INSTITUTE OF INTERNATIONAL FINANCE

ibfed International Banking Federation

March 17, 2016

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

Re: Consultative Document – Identification and measurement of step-in risk

Dear Mr Coen:

The Institute of International Finance ("IIF") and the International Banking Federation ("IBFed")[1] are pleased to provide comments on the Basel Committee's (the "Committee" or "BCBS") Consultative Document "Identification and measurement of step-in risk", published December 17, 2015. This letter has been produced under the guidance of the IIF's Shadow Banking Advisory Group. In offering these comments, we believe it is important to reiterate the industry's support for targeted and proportionate regulatory measures designed to make the global financial system more stable while facilitating economic growth. In order to meet those goals, an assessment of whether new or different regulation is needed should be based on robust empirical analysis of the many beneficial attributes of financial services, the probability and magnitude of a potential threat to financial stability, and the effectiveness and efficiency of available regulatory responses.

The industry is concerned about the Committee's proposal, its scope, and its potential implications for the ability of banks to engage in key financial activities, such as asset securitization and asset management. In our view, this proposal lacks clarity, transparency and focus and ignores the fact that "step in" during the recent financial crisis was largely limited to singular events or certain investment structures. In light of that, we believe the framework is overly broad. Therefore, we respectfully ask the Committee not to proceed with its proposal. At the very least, the Committee should consider waiting for the various regulatory changes already in train to become fully effective before advancing further measures such as this proposed step-in risk framework. At that time, this proposal should assess the probability of step-in risk and the probability of credit or liquidity support that would be provided. Assessing the likelihood and extent of support would be consistent with the probability of default and loss given default methodology within the credit risk framework. From the industry's perspective any refined framework should have subsidiary character and focus specifically on such risks that have not already been addressed.

[1] For further information on the IIF and the IBFed please refer to the Appendix.

Key Considerations:

Since the 2007 financial crisis, changes in the regulatory framework and accounting standards have significantly mitigated step-in risk:

- *Regulatory reforms related to securitization conduits and structured investment vehicles ("SIVs")* substantially reduce liquidity risks within these vehicles and mitigate the risk of spill-over to banks. They also restrict the ability of banks to step in with respect to such entities.
- In particular, the Committee's *Liquidity Coverage Ratio ("LCR")* aims to identify and cover liquidity risks originating in non-contractual contingent funding obligations that may arise under stressed market conditions and may be embedded in financial products and instruments (including conduits, SIVs and structured financing facilities) and can give rise to unplanned balance sheet growth arising from support given for reputational risk considerations.
- Moreover, the Committee's and European Union's *securitization frameworks* provide capital requirements and enhanced due diligence, risk retention and transparency rules, including for Asset Backed Commercial Paper Conduits.
- *Existing and pending regulations related to asset management activities* reduce liquidity risks within Money Market Funds ("MMFs") and open-end funds and restrict the ability of a bank to step in with respect to investment funds.
- For instance, r*evisions to MMF standards in the United States* require a floating Net Asset Value and provide liquidity risk management tools to reduce the risk of runs, and *proposed revisions to MMF rules in the European Union* require strengthened liquidity management practices.
- In addition, the United States' *Volcker Rule* restricts banks' investments in, sponsorship of and ability to step-in with respect to investment funds, as well as certain securitization vehicles and structured products.
- Further, *bank structural reforms* in various jurisdictions have curtailed the possibilities for banks to provide support to certain shadow banking entities.
- *Existing accounting standards* (consolidation standards both under IFRS and U.S. GAAP) mitigate step-in risk by incorporating reputational risk and the risk of implicit support.
- *Conduct rules* – most importantly those enshrined in the European Union's MiFID II framework – serve as an additional safeguard as they will limit reputational risk from misselling investment products and thus also curtail any need and incentive for banks to step in.
- Reputational risks and any concomitant step-in risks are already covered by the Committee's *Pillar 2 approach*, have been identified by the *comprehensive internal capital adequacy assessment process ("ICAAP")* and are covered by an appropriate level of additional capital. Pillar 2 – correctly applied – guarantees that all risks of a bank – both on- and off-balance sheet – are adequately covered, particularly those related to complex capital market activities. The Committee's risk-based capital standard is further strengthened by its large exposures framework.

Requiring banks to hold capital against potential exposures to funds or other unconsolidated vehicles may create an expectation that banks have the willingness and ability to step in and thus create "*moral hazard*." Moreover, the existence of such an expectation may pressure banks to step in where they otherwise would not and, perversely, may reinforce market expectations of loss protection by banks. By requiring a bank to hold capital against step-in risk, the proposal would encourage the perception that there is an implicit guarantee from banks with respect to the performance and obligations of funds with relationships to bank-affiliated asset managers.

Priorities in policymaking

As the Committee acknowledges, the international reform agenda, and in particular the reforms conducted under the leadership of the Committee, have led to significant increases in banks' capital and liquidity positions, strengthening of risk management functions, de-risking of business models, and higher transparency. Banks are more resilient than before the crisis. In case of failure, banks have become resolvable without recourse to taxpayer's money. The positive effects of these reforms are reflected in a recent statement by Bank of England Governor *Mark Carney*: "The largest cross-border banks are considerably stronger than during prior episodes of market stress. Common equity requirements are seven times the pre-crisis standard for most banks. For global systemically important banks (G-SIBs), they are more than ten times higher. Global standards require banks to hold much higher liquid asset buffers, to strengthen their trading books, and to reduce and simplify the formerly complex web of interbank exposures."[2]

While the safety and soundness of banks has improved globally much of the world is still suffering from low growth. The IIF expects mature economies to keep growth somewhat above potential helped by some further monetary easing. However, emerging market economies are expected to grow weakly by past standards, with commodity producers under particular strain and a number already struggling with recessions.[3] Thus, there is a common interest among policymakers, regulators, central banks and other authorities to assess whether the real sources of systemic risk have been adequately addressed by existing reforms, as well as to assess the cost to the economy of such measures, before introducing additional measures and reforms. In other words, there should be an assessment of whether reforms are working as intended or whether aspects of the reforms themselves need fixing prior to the release of additional regulatory capital measures, as well as to what can be done to promote economic growth and financial stability.

In general, we agree with an observation made by *Lord Hill*, the European Commissioner responsible for financial stability, financial services and the European capital markets union, when he said that "[w]e do not make the economy stronger by making our financial services weaker. We need to move from a position where the industry is seen as being part of the problem to one where it is seen as part of the solution."[4] In particular, we would like to refer to the European Commission's recent initiative to revitalize the market for securitizations.[5] "Why? Because we need to free up capacity in the banking sector and increase lending to the wider economy. If we could restore securitisation to pre-crisis levels, it could free up an extra 100 billion euros of investment for the economy."[6] This initiative has to be seen against the

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[2] *Carney, Mark*, Redeeming an unforgiving world, Shanghai, February 26, 2016, p. 8 (http://www.bankofengland.co.uk/publications/Documents/speeches/2016/speech885.pdf).

[3] For further details see e.g. *IIF*, February 2016 Global Economic Monitor: Close to the Edge (https://www.iif.com/publication/global-economic-monitor/february-2016-global-economic-monitor-close-edge?destination=node/9895&ct=760a62766cf22c97776fdcd411c7469309c649cdc9f2268d95f30096d8335fff1b165cf7a1226cc3dde04f810ca1a1eadaeb74cc16b805fb5f7c6097fe90853c).

[4] *Hill, Jonathan*, Finance at your service – capital markets union as an instrument of sustainable growth, Brussels, February 4, 2015 (http://europa.eu/rapid/press-release_SPEECH-15-4144_en.htm?locale=en).

[5] See *European Commission*, Proposal for a Regulation of the European Parliament and the Council laying down common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation and amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012, 30.9.2015, COM(2015) 472 final (http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX: 52015PC 0472&from=EN) .

[6] *Hill, Jonathan*, Building a Capital Markets Union, Brussels, December 3, 2015, p. 2. (http://europa.eu/rapid/press-release_SPEECH-15-6244_en.htm?locale=en).

backdrop of a market that has collapsed in size from $ 1,209 billion (2008) to $ 236 billion (2015).[7] As securitizations seem to be a particular point of focus in the Committee's proposal we note that the market – at least in Europe – has deteriorated to an extent where public sector intervention is considered necessary to get this market running again. This was also recognized by Governor *Carney* who observed that regulation has treated asset backed securities unduly conservatively.[8]

We also agree generally with Governor *Carney's* assertion that "(p)olicymakers can help banks transition to more sustainable business models by *giving the maximum regulatory clarity*. With the agreements reached in recent years, including Basel III and the global agreement on Total Loss Absorbing Capacity, *the overall international regulatory and resolution framework for banks is now largely settled*. The FSB, Basel Committee and other authorities now need to *build confidence about the stability of the overall requirements*, deliver transparency about the extent to which institutions meet them, and *fix some important remaining details*. (…) In doing so, authorities are focused on not significantly increasing overall capital requirements across the banking sector."[9]

We are deeply concerned with how the step-in risk proposal would interact with existing and pending regulation including those originating from the Committee itself. For example, this proposal could considerably restrict banks' ability to sponsor securitizations, further impeding securitization issuance when at the same time other initiatives are aimed at revitalizing this important market. In a similar vein the Committee's recently published consultative document on operational risk[10] can in parts also be read to extend to step-in risk. The industry is concerned this may lead to the multiple coverage of step-in risk by various regulatory initiatives where in substance we deem step-in risk not to be a substantial point of concern, and one that is already addressed by various layers of regulation. We will explain this view in more detail below.

