

Systemically important banks

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The crisis demonstrated that the failure of a large, complex and interconnected bank could threaten the entire financial system and that governments therefore felt compelled to rescue such banks. The resulting implicit guarantee distorted competition and encouraged risk-taking. The Committee, in cooperation with the Financial Stability Board, developed a methodology for identifying global systemically important banks, known as G-SIBs, which it published in November 2011.¹

The methodology rests on five categories of indicators of equal weight: size, interconnectedness, substitutability or financial institution infrastructure, cross-jurisdictional activity and complexity. Each bank's score determines its allocation to one of several buckets, which carry additional CET1 requirements of 1, 1.5, 2, 2.5 and 3.5 per cent of risk-weighted assets. The highest bucket was deliberately left empty in order to discourage banks from becoming even more systemic. The FSB publishes the list of G-SIBs every November on the basis of the Committee's assessment.²

In October 2012, the Committee published a principles-based framework for domestic systemically important banks, which leaves greater discretion to national authorities. The two frameworks were complemented by the FSB's standard on total loss-absorbing capacity of November 2015, which requires G-SIBs to hold a minimum amount of instruments that can be written down or converted in resolution.³ Switzerland had introduced its own too-big-to-fail regime as early as 2011 and 2012. That regime, the so-called Swiss finish and the reform debate after the collapse of Credit Suisse are examined in Part E and in the next chapter.

1 Notes

1. Basel Committee, Global Systemically Important Banks: Assessment Methodology and the Additional Loss Absorbency Requirement (November 2011; revised July 2013 and July 2018). To be verified. ↩
2. Basel Committee (2011/2013), section on the measurement approach and the bucketing of additional loss absorbency; annual FSB list of G-SIBs, published each November. To be verified. ↩
3. Basel Committee, A Framework for Dealing with Domestic Systemically Important Banks (October 2012); FSB, Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution: Total Loss-absorbing Capacity (TLAC) Term Sheet (9 November 2015). To be verified. ↩

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