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gfma GLOBAL FINANCIAL MARKETS ASSOCIATION

Briefing Note

Global Systemically Important Banks – Overview

BN-12-01 5 March 2012

Introduction

Global Systemically Important Financial Institutions, or G-SIFIs, have become an area of focus for international policymakers. The G20 is driving the development of a new regulatory framework at a political level and has tasked various agencies with creating more detailed approaches. The concern of policymakers is that G-SIFIs are too-big-to-fail, potentially forcing taxpayers to bear the costs of any failures.

The policy framework for banks classified as G-SIFIs (known as Global Systemically Important Banks, or G-SIBs) has been developed more quickly than for other parts of the financial sector. The initial list of G-SIBs has been published (see box below) using a methodology developed by the Basel Committee (BCBS). These banks face new capital requirements and are required to develop resolution plans, while the Financial Stability Board (FSB) has consulted on an enhanced data template for G-SIBs.

While the Global Financial Market Association (GFMA), of which AFME is a member, strongly supports the goal of the Basel Committee to promote financial stability, GFMA has a number of concerns with the proposed G-SIB capital buffers including: whether the benefits exceed the cost of reduced economic growth, the lack of clear and well-defined offsets against the capital buffers for improved resolution regimes, and transparency and methodological issues.

Identification of G-SIBs

The BCBS published in November 2011 its methodology for identifying G-SIBs. Potential G-SIBs are rated against indicators reflecting:

- Size
- Interconnectedness
- Availability of substitutes or financial institution infrastructure
- Global (cross-jurisdictional) activity
- Complexity

The indicators were chosen by the BCBS to reflect the characteristics of G-SIBs that make an institution critical for the stability of the financial system.

List of G-SIBs (November 2011)	
Bank of America	JP Morgan Chase
Bank of China	Lloyds Banking Group
Bank of New York Mellon	Mitsubishi UFJ FG
Banque Populaire CdE	Mizuho FG
Barclays	Morgan Stanley
BNP Paribas	Nordea
Citigroup	Royal Bank of Scotland
Commerzbank	Santander
Credit Suisse	Société Générale
Deutsche Bank	State Street
Dexia	Sumitomo Mitsui FG
Goldman Sachs	UBS
Group Crédit Agricole	Unicredit Group
HSBC	Wells Fargo
ING Bank	

Scores for each potential G-SIB are calculated relative to the other 73 institutions considered for G-SIB status. Thus, the higher an institution's 'share' of a particular indicator the higher its score will be relative to other institutions.

G-SIBs are identified and allocated into buckets based on their scores, and also based on a supervisory judgement overlay. The buckets indicate the level of systemic importance of each G-SIB.

The BCBS has decided that initially there will be 29 G-SIBs. The FSB published an initial list of G-SIBs on 4 November 2011 identifying 29 banks: 17 from Europe, eight from the US, and four from Asia. The list will be updated by the FSB each year in November using publicly available data and method, so anyone can replicate the determination. The G20 has asked IAIS, CPSS and IOSCO, and the FSB in consultation with IOSCO to prepare methodologies for assessing G-SIFI status by end-2012 for insurance groups, market infrastructures, and non-bank financial entities respectively.

The G20 has asked the FSB to extend the G-SIFI framework expeditiously to domestic frameworks for so-called D-SIFIs, or Domestic SIFIs. A number of countries have already announced their own capital levels and structural requirements for D-SIFIs.

Capital Requirements

G-SIBs face additional capital requirements to increase their going concern loss absorbency. The BCBS has decided that the additional capital will range from 1% to 2.5% of risk-weighted assets, depending on a G-SIB's systemic importance, and must be met with Common Equity Tier One capital (CET1). The bucket a G-SIB is assigned to will determine its level of additional capital. Bucket 5 will initially be empty to provide an incentive for G-SIBs not to become bigger or more complex (or otherwise increase their score). From November 2012 the published list of G-SIBs will show the allocations to buckets for each institution.

Additional Capital for G-SIBs	
Bucket	Minimum additional loss absorbency (CET1 as a % of risk-weighted assets)
5	3.5%
4	2.5%
3	2.0%
2	1.5%
1	1.0%

The additional capital will be treated as an extension of the capital conservation buffer put in place in Basel III. Thus, if a G-SIB breaches the additional capital requirement it will face restrictions on distributions and will have to agree a capital remediation plan with its supervisor. Where a G-SIB moves to a higher bucket it will have 12 months to meet the higher capital levels; moves to a lower bucket decrease capital requirements immediately.

The requirements will be phased in over the same period as the capital conservation buffer, commencing on 1 January 2016 and being fully in place from 1 January 2019. From 2016 the additional requirement will apply to those banks identified as G-SIFIs in November 2014.

Recovery and Resolution Plans

G-SIBs are required to have in place by the end of 2012 a recovery and resolution plan (RRP) that will provide a strategic roadmap for authorities to unwind the firm. Each G-SIB will have a Crisis Management Group (CMG) comprising the home regulatory authority and key host authorities. A board level representative of the firm must keep the RRP up-to-date and coordinate its annual review and resolvability assessment by the firm's CMG under its cross-border cooperation agreement. Institution-specific cross-border cooperation agreements must be put in place by authorities by the end of 2012.

Further information

See also:

- AFME Overview of Capital Requirements Reform
- GFMA comment on the Basel Committee's consultative document on 'Global systemically important banks: Assessment methodology and the additional loss absorbency requirement'
- GFMA response to the Financial Stability Board's consultative document on 'Effective Resolution of Systemically Important Financial Institutions'
- GFMA response to the Financial Stability Board's consultative document on 'A Common Data Template for Global Systemically Important Banks'

All of these documents are available on the AFME website: http://www.afme.eu

Contact

Prudential Regulation Division

Phone: +44 (0) 20 7743 9359 Email: prudential@afme.eu

Association for Financial Markets in Europe
St Michael's House
1 George Yard
London EC3V 9DH
Tel: + 44 (0)20 7743 9300
www.afme.eu

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