Industry position: Step-in risk does not raise the need for its own prudential approach

The industry is concerned about the Committee's proposal, its scope, and its potential implications for the ability of banks to engage in key financial activities, such as asset securitization and asset management. In our view, this proposal lacks clarity, transparency and focus and ignores the fact that "step in" during the recent financial crisis was largely limited to singular events or certain investment structures. In light of that, we believe the framework is overly broad. The proposal outlines potential step-in risk indicators that characterize banks' relationships with unconsolidated entities. As noted in the document's executive summary, where any "one of the step-in indicators, which range from capital ties, sponsorship, provision of financial facilities, decision making and operational ties, is met under the framework, there is the presumption that significant step-in risk exists." This presumption, without consideration of bank, counterparty and market expectations of the probability and potential size of step-in risk vastly overestimates po-

[7] The volume of newly issued securitizations in the United States decreased from $ 2,709 billion (2007) to $ 1,909 billion (2015); see sifma, Statistics – Structured Finance (http://www.sifma.org/research/statistics.aspx).
[8] See *Carney, Mark*, Regulatory work underway and lessons learned, Washington DC, October 12, 2014, p. 2 "And we've learned about the unintended consequences of prudential capital and retention requirements on the securitisation market. Regulatory changes arguably treat asset-backed securities in ways that appear to be unduly conservative, particularly relative to other forms of long-term funding. Efforts to rebalance these incentives are now a priority. As the Bank of England the ECB have argued, there is a strong case for differentiating between securitisations that are simple, transparent and consistent, and those that are not." (http://www.fsb.org/wp-content/uploads/Carney-Regulatory-work-underway-and-Lessons-learned.pdf).
[9] *Carney*, *supra* (note 2), p. 9 (emphasis added).
[10] See *BCBS*, Consultative Document - Standardised Measurement Approach for operational risk (BCBS 355), March 2016 (http://www.bis.org/bcbs/publ/d355.pdf).

tential exposure. It remains unclear how step-in risk is different from the support of unconsolidated entities motivated purely for economic reasons and not rooted in reputational risk. As proposed, the indicators have the potential to scope in nearly any unconsolidated entity with which a bank transacts or acts as a sponsor, while banks' support of these entities for reputational risk protection is historically remote and post-crisis reforms haven further decreased the likelihood of any step-in.

Whereas the Committee criticizes the inherently high degree of judgement in the relevant consolidation accounting framework it remains unclear how the Committee wants to provide a remedy, proposing a framework that also refers to supervisory judgement and discretion. Indeed, supervisory judgement is a strong and important tool and builds the foundation of the "Pillar 2" supervisory review approach. While the proposal acknowledges that the Basel framework captures reputational risk and implicit support within Pillar 2, it remains unclear why this framework is considered insufficient. Indeed, the Pillar 2 guidance captures the same activities the proposal describes, including when a bank provides implicit support to entities that they may sponsor or originate. In other words, supervisors already have the ability to discuss step-in risks with banks they supervise and to raise and address any concerns.

Furthermore, the scope of entities and activities that would be penalized by the proposal has far-reaching implications for market liquidity, which is already suffering in the wake of financial reforms and the low interest rate environment. As banks continue to digest the suite of regulations which have compounding impacts on various asset classes, it would be appreciated if the Committee paused to consider the combined effects before proposing such a sweeping framework. For example, when a bank participates in a securitization as an agent, there is no presumption of reputational risk on the part of the bank in spite of one or several indicators being triggered. This is also true in cases where the bank serves as the manager of a sponsored fund. Indeed, banks acting as agents do not support either securitizations vehicles or sponsored funds, and there is no investor expectation that they do so.

In the specific case of asset management activities, we do not believe that the Committee has demonstrated the existence of a concern which would warrant the development of a new regulatory capital framework to address unresolved step-in risk. We also believe that the proposed framework takes an unnecessarily expansive view of sponsorship, unfairly assumes the existence of step-in risk in any and all fund sponsorship structures, and fails to adequately consider the range of legal, regulatory and contractual mandates which limit the ability of a bank to provide financial support. The result is an approach that dramatically overstates the potential risk in bank-owned asset managers, in a manner that could actually accelerate the transfer of financial activities into the shadow banking system without any clear regulatory justification.

Requiring banks to hold capital against step-in risk creates market expectations of support, resulting in "moral hazard" and distorted competitive dynamics. Where a bank organizes, manages or advises a fund or other unconsolidated vehicle and has no obligation to provide financial support to that vehicle, investors should not expect the bank to provide such support. Requiring banks to hold capital against potential exposures to such vehicles may create an expectation that banks have the willingness and ability to step in and thus creates moral hazard – expecting downside protection, investors will delink pricing decisions from risk fundamentals and performance. Moreover, the existence of such an expectation may pressure banks to step in where they otherwise would not and, perversely, may reinforce market expectations of loss protection by banks.

The Committee's proposal could also serve to undermine existing legal frameworks. Typical contractual arrangements outline the protocol and unwind mechanisms in an entity's bankruptcy scenario and banks have governance processes to consider and limit the potential for implicit obligations outside of contractual arrangements. A regulatory presumption of support based on the indicators could interrupt these legal arrangements, and have the potential to cause confusion and inconsistencies, if not also additional legal

and operational risk. For example, if legal contracts outline appropriate creditor loss arrangements, how would a bankruptcy judge consider a bank that holds capital for the potential support of an entity? This interplay is further complicated by various jurisdictions' differing bankruptcy codes.

Accordingly, we expect the economic costs originating from this regulatory initiative to far outweigh the marginal benefits – if any. To gain clarity, we would at least expect a thorough cost-benefit analysis to be conducted, based on a focused and refined Quantitative Impact Study ("QIS") and further hard data. We concur with Federal Reserve Vice Chairman *Stanley Fischer* that "(p)olicymakers and researchers need better models and data to understand the interconnections between the banking system and nonbank financial institutions."[11]

Irrespective of the lack of this important analysis, we commend the Committee for describing the developments in banking regulation in general and in accounting standards in particular that were initiated in the aftermath of the recent financial crisis. As Vice Chairman *Fischer* has observed, these reforms in fact include "several steps (that) have been taken to reduce shadow banking risks, including restrictions on the support banks can provide to shadow banking activities"[12] Against this backdrop we do not join the Committee in its conclusion that step-in risk still raises the need for a prudential approach. If the Committee deems certain provisions to be incomplete or unsatisfactory we would prefer – and strongly recommend – to optimize the provisions in question instead of adding an additional layer of regulation to an already complex framework.

Therefore, we respectfully ask the Committee not to proceed with its proposal. At the very least, the Committee should consider waiting for the various regulatory changes to become fully effective before advancing further measures such as this proposed step-in risk framework. At that time, this proposal should assess the probability of step-in risk and the probability of credit or liquidity support that would be provided. Full or partial consolidation methods, as well as the application of conversion factors, are blunt solutions for a nuanced risk. Assessing the likelihood and extent of support would be consistent with the probability of default and loss given default methodology within the credit risk framework. From the industry's perspective any refined framework should have subsidiary character and focus specifically on such risks that have not already been addressed. Specifically, with regards to securitizations we ask the Committee to conduct an assessment of existing regulations to prevent overlapping or even contradictory initiatives. This is also true of asset management activities as governed by legal, regulatory and contractual requirements in various national jurisdictions.

Finally, we would also like to remind the Committee that economic activity in general and banking in particular is predicated on assessing and taking risk. While banks' risk management organizations and procedures were significantly improved in the aftermath of the financial crisis regulators should not aim to unduly infringe business operations but to contain negative external costs to society. Whereas we agree that potentially fatal risks need to be addressed, other types of risk need to be managed by banks and do not require the specific attention of regulators beyond the existing supervisory approach. We are convinced step-in risk is one of the latter.

On the following pages we will explain in detail how existing and regulatory reforms as well as changes to the accounting rules have significantly mitigated step-in risk:

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[11] *Fischer, Stanley*, Financial Stability and Shadow Banks: What We Don't Know Could Hurt Us, Washington, D.C., December 3, 2015, p. 11 (http://www.federalreserve.gov/newsevents/speech/fischer20151203a.htm).
[12] *Id*, p. 2.

Bank Structural Reforms

In the aftermath of the crisis many banks have streamlined their business models in order to adapt to the changed economic and regulatory environment. In order to reduce risk-weighted assets, to improve resolvability or to raise reserves many banks have streamlined their operations and divested from certain business lines. Beyond these specific actions, step-in risk has been – directly or indirectly – alleviated by bank structural reforms in various jurisdictions.

a) The Volcker Rule

In the ***United States***, the so called Volcker Rule was enacted as Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act" or "DFA") in 2010. The Volcker Rule explicitly prohibits banking entities from, among other restrictions, acquiring or retaining any equity, partnership, or other ownership interest in or sponsor hedge funds or private equity funds, as well as certain commodity pools, securitization vehicles, covered bonds, non-U.S. funds and structured products (collectively, "covered funds"), subject to limited exclusions and exemptions. In December 2013 the three federal banking agencies as well as the U.S. Securities and Exchange Commission ("SEC") and the Commodity Futures Trading Commission, approved a final rule[13] implementing the Volcker Rule.

