

September 3, 2021

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland



Japanese Bankers Association

JBA comments on the BCBS Technical Amendment: “G-SIB assessment methodology review process”

Dear Sirs/Madams:

The Japanese Bankers Association¹ (JBA) appreciates the opportunity to provide our comments on the Basel Committee on Banking Supervision’s (BCBS) Technical Amendment: “*G-SIB assessment methodology review process*”² (the Proposed amendment) released on July 20, 2021.

We understand that the purpose of the Proposed amendment to replace a three-year review cycle with an evidence-based review is to ensure that the G-SIB assessment methodology review process be consistent with the GHOS agreement³, i.e., “*any further potential adjustments to Basel III will be limited in nature and consistent with the Committee’s evidence-based evaluation work*”. If the new approach facilitates freeing up resources at banks and supervisory authorities compared with the current three-year review cycle, that would be welcomed.

However, the proposed evidence-based approach could entail inherent disadvantages in transparency and predictability. In moving toward the proposed evidence-based approach, not only merely making a technical amendment to *SCO 40.30*, but also a robust framework that addresses the said disadvantages are required. The following are the issues of the Proposed amendment and our counterproposals to address them.

1. Transparency of the review process

The Proposed amendment states “[o]nly if this monitoring work reveals evidence of material unintended consequences or material deficiencies with respect to the framework’s objectives will the Committee consider changes to the regime.” While the concept itself is generally understandable, we are concerned that it lacks a framework governing the process to consider the changes. In particular, it is unclear (i) who is responsible for ongoing monitoring “material unintended consequences or material deficiencies”, (ii) how such monitoring is responsibly carried out.

Unintended consequences or deficiencies are not limited to distortions of the global financial system. They may occur for banks in a jurisdiction due to, for example, changes in the monetary policy or regulations in that jurisdiction, and may even occur at the individual bank level. Under the current three-year review cycle, the BCBS was able to receive broader feedback from financial authorities in each jurisdiction and the private sector through a formal periodical consultation process. We think it is questionable whether the evidence-based approach can function as intended without such a feedback process.

We therefore respectfully request that the decision-making and review process concerning the revised SCO 40.30 be formally and clearly documented. They should at least include a tangible feedback process

¹ The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of September 3, 2021, the JBA has 114 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 74 Associate Members (banks & bank holding companies), 58 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 250 members.

² <https://www.bis.org/bcbs/publ/d522.htm>

³ Ibid.

and communication mechanism with the private sector.

2. Predictability of the review

The three-year review cycle has the advantage in predictability for stakeholders. Given that the objective of G-SIB scoring is to “*provide an absolute measure that banks could target to reduce their scores*”⁴, we believe that the “predictability” is an essential nature of the G-SIB methodology. Unless a framework that provides predictability of the evidence-based approach is provided, it should be noted that the approach could undermine the objective and may lead to an uneven burden for all banks with an overall size exceeding EUR 200 billion that are subject to the disclosure requirements of the methodology. It should also be noted that it may take a reasonable period of time for banks to develop the internal framework necessary for complete and accurate aggregation, such as the establishment of internal systems, internal procedures, and dry runs, etc., depending on the changes to the methodology.

We therefore urge the BCBS to incorporate processes that ensure predictability into the evidence-based approach. This should include, for example, having communication closely with banks prior to the formal consultation process for the changes and providing banks with a sufficient preparation period that allows banks to develop a system for obtaining precise figures under the revised methodology.

3. Other related issues

We believe that “*material unintended consequences or material deficiencies*” include cases where the changes in score are driven by non-behavioral factors at banks and the indicator-based measurement approach no longer reflects negative externalities of banks for the stability of the financial system. Those noises for G-SIB scoring should be carefully monitored and eliminated to ensure fairness and reliability of the indicator-based framework. For example, banks in non-EU jurisdictions are generally required to use the year-end exchange rate in order to convert their reporting currencies to EUR for score calculation. As we commented on the previous consultation document⁵, such conversion rules could lead to unreasonable changes in score when the exchange rate fluctuates significantly at the end of the period, even if there is no structural change in behavior that affects the systemic risk of banks.

Therefore, we request that the BCBS provide guidance for adjustments in case where the year-end exchange rate used for the conversion fluctuates significantly compared with the average exchange rate and the changes in scores of banks in the jurisdiction becomes unreasonable.

(End)

⁴ <https://www.bis.org/publ/bcbs255.pdf>

⁵ <https://www.zenginkyo.or.jp/fileadmin/res/abstract/opinion/opinion290643.pdf>