Box C

Global Systemically Important Banks

As part of the policy framework for systemically important financial institutions (SIFIs) announced in November 2011, the Financial Stability Board (FSB) identified an initial group of global systemically important banks (so-called G-SIBs). These banks must meet some requirements of the framework, such as having recovery and resolution plans, by the end of 2012. In due course, G-SIBs will also be subject to additional capital requirements.

The G-SIBs were identified using a methodology developed by the Basel Committee on Banking Supervision (BCBS). The methodology uses indicators of banks' size, global (cross-jurisdictional) activity, substitutability, complexity and interconnectedness to rank their global systemic importance. The indicators were selected to capture different aspects of the systemic impact of a bank's failure, rather than the probability that it will fail. The methodology also allows some supervisory judgement to be used, drawing on other information, but judgement can only override the indicator-based approach in exceptional circumstances and will be subject to international peer review.

Using this methodology, an initial sample of 73 of the world's largest banks were ranked using end 2009 data for each indicator. Each bank's overall score represented its global systemic importance relative to the other banks in the sample. Based on the clustering of scores produced by the methodology, the BCBS decided that the 27 banks with the highest scores would be designated as G-SIBs. Two additional banks were added to this initial list based on the home supervisor's judgement. The resulting list of 29 G-SIBs, headquartered in 12 countries, was published by the FSB in November 2011 (Table C1).

Table C1: Global Systemically Important Banks
Based on end 2009 data;
in order of country of head office

Bank	Head office
Dexia	Belgium
Bank of China	China
Banque Populaire CdE	France
BNP Paribas	France
Group Crédit Agricole	France
Société Générale	France
Commerzbank	Germany
Deutsche Bank	Germany
Unicredit Group	Italy
Mitsubishi UFJ FG	Japan
Mizuho FG	Japan
Sumitomo Mitsui FG	Japan
ING Bank	Netherlands
Santander	Spain
Nordea	Sweden
Credit Suisse	Switzerland
UBS	Switzerland
Barclays	UK
HSBC	UK
Lloyds Banking Group	UK
Royal Bank of Scotland	UK
Bank of America	US
Bank of New York Mellon	US
Citigroup	US
Goldman Sachs	US
JP Morgan Chase	US
Morgan Stanley	US
State Street	US
Wells Fargo	US

Source: FSB

The number of G-SIBs is not fixed; it will evolve over time reflecting changes in the systemic importance of banks. The sample of banks to be assessed will be reviewed periodically; the BCBS will develop another methodology to guide this process. Supervisory judgement will be able to be used to add, but not remove, banks from the sample to be assessed for global systemic importance. The intention is that the list of G-SIBs will be updated annually and published each November. The assessment methodology itself will be reviewed every three years to capture changes in the global banking system and progress in measuring systemic importance.

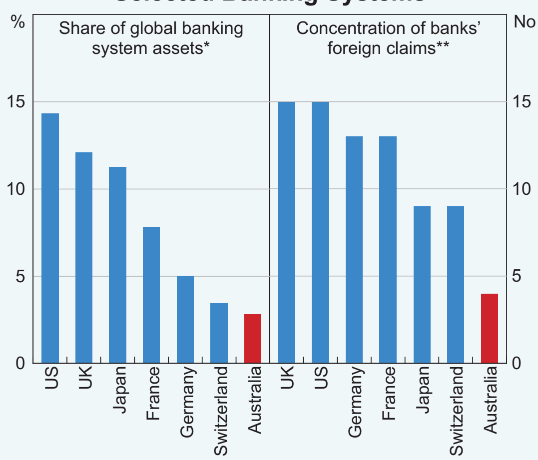
Alongside the assessment methodology, the BCBS also recently agreed on a graduated system of higher loss absorbency requirements that will apply to G-SIBs. The G-SIBs are to be grouped into different categories ('buckets') based on the systemic importance score produced by the assessment methodology, with each bucket being subject to a different requirement for additional loss absorbency. Initially there will be four buckets, with capital requirements ranging from 1 to 2½ per cent of risk-weighted assets, to be met by common equity Tier 1 capital. To discourage G-SIBs from becoming even more systemic, an additional 1 per cent capital requirement (for a total of 3½ per cent) will apply to any G-SIB becoming noticeably more systemic than the highest-ranked G-SIB is initially. The additional G-SIB capital requirements will apply to those banks identified as G-SIBs in November 2014, and will be phased in starting in January 2016, with full compliance by January 2019.

Transparency is a key part of the G-SIB framework: market discipline is expected to encourage banks to reduce their global systemic importance. As a first step, the list of G-SIBs and the methodology for identifying them have been published. The BCBS is also planning to disclose information on how the loss absorbency buckets are defined, and which G-SIBs are allocated to each bucket. The banks in the G-SIB assessment sample will be required to disclose the data on their individual indicators that feed into the assessment methodology, so that market participants will be able to calculate G-SIB scores themselves. Transparency about the methodology will also allow banks to understand how their own actions contribute to their G-SIB scores and what steps they can take to reduce their systemic importance and thereby minimise their additional capital requirements.

No Australian-owned banks are on the current list of 29 G-SIBs. However, some of them were included in the initial sample of 73 large international banks that were assessed for their global systemic importance. It is not surprising that Australian banks are absent from the list of banks with the greatest impact on the global financial system. The major Australian banks are quite large by international standards, each ranking among the top 50 banks worldwide in terms of consolidated assets. However, their combined share of global banking system assets is less than 3 per cent, lower than the share accounted for by the banks of countries that are home to two or more G-SIBs (Graph C1). In addition, Australian banks,

Graph C1

Size and Cross-border Activities of Selected Banking Systems



* Based on the total assets of each country's domestically owned banks; data are for 2010

** These data show the number of countries accounting for 75 per cent of the foreign claims of each listed country's domestically owned banks; claims are on a consolidated immediate borrower basis; data are as at September 2011

Sources: APRA; BIS; IMF; Swiss National Bank with their business models oriented to commercial and retail banking, are less interconnected with the rest of the global financial system than are many of the G-SIBs, which have substantial investment banking businesses. The Australian-owned banks' cross-jurisdictional activities, as measured by their aggregate foreign claims, are much smaller than those of banks in most of the countries with G-SIBs, and are narrowly focused on a small number of countries (mainly New Zealand and the United Kingdom).