The Volcker Rule's restrictions on acquiring or retaining an ownership interest in, or sponsoring covered funds, together with additional restrictions on transactions with certain covered funds, significantly limit the ability for banking entities to provide financial support to covered funds, and thus provide substantial mitigation against step-in risk with respect to such entities. Although a banking entity is permitted to sponsor a covered fund and own a *de minimis* amount of interests in a covered fund in connection with organizing and offering such a fund under the Volcker Rule's exemption for certain asset management activities, the banking entity and its affiliates are prohibited from guaranteeing, assuming or otherwise insuring the obligations or performance of the covered fund, and must provide related disclosure to investors. Furthermore, the Volcker Rule established additional restrictions on transactions between a covered fund and any banking entity – or any of its affiliates – that serves as sponsor, investment manager, investment adviser, or commodity trading advisor to, or acts in certain other capacities with respect to, that covered fund (or any covered fund controlled by such fund for U.S. bank regulatory purposes) (any such fund a "related covered fund"). These provisions are referred to as "Super 23A" and "Super 23B" because they incorporate by reference provisions in Sections 23A and 23B of the Federal Reserve Act. With limited exceptions, the Super 23A provision effectively bars a banking entity or any of its affiliates from purchasing assets from, extending credit to, or investing in, or entering into certain derivatives and other transactions that would cause the banking entity to have credit exposure to, a related covered fund.[14] The Super 23B provision requires all permissible transactions, including permissible prime brokerage transactions, between a banking entity or its affiliate and a related covered fund to be conducted at arm's length.[15] Taken together, the Volcker Rule's restrictions on a banking entity's investments in and relationship with covered funds significantly mitigate step-in risk.

The Volcker Rule also has broad extraterritorial implications as it does not only apply to U.S. banking entities but also to every non-U.S. bank or company that has U.S. banking operations (i.e., maintains a branch or agency in the United States, controls a commercial lending company organized in the United States or controls a depository institution insured by the Federal Deposit Insurance Corporation

[13] Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds; Final Rule, 71 FR 5536 (January 31, 2014).
[14] See 12 CFR § 248.14(a)
[15] See 12 CFR § 248.14(b)

("FDIC")), and any of its respective affiliates, wherever located in the world. As a result of this broad scope, the Volcker Rule covers nearly 150 top-tier foreign banking organizations headquartered in more than 50 countries outside the United States, and every one of their affiliates, wherever located. The Volcker Rule does include a limited exemption permitting foreign banking organizations to acquire or retain an ownership interest in, or sponsor, a covered fund if such activities are conducted "solely outside of the United States" (the "SOTUS" exemption). To make use of the SOTUS exemption the final rule requires that the banking entity acting as sponsor to or investing in the covered fund, the decision making entity (including its relevant staff), the accounting entity, and any financing entity is neither located in the United States nor organized under the laws of the United States or any of its States. Finally, the foreign banking entity seeking to rely on the SOTUS exemption must not participate in any offer or sale of covered fund interests to U.S. residents.[16] Accordingly, in practical terms, the Volcker Rule has not only mitigated the step-in risk between banks and covered funds in the United States, it has also substantially mitigated the step-in risk between international banks and covered funds outside the United States, given the broad extra-territorial reach of the final rule.

b) Bank Structural Reforms in the European Union and Other Jurisdictions

In the ***European Union***, the Commission's Proposal for bank structural reforms[17] is still under consideration. In general, the proposed Regulation provides that a credit institution and entities within the same group must not engage in proprietary trading in financial instruments and commodities. While in principle this prohibition could extend to all banks, it is proposed to apply the ban only to global systemically important institutions (G-SIIs). Banks subject to the proprietary trading prohibition shall also be prohibited from investing in or holding shares in hedge funds (or certificates/derivatives linked to these), or entities that engage in proprietary trading or sponsor hedge funds. However, and given their role in supporting the financing of the real economy, unleveraged and closed-ended funds – mainly private equity, venture capital and social entrepreneurship funds – are exempted from this prohibition.[18]

While European legislation is still pending, several member states like ***Belgium***[19], ***France***[20], ***Germany***[21], and most prominently the ***United Kingdom***[22] have stepped forward with comparable national legislation.

Further, also in other parts of the world banks are precluded by law from providing support to shadow banking entities by means of stepping in. For example, in ***Japan***[23] – as correctly described in the consultative document – banks are prohibited from making any offer, promise, or provide property benefit to a third party or customer with regard to the sale and purchase or other transactions of securities or derivative transactions in order to compensate for the whole or part of a loss incurred by the customer. Since the implementation of this framework almost three decades ago Japanese banks within their home jurisdiction have experienced no significant step-in event related to their financial products and instruments sold, sponsored, or originated.

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[16] See 12 CFR § 248.13(b)

[17] See *European Commission*, Proposal for a Regulation of the European Parliament and the Council on structural measures improving the resilience of EU credit institutions, 29.1.2014, COM(2014) 43 final (http://ec.europa.eu/transparency/regdoc/rep/1/2014/ EN/1-2014-43-EN-F1-1.Pdf).

[18] *Id*, pp. 7-8.

[19] See Loi relative au statut et au contrôle des établissements de crédit, 25 Avril 2014, Moniteur Belge, Vol. 184, 2nd ed. (7 Mai 2014), p. 36794.

[20] See Loi no 2013-672 du 26 juillet 2013 de séparation et de régulation des activités bancaires.

[21] See Gesetz zur Abschirmung von Risiken und zur Planung der Sanierung und Abwicklung von Kreditinstituten und Finanzgruppen vom 7. August 2013, BGBl I S. 3090 (12.8.2013).

[22] See Financial Services (Banking Reform) Act 2013, Chapter 33, 18th December 2013.

[23] See Japanese Financial Instruments and Exchange Act, Article 39.

Irrespective of traditional or newly introduced legislation around the globe we conclude that the Volcker Rule has effectively put an end to step-in risk with regards to hedge funds and private equity funds. Because of the broad extra-territorial reach of the Volcker Rule this conclusion does not only apply to banks chartered in the United States but also applies to many international banks with branches or subsidiaries in the United States. Complementing legislation in major European nations has further contributed to sever the ties between banks and certain funds and has thus effectively eliminated step-in risk in this important area.

Regulatory Reform and Shadow Banking – Revised Securitization Frameworks and Money Market Fund Reforms

In its consultative document the Committee mentions three prominent examples of cases in which credit or liquidity support was given: Securitization Conduits ("Conduits"), Structured Investment Vehicles ("SIVs") – a subcategory of Asset Backed Commercial Paper ("ABCP") Conduits –, and Money Market Funds ("MMFs"). All of these areas have been subject to specific regulatory reforms. As a result we believe any additional regulatory measures are not warranted and would be inappropriate.

a) Securitization Conduits

Conduits are financial intermediaries that specialize in the business of buying loans – such as residential mortgage loans, commercial loans or student loans – or other financial assets for the purpose of repackaging these assets into securities (asset backed securities – "ABS") and selling them to investors.[24] During the financial crisis, ABS holders suffered significant losses. The crisis revealed that many investors were not fully aware of the risks in the underlying assets within the securitization pools but had often relied on investment grade ratings by credit rating agencies. On the sell-side, many originators only had a limited interest in conducting a thorough risk assessment as the assets were earmarked to be sold from the very beginning ("originate-to-distribute" model). Further, as loan originators were compensated on the basis of volume rather than quality of underwriting, many were incentivized to originate and securitize as many loans as possible. Consequently, default risk was less important to these market participants originating and securitizing loans thereby creating a moral hazard problem.[25]

Against this backdrop the securitization business has been a major subject of regulatory reform. In particular, the requirement to keep "skin in the game" was intended to render the contentious originate-to-distribute model unviable. Accordingly, G20 leaders agreed during their summit in Pittsburgh in September 2009 that "(s)ecuritization sponsors or originators should retain a part of the risk of the underlying assets, thus encouraging them to act prudently."[26] This agreement is in process of being implemented into law in the jurisdictions of the G20. A recent "level one" peer review conducted by the International Organization of Securities Commissions ("IOSCO")[27] found significant but mixed progress in participating jurisdictions. However, the United States and the European Union – which have the largest securitization markets – were identified as most advanced in their implementation efforts:

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[24] See *Elmer, Peter J.*, Conduits: Their structure and Risk, FDIC Banking Review, Vol. 12 (1999), No. 3, pp. 27-40.
[25] See *SEC,* Commission Economic Analysis, 79 FR 77705-77740 (December 24, 2014).
[26] Leaders' Statement: The Pittsburgh Summit, September 24 – 25, 2009, p. 7 (No. 12) (https://www.treasury.gov/resource-center/international/g7-g20/Documents/pittsburgh_summit_leaders_statement_250909.pdf).
[27] See *IOSCO*, Peer Review of Implementation of Incentive Alignment Recommendations for Securitisation: Final Report, September 2015 (https://www.iosco.org/library/pubdocs/pdf/IOSCOPD504.pdf).

