POSITION PAPER

# WSBI Institutional Positions to the G20 decision-makers

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WSBI

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# WSBI Institutional Positions to the G20 decision makers

## Summary

The World Savings and Retail Banking Institute (WSBI) and its members welcome the ambitious agenda of the G20 under the Australian Presidency and its focus on promoting economic growth through quality jobs and investment, trust and transparency and through regulation. They are keen to participate in the development of such plans and wish to highlight the potential impact that such policies may have on the activities of the savings and retail banks that constitute the WSBI membership. These institutions are characterised by their responsible approach to business, their close involvement in local communities and their contribution to the real economy**.**

Some of the main messages that they wish to transmit to the G 20 Leaders can be summarised as follows:

**Development/Improving access to financial services:** As a group WSBI members are still the largest provider of accounts for the poor worldwide. WSBI is fully committed to the goal of 'An Account for Everyone', which is consistent with the World Bank goal of full financial access by 2020. Given very high levels of dormancy globally, the focus must be on opening accounts that will actually be used. However to be sustainable, banks should only be required to extend branch and agent networks to rural areas where a feasible business case can be obtained but where that cannot be done they must engage with other more sustainable delivery mechanisms. Support is needed to remove obstacles to partnership models e.g., between banks and MMOs or via agency models.

WSBI therefore calls for a level playing field and proportionate regulation that enables the various actors involved in financial inclusion to provide access to finance to the masses in a sustainable manner, also in remote areas

**Investment and Infrastructure/ Long- term financing/ SME Access to Finance:** Although it is recognised that new financing models need to be developed to satisfy the huge long-term financing needs of infrastructure projects, in particular, WSBI disputes the premise in current debates that capital market instruments are a viable alternative to bank loans for SMEs. Both forms of finance are complementary and the model chosen should be tailored to the specificities of the borrower, the project and the region in question.

SMEs are the backbone of the economy in all regions of the world and therefore the new emerging regulatory framework should be structured in such a way as to ensure that banks can continue to provide access to finance to SMEs. This finance should be leveraged in the most efficient way through public/private loan guarantees and other risk sharing schemes as well as soft measures in the form of financial literacy and business support programmes.

WSBI therefore calls for sensitivity on the part of regulators to ensure that the emerging regulation on capital and liquidity requirements does not jeopardise the traditional role of the savings and retail banks that make up the WSBI membership in financing SMEs and the real economy.

For the long-term financing of the real economy and especially the SME sector it is of utmost importance that savings and retail banks deeply rooted in their communities can continue to play their vital role. The existence and the further development of these financial institutions should play a prominent part in G20's strategy to improve the conditions for long-term financing of the real economy. In this respect regulators/legislators in all jurisdictions must be aware that a "one-size-fits-all"-approach (regulation designed for large, global players, but then implemented for the smallest local bank as well) does harm to the vital role of locally rooted banks of supplying funds to SMEs. Consideration should be taken for these kinds of financial institutions by means of a simplified regulatory environment and/or by applying the principle of proportionality in legislation and regulation.

**Financial Regulation/ Building resilient financial institutions:** At this moment in time, it appears clear that the implementation of the Basel III framework still contains a number of matters that ought to be properly calibrated through regulation, especially concerning the liquidity ratios both in the short and longer term (LCR and NSFR). WSBI considers as a positive measure the revision of the Liquidity Coverage Ratio (LCR) developed in January 2013 by the Basel Committee on Banking Supervision (BCBS), i.e. enlarging eligible assets, outflows percentage reduction and the timetable for the phase-in of the standard.

WSBI therefore calls for broadening the definition of HQLA Level 1 and HQLA Level 2, for allowing a larger part of the latter in the LCR, and for calculating its average level at intervals wider than daily for smaller banks. Lastly, WSBI does not see the necessity of applying the NSFR ratio, for it would delay macroeconomic recovery and create further liquidity shortages; instead we support a higher consideration of the LCR ratio and thus focus more attention on the short term.

Moreover, considering the strengthening of national financial regulation, focusing mainly on the Leverage Ratio (LR), WSBI believes that the definition and requirements for the LR should not deflect the ratio from its initial purpose as a simple backstop within the Basel III rulebook.

WSBI therefore calls for the LR to be limited to a maximum of 3% and applied only at a group consolidated level so as to avoid an excessive overburden for smaller financial entities, and thus penalising local communities.

Moving to a more macro view, the Australian Presidency has also pointed out the importance in developing operative measures to prevent and absorb Systemic Risks. In this context, WSBI welcomes the principles submitted until now by the Financial Stability Board (FSB), and concurs that it is of the utmost importance to create a more effective Risk Appetite Framework (RAF).

Additionally, we would like decision makers to know that WSBI is in favour of the initiatives taken to address the risks stemming from shadow banking entities, which can be dangerous for the normal functioning of the financial system as they are difficult to monitor and help to elude the rules of the banking system.

