10 August 2016

The Global Financial Markets Association (GFMA) is pleased to share with you a copy of a report commissioned from Oliver Wyman, which analyzes the interaction, coherence, and overall calibration of post crisis regulatory reform measures agreed upon, or under active consideration, by the Basel Committee on Banking Supervision (BCBS). The primary objective of the report is to consolidate and interpret for ease of use the large and growing base of research from official sources, academics, as well as comments and analyses by the industry focusing on the following four areas: 1) analysis of the quantitative impacts; 2) review of qualitative considerations and other practical difficulties; 3) analysis of competing incentives; and 4) concerns about calibration and unintended consequences.

There is a broad consensus that the initial Basel III package made the banking system more resilient. However, the majority of the economic cost and benefit analyses have been completed before the latest set of revisions to the rules and therefore does not capture the current balance between the costs and benefits of the regulatory package. Implementation of these rules is creating higher intermediation costs which are likely to be transmitted to users of the banking system and the broader economy. Regulation is also fundamentally changing the shape of banks' balance sheets and business models as well as the structure of financial markets, with resulting changes in their liquidity, efficiency and effectiveness. While in many cases changes to the business models of banks and the structure of markets were intended, in other areas it is likely that the cumulative impacts go beyond those anticipated and may negatively affect the functioning of the financial system. The potential for this is fueled by the multiple layers of regulation, the analysis of which has frequently been performed in isolation.

It is the case that since the financial crisis the Basel Committee has undertaken an unprecedented regulatory overhaul of the global financial system without a holistic analysis of the interaction and aggregate nature of those reforms, or the corresponding impact on the markets, global economy, or end-users. We believe this report provides a foundation on which such a discussion can begin.

In this regard, GFMA respectfully proposes the following recommendations:

1. Building upon the issues identified in the OW Report, identify cases where there may be unnecessary duplication or conflicts between specific regulatory requirements and broader policy goals, as well as unintended consequences. Through this, we believe liquidity could be added back into the market without reducing safety and soundness.

2. Performing an overall assessment of the calibration and timing of the reforms in light of the cumulative impact of the full set of rules, including detailed empirical analysis that supports that such requirements are appropriately targeting activities at an appropriate level of risk tolerance

consistent with economic growth and lending objectives. In addition, in that Basel III is not yet fully implemented and its impact on markets and end-users unknown, we recommend a careful observation period of "Basel IV" until such time as the full impact of the Basel III program is considered.

3. Taking into consideration the literature and measures identified in the OW Report, develop a collection of usable metrics that should be considered both on a current and forward-looking basis in analysing broader impacts of the regulatory package. Particularly, we recommend rigorous analysis on the impact on capital markets including impact on specific market segments, specific instruments, primary vs. secondary markets, impacts on emerging markets, and the changing dynamics of investment behaviours. Such analysis would involve more fully securities regulators in the development of a framework for an end-to-end impact analysis on the capital markets, including analysis of market liquidity, given the interplay between prudential and market regulation.

4. The FSB, in consultation with the BIS, and relevant stakeholders in the public and private sector, should develop a mechanism for a principles-based process by which financial regulators would conduct transparent and formalized consultations on a cross-border basis in order to support informed regulatory design and implementation that minimizes conflicts, redundancies and unintended consequences and takes into account the interaction, coherence and overall calibration of financial regulation.

We would welcome the opportunity to meet with you to discuss the impact of the Basel reforms on the capital markets, as well as our specific recommendations (http://gfma.org/initiatives/Basel-III/Basel-III/) for ensuring these markets remain the engine for global growth and job creation.

Please let us know if you have any questions or comments.

Sincerely,

Kenneth E. Bentsen, Jr.
CEO
Global Financial Markets Association