- In the *United States*, improvements to the asset-backed securitization process became the subject of Title IX of the Dodd-Frank Act. Most importantly, Section 941 DFA requires several U.S. agencies to prescribe rules to require that a securitizer retains an economic interest in a material portion of the credit risk for any asset that it transfers, sells, or conveys to a third party. On October 22, 2014, the U.S. agencies adopted final rules that implement the credit risk retention requirements mandated by Section 941.[28]

  Irrespective of these new legal requirements banks are unlikely to provide implicit support for many securitization transactions that utilize pass-through structures as investors have no expectation of receiving payments beyond those received from the underlying assets. As investors have no such expectation of payment, banks have little incentive to provide implicit support. This was evidenced during the financial crisis where no implicit support was provided by banks to Residential Mortgage Backed Securities ("RMBS") and Commercial Mortgage Backed Securities ("CMBS"). There was neither market nor investor expectation that banks would be responsible for paying any amounts independent of the principal and interest payments actually paid on the underlying mortgage loans.

  Furthermore, these pass-through structures do not permit the addition of loans or other assets to RMBS or CMBS transactions. These transactions are generally treated as Real Estate Mortgage Investment Conduits ("REMICs") for tax purposes, and as such, after a brief start-up period and with certain exceptions, a 100% tax would be levied on loan contributions to a REMIC after transaction closing. In addition, these transactions are generally not structured and documented in a way that permits the bank to infuse cash into the deals. Even if the bank wanted to, the trustee (which would be unaffiliated with the bank) would require a formal amendment to the transaction documents, which then would be explicit support for the transaction. Finally, under the REMIC rules, a loan held by the transaction vehicle can only be sold if it is repurchased for a breach of a customary representation or if the loan is in default or default is reasonably foreseeable. If such a loan is to be sold, the transaction documents would require the sale to be conducted by the servicer or special servicer following enumerated procedures specified in the transaction documents, including compliance with the servicing standards set forth in those documents. These structural and tax constraints further explain why these transactions were not supported by banks during the crisis.

- In the *European Union*, securitizations are now regulated pursuant to Chapter 5 of the Capital Requirement Regulation ("CRR")[29]. In order to align the interests of originators or sponsors on the one hand and investors on the other, the originator or sponsor are required to retain exposure to the risk of the loans in question.[30] With regards to potential step-in risk Article 248 CRR explicitly codifies restrictions on providing support to any securitization beyond existing contractual obligations with a view to reducing potential or actual losses to investors[31]. The European Banking Authority ("EBA") recently issued draft guidelines[32] to apply in relation to these restrictions.

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[28] See Credit Risk Retention, Final Rule, 79 FR 77740 (December 24, 2014); 12 CFR § 244.
[29] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, L 176/1 (27.6.2013) (http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0575&from=EN).
[30] *Id*, recital 57 (p. 176/8).
[31] "A sponsor institution, or an originator institution (…) shall not, with a view to reducing potential or actual losses to investors, provide support to the securitisation beyond its contractual obligations." *Id*, Article 248 No. 1.
[32] See *EBA*, Consultation Paper – Draft Guidelines on implicit support under Article 248(2) of Regulation (EU) No 575/2013, EBA/CP/2016/01 (20 January 2016) (https://www.eba.europa.eu/documents/10180/1340842/EBA-CP-2016-01+%28Consultation+Paper+on+Guidelines+on+implicit+support%29.pdf).

b) ABCP Conduits

ABCP Conduits generally purchase longer-term assets (ABS) financed by the issuance of shorter-term liabilities (ABCP). The liabilities are refinanced (”rolled”) at maturity and at regular intervals. ABCP Conduits thus try to capitalize on maturity transformation. The sponsor of the ABCP Conduit, usually a bank or another regulated financial institution, provides the ABCP Conduit with liquidity support. This arrangement typically requires the support provider to provide funding to, or purchase assets or ABCP from, the ABCP Conduit in the event that the vehicle cannot finance itself in the market. Traditional ABCP Conduits are equipped with liquidity support by highly rated financial institutions. The liquidity support amounts to at least 100 % of the program size.[33]

Many of the problems that occurred during the financial crisis can be attributed to SIVs, a special subset of ABCP Conduits, which were mentioned by the Committee as one of the prominent examples for “step-in”. As opposed to traditional ABCP Conduits, SIVs do not benefit from liquidity support by financial institutions. Instead, liquidity for investors is supposed to be generated primarily by selling the underlying assets. In the distressed market environment of the financial crisis SIVs were not only unable to roll their debt by issuing new ABCPs but also faced severe problems in liquidating their assets. As the proceeds turned out to be insufficient to repay all maturing debt SIVs experienced acute distress and exposed investors and the financial system to significant risks.[34] Basically, the lack of committed liquidity support from financial institutions turned out to be a fatal weakness of these structures. Targeted regulation has been designed to take on this problem:

- In the *United States*, ABCP Conduits have become subject to specific rules as required by Section 941 DFA. Under the final rule issued by U.S. agencies in October 2014[35], eligible ABCP Conduits may only purchase ABS in an initial issuance directly from the ”intermediate SPV” (securitization conduit). By limiting an eligible ABCP Conduit to holding ABS acquired in initial issuances, the U.S. agencies expect the sponsor to be in a better position to potentially influence the terms of the deal and have an effect on the quality of assets underlying the ABS as opposed to ABS acquired in the secondary market. Furthermore, the eligible ABCP Conduit has to enter into a legally binding commitment with a regulated liquidity provider to provide 100 % liquidity coverage in case the conduit is unable for any reason to repay maturing ABCPs.[36] The liquidity provider would have to capitalize any such commitment according to the existing Basel III capital framework.

- In the *European Union*, “simple, transparent and standardised ABCP Securitisations” are part of the recently proposed Securitization Regulation[37] that will apply to all securitizations and will include due diligence, risk retention and transparency rules together with the criteria for Simple, Transparent and Standardised (“STS”) Securitizations. This initiative draws upon criteria for simple, transparent and comparable securitizations which were developed by the Committee in collaboration with IOSCO and published in July 2015.[38] Article 4 of the proposed Regulation mandates the originator, sponsor or the original lender of a securitization to retain on an ongoing basis a material net economic interest in the securitization of not less than 5 %. According to draft Article 13 the sponsor of the ABCP pro-

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[33] For a comprehensive description of a typical ABCP Conduit transaction see *SEC*, *supra* (note 25), p. 77715.
[34] See *Department of the Treasury et al.*, Credit Risk Retention, 79 FR 77602 (December 24, 2014), p. 77636.
[35] See *supra* (note 28).
[36] See 12 CFR §244.6(a)(2)(v)(A) and 12 CFR §244.6(a)(4).
[37] See *supra* (note 5).
[38] See *BCBS / IOSCO*, Criteria for identifying simple, transparent and comparable securitisations, July 2015 (http://www.bis.org/bcbs/publ/d332.pdf).

gramme shall be a supervised credit institution. The sponsor shall act as liquidity facility provider and cover all liquidity risks.

Recognizing the steps taken in this area to minimize risks presented by SIV structures pre-crisis, Vice Chairman *Fischer* has recently observed that "the ability of banks to provide support to structured investment vehicles has been substantially curtailed through both restrictions on the accounting treatment of formerly off-balance-sheet exposures and more stringent capital requirements, including the supplementary leverage ratio applying to on-balance-sheet assets and off-balance-sheet exposures."[39] He was joined by Governor *Daniel Tarullo* who concluded that "(c)hanges in capital, accounting, and other regulatory standards make these arrangements very unlikely to reappear."[40] Against this backdrop we do not see any justification for specific step-in risk provisions in this area.

In general, it should be recognized that the market for securitizations has changed dramatically – both in size and in riskiness. For the United States, Vice Chairman *Fischer* recently observed that the collapse in the market for RMBS has caused the volume of securitizations to fall far below mid-2000s levels. Risks to financial stability have decreased even further as the market is no longer reliant on short-term wholesale funding through vehicles such as ABCP programs.[41] As the market has dramatically contracted and the most vulnerable structures have in fact disappeared, policymakers now strive to restart high quality securitization markets – while evading the mistakes made before the 2008 financial crisis – with the aim to support the priority policy objective to create jobs and return to sustainable growth.[42] The Committee's step-in proposal would severely and negatively affect this market which the public sector – and the Committee itself – actually wants to revitalize.

c) *Money Market Funds*

MMFs are open-ended mutual funds that invest in high-quality short-term debt – such as sovereign bonds, commercial paper, certificates of deposit, and repurchase agreements ("repos"). Typically, MMFs are redeemable on demand. In the lead-up to the financial crisis MMFs came to play a central role in the financial system. Institutional cash managers and other investors relied on MMFs to place easily redeemable funds, and borrowers relied on them as a source of short-term liquidity. In the crisis it turned out to be problematic that MMFs in the US and several other countries aimed to maintain a constant net asset value ("NAV") of $1 per share. While, in theory, all the credit risk was passed on to investors, the reputational risk from falling below the $1 NAV – known as "breaking the buck" – created an incentive for sponsors of MMFs to intervene to support them even when located in legally separate structures and absent any formal requirement to do so.[43] Because of this systemic interconnectedness of MMFs with the banking sector and with corporations and sovereigns, their operation has been at the core of international work on shadow banking. According to another recent "level one" peer review conducted by IOSCO[44] the participating jurisdictions have made progress in implementing reforms across the industry. However, implementation progress varies between jurisdictions and reform areas:

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[39] *Fischer*, *supra* (note 11), p. 6.
[40] *Tarullo, Daniel K.*, Thinking Critically about Nonbank Financial Intermediation, Washington, D.C., November 17, 2015, p. 1 (http://www.federalreserve.gov/newsevents/speech/tarullo20151117a.htm).
[41] See *Fischer*, *supra* (note 11), p. 5.
[42] See *European Commission*, *supra* (note 5), p. 19 (recital 2).
[43] See *IIF*, "Shadow Banking": A Forward Looking Framework for Effective Policy, June 2012, p. 25 (https://www.iif.com/publication/regulatory-report/iif-calls-new-approach-shadow-banking-debate).
[44] See *IOSCO*, Peer Review of Regulation of Money Market Funds: Final Report, September 2015 (https://www.iosco.org/library/pubdocs/pdf/IOSCOPD502.pdf).

