important business approach and capital planning process.

Additionally, the global banking sector is about to commence the progressive implementation of the long-developed Basel III framework, with regional authorities finalizing the transposition of the December 2017 agreement[7] for their regions. We would respectfully suggest that it is not appropriate to be adding a layer of uncertainty as to the potential requirements for G-SIBs during this period. We also note that any Risk Weighted Asset ("RWA") increase occurring as a result of Basel III implementation would mechanically result in an increase in the G-SIB buffer. Any such increase would not be as a result of the actual systemic risk, but only by the arithmetic way that the buffers are expressed as a percentage of RWA. Some consideration should be given to how such a duplicative effect may be addressed, while maintaining a level playing field.

Fourth, we believe the indicator-based measurement approach, the cutoff/threshold scores, and the size of the sample of banks can still be monitored and reviewed by the Committee for developments in the banking sector – along with progress in methods for measuring systemic importance, structural changes, and unintended consequences - through the planned and transparent three-year process currently in place. The objectives of the Committee to review these issues will likely be achieved in a clearer fashion through set review periods which allows for a fuller discussion on the wider framework in a timely manner, rather than ad hoc assessments which may not fully capture all issues, and which may occur at unexpected timings. This has the added benefit of being able to help ensure a globally coherent framework remains in place, reducing the likelihood of fragmentary approaches across the globe.

Lastly, we note that any future evaluation of the efficacy of the G-SIB assessment methodology review process should be considered with a close exchange of views and in close public consultation with industry and relevant stakeholders where it is warranted but should be considered over a longer period to address the concerns noted herein. Before any further changes are contemplated, we also recommend a full

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[5] Non-permanent, best-efforts data item were relabeled Memorandum Items in Instructions for the end-2014 G-SIB assessment exercise.

[6] Opacity in the framework could also be addressed through greater clarity by the Committee concerning references to such things as regionally specific issues – including reference to European Banking Union in the original text and proposed technical amendment being considered for consultation, which may not be clear to all parties subject to the methodology globally.

[7] Basel Committee on Banking Supervision, *Basel III: Finalizing post-crisis reforms*, December 2017.

Quantitative Impact Study ("QIS") be conducted, in line with the processes for other Basel Framework changes.

Thank you very much for considering our feedback on the Consultation. We look forward to engaging with the Committee further as work around G-SIB reviews continues. If you have any questions, please contact us, Matthew Ekberg (mekberg@iif.com) and Richard Gray (rgray@iif.com).

Very truly yours,

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