June 7, 2024

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

Japanese Bankers Association

JBA comments on the BCBS Consultative Document: "Global systemically important banks – revised assessment framework"

Dear Basel Committee members:

The Japanese Bankers Association[1] (JBA) appreciates the opportunity to provide our comments on the Basel Committee on Banking Supervision's (BCBS) Consultative Document: "*Global systemically important banks – revised assessment framework*" (the "Consultative Document") released on 7 March 2024.

We hope that our comments will contribute to further discussions at the BCBS.

General comments

The JBA supports the BCBS's efforts to address the window-dressing behaviour. We are supportive of such efforts to prevent window-dressing behaviour, since such behaviour that distorts G-SIB scores undermines the appropriateness of G-SIBs framework including buckets allocations, and would affect global financial stability. On the other hand, the Consultative Document proposes to increase the frequency of G-SIB score calculations. While we agree with the objective of the Consultative Document, we would like to comment on several points from the perspective of policy rationality.

While the proposed change to require higher-frequency calculation of G-SIB indicators may lead to the prevention of window-dressing behaviour, it also results in unintended consequences such as excessive burden on banks and deterioration of data quality. Given that the processes for calculating G-SIB indicators mostly utilise quarterly regulatory and accounting reports, higher-frequency calculations (i.e., more frequently than quarterly) are not feasible without considerable investment in system infrastructure and would impose excessive costs on banks. Therefore, before changing the current framework, the BCBS should conduct a comprehensive analysis of the costs and benefits for higher-frequency calculation, and determine the frequency and scope based on the result of the analysis.

In "Working Paper 42 Banks' window-dressing of the G-SIB framework: causal evidence from a quantitative impact study" (the "Working Paper 42"), a detailed analysis was conducted focusing on two indicators,

[1] The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of May 1, 2024, JBA has 114 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 75 Associate Members (banks & bank holding companies), 49 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 242 members.

notional OTC derivatives and repurchase agreements (repos). We understand that the analysis claims to have identified the relationship between the G-SIB framework and notional OTC derivatives as drivers for window-dressing, but no such relationship was found for repos. The result of this analysis clearly does not support requiring higher-frequency calculation for wider G-SIB indicators. Given the costs associated with higher-frequency calculation, changes to the current framework should be limited to specific indicators for which a causal relationship between the G-SIB framework and window-dressing has been demonstrated.

In this regard, it should be noted that the analysis in the Working Paper 42 does not completely determine the causal relationship between the G-SIB framework and window-dressing behavior, even for OTC derivatives. This is because the equation used in the Working Paper 42 simply adds up the difference between the previous quarter and the year-end and the difference between the year-end and the next quarter. For example, if a bank decreases its systemic footprint by year-end and maintains its footprint in the first quarter the following year, then the equation would mistakenly determine that the bank is window-dressing, although the bank has lowered its systemic risk in a manner intended by the G-SIB framework.

As stated in the following sections, even if higher-frequency calculation is required, the average over quarter-end values that allows banks in each country to report consistent and reliable data is appropriate.

Scope of indicators

In the Working Paper 42, which supports the Consultative Document, two indicators related to window-dressing—namely, notional OTC derivatives and repos—were primarily examined. Our understanding is that the analysis identified the relationship between the G-SIB framework and notional OTC derivatives as drivers for window-dressing, but no such relationship was found for repos.

Given the above, extending the relationship between the G-SIB framework and window-dressing behaviour related to notional OTC derivatives to the entire indicators and requiring reporting of average values at the same frequency for wider stock indicators are not justified and clearly disproportionate to the costs for higher-frequency calculations. Consequently, this approach would impose unnecessary and excessive burdens on all banks subject to averaging values reporting.

Furthermore, since the data used for G-SIB assessment includes items not directly related to existing risk management, there is an undue burden to address this data collection and additional system development is needed. Banks are now facing new risks such as climate-related risks, digitalisation, and artificial intelligence. If the resources for system development are allocated for this data collection, sufficient resources will not be allocated for the management of these new and urgent risks.

Therefore, even if higher-frequency averaged data is necessary, it would be prudent to focus on specific sections that are likely to be used for window-dressing; for example, interbank transactions or indicators identified as potential concerns for window-dressing through ad hoc surveys. This targeted approach ensures effective mitigation of window-dressing while avoiding unnecessary burden on banks.

Particularly, we recognise that window-dressing behaviour is more likely to occur in interbank transactions and the manipulability in terms of window-dressing behaviour is low for transactions with customers, such as transactions based on requests from non-bank customers, or transactions with low market liquidity. Some examples are shown below.

