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Email: fsb@fsb.org

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Your ref: 19/2020 TBTF Evaluation

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Dear Ms. Buch

FSB EVALUATION OF TOO-BIG-TO-FAIL (TBTF) REFORMS FOR SYSTEMICALLY IMPORTANT BANKS

The Banking Association South Africa ("BASA") and its members appreciate the opportunity to comment on the Financial Stability Board's consultation report in respect of its evaluation of the effects of TBTF reforms.

BASA has consulted with its members in this regard and would like to bring the matters below to your attention for consideration.

Yours sincerely

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N Mlandu
General Manager – Prudential Division

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NR	QUESTIONS FOR CONSULTATION	COMMENT (Why is it a problem?)
		OVERALL
1.	Does the report draw on the appropriate inferences about the extent to which TBTF reforms achieved their objectives?	Broadly speaking, TBTF measures and policies have de-risked the financial system.
2.	Does the report identify suitable findings for consideration by the relevant policy -making bodies?	Although the statements and conclusions in the FSB document make sense, it is difficult to provide meaningful comments from an SA perspective as: • SA has adopted some elements of the framework, but there are differences in the way it will manage total capital loss absorbing capacity i.e. TLAC vs. FLAC. • Although there are a couple of Domestically Systemically Important Banks (D-SIB's) in SA, the Prudential Authority does not supervise any Global Systemically Important Banks (G-SIBs). • The resolution framework in SA will focus only on banks for now, and later extend the reach to other systemically important non-bank institutions. • Furthermore, systemically important banks are better capitalised and have built up significant loss absorbing capacity. There should be synergies between existing bank regulatory and supervisory practices, especially where surplus regulatory capital could be considered in the determination of TLAC / FLAC requirements, within each bank's capital structures. • Resolution recommendations and impact assessments are very much calibrated on G-SIBs (report focus), where the home jurisdiction is more often than not, a developed economy with deep capital and debt markets, in a monetary union. This is not necessarily the case for the majority of SIBs. As a result, the cost-benefit assessment of resolution reform is incomplete and should not be designated as representative of the global financial system, but an indication thereof.
3.	Are the analytical approaches used to evaluate the effects of the TBTF reforms appropriate? Are there other approaches to consider?	Going forward, Trade Repositories together with Central Counterparties may be sources of data for supervisors to monitor holdings of instruments as well as linkages to the rest of the economy. It is suggested that supervisors' ability to monitor these exposures (and know who would be affected by use of the bail-in tool) be included in the assessment of the resolvability to banks, similar to what is depicted in Figure 10.

4.	Is there relevant causal evidence of the TBTF reforms that can complement the findings of the report?	
5.	The analysis was carried out before the COVID-19 pandemic, which may have produced new evidence relevant to the evaluation. Within the terms of reference, what updated analytical work would be most useful?	As noted in the FSB document, the assessment was done in a pre-COVID environment and a lot of data may not have been available to test the principles against a G-SIB / D-SIB failure. The conclusions reached may need to be updated as more data becomes available.
TBTF REFORMS		

6.	Does the report accurately describe the ways in which TBTF reforms may affect bank's behaviour and market responses? Are there other channels that the evaluation has not considered?	The biggest challenge for SA will be to align going and gone concern Loss Absorbing Capacity (LAC) with regards to:
		• The role of T2 instruments
		• Old style perpetual preference shares
		• Issuing regulatory capital as well as TLAC/FLAC instruments from operating companies and holding companies (current situation), or only operating companies (preference from a resolution perspective)
		• Minimum capital requirement for a bank to remain authorised in resolution (amount of recapitalisation capacity needed)
		• Point of Non-Viability vs. the Point of Resolution
		• Additionally, it was clear that banks were able to raise the required quantum of new-style, loss absorbent regulatory capital they required post the Global Financial Crisis in 2008/09 (albeit at a cost).
		  ○ Most of this capital was raised in the local market, and a lot of education of investors has taken place in order to achieve this.
		  ○ Comments were made during the FLAC process with PWC that the bank did not think the local market could support the kind of volumes being debated – it is still not clear what the requirement will be.

