

IX High Level Meeting
on
Global Banking Standards
and
Regulatory and Supervisory Priorities
in the Americas

ASBA / BCBS / FSI

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Home and host banking issues relating to G-SIB and D-SIB designations in different jurisdictions.

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I. General Framework

- Basel Concordat (1975/1983)
 - Cooperation
 - Information exchange
 - Home supervisor: Consolidated Group Supervision
 - Host supervisor: Subdiaries Supervision
 - Special regime for branches (mutual recognition / liquidity)
- Capital regime: Basel I and Basel II

II. The impact of crisis on home and host

- MOUs became ineffective during the crisis
- Pre-designed strategies for complex cross border groups were faulty

“Winding down LCFIs”, 2001 paper !

- Branching problems (Icelandic Banks)

As a result: RING-FENCING

III. Risk of ring-fencing: the positive side of international banks

- Some SIBs were an element of stability (Spain)
- Some SIBs helped in the cleaning of the crisis (US, Spain)
- Benefits for host country:
 - Subsidiaries belong to groups with strong governance and risk controls, and sound business models.
 - Financial autonomy of subsidiaries
 - International diversification also benefits host countries
 - Consolidated group $> \Sigma$ (parent + subsidiaries)

IV. Post-crisis framework

- Basel III
 - Capital (higher ratios; more quality; cushions)
 - Liquidity (LCR; NSFR)
 - Leverage ratio
 - Stress Tests (baseline / stressed scenario)
- Resolution framework
 - Resolution authorities: colleges / CMG
 - Resolution plans (individual and group).
 - Strategy: priority of claims; resolution funds.
- Too big to fail
 - Special regime for SIBs
 - TLAC

From recommendations to hard-wired rules

V. Home and host issues post-crisis

- Basel III / Leverage: “old world” foes
- Stress Tests
 - No coordination
 - Issues? Yes, if stress test capital is the binding constraint
- Resolution
 - Colleges
 - MPE vs. SPE
- SIBs: DSIBs and GSIBs

VI. DSIBs and GSIBs

- GSIBs host treatment
 - Proportionality: GSIB \neq DSIB in host
 - Level Playing Field between DSIBs and GSIBs within host jurisdiction
- DSIBs
 - The SIBs regime (both for GSIB and DSIB) should not lead to cliff effects
 - Risks of race to the top: what if DSIB capital surcharge is much greater than GSIB?

VII. Conclusions

- Home and Host Complex Issue that has become even more complex after crisis
- Back to basics:
Cooperation; information exchange; confidence, ...
- Do not unduly increase complexity !!

Thank you very much