Derivative transactions and repo transactions (Sections 2 and 4)

- It is not possible for banks to actively control positions for derivative trades based on customer requests. Additionally, hedging transactions conducted as part of ALM operations are controlled by hedging policies and proper document management. Therefore, position control of these transactions is not feasible.

Securities outstanding (Section 5)

- Consists of certificates of deposit, TLAC-eligible bonds, and stock, etc. The market value balance cannot be actively controlled, and manipulability is small.

Assets under custody (Section 7)

- Within trust and custody balances, certain contracts exist where the bank lacks authority to control due to trustee agreements. Similarly, active control is not feasible in these cases.

Trading and available-for-sale securities (Section 11)

- It is difficult to sell these securities for window-dressing, as they need to consider impacts on banks' income statement, and hence this adjustment is inherently limited.

Level 3 assets (Section 12)

- For Level 3 assets, there is no market liquidity and manipulability is small.

Averaging frequency

The current stock G-SIB indicators, which are based on year-end values, are primarily calculated using financial results and figures that are disclosed every quarter for financial accounting purposes. These figures are guaranteed to be accurate through prescribed internal control procedures in settlement of accounts operations, as well as audits and reviews by external auditors. This is the same situation as in Japan and globally, where quarterly results are reported. In addition, Japanese banks utilise quarterly data reported to Japanese authorities to prepare for BIS aggregation, following instructions for the cross-jurisdictional activity indicator.

If daily or month-end average values are required for stock G-SIB indicators, some banks are likely to resort to rough, estimated calculations that, unlike current calculations, are not guaranteed to be accurate. As shown below, there are data items for which Japanese banks must incur significant costs to obtain daily data, and it is unlikely that daily data for these items would be based on globally consistent definitions. This results in inconsistent and undefined average values calculation among banks, leading to scores that do not align with the actual situation.

Consequently, the credibility of G-SIBs assessment including allocation of G-SIBs to the buckets will be compromised. Therefore, the average over quarter-end values, which can be reported by banks in each country with the similar quality, should be adopted for the calculation of the data items.

Some data examples that require significant costs to obtain on a higher-frequency basis or are very difficult to ensure accuracy are shown below.

Consolidated companies' data (All section)

- Higher-frequency calculation is difficult because detailed data on consolidated companies are collected only at the time of quarterly financial reporting.

Level 3 assets (Section 12)

- To assess whether an asset qualifies as Level 3, it requires unobservable market inputs and it is not practical to obtain the necessary information for assessment on a daily basis.

Cross-Jurisdictional Claims, Cross-Jurisdictional Liabilities (Sections 13 and 14)

- Attribute information such as an ultimate risk-based is updated quarterly based on BIS international banking statistics, and daily information is not currently available.

On-balance-sheet assets, such as outstanding securities

- Daily data are not adjusted manually as done for quarterly financial reports, leading to significant deviations from quarterly figures recognised under generally accepted accounting principles. In addition, it is not realistic to apply manual adjustment to daily data because there are many changes in the balance.

Implementation date

If daily or month-end averages values are required, system infrastructure for data collection, as well as a reporting framework including internal procedures must be developed, in order to ensure that accurate figures could be produced in a frequency that is higher than that for financial accounting purposes (i.e. quarterly). The transition period is set to begin in January 2026; however, if daily average values are required over the reporting year, data from January 2025 would be necessary. While the proposal allows for best-effort reporting of averaged values during the transition period, supervisors will be expected to apply supervisory judgment in cases in which material differences between those values are observed. Therefore, it would be crucial to establish a robust data collection system by January 2025, marking the start of the transition period.

Especially when daily or month-end average values are required, considering that there are no formal financial accounting statements at these frequencies, a system tailored for this reporting purpose needs to be developed. However, until concrete requirements for the higher-frequency calculation framework are established, banks cannot begin system development. Taking into account the necessary steps, at least two years should be allocated between finalising the framework from this consultation and starting the transition period. Therefore, longer preparation period should be provided.

Other

When identifying G-SIBs, reported figures in local currency are converted into EUR using the year-end spot exchange rate. However, exchange rates can fluctuate significantly due to geopolitical risks and other factors. Relying on exchange rates at a single point may not accurately reflect the systemic importance of banks. If higher-frequency data calculation is adopted, similar adjustments should be made for exchange rates. New methodologies or guidance should be developed to minimise the impact of exchange rates on scores.

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We thank the BCBS again for the opportunity to comment on the Consultative Document and hope our comments will contribute to further consideration in the BCBS.

Yours faithfully,

Japanese Bankers Association