- With regards to the *United States*, we commend the Committee for mentioning the SEC's sweeping reforms established in 2014.[45] These reforms aim to address the fundamental problems described above. The new rules now require a floating NAV for institutional prime MMFs. As a result, the daily share prices of these funds will fluctuate along with changes in the market-based value of fund assets thus eliminating any potential "first mover-advantage" and the potential risk of a "run on the fund". Furthermore, the new rules provide the boards of all MMFs with the option to impose liquidity fees and redemption gates during periods of stress. The final rules also include enhanced diversification, disclosure and stress testing requirements, as well as updated reporting by MMFs and private funds that operate like MMFs. In general, the framework is designed to ensure that a MMF is able to fulfil its obligations to investors at all times. In achieving this goal the framework also effectively eliminates the need for a potential step-in by a third party.

  While government and retail MMFs can maintain the stable NAV, we concur with the Committee that "historical data suggests that retail investors are less likely to withdraw *en masse* from a MMF during a stress scenario and hence require support." The SEC's recently Proposed Rule[46] is designed to promote effective liquidity risk management throughout the open-end fund industry, thereby further reducing the risk that funds will be unable to meet redemption obligations.

  As a result, the various new rules will significantly increase the resilience of MMFs, reduce the incentives for investors to withdraw in a crisis and thus substantially limit the potential for any step-in.[47]

- In the *European Union*, the European Commission proposed a regulation on MMFs in 2013.[48] In order to strengthen the funds' liquidity management MMFs would be required to have at least 10% of their portfolio in assets that mature within a day and another 20% that mature within a week. In order to avoid the situation that a single issuer bears undue weight in the NAV of an MMF, exposure to a single issuer would be capped at 5% of the MMF's portfolio. To take account of the constant NAV, the new rules would require this type of MMF to establish a predefined capital buffer. This buffer would be activated to support stable redemptions in times of decreasing value of the MMFs investment assets. Furthermore, MMFs with a floating NAV shall not be allowed to receive external support, except under "exceptional circumstances", i.e. a systemic crisis, and only if the provider of the external support is financially sound and has sufficient financial resources to withstand possible losses resulting from the external support granted.[49]

  While this proposal is still pending we would like to highlight its specific intention to address "MMF's propensity to require sponsor support to stabilise redemptions at par"[50] – i.e. step-in risk – as well as the Commission's intention to introduce capital buffers as a remedy. This would overlap with the Committee's plan to require additional capital at the MMF's sponsor and thus lead to a double-coverage with capital.

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[45] See Money Market Fund Reform; Amendments to Form PF, Investment Company Act Release No. 31166, July 23, 2014 (79 FR 47735 – August 14, 2014).

[46] See Open-End Fund Liquidity Risk Management Programs; Swing Pricing; Re-Opening of Comment Period for Investment Company Reporting Modernization Release (80 FR 62274 – October 15, 2015).

[47] "Several steps have been taken to reduce shadow banking risks, including (…) reforms designed to lower the incentives of investors to run on money market funds"; *Fischer*, *supra* (note 11), p. 1.

[48] See *European Commission*, Proposal for a Regulation of the European Parliament and of the Council on Money Market Funds, Brussels, 4.9.2013, COM(2013) 615 final.

[49] *Id*, draft Article 35 and draft Article 36.

[50] *European Commission*, Press Release - Commission's roadmap for tackling the risks inherent in shadow banking, September 4, 2013, p. 2 (http://europa.eu/rapid/press-release_IP-13-812_en.htm?locale=FR).

Regulatory reform in this important field has received a lot of attention but has not been finished everywhere. Against this background we strongly encourage the Financial Stability Board ("FSB") and regulators worldwide to complete their work on this important task. However, any new regulatory proposals like the Committee's work on step-in risk should recognize, and coordinate with other initiatives already in train.

We conclude that the most substantial parts of the shadow banking sectors – as they are mentioned in the Committee's consultation document – have already been covered by targeted regulation or are subject to proposed regulation. Against this backdrop we deem any additional initiative in this regard as not justified.

Conduct

The various product-based and targeted reforms discussed above have been accompanied and supported by conduct-related regulation. These rules are generally aimed at fostering the best interest of clients, to avoid risk of misselling, and to reduce reputational risk. Particularly in the ***European Union***, revised conduct rules already largely address the issues raised by the Committee's consultation document.

Strict conduct rules form an important part of recent European reform efforts, particularly the recast Markets in Financial Instruments Directive ("MiFID") [51] and the new Markets in Financial Instruments Regulation ("MiFIR")[52]. These legislative measures are collectively referred to as MiFID II and are at the heart of the European Union's response to the financial crisis, endorsed by the European Parliament and the Council of Ministers in 2014. Although the European Commission has recently proposed to delay implementation by an additional year until January 2018, all member states have to comply with the new rules by transposing MiFID II into national law by July 3, 2016.

MiFID II builds on original MiFID rules by requiring Member States to ensure that investment firms generally act in accordance with the best interests of their clients.[53] Investment firms have to understand the features of the financial instruments they offer or recommend to clients and to establish effective internal policies to identify the category of clients to whom certain products and services are to be provided. Depending on the investment services offered, firms have to assess the suitability or appropriateness of their services to each client on the basis of their personal needs, characteristics and objectives.[54] Clients have to be provided with fair and clear information that cannot be misleading.

Furthermore, MiFID II establishes stringent product governance rules for investment product manufacturers and distributors. In its technical advice, which specifies certain general provisions in MiFID II, the European Securities Markets Authority ("ESMA") defines manufacturers broadly as firms that create, develop, issue and/or design investment products, i.e. financial instruments or structured deposits.[55] Distributors are investment firms that offer and/or recommend investment products or services to clients.

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[51] See Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast), L 173 / 349 (12.6.2014).
[52] See Regulation (EU) 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012, L 173/84 (12.6.2014).
[53] See MiFID (recast), Article 24.
[54] See MiFID (recast), Article 25.
[55] See *ESMA*, Final Report - ESMA's technical Advice to the Commission on MiFID II and MiFIR, p. 51, (http://www.esma.europa.eu/system/files/2014-1569_final_report__esmas_technical_advice_to_the_ commission_on_ mifid_ii_and_mifir.pdf.).

Under Articles 16 (3) and 24 of the recast directive, product manufacturers will be required to maintain a product approval process. They must identify the target market for each product and ensure that all relevant risks to that target market are assessed and that the intended distribution strategy is consistent with the identified market. Manufacturers must also ensure products meet the needs of their identified target market and must take reasonable steps to make certain that the products are being distributed to that target market. Distributors must ensure that they understand the features of those products, including the identified target market. The target market and performance of products should be subject to periodic review.

Finally, one of MiFID II's major goals is to curb the provision of dealing commissions and other types of third-party benefits. Under the new directive, portfolio managers and independent investment advisers cannot accept and retain fees, commissions or any monetary or non-monetary benefits paid by a third party.[56] They will only be able to accept and retain minor, non-material benefits (subject to certain criteria, including disclosure). The acceptance and retention of any third-party benefit above that threshold constitutes an illegal inducement.

Once all these stringent new conduct rules have been fully implemented, they will serve as an additional safeguard to limit reputational risk from misselling investment products and thus also curtail any need and incentive for banks to financially support off-balance sheet entities in the interest of clients. In the ***United States*** similar reforms are under consideration.[57] In ***Japan***, the Japanese Financial Services Agency ("JFSA") issued a statement about its strategic directions and priorities including those for monitoring activities[58]. The JFSA will focus on the implementation of fiduciary duties by securities dealers and other financial institutions to make sure they put customers' interests first. Furthermore, asset managers and institutional investors will be encouraged to enhance their skills and capabilities.

Accounting

The Committee correctly alludes on IFRS 10 and how it is designed to address reputational risk. Indeed, reputational risk is one of the factors that has to be considered along with other facts and circumstances when assessing control. It is, however, not an indicator of power in its own right.[59] This approach was a deliberate decision by the IFRS Board. We do not see any compelling justification for the Committee to supersede the IFRS Board at this juncture and to impose consolidation requirements for banks that exist in no other industry. For example, the Committee's arguments for consolidation could also be employed to urge an automotive manufacturer to consolidate a vital supplier that it might support in a crisis.