FEASIBILITY OF RESOLUTION		
7.	Does the report accurately describe the remaining obstacles to the resolvability of systemically important banks (SIBs)? Are there other major obstacles that should be highlighted	In addition to points raised in question 6 above, additional priorities (as identified by the SA resolution Authority) for successful implementation of the Framework include: • Implement internal structures and cooperation arrangements to support the new resolution planning function • Define the end-state of resolution planning: What should be in place for a bank to be resolvable? • Bilateral and collective engagement with industry • FLAC requirements (calibration, qualifying instruments, location, phase-in period)

		• Funding in resolution: Banks' responsibilities, explore private-sector options, arrangements for the pre-positioning of collateral, defining and preparing for SARB's role to effectively support funding in resolution • Internal preparation at the Resolution Authority, i.e. defining resolution playbooks in the SA context
MARKETS PERCEPTION OF THE CREDIBILITY OF REFORMS		
8.	Does the report draw appropriate inferences about the extent to which market participants perceive resolution reforms to be credible?	Yes
BANKS RESPONSES TO REFORMS		
9.	Does the report accurately describe changes in the structure and behaviour of SIBs? Are the findings about the extent to which these changes can be attributed to TBTF reforms appropriate?	There is still a lot of uncertainty.
BROADER EFFECTS OF REFORMS		
10.	Does the report accurately describe changes in the structure and resilience of the global financial system and in financial integration? Does it draw the appropriate influences about the extent to which these changes have been driven by TBTF reforms? Does the report accurately describe and estimate the social costs and benefits of TBTF reforms?	• It is considered that the rollout of the *Key Attributes of Effective Resolution Regimes for Financial Institutions* as the international standard for resolution regimes to promote resolvability as part of the overall supervisory process, has been positive. There are outstanding issues as indicated above. • Furthermore, the importance of ensuring that no financial institution is TBTF, the authorities responsible for the supervision and resolution of DSIBs (in SA context) have developed resolution strategies and plans in line with the Key Attributes. • The position paper focuses on G-SIBs and at a high level brings in some detail on D-SIBs. Given the level of assets under management (as one measure among many) of the quickly growing number of D-SIBs (Figure 3), conclusions as to the complete global impact of resolution reform cannot be inferred from the initial focus group. It is noted that the impact of D-SIBs is listed as a gap and we fully support further evaluation of policy reforms in this regard.
ADDITIONAL CONSIDERATIONS		
11.	Are there any other issues that should be considered, within the terms of reference?	We agree with stated gaps (pg. 8 and 29) and suggest adding the following: • The impact on funding as in Section 4.2 is essentially inconclusive and should therefore be included in the gaps sections and filled out with further detail from D-SIB data.

		• Obstacles to resolvability: reasons for the lag in signing cooperation agreements as indicated in Figure 10 – suggest co-operative agreements be a standalone item and not only looked at through the lens of “funding in resolution”. • On pg. 30 it is stated that “Despite resolution-related reforms, public funds have continued to be used on occasion to support banks in stress”. A potential review with a focus on the deposit insurance mandates may add insight. • In section 3.4, lessons from case studies highlight limited observable resolution events. We suggest looking at potential lessons from near misses i.e. where intervention have taken place successfully and resolution has not been needed – are pre-resolution practices evolving? This may allow further back testing / inference. • The role of differing insolvency hierarchies in complicating / creating different outcomes. • An updated analysis including the impact of COVID-19. • Currently Africa does not have any G-SIBs. It would be useful to see the results of a similar exercise on the D-SIBs in Africa. • The learnings from the report and the assessment methodology should be used proactively when developing new regulations. Having a framework available will enable the FSB to assess the potential implications of new proposed standards on a much wider group of jurisdictions and specifically to also determine potential implications for emerging market jurisdictions on an individual basis. This would be extremely valuable where there is an expectation that all jurisdictions globally should aim to adopt and could benefit from the new standards. • We also suggest relooking Figure 11 as the SIBs line is not represented.