WSBI therefore calls for an appropriate regulation of the shadow banking area, encompassing a specific regulation regime which should be applied to the other financial intermediaries (OFIs) which contribute to financial inclusion’s purposes and therefore could be beneficial to society as a whole.

Finally, WSBI members support the on-going worldwide initiatives to address tax avoidance and evasion. We believe that it is imperative to have one system for multilateral AEOI.

WSBI therefore calls for the different institutions (OECD, European institutions, US IRS) involved to consider the enormous reporting requirements placed on individual institutions and to coordinate the request for information so as to ensure global standardisation.

# WSBI Institutional Positions to the G20 decision makers

The members of the World Savings and Retail Banking Institute (WSBI) are savings and socially committed retail banks that offer their services mainly to private clients, small and medium sized enterprises and local authorities. They work through extensive distribution networks that enable them to offer proximity services and provide regional outreach. They also develop a socially responsible approach to business and to society.

The 110 WSBI members, representing more than 6 150 banking institutions, are active in some 80 countries throughout the world, including the developing and developed countries. The assets of WSBI members amount to almost USD 13 500bn, non-bank loans around USD 6 000bn and non-bank deposits amount to more than USD 5 200bn[i].

Following the 5/6 September 2013 St Petersburg Summit, where it was stated that *"strengthening growth and creating jobs is our top priority and we are fully committed to taking decisive actions to return to a job-rich, strong, sustainable and balanced growth path",* WSBI commits itself to play its role in achieving stronger, more sustainable and balanced growth in worldwide economies. Based on this commitment, WSBI would like, in view of the Brisbane Summit which will be held on 15-16 November 2014, to share with the G20 decision-makers its concerns and its proposals in view of boosting growth and building global economic resilience that have been defined as the outlines of the G20 Australian Presidency.

## I. Boosting growth through the private sector

### 1. Development

1.1 Improving access to financial services

WSBI welcomes the growing consensus that improving financial inclusion is a key step towards global economic development and stands ready to support the action plans taken by policy-makers, regulators and other stakeholders to achieve the goal of full financial access by 2020 announced by the World Bank at its Annual Meeting in 2013. WSBI and its membership are already key players with many decades of expertise in this field and are the largest providers of accounts to low income segments worldwide. [ii] They are also key actors in the financing of micro and small and medium- sized enterprises (MSMEs). Financial inclusion is part of our heritage and remains core to our mission today. WSBI works with its members at several levels and in numerous projects to enhance Financial Inclusion at a global scale.

Against this backdrop, WSBI wishes to highlight the following points to national and international policy-makers, regulators, standard setters and other stakeholders:

- WSBI recognises that the causes of financial exclusion are related to wider and complex societal problems as well as a lack of financial infrastructure (in developing economies). Therefore, there is no single 'best' model for financial inclusion, and approaches should be defined nationally based on an internationally agreed framework approach. The private stakeholders involved in defining such an approach should include banking/financial institutions and other organisations working with under-served people. In effect, banking and financial institutions are key promoters and also key implementers of national financial inclusion strategies.

- There is no proven correlation between the existence of a legal obligation to provide access and the number of account holders in any given country, also because societal problems cannot be resolved through stringent rules imposed by the public sector. A breakthrough can only come when financial sectors recognise the market potential of delivering sustainable financial services to the under-served and unbanked. These may include solutions such as agent banking, linking with village savings and loan groups and partnerships with mobile operators. More research and pilot projects are needed on innovative models that achieve this result. The analysis of (big) data coming from mobile telephone transactions for customer segmentation purposes and to develop customer propensity models could be one such example and WSBI has gathered some evidence in this field. WSBI has also started to link up with village level savings and loan groups in three countries in East Africa in order to provide access to financial services into unserved villages.

- A question that needs deep investigation is whether 'an account for everyone' is possible, desirable and sustainable; in other words, the business case for financial inclusion. The core policy issue is to ensure compatibility of the objectives of financial inclusion – including the use of innovative solutions – with those of integrity and stability of financial systems and consumer protection. Financial inclusion should be provided in a commercially sustainable way rather than relying on any government subsidies or other enforcement measures. Banks need to maintain a feasible business case for financial inclusion to be sustainable. Therefore they should only be required to extend branch and agent networks to rural areas where a feasible business case can be obtained. Where this is not achievable, banks should be permitted to engage with other more sustainable delivery mechanisms. Accordingly supportive conditions should be defined to encourage the opportunities that technology and innovation bring to expand financial inclusion and partnership models that include non-banking institutions, such as telecommunication firms and others, should be encouraged and supported.

- Dormancy of accounts around the world is also a huge problem and thus the focus should be on opening accounts that are actually used. A solution to overcome this challenge is to build a comprehensive product and service offer, possibly including insurance and a remittance facility, tailored to the needs of ordinary people and based on research on how these people actually use their money. Clearly, acceptable levels of cost and convenience of service delivery, including partnerships with non-banking institutions, are key prerequisites in this context. WSBI is currently building up some evidence in a number of countries in Africa as well as in El Salvador to support this thesis.