We agree with the Committee that "the reforms undertaken appear adequately set out and the accounting frameworks are harmonized in principle". We also concur "they *might not* be sufficient to bring *all enti-*

[56] See MiFID (recast), Article 24 (7).
[57] A SEC staff report pursuant to Section 931 DFA recommended establishing a uniform fiduciary standard for investment advisers and broker-dealers when providing investment advice about securities to retail customers that is consistent with the standard that currently applies to investment advisers; see SEC Staff Report, Study on Investment Advisers and Broker-Dealers, January 2011 (https://www.sec.gov/news/studies/2011/913studyfinal.pdf).
[58] See *JFSA*, Summary Points from Strategic Directions and Priorities 2015-2016, September 2015, p. 4 (http://www.fsa.go.jp/en/news/2015/20151019-2/01.pdf).
[59] "(…) when assessing control, reputational risk is a factor to consider along with other facts and circumstances. It is not an indicator of power in its own right, but may increase an investor's incentive to secure rights that give the investor power over an investee." *IFRS*, Basis for Conclusions on IFRS 10 - Consolidated Financial Statements And Amendments to Guidance (BC 39) (http://www.efrag.org/files/EFRAG%20public%20letters/Consolidation/IFRS%2010%20Basis%20for%20Conclusions.pdf).

ties and risks adequately under control" (emphasis added). If the problem is perceived to be serious enough the Committee should work with the IFRS Board to change the accounting rules accordingly.

Irrespective of the international standards and with regards to securitizations we note that in the United States, by far the world's largest securitization market, accounting consolidation standards were amended in the aftermath of the recent financial crisis[60]. These amendments significantly limited the type of structures that can be held off-balance sheet. Furthermore, regulatory capital treatment was generally aligned with this revised accounting treatment. Accordingly, many ABCP conduits and other types of vehicles that were once recipients of off-balance sheet treatment are now consolidated on banks' balance sheets. While the Committee's proposal considers control and influence to be critical factors in determining whether or not step-in risk exists current U.S. accounting and regulatory consolidation standards not only require a similar analysis of control and influence but also mandate an ongoing review of a bank's relationship to the respective vehicle to ensure that changes in the relationship have not occurred as to require consolidation of that entity, as well as a consideration of implicit support.[61]

The Basel Reform Framework

a) Liquidity Coverage Ratio

We commend the Committee for citing the *Liquidity Coverage Ratio ("LCR")*.[62] In general, the LCR requires banks having structured financing facilities that include the issuance of short-term debt instruments, such as asset backed commercial paper, to fully recognize the concomitant liquidity risks. These risks include the inability to refinance maturing debt and the existence of contractual obligations that would allow the "return" of assets, or that require the original asset transferor to provide liquidity, effectively ending the financing arrangement ("liquidity puts")[63]. Furthermore, the framework explicitly aims to identify and to cover liquidity risks originating in non-contractual contingent funding obligations that may arise under stressed market conditions and may be embedded in financial products and instruments sold, sponsored, or originated by a financial institution and can give rise to unplanned balance sheet growth arising from support given for reputational risk considerations.[64]

We are concerned that the Committee correctly acknowledges this provision but does not provide any reasoning why it deems this rule – which in our view covers the potential liquidity risks associated with providing support for reputational risk considerations – as not sufficiently addressing "step-in risk". Fur-

[60] See *Financial Accounting Standards Board*, Consolidation (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, December 2009 (http://www.fasb.org/cs/BlobServer?blobcol =urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175820006385&blobheader=application/pdf).
[61] *Id*, 810-10-25-38A, 810-10-25-38F, 810-10-25-38G, 810-10-35-4.
[62] *BCBS* - Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools, January 2013 (BCBS 238) (http://www.bis.org/publ/bcbs238.pdf).
[63] *Id*, at 125.
[64] *Id*, at 135 "These contingent funding obligations may be either contractual or non-contractual and are not lending commitments. Non-contractual contingent funding obligations include associations with, or sponsorship of, products sold or services provided that may require the support or extension of funds in the future under stressed conditions. Non-contractual obligations may be embedded in financial products and instruments sold, sponsored, or originated by the institution that can give rise to unplanned balance sheet growth arising from support given for *reputational risk considerations*. These include products and instruments for which the customer or holder has specific expectations regarding the liquidity and marketability of the product or instrument and for which failure to satisfy customer expectations in a commercially reasonable manner would likely cause *material reputational damage* to the institution or otherwise impair ongoing viability." (emphasis added).

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thermore, it has to be stressed that the LCR standard establishes a minimum level of liquidity for internationally active banks. National authorities may require higher minimum levels of liquidity to capture specific market conditions or all periods of stress. Supervisors are free to require additional levels of liquidity to be held, if they deem the LCR does not adequately reflect the liquidity risks that their banks face.[65]Even if one would assume that the very specific wording of the LCR does not sufficiently cover step-in risk in all its potential occurrences the discretion of supervisors would be suited to provide sufficient remedy.

b) Capital Requirements and Large Exposures Framework

"Implicit support", defined as "support to a securitisation in excess of predetermined contractual obligation(s)" [66] became part of the Basel capital framework in June 2006. As a basic rule, the framework requires a bank that provides implicit support to a securitization, to hold capital against all of the exposures associated with the securitization transaction as if they had not been securitized.[67]

Furthermore, and in order to discourage banks from providing implicit support the framework also mandates sanctions in case a bank has indeed extended such support to a securitization. In such case, the bank will be required to hold capital against all of the underlying exposures associated with the structure as if they had not been securitized. The bank will also be required to disclose publicly that it was found to have provided non-contractual support, as well as the resulting increase in the capital charge.[68] If a bank is found to have provided implicit support on more than one occasion, the bank will be required to disclose its transgression publicly. National supervisors will take appropriate action that may include the requirement to hold capital against all securitized assets.[69] Any sanctions will be aimed at changing the bank's behavior and to correct market perception as to the willingness of the bank to provide future support beyond contractual obligations.[70]

This "implicit support" concept was refined in the aftermath of the recent financial crisis to extend beyond securitizations. "Reputational risk and implicit support" became part of the "Supplemental Pillar 2 Guidance" within the *Enhancements to the Basel II framework* [71]. As a result and as the Committee correctly observes, its own framework already explicitly and comprehensively covers reputational risk. The framework obliges banks to "identify potential sources of reputational risk to which it is exposed"[72] and explicitly mentions reputational risk arising from "a bank's sponsorship of securitisation structures such as ABCP conduits and SIVs, as well as from the sale of credit exposures to securitisation trusts. It may also arise from a bank's involvement in asset or funds management, particularly when financial instruments are issued by owned or sponsored entities and are distributed to the customers of the sponsoring bank. (…) Reputational risk also arises when a bank sponsors activities such as money market mutual funds, in-house hedge funds and real estate investment trusts (REITs). In these cases, a bank may decide to support the value of shares/units held by investors even though is not contractually required to provide the support."[73]

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[65] *Id*, at 6.
[66] See *BCBS*, International Convergence of Capital Measurement and Capital Standards - A Revised Framework, Comprehensive Version, June 2006 (BCBS 128), No. 551 (p. 122) (http://www.bis.org/publ/bcbs128.pdf).
[67] *Id*, No. 564 (p. 126).
[68] *Id*, No. 792 (p. 221).
[69] *Id*, No. 793 (p. 221).
[70] *Id*, No. 794 (p. 222).
[71] *BCBS*, Enhancements to the Basel II framework, July 2009 (BCBS 157) (http://www.bis.org/publ/bcbs157.pdf#page=5&zoom=auto,-96,321).
[72] *Id*, at 48 (p. 19).
[73] *Id*, at 50 (p. 19).

In the United States this framework was implemented in 2013[74] in accordance with longstanding inter-agency guidance on the treatment of implicit support. In the European Union the evaluation of implicit support is now part of the Supervisory Review and Evaluation Process ("SREP") pursuant to Section III of the "CRD IV"[75]. The latter is supported by guidelines provided by the EBA which, inter alia, specifically mandate competent authorities to assess whether at the consolidated level group risk management covers all material risks including entities not subject to consolidation (SPVs, SPEs).[76]

Reputational risks and any concomitant step-in risks are thus already covered by the Committee's Pillar 2 approach, have been identified by the comprehensive internal capital adequacy assessment process (ICAAP) and have been covered by an appropriate level of additional capital for isolated cases based on detailed supervisory assessment. Pillar 2 – correctly applied – guarantees that "all risks of a bank – both on- and off-balance sheet – are adequately covered, particularly those related to complex capital market activities."[77]

In April 2014, the Committee's risk-based capital standard was further strengthened by its large exposures framework.[78] This framework is designed to complement the capital standard as the latter is not suited to protect banks from large losses resulting from the sudden default of a single counterparty. Therefore, the capital standards were supplemented with a large exposures framework to protect banks from traumatic losses caused by the sudden default of an individual counterparty or group of connected counterparties. Specifically, the Committee sees this framework "as a useful tool to contribute to strengthening the oversight and regulation of the shadow banking system in relation to large exposures. In particular, this is the case for the proposals for the treatment of exposures to funds, securitisation structures and collective investment undertakings (CIU)."[79] The framework thus requires banks to apply a look-through approach and to assess possible additional risks that do not relate to the structure's underlying assets, but rather to the structure's specific features and to any third parties linked to the structure. In the European Union this framework will be further strengthened by specific guidelines on exposure limits to shadow banking entities which will become effective in January 2017.[80]

As a conclusion to this section we deem the regulatory framework as it stands as comprehensive and robust enough to reflect and contain any residual step-in risk, and would argue that supervisors already have the power to require banks to hold more capital against a particular exposure, if they deem that as warranted in a specific instance.

