FSB FINANCIAL STABILITY BOARD

4 November 2011

Policy Measures to Address Systemically Important Financial Institutions

1. At recent Summits, G20 Leaders asked the FSB to develop a policy framework to address the systemic and moral hazard risks associated with systemically important financial institutions (SIFIs).

2. In Seoul last year, G20 Leaders endorsed this framework and the timelines and processes for its implementation. The development of the critical policy measures that form the parts of this framework has now been completed. Implementation of these measures will begin from 2012. Full implementation is targeted for 2019.

3. SIFIs are financial institutions whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity. To avoid this outcome, authorities have all too frequently had no choice but to forestall the failure of such institutions through public solvency support. As underscored by this crisis, this has deleterious consequences for private incentives and for public finances.

4. Addressing the "too-big-to-fail" problem requires a multipronged and integrated set of policies. Accordingly, the policy measures we have agreed comprise:

   i) A new international standard, as a point of reference for reform of our national resolution regimes, setting out the responsibilities, instruments and powers that all national resolution regimes should have to enable authorities to resolve failing financial firms in an orderly manner and without exposing the taxpayer to the risk of loss ('FSB Key Attributes of Effective Resolution Regimes');

   ii) Requirements for resolvability assessments and for recovery and resolution planning for global systemically important financial institutions (G-SIFIs), and for the development of institution-specific cross-border cooperation agreements so that home and host authorities of G-SIFIs are better prepared for dealing with crises and have clarity on how to cooperate in a crisis;

   iii) Requirements for banks determined to be globally systemically important to have additional loss absorption capacity tailored to the impact of their default, rising from 1% to 2.5% of risk-weighted assets (with an empty bucket of 3.5% to discourage further systemicness), to be met with common equity;

   iv) More intensive and effective supervision of all SIFIs, including through stronger supervisory mandates, resources and powers, and higher supervisory expectations for risk management functions, data aggregation capabilities, risk governance and internal controls.

   In early 2012, stronger international standards for core financial market infrastructures will be finalised to reduce contagion risks when failures occur.

5. The G-SIFIs to which the resolution planning and additional loss absorption requirements will apply will be determined, in the case of banks, by the FSB and BCBS based on the methodology that has been developed by the BCBS.

6. Using the BCBS methodology, the FSB and BCBS have identified an initial group of 29 globally systemically important banks, listed in alphabetical order in the Annex to this document. These G-SIFIs will need to meet the resolution planning requirements by end-2012. National authorities may decide to extend these resolution planning requirements to other institutions in their jurisdictions.

7. The group of G-SIFIs will be updated annually and published by the FSB each November. The methodology and the data used by it will be publicly available so that markets and institutions can replicate the authorities' determination.

8. The additional loss absorbency requirements will initially apply to those banks identified in November 2014 as globally systemically important using the BCBS methodology. They will be phased in starting in January 2016 with full implementation by January 2019. These banks must also meet the higher supervisory expectations for data aggregation capabilities by January 2016.

9. The FSB and BCBS have assessed the macroeconomic impact of higher loss absorbency requirements for G-SIFIs. The enduring global economic benefits of greater resilience of these institutions far exceed the modest temporary decline of GDP over the implementation horizon.

10. Consistent implementation will be critical to the effectiveness of these policy measures. Legislative changes will be required in many jurisdictions to implement the FSB Key Attributes of Effective Resolution Regimes and to strengthen supervisory mandates and capabilities. Other requirements will demand a high degree of active cooperation amongst authorities and reviews and changes by firms of their structures and operations.

11. An FSB Peer Review Council, working with other bodies as appropriate, will review the full and consistent implementation of the G-SIFI measures and changes to national resolution regimes. The FSB, with the involvement of the IMF, the World Bank and the standard setters, will draw up a methodology to assess implementation of the Key Attributes standard.

12. The FSB and the BCBS will begin work this year to define the modalities to extend expeditiously the framework to all SIFIs. The International Association of Insurance Supervisors (IAIS) is expected to complete its assessment methodology for identifying globally systemically important insurers in time for the G20 Summit in June 2012. The IAIS will also pursue its work to develop a Common Framework for the Supervision of Internationally Active Insurance Groups by 2013, in order to foster group wide supervision and global convergence of regulatory and supervisory approaches.

13. The policy measures summarised in this note are set out in detail in the following reports:

i) *Key Attributes of Effective Resolution Regimes for Financial Institutions*, FSB, October 2011.

ii) Global Systemically Important Banks: Assessment Methodology and the Additional Loss Absorbency Requirement, BCBS, October 2011.

iii) Intensity and Effectiveness of SIFI Supervision, FSB, October 2011.

Annex

G-SIFIs

For which the resolution-related requirements will need to be met by end-2012[1]

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

[1] This initial list is based on the methodology set out in the BCBS document *Global systemically important banks: Assessment methodology and the additional loss absorbency requirement,* using data as of end-2009. The list of G-SIFIs will be updated annually and published in November every year. Therefore, the list will not be fixed – there can be new entries and exits every year and the number of G-SIFIs may change. The BCBS methodology will be reviewed every three years to capture changes in the banking system and progress in measuring systemic importance. The present list contains global systemically important banking groups; future lists may also contain G-SIFIs that are not banking groups. As from November 2012, the published list of global systemically important banking groups will show the allocations to buckets corresponding to the level of additional loss absorbency they would be required to meet had the requirements been in effect. The additional loss absorbency requirements will begin to apply from 2016, initially to those banks identified in November 2014 as globally systemically important using the allocation to buckets at that date.