- Postal networks, which account for one third of WSBI membership, can be key stakeholders and central players in promoting financial inclusion given their large network in rural areas where there is a higher unbanked rate. This broad network combined with technological innovation and, in some cases, the development of multilateral partnerships with different financial service providers, can contribute considerably to improving outreach. It does however suppose that this postal networks work well in the national context and that these institutions have been subject to institutional reform and are authorized to provide a full range of services. Government support is required initially to create such an enabling environment that will allow postal networks to meet the expectation of being an efficient and competitive provider of inclusive and sustainable financial services for all.

- While striving for fair competition between all financial service providers and in particular pursuant to the principle of "same business, same rules", Standard Setting Bodies (such as the Financial Action Task Force, the Basel Committee on Banking Supervision and the Committee on Payments and Settlement Systems) should be sensitive to the challenges for financial inclusion as well as any potential unintended consequences that could arise as a result from their initiatives and policies and could hamper financial inclusion rather than support it. Examples include the detailed application in some countries of rules on capital, liquidity and leverage ratios and their potential impact on SME funding and the measures under consideration relating to shadow banking and in particular the definition of "other financial institutions (OFI's)" or "non-bank financial institutions (NBFIs)" that are engaged in lending by intermediating the flow of capital from savers to borrowers, which serves the purpose of financial inclusion.

- WSBI favours increasing the financial literacy and capabilities of the population worldwide, enabling them to understand better the challenge of finance and to adapt adequately to changing demographic, regulatory and legal environments. Financial education and innovative financial instruments for both private individuals and MSMEs are key to encourage global economic recovery and should be promoted at both international and national levels in the framework of a multi-stakeholder approach. WSBI supports relevant initiatives and policy tools, such as the OECD Guidelines for Private and Not-for-profit Stakeholders in Financial Education, and calls on G20 leaders to adequately promote the Guidelines as an important high-level tool that can bring coherence in the development of policy and financial education national strategies, whilst acknowledging the important role that each of the actors in society can play, including the financial sector. WSBI members are significant players in the provision of these programmes as part of their responsible approach to business. Besides being in regular contact with customers, financial entities have the best knowledge of the financial system, and therefore are in a better position to convey important messages, such as the risks of certain behaviour that can lead to over-indebtedness.

## 2. Investment and infrastructure

### 2.1 Long-term financing

One of the underlying premises in the current debate on long-term (LT)-financing is the shift toward a reduction in bank lending. This focus does not however take into account the current situation of the real economy in which bank lending is a fundamental source of LT-financing, which is not totally replaceable, especially for the SME-sector. Contrary to opinion that there has been a paradigm shift, the reduction in bank lending witnessed currently is relative, to a large extent, and can be attributed to four cyclical causes: deleveraging of credit institutions, expectation of more restrictive prudential rules, shortage of "good risk" to invest in, and a decrease in the demand for lending because of the difficult economic situation. Moreover, governments in difficult financial situations are taking a large part of the available funding.

To allow bank lending to return to adequate levels, it must be ensured that bank lending activities are not penalised by future regulations when the economy recovers. However, WSBI foresees that the Basel III requirements, and in particular the liquidity rules, will create a funding gap that will need to be filled. WSBI is nevertheless confident that banks will be indispensable actors in filling this gap. Examples of a bank's importance in funding the economy in the long run can be found within WSBI's members: Maghreb Securitization, part of the Caisse de Dépôt et de Gestion (CDG) Group, has had a strong input in the development of structured funding, leading it to be a key player in upgrading Morocco's economy; NABARD (National Bank for Agricultural and Rural Development) has provided India's primary sector with the financial means necessary to improve farmers' working conditions and has increased their net result overall; BANSEFI (Banco del Ahorro Nacional y Servicios Financieros) WSBI's member in Mexico, is playing a major role in the transformation of the financial sector by providing the training and technical assistance necessary to develop the economy; the Government Savings Bank of Thailand (GSB) is also committed to raising living and financial standards in its country by promoting environment-friendly initiatives that will produce revenues for local economies in the years to come. In Europe Natixis, a subsidiary of our French member BPCE, is conducting numerous infrastructures financing projects such as recently the first bond issuance of digital project in Europe. It should not be forgotten as well the crucial role that retail banks have in improving the economic situation of their communities. For instance DSGV, the German Savings Banks, has a commitment to help economically disadvantaged private individuals to take part in business life; they offer basic financial services for everyone and provide small loans on fair terms in particular to SMEs that are the backbone of their economy. They have a long-term view in how they think and act and for this reason, they continue to initiate projects which will become effective over the longer term.