[74] See Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule; Final Rule, 78 FR 62018 (October 11, 2013); 12 CFR 217.42(e).

[75] See Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, L 176/338 (27.6.2013).

[76] See *EBA*, Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP), December 19, 2014, No 110e (p. 54) (https://www.eba.europa.eu/documents/10180/935249/EBA-GL-2014-13+%28Guidelines+on+SREP+methodologies+and+processes%29.pdf).

[77] *BCBS, supra* (note 71), at 5 (p. 10)

[78] See *BCBS,* Supervisory framework for measuring and controlling large exposures, April 2014 (BCBS 283) (http://www.bis.org/publ/bcbs283.pdf).

[79] *Id*, No. 6 (p. 2).

[80] See *EBA*, Guidelines - Limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework under Article 395(2) of Regulation (EU) No 575/2013, December 14, 2015 (https://www.eba.europa.eu/documents/10180/1310259/EBA-GL-2015-20+GL+on+Limits+to+Exposures+to+Shadow+Banking+Entities.pdf).

Notwithstanding the fact that we deem the proposed framework as inappropriate we nevertheless provide answers to the Committee's specific questions in the Appendix.

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Conclusion:

"When it comes to financial stability, what you do not know really can hurt you – and there remains a good bit we do not know."[81]

The industry is convinced that step-in risk – as part of the now known risks that became evident during the recent financial crisis – has sufficiently been addressed by targeted regulation. Against this backdrop, we do not join the Committee in its view that step-in risk still raises the need for a prudential approach. If the Committee should not concur with our assessment we suggest to at least postpone this initiative. Before any additional prudential measures can be seriously discussed the Committee should consider waiting for the various rules and regulations mentioned above to be fully implemented and to have become fully effective.

Every action to address a perceived risk and every solution – assuming a risk is found to exist – must carefully account for the costs and benefits and strike the right balance. This will take a great deal of additional analytical work. It must be done thoughtfully and empirically in order to produce the desired result: a resilient efficient financial system that promotes economic growth.

Finally, – and taking up the point made by Vice Chairman *Fischer* – we would like to express our concern that the Committee's approach on step-in risk ignores potential new risks to financial stability that could originate from isolating shadow banking entities from prudentially regulated banks – while the interconnections between shadow banks and the rest of the financial sector remain in place. In fact, the ties between prudentially regulated banks and shadow banks have been severed to such an extent that it is highly unlikely for banks to provide uncommitted liquidity support to a failing entity from the shadow banking sector. Most probably, the banking industry will not come to the rescue of another Long Term Capital Management Fund ("LTCM").[82] The Committee's proposal would further aggravate this situation. Banks could hesitate to provide financial support to a client in difficulty, out of concern that this could be perceived as a step-in for reputational purposes. In general, the proposed framework creates incentives for a pro-cyclical avoidance of providing financing to clients in a cyclical downturn.

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[81] *Fischer*, *supra* (note 11), p. 7.

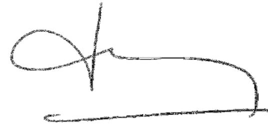
[82] On September 23, 1998, LTCM was rescued by a consortium of 14 banks. These banks invested about $3.6 billion in new equity in the fund, and in return received a 90 percent equity stake in LTCM's portfolio along with operational control. For a full description of this event see *The President's Working Group on Financial Markets*, Hedge Funds, Leverage, and the Lessons of Long-Term Capital Management, April 1999 (https://www.treasury.gov/ resource-center/fin-mkts/Documents/hedgfund.pdf).

While uncommitted liquidity support from the private sector has become increasingly unlikely, central banks in their traditional role as lenders of last resort come to play an even more important role. However, the emergency lending capabilities of central banks have also been constrained by new legislation.[83] Thus, it seems increasingly questionable how a liquidity crisis in the shadow banking sector can be contained and how potential broader repercussions for financial stability can be prevented.

We hope these comments are useful as the Committee considers the way forward in this area. Given the complexity of these issues, we believe direct dialogue with the industry is essential and we would welcome the Committee's willingness to engage in that dialogue. Against this backdrop, we highly appreciate the opportunity to discuss our response letter with members of the Committee in the near future. The IIF and its Shadow Banking Advisory Group stand ready to provide additional views or clarifications.

Should you have any questions on the issues raised in this letter, please contact Martin Boer (mboer@iif.com), or Thilo Schweizer (tschweizer@iif.com).

Very truly yours,



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[83] In the United States, the emergency lending authorities provided under section 13 (3) of the Federal Reserve Act were curtailed by section 1101 DFA. Only recently, the Federal Reserve Board adopted Regulation A to implement the new provisions required by statute. This regulation became effective January 1, 2016. See 12 CFR § 201.4(d); 80 FR 78959 (December 18, 2015).

APPENDIX:

Q1. What are commenters' views on the four overarching principles? Are there any others that should be included?

In general, we reiterate our call that any new regulation should fit into the existing framework. Furthermore, any additional regulatory burden should be as limited as possible and focused on specific concerns.

The Principles should contain clear definitions to set the scope of the framework. From reading the framework it is not entirely clear what the scope should be (e.g. uses the term "bank-like activities" without providing a definition). The scope should be defined along the existing regulatory scope of consolidation or be aligned with the "shadow banking system" scope per the FSB.

Principle 1: "The framework should anticipate the situation after a step-in"

We do not believe banks should be subject to preemptive capital charges for actions they may or may not take. It should be observed that step in is voluntary and is provided on a non-contractual basis given the facts and circumstances in an emergency situation that – by its very nature – is hard to predict. Applying this proposed concept on the basis of a highly speculative ex-post basis will extend the scope far beyond any realistic dimensions and will be highly inconsistent with basic accounting rules. The proposal is not suited to solve perceived ambiguities in the accounting rules but will lead to a further disconnect of consolidation rules for accounting from regulatory purposes. From the industry's perspective this is not desirable.

We think the current regulatory framework contains sufficient incentives to discourage banks from providing implicit support. As we have explained above, the current framework mandates specific sanctions in case a bank has indeed extended such support to a securitization. In such case, the bank will be required to hold capital against all of the underlying exposures associated with the structure as if they had not been securitized. It will also be required to disclose publicly that it was found to have provided non-contractual support, as well as the resulting increase in the capital charge. If a bank is found to have provided implicit support on more than one occasion, the bank will be required to disclose its transgression publicly. National supervisors will take appropriate action that may include the requirement to hold capital against all securitized assets. Any sanctions will be aimed at changing the bank's behavior and to correct market perception as to the willingness of the bank to provide future support beyond contractual obligations.

Principle 2: "The framework should be simple and should foster consistent implementation"

While we generally agree with this goal we warn against over-simplification. In general, it has to be considered that shadow-banking activities in size and characteristics differ significantly around the globe. In particular, potential implied support to shadow banking entities varies significantly based on the specific contractual terms, the requirements of local law and the business relationships between the parties involved. Consequently, it cannot be identified without a thorough and holistic review and does not fit into a simple and consistent one-size-fits-all approach.

The industry appreciates the work and the progress made by regulators around the globe to mitigate potential shadow banking risk. Further steps, if required, should be taken in this context by each regulator

based on the specific facts and circumstances in the respective market and under the auspices of the existing Pillar 2 capital framework.

In our view, the Committee's proposal heads into the wrong direction. As the scope of the proposed rule is quite unclear there is a plethora of opportunities for interpretation and judgment by both banks and regulators that will likely lead to inconsistent treatment of similar potential exposures. In particular, the proposed primary indicators are poorly defined or entirely undefined. Banks' application of these indicators will necessarily be inconsistent and varied, and multiple entities could capture and capitalize for the same risks. Multiple banks may be forced to hold capital on their relationships to the same unconsolidated entities, for example, in a joint venture scenario. The range of banks' step-in risk assessments are likely to directly undermine the Committee's stated objectives of simplicity and comparability across banks' risk weighted assets.

Principle 3: "The framework should be conservative, risk-sensitive and proportional"

This principle contains laudable goals and indicates the rules should not be disproportionate or risk-insensitive; however, we believe this principle was completely neglected in the drafting of the framework. As drafted, the framework is not at all sensitive or proportional to the reputational risk it aims to capture, given it assumes "significant step-in risk exists" with the mere presence of any one of the indictors. This presumption, without consideration of bank, counterparty and market expectations of the probability and potential size of step-in risk vastly overestimates potential exposure. To our knowledge, step-in events were singular in the recent financial crisis and had no or only marginal financial or economic impact on the institutions that provided support. In order to justify any specific proposal addressing step-in risk the Committee should thoroughly analyze past events and their economic consequences. Furthermore, the Committee should provide concrete evidence which products and activities may still give rise to step-in, assess the probability with which such a step-in may finally occur, how this may affect the financial and economic situation of an institution that provides support and finally an explanation why the various specific provisions in the existing framework are deemed inappropriate or insufficient to cover step-in risk.