WSBI does not agree with the approach which consists of encouraging one model against another – capital market funding vs. bank funding – to address the issue of the decrease in bank lending. This is not acceptable as it is not in the interest of the economy. The role of banks is to provide long-term financing and to protect the depositors. The other intermediaries' (such as asset managers) role is not to protect depositors but to provide returns. If the banks are not taking the risk for the transformation of deposits into long-term investments, then the saver is directly taking the risks. The banks' role is to assess the risks, and institutional investors are not able to do so currently. The capability of banks to fund the real economy has been adversely impacted by the new regulations under Basel III, therefore WSBI supports an assessment of the appropriateness of the banking regulatory requirements for long-term financing and their review with the aim of enabling and incentivising lending to the real economy (in particular to private households and SMEs). The relevance of other regulations under consideration – such as the bank structural reform and the Financial Transaction Tax in Europe – should also be strongly questioned as they will have a further negative material impact on corporates and investors.

With regards to access to finance for SMEs, these companies are not a good target for capital market instruments as SMEs are generally too small to benefit from these products (for instance in Europe 90% of SMEs have less than 5 employees). These SMEs are best served by banks as banks have the deposits that can be transformed into adequate lending, also as a result of their knowledge of and contact with local communities. The bank' intermediary role may however accompany this evolution through, for instance, the development of high-quality securitisation; this way depositors are protected and the contact with local communities is maintained. Banks will continue to be the main point of contact, as when any problem arises, the customer will come to its local bank that provides loans. In this securitisation process, banks will keep their role of customer care and, thanks to the securitisation, the bank will receive fresh money that it will be able to reinvest.

This being said, WSBI acknowledges that infrastructure projects can no longer be financed through bank loans only. Until 2008, most infrastructure projects in Europe were financed via bank loans. As a result of the high number of investments needed for infrastructures ($57 trillion estimated to be needed to finance infrastructure development around the world through 2030 according to a report from consultant McKinsey & Co; in Europe estimated at between €1,500 and €1,800 billion between 2012 and 2020 according to the European Commission) it appears essential to develop the use of private financing. In other words, economic and regulatory changes have generated the need for new financing models in order to fill the gap between available bank capital and the multi-trillion medium-term investment programmes. To do so, partnerships between banks and institutional investors should be incentivised to benefit from the know-how of banks and the investment capacity of institutional investors. In this context, more transparency would be welcome by standardising and processing transactions, and by making the information available for instance through gathering and collation in databases.

## 2.2 SMEs access to finance

Small and medium-sized enterprises (SMEs) are the backbone of economies throughout the world and are a key source of economic growth, dynamism and flexibility. SMEs do not only contribute to economic output but also to the creation of jobs and other social objectives. They account for around a 99% of all enterprises in the world and are the largest provider of employment, accounting for around 65% of the total work force available.

WSBI members are traditionally natural business partners of SMEs and follow their business development throughout SME's lifecycle. Important factors for the close relationship between savings and retail banks and businesses are the savings and retail banks' local presence and their clear focus on retail banking. It is for that reason that SMEs are very important for savings and retail banks due to their importance in the real economy and in the development of the local economy.

This focus on the real economy and, more concretely on SMEs, is shown in the fact that non-bank loans awarded by WSBI's European members during 2013 around 80% of the total loans awarded by WSBI members were destined to non-financial corporations, that is, to individuals, corporates and governments. However, in regions like Latin America, this percentage goes up to around 99%. The loans were distributed as follows: in terms of total amount, 54% was for individuals (consumer loans, housing loans, etc.), 40% for companies (60% for SMEs and 40% for large corporations) and only 6% for governments and public authorities. Hence, SMEs are an essential segment of clients for savings and retail banks. Since loans to SMEs are smaller than loans to bigger corporates, this means that the number of loans awarded to SMEs is much higher than the number of loans to big corporates.

However, SMEs are facing a global problem when trying to access financing. Indeed, SMEs could be involuntarily excluded from the credit market because of an excessive lending risk profile (worsened by the economic crisis that made the rate of non-performing ratios increase) or due to government or market imperfections (poor information environment, agent problems (e.g. moral hazard or adverse practices) and this could cause firms and individuals to be excluded from the credit market even in equilibrium.

On the demand side, SMEs claim to have difficulties in accessing credit and obtaining funding. Since many small firms do not issue bonds or sell equity in public markets, they rely on banks for borrowing. In current times, there are many SMEs that would like to obtain finance but they cannot find the appropriate funding. It could be for many different reasons: no credit available, too risky projects (or the low willingness of banks to take risks), not being able to ask for the right type of finance, banks are too demanding, etc. For example, the last survey on SME access to finance in the euro area, published by the ECB in April 2014, reported an increase in SMEs' need for bank loans between October 2013 and March 2014 as well as a deterioration in the availability of bank loans.

On the supply side, banks are the main suppliers for SMEs funding all across the world, due to its easier access and its lower costs. Although banks may have money ready to be lent, without complete information banks may deny loans to additional applicants. On the other hand, however, many WSBI members are claiming to have experienced a decrease in credit demand during these past years.

In order to close this supply-demand gap, some public authorities' initiatives include:

- In Asia, measures have been focusing mainly on enhancing bankability, mainly at national level, including credit guarantees, mandatory lending or improved infrastructures for SME lending. The Asia SME Finance Monitor provides participating countries with support to design a comprehensive range of policy options that promote innovative instruments and services in SME finance.

- In Africa, where SMEs are seen to have a major role to reduce poverty, SMEs have very low expectations to grow. Initiatives undertaken by the African Development Bank include the provision of partial credit guarantees and assistance to SMEs for their capacity development. The International Finance Corporation provides assistance for SMEs for the whole process, including analysis of business environment, training and tailored credit and investment. At regional level, different governments are at the moment more focused on reducing the legislative burden in order to facilitate the creation and development of SMEs; this is done through the establishment of Small business Acts or other regulatory measures aimed at improving the business climate and encouraging investment.

- In Latin America, Public Financial Institutions are increasing their support to SMEs through various instruments, such as the provision of guarantees or long-term credit lines. National development banks became a major fund lender but also provide financial services including not only loans and guarantees but also products like credit cards. Other public initiatives are oriented in issuing new guarantee schemes.

- In Europe, the European Commission released an Action Plan that includes many initiatives to ease SME access to finance, among others, loan and equity guarantees, an improved regulatory framework for Venture Capital, improved monitoring of the SME lending market and improving the SMEs access to capital markets.

- In the USA, current initiatives undertaken by the Small Businesses Administration include government-backed loans available through banks.

Although WSBI acknowledges that supranational organisations and governments are undertaking the aforementioned measures, it considers that more initiatives should be put in place. More in detail:

- In Asia, although the measures put in place such as the public credit guarantees are contributing to enhance SME bankability and reducing the gap, other measures should include:
  - Improving financial infrastructure, including the development of credit reporting infrastructures such as collateral registries;
  - Collaborating with governmental agencies for capacity building programs for SMEs;
  - Government agencies easing conditions for SMEs to receive all the necessary documentation for getting a bank loan.

- In Africa, improving access to credit is essential in order to allow SMEs to grow. So national governments should put in place more government-backed programmes that complement bank loans. Other measures should be focused toward the financial literacy of entrepreneurs (focused on elaboration of business plans, accounting practices, exchange of experiences…).

- In Latin America, many initiatives are taken at national level, so the focus should be put more on the horizontal coordination of these policies (given the interaction and complementarities between them) and governments should make sure that the tools reach all intended beneficiaries. Access to finance is one of the problems that, when removed, should boost the economy of the region.

- In Europe, programmes in place are proving successful, loan guarantees and risk-sharing facilities are an important part of EU financing going forward. However, excessive administrative burden and budgetary rules can sometimes make them not attractive enough.

On the basis of the aforementioned assessment, WSBI welcomes most of the initiatives designed to foster access to finance for SMEs, in particular loan guarantees and risk-sharing facilities, which will facilitate access to finance for SMEs through the easiest and cheapest way: the banks. This will help the economy of the different regions to grow. Despite the adverse conditions of the market, WSBI members are very committed to offer the necessary amount of lending to SMEs despite their capital and liquidity constraints.

## II. Building global economic resilience

### 1. Financial regulation

#### 1.1 Building resilient financial institutions

#### 1.1.1 Liquidity

In January 2013 the Basel Committee on Banking Supervision (BCBS) published the revision of the **Liquidity Coverage Ratio** (LCR) which mainly consisted of softening the proposal by enlarging the contingent of eligible assets, lowering the outflows rates and postponing the application of the rule. WSBI believes that the liquidity ratio has already had a negative impact on banking activities, consequently leading to a restraint on credit and on the world's economy. The credit reduction was intended to force banks to purchase a large amount of non-profitable liquid assets. However, the trend in the legislation is apparently changing: the European Commission is in fact currently softening the liquidity standards. Furthermore, WSBI is concerned with issues such as the potential impact of the LCR on special business models, such as that of decentralised institutions under Institutional Protection Schemes.

In the US, the provisions of the LCR that grant a reprieve from the LCR for smaller banks have been welcomed by ICBA, one of the WSBI's members in the USA.

At European level, the European Commission presented on 15 May 2014 a new proposal to the Member States on liquidity. The Commission's approach seems to be adapted overall in response to industry requests as well as to requests from Member States (in particular Denmark) and, most importantly, the European Central Bank (ECB):

- Covered bonds may finally be included as level 1 with a lower haircut (7%) than previously stated, and banks will be free to use the bonds for as much as 70% of their liquidity buffers, against the 40% of level 1 under the Basel III rules. It is indeed highly important that covered bonds are accepted as high liquid assets, and that the requirements connected to market size are set out according to national specificities.

- The requirements for ABS (securitisation instruments) will also be eased. It seems that the European Commission plans to retain the Basel Committee's limit of 15% of its required liquidity buffer in Level 2A, while it expands the range of such debt that can be used. Under the latest Basel text, this is limited to residential mortgage-backed securities (RMBS).

- Collective investment undertakings (CIUs) will be finally included into HQLA.

- With regards to state-guaranteed bank debt they will be finally included as high quality liquid assets which is a very satisfactory evolution. This asset-class appeared indeed as a widely used instrument in the worst phase of the financial crisis, when there was no possibility of funding in the liquidity markets.

- The bank's debt granted by sovereigns may eventually be considered as HQLA since it could be recognised as debt issued by promotional banks.

- Concerning the use of Committed Liquidity Facilities (CLF) for the purpose of the LCR the BCBS has modified the HQLA definition to provide greater use of central banks' CLFs under a committed fee system as advocated amongst others by Benoit Coeuré (ECB). The use of CLFs within the LCR has until now been limited to those jurisdictions with insufficient HQLA to meet the LCR. The CLF has been renamed as a restricted-use committed liquidity facility (RCLF) which must, in normal times, be subject to a commitment fee on the total (drawn and undrawn) facility amount that is at least the greater of: "75 basis points/year; or at least 25 basis points/year above the difference in yield on the assets used to secure the RCLF and the yield on a representative portfolio of HQLA, after adjusting for any differences in credit risk". WSBI considers this to be a positive modification as it will contribute to ease the burden of the compliance with the LCR to many financial institutions. WSBI also considers that CLFs should not be explicitly priced, and that these matters should be faced directly by national authorities.

- With regards to the use of minimum deposits held at central institutions in Institutional Protection Schemes (IPS) systems, WSBI believes that they should be fully acknowledged as HQLA Level 1 as they have historically proved their credibility resistance against liquidity runs.

On 12 January 2014 the BCBS published three documents aiming to finalise the work on the LCR and answering some remaining questions on liquidity disclosure, the use of market-based indicators of liquidity within the regulatory framework, and the interaction between the LCR and the provision of central bank facilities.

With regards to this topic WSBI considers overall that having uniform reporting for all banks, introduced at the same time, in the same template and with the same frequency, could be an appropriate measure in order to avoid misinterpretations by investors. However, we also are in favour of a proportionate approach in disclosure reporting in particular for those small banks that cannot afford to provide the exhaustive financial information required.

WSBI would like to stress that calculating a daily average of the LCR could become a very problematic issue for most banks since currently many are not at the stage of being able to calculate the LCR on a daily basis. It is also questionable what time frame should be used for an average calculation and whether an average or ultimo number would be most beneficial.

Concerning the template, we consider that it is quite detailed and it holds information on both weighted and non-weighted numbers of the LCR. This can lead to confusion when comparing with other data in a bank's financial information. The more details that are disclosed, the more information/clarification will be needed from each bank.

Moreover, as far as qualitative information is concerned, WSBI does not see the additional value of this given that, in times of stress, this kind of information may result in being especially negative for banks and financial groups. WSBI is indeed concerned with the strong effect that the proposed disclosure standards of liquidity position data could have in times of stress due to the unpredictable reactions of market participants. Any proposal for disclosure standards should try to avoid these misinformed conclusions as it risks worsening an already critical situation for institutions. Hence, any liquidity disclosure requirement needs to bear these potential consequences in mind, taking into account not only the market reactions to these disclosures, but also the different impact on every type of institution.

With regards to the **Net Stable Funding Ratio** (NSFR), the BCBS published on 12 January 2014 its revision of this liquidity ratio. With these changes the Basel Committee seeks to reduce cliff effects within the measurement of funding stability, improve its alignment with the LCR, and focus greater attention on short-term volatile funding sources. The BCBS revision document was also a consultative paper to which WSBI submitted a response, where it affirmed its support towards the BCBS's policy goals of limiting banks' overreliance on short-term wholesale funding, resulting in a greater funding stability within the banking sector. To address the cliff effects, the BCBS agreed to create two new "buckets" for maturities of up to six months, and between 6-12 months. These modifications may reduce the burden on retail banks but could be tougher on investment banks highly dependent on short-term funding.

Although some of these changes may reduce the burden of this liquidity ratio, the WSBI does not see the necessity of this ratio being applied and considers that it would create further liquidity shortages in the financial markets; moreover, some concerns still remain, such as the potential imbalances that can lead to deleveraging in the short term. There is currently a vast shortfall of stable funding and the introduction of the NSFR may delay the macroeconomic recovery since banks will try to adapt to anticipate the implementation of the rule.

At European level, the mention in the implementation text (CRR) that the general obligation for the NSFR is not a calibrated ratio or regulatory requirement (Article 401 a) is encouraging; institutions must report the NSFR components during the observation period, and the Commission will have to submit by 31 December 2016 a legislative proposal which aims to ensure that institutions use stable sources of funding.

As a result, WSBI considers that the most prudent approach would be to wait for the final Basel decision with regards to the NSFR.

### 1.1.2 Leverage ratio

On 12 January 2014 the BCBS released the finalised rules for leverage ratio reporting, due to enter into force on 1 January 2018. The latest publication clarified several queries stemming from a consultation on the leverage ratio undertaken by the BCBS during the second half of 2013. That consultation (released on 26 June 2013) presented a common formula that measures tier 1 capital as a percentage of total assets, both on and off the balance sheet, without any adjustment for risk. The finalised rules addressed some question marks on the denominator by improving definitions in relation to the treatment of off-balance sheet items and written credit derivatives amongst others.

WSBI considers that the definition and requirements for the leverage ratio should not deflect the ratio from its initial purpose within the Basel III rulebook as a simple backstop. Risk-weighted capital ratios, in particular the CET1 ratio, should remain the most important capital measure as, in contrast to the leverage ratio, the CET1 ratio is based on a risk-sensitive approach.

A higher level of the leverage ratio would penalise excessively financial institutions that operate primarily in low risk and high volume instruments, such as savings and retail banks. This is why the leverage ratio should be capped at 3% and applied only at a group consolidated level. The leverage ratio should constitute only a backstop; if the leverage ratio is higher than 3% or applied at entity level, it will encourage banks to move towards riskier assets with higher returns.

Setting the leverage ratio above 3% would inevitably have an impact on the real economy too, for it would distort the ability of WSBI members to provide funding and credit to the SMEs segment and penalise the provisioning of financial products that are more secure as the returns on these products would be insufficient to cover the cost of the required regulatory capital.

Although the leverage ratio should serve as a simple measure offering protection against model risks and uncertainties in risk measurement, it would disproportionally impact the lower risk segment as a flat rate capital charge will become binding for products with smaller margins first. WSBI believes that migrating the leverage ratio to Pillar I would bring unintended consequences such as the false incentive to switch to riskier business given the same capital base or to penalise particularly low-risk business models.

The requested quarterly disclosure of the leverage ratio is, in WSBI's opinion, excessive; annual disclosure intervals would be more suitable. Furthermore, the disclosure in the annual financial statements proposed is considered as inappropriate; it would be more appropriate to disclose the leverage ratio in combination with the supervisory ratios in the Pillar 3 reports.

WSBI is concerned by recent trends whereby individual nations both in North America and Europe have taken the initiative to set a higher level than the three percent limit proposed by the Basel Committee. Recent announcements from the US as well as the Dutch and UK regulators which welcome, or in the case of the US have already implemented higher levels of the leverage ratio, are deeply concerning to WSBI and its members. We recognise that the US market is characterised by a higher level of securitisation than for example the European market and that it may therefore be advisable to have a different approach to calculating the leverage ratio between these two areas. However, we are very concerned by the recent announcements by some European regulators including the Dutch and the British which appears to encourage a higher level for the leverage ratio at a national level. Different levels of leverage ratio for countries with similar market structure would lay the foundation for an un-level playing field and would disproportionately punish financial institutions within the higher-rate jurisdictions.

### 1.2 End too-big-to-fail

The Financial Stability Board (FSB) received the mandate from the G20 to develop **more stringent supervisory rules for systemically important financial institutions (SIFIs)**. In an attempt to ensure a more effective Risk Appetite Framework (RAF), the FSB's draft principles contain comprehensive, detailed requirements applicable first and foremost to the frameworks that need to be implemented by SIFIs. WSBI welcomes these draft principles in the respect that we believe it is important to create a common global framework and, in particular, the creation of a common terminology.

Yet, at the same time, the FSB also recommends transferring the principles to all other financial institutions and to have their compliance verified by national supervisors. However, from our point of view, the FSB's detailed requirements concerning the RAF should exclusively apply to SIFIs. In this context it is worth noting that several Member States have already implemented a principle based framework for minimum requirements with regard to banks' risk management, specifically concerning the underlying risk strategy, risk capacity and risk limits. These frameworks are often already sufficient for an appropriate risk appetite framework of banks. In several Member States these requirements already apply to all banks and they have been tried and tested. Notwithstanding the foregoing, should there be a genuine need to subject all banks to more clearly detailed requirements, in our view, these rules should reflect the nature of high level principles to a greater extent. Hence, we hold the view that the FSB final stance should take greater account of the heterogeneity of the banking community on the whole. Contrary to a detail-oriented approach, in some jurisdictions a regulatory approach that is based on high-level principles including the so-called principle of double proportionality has stood the test of time.

Moreover it is our understanding that the FSB's proposal of introducing a minimum **total loss absorption capacity (TLAC)** at globally systemically important banks (GSIBs) between 16% and 20% of risk-weighted assets and at least twice the Basel III Tier 1 leverage ratio requirement is given serious consideration.

In Europe, lawmakers adopted the Bank Recovery and Resolution Directive (BRRD) and require banks to meet a *minimum requirement* for own funds and eligible liabilities (*MREL*), capable of being bailed in if necessary. In fact, the MREL seems to be a more flexible and adaptable tool than the proposed TLAC, which gives the impression of being rather rigid. Moreover, the latter appears to be to the particular benefit of the Anglo-Saxon banking model. Based on the assumption that the TLAC would become a binding law, WSBI is of the opinion that it is of utmost importance that the BRRD and the MREL are taken appropriately into account. In case MREL does not receive appropriate consideration, affected banks would have two options: first, they could try to change their structures and adapt to the Anglo-Saxon banking model of "bank holding companies". However, this is simply not possible for a great number of banking groups, in particular European banking groups, with regard to their capital and organisational structure. The second option would be that affected banks would have to massively issue a new type of subordinated debt, which would be very expensive and would not necessarily include the guarantee of finding investors (maybe except for some hedge funds). Many assets could end up in the non-regulated markets. At any rate, banking institutions would have to reduce their lending activities to the economy, which would have detrimental effects to the current economic situation in many parts of the world. Therefore, it is crucial that the European MREL are recognised as an equivalent tool in the discussions of introducing the TLAC and that the level playing field among banks at a global scale is ensured.

Another way of mitigating the too-big-to-fail risk lies in the **separation of activities**.

In the US the Volcker Rule, which is now a part of the Dodd-Frank Act, came into force on 1 April 2014. The next step is in July 2015 when the end of the extended conformity period on the Volcker Rule is reached and the deadline to comply with the swaps push-out rules is set. In the US, WSBI's member ICBA has shown its satisfaction with regards to the Volcker Rule as it will address the excessive risk-taking activities, proprietary trading and the too-big-to-fail problem.

In the European Union, different approaches are under discussion with regards to banking structure reform; the Volcker rule-like French and German models, the Liikanen Report, and the Vickers Report approaches. WSBI considers that there is no need in the European Union for further banking regulation since it would be better to wait until the upcoming rules come fully into operation. An eventual structural reform should carefully assess the interaction and overlap with on-going and upcoming banking rules, the economic situation and the current difficulties by some SMEs to access funding. Furthermore, the role of the savings and retail banks in Europe should be carefully considered. They provide a full set of banking services to their customers: individuals and SMEs. Both an eventual separation of the trading activities (such as market-making), or a prohibition on some activities (such as proprietary trading), which are key for the provision of banking services to customers, may be detrimental to the role of banks in the provision of banking services and lending, and therefore may affect economic growth.

Taking into account specific features like centralised/regional-local structures is of utmost importance for the retail and savings banks with regards to **recovery and resolution regimes** which aim to solve the too-big-to-fail issue. WSBI is in favour of leaving to the discretion of national governments to allocate the resolution authorities, as it has been decided in the European Union; national authorities should indeed be allowed to decide whether or not to create a separate entity for resolution purposes. In general, we think that the most pragmatic and efficient solution is to place the resolution authority, and hence its tools and powers, within the respective supervision authority; nevertheless, an organisational separation of these new tasks from supervisory duties is needed in order to avoid conflict of interest.

The introduction of the obligation to submit separate recovery plans and to elaborate resolution planning can be considered, provided that the specific case of smaller institutions with a regional focus is adequately addressed by contemplating less detailed and less burdensome recovery plans/ resolution planning for these institutions. Notably, there are supervisory rules in place which already require these types of financial institutions to regularly identify their core businesses, as well as the associated strategic risks, and to prepare action plans for stress situations. This situation has been acknowledged in the European Union in the newly agreed upon Bank Recovery and Resolution Directive (BRRD) when credit institutions are members of an institutional protection scheme (IPS). In addition, WSBI doubts that preparing a recovery plan at every level – i.e. at solo level as well as at group level – is in fact necessary. Recovery plans need to be proportionate and should usually be made at group level.

With regards to preventative powers, WSBI objects in particular, but not only, to highly intrusive measures like an *ex ante* limitation of exposures and to the proposed power to limit or prohibit existing or planned activities. Instead of a separation in the legal or operational structure of an institution, the approach of the OECD regarding non-operating holding companies (NOHC) could be applied. This consists of an allocation of own funds, which has been defined *ex ante*. In general, the mildest means should always be preferred.

Triggers should not only be defined by ratios, but they should also be combined with market data if applicable (e.g. credit spreads). In addition, a mixture of hard triggers and qualitative judgements, which would give the supervisory authority more flexibility in the means of soft triggers, would be welcome.

With regards to the bail-in-able instruments, the main objectives do not have to be missed, in particular the fact that the attractiveness of these instruments has to be considered in order to enable adequate funding for the banks. The effect on the interbank market would have to be carefully analysed, as well as the danger of increasing systemic risk, and the interaction with the LCR requirements should not be neglected. In addition, WSBI is not convinced that a minimum requirement for bail-in-able liabilities is relevant, even though some jurisdictions such as Europe and the US are aiming in this direction. Furthermore, to be implemented properly, such a tool should also be adapted to institutions which are not joint stock companies, namely: institutions under public law, institutions without private equity, ownerless institutions, or cooperative groups.

Lastly, confidentiality is a primordial element especially concerning the recovery and resolution plans as it would undermine the efficiency of the framework put in place.

### 1.3 Address shadow banking risks

Since the