In particular, the lack of risk-sensitivity and proportionality becomes evident in the treatment of asset management. When discussing Assets under Management ("AUM") the framework focuses solely on size as a measure of risk and does not consider the varying risk characteristics of investment products, asset classes, and management styles. Not only does this ignore the fundamentals of the asset management business but also the risk-sensitive nature of the Basel framework. For example, the Committee's framework does not accommodate passively managed funds, such as index funds, which are designed to track the performance of a given market segment and which play an increasing role in these market segments.

Principle 4: "The framework should be readily operational"

Given the lack of clarity in the proposal, we believe much work must be done to clarify and narrow the intended scope of the proposal before it could be implemented by banks in practice. Banks are already struggling with the challenges in responding to the QIS.

Should the Committee decide to continue its work on this framework the proposal should not only focus on the step-in risk indicators but should also include criteria for how an entity can demonstrate there is no step-in risk. The consultative document references this but does not provide details. For example, the proposal should specify that explicit contractual clauses (e.g. in a fund prospectus) which state that the financial institution does not provide any form of guarantee of the performance of the fund would be an effective means to rebut the perception of a risk to step-in.

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Q2. What are commenters' views on the proposed indicators for step-in risk? Are there any additional ones that the Committee should consider?

We refer to our comments to Principle 2.

We perceive the framework as overly broad and ill-suited to recognize the specific characteristics of the various products and activities in the shadow banking sector. In particular, potential implied support to shadow banking entities varies significantly based on the specific contractual terms, the requirements of local law and the business relationships between the parties involved. Consequently, it cannot be identified without a thorough and holistic review and does not fit into a simple and consistent one-size-fits-all approach. Further steps, if required, should be taken in this context by each regulator based on the specific facts and circumstances in the respective market and under the auspices of the existing Pillar 2 capital framework.

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Q3. What are commenters' views on the proposed secondary indicators for step-in risk? Are there any additional ones that the Committee should consider? Should any of them be considered as primary indicators?

Considering the complexity of shadow banking in general and step-in risk in particular a uniform set of indicators seems inappropriate. Identifying step in-risk will require a thorough analysis and an on-going dialogue between each bank and its supervisors based on the banks' evolving business environment.

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Q4. What are commenters' views on the different potential step-in risk assessment approaches? Are there any other approaches that the Committee should consider to account for step-in risks?

The distinct treatment of full consolidation vs. conversion approach overcomplicates things and is at odds with Principle 4. Regulatory consolidation should be based on accounting consolidation, i.e. along "control".

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Q5. What are commenters' views on the proposed mapping between the primary indicators and the potential approaches?

From the industry's perspective the proposed mapping of indicators against suggested approaches is inappropriate to capture the diversity of the shadow banking sector and to find balanced and targeted solutions. We reiterate that a one-size-fits-all approach is not appropriate to identify, measure and address step-in risk. Please also see our comments on Principle 3, above.

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Q6. What are commenters' views on proportionate consolidation for joint-ventures?

As mentioned above (see our comment on Principle 3) we believe this will lead to multiple banks capitalizing the same exposures, given multiple indicators could lead to the scoping in of a joint-venture.

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Q7. What are commenters' views on risks stemming from banks' relationships with asset management activities and funds and the appropriateness of the direction envisaged?

As a general observation, requiring banks to hold capital against step-in risk creates market expectations of support, resulting in "moral hazard" and distorted competitive dynamics among asset managers. Where a bank organizes, manages or advises a fund or other unconsolidated vehicle and has no obligation to provide financial support to that vehicle, investors should not expect the bank to provide such support. Requiring banks to hold capital against potential exposures to such vehicles may create an expectation that banks have the willingness and ability to step in and thus creates moral hazard – expecting downside protection, investors will delink pricing decisions from risk fundamentals and performance. Moreover, the existence of such an expectation may pressure banks to step in where they otherwise would not and, perversely, may reinforce market expectations of loss protection by banks.

The Committee's proposal would run counter to important steps national regulators have taken to strengthen and broaden rules that restrict the ability of a bank to provide financial support to investment funds and other unconsolidated vehicles. By requiring a bank to hold capital against step-in risk, the proposal would encourage the perception that there is an implicit guarantee from the bank with respect to the performance and obligations of funds with relationships to bank-affiliated asset managers. Consequently, the requirement for banks to hold capital against perceived step-in risk may serve as an implicit subsidy to bank-affiliated asset managers, distorting competitive dynamics between asset managers affiliated with banks and standalone asset managers.

In the industry's view, a detailed analysis of the Committee's approach exposes fundamental flaws which make its unsuitable as a means of assessing potential step-in risk in asset management activities. First, when discussing AUM the framework focuses solely on size as a measure of risk and does not consider the varying risk characteristics of investment products, asset classes, and management styles. Not only does this ignore the fundamentals of the asset management business but also the risk-sensitive nature of the Basel framework.

Second, the Committee's approach is based on a highly expansive view of the notion of sponsorship in combination with indicators that reflect a uniform presumption of step-in risk in basically all fund sponsorship structures. Conceptually, this seems to reflect a basic misunderstanding of the fundamental characteristics of the asset management business. In describing these fundamental characteristics we refer to the description provided by the FSB and IOSCO in their 2014 consultation on identifying systemic risk in the asset management industry:

"Unlike banks (…) where capital is set aside to protect depositors and other creditors against the risk of losses, investment management is characterised by the fact that *fund investors are knowingly exposed to the potential gains and losses of a fund's invested portfolio*. (…) fund investors absorb the negative effects that might be caused by the distress or even the default of a fund, thereby mitigating the eventual contagion effects in the broader financial system. (…) *(F)und investors bear both upside rewards and downside risks from movements in the value of the underlying assets*. (…) Whether funds are managed by an operator (usually investment advisers/managers) or are self-managed (i.e. managed by a board), *the*

manager acts as an "agent", responsible for managing the fund's assets on behalf of investors according to its investment objectives, strategy and time horizon."[84]

Against this backdrop, providing investors with performance guarantees or explicit commitments to meet any shortfalls in returns is contradictory to the business of an asset manager. This becomes particularly evident in the case of passively managed funds, such as index funds, which are designed to track the performance of a given market segment. The Committee's framework does not accommodate this important product at all.

Third, irrespective of these basic characteristics a broad range of legal, regulatory, and contractual provisions substantially limit the ability of a bank to provide financial support to an unconsolidated financial entity, notably sponsored funds. As the Committee seems to ignore these facts its proposal materially overstates the potential residual risk in the asset management activities of banks.

As an example, in the United States Sections 23A and 23B of the US Federal Reserve Act broadly limits the ability of a bank to provide financial support to any sponsored fund.[85] This includes restrictions on "covered transactions", such as a loan or extension of credit, the purchase of assets, or the payment of money with any one or more bank affiliates, along with requirements for transactions to be conducted on market terms and at arm's length. In particular, the Volcker Rule imposes "Super 23A" restrictions which explicitly prohibit a banking entity that provides bona fide trust, fiduciary, investment advisory, or commodity trading advisory services to a covered fund from guaranteeing, assuming or otherwise insuring the obligations or performance of a covered fund, or any fund in which such fund invests. Similarly, the Volcker Rule requires the banking entity to disclose this limitation to investors in any fund offering document or marketing material.[86] Indeed, offering documents for covered funds sponsored by banking entities, as well as for covered funds with which the banking entity has a more limited relationship, generally contain explicit disclosure to investors that the interests in the fund are not deposits, obligations of or endorsed or guaranteed in any way by any banking entity, and that any losses in the covered fund will be borne solely by the fund's investors.

With regards to the Committee's inquiry regarding a bank's or an affiliated asset manager's "investment in the fund", it has to be observed that in the United States the Investment Company Act of 1940 requires a newly registered investment company to have at least $100,000 of seed capital before distributing its shares to the public. In practical terms, asset managers often invest amounts ranging from $5 million to $10 million as an initial investment. As the FSB and IOSCO have correctly observed[87] these investments are made out of the asset manager's equity and they become equity on the fund's balance sheet. There are no further counterparties involved. The asset manager can redeem seed capital on the same terms as any other redeeming shareholder. Usually, the seed money is redeemed once the fund has sufficient investors and capital to operate efficiently and at a scale that allows it to achieve its investment objectives. The only obvious risk with these seed investments is general market risk. Losses would easily be absorbed by the asset manager's equity and would never be large enough to force a parent bank to step-in.

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[84] *FSB/IOSCO*, Consultative Document - Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions, Proposed High-Level Framework and Specific Methodologies, 8 January 2014, pp. 29-30 (http://www.fsb.org/wp-content/uploads/r_140108.pdf). (emphasis added)
[85] See 12 CFR § 371c; 12 CFR § 371c-1.
[86] See 12 CFR §248.11(a)
[87] See *FSB/IOSCO*, Consultative Document (2nd) - Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions, Proposed High-Level Framework and Specific Methodologies, 4 March 2015, p. 48 (http://www.fsb.org/wp-content/uploads/2nd-Con-Doc-on-NBNI-G-SIFI-methodologies.pdf).

Against this backdrop, we consider any step-in risk between an investment fund and their investors on the one hand and an asset manager and their parent bank on the other hand as generally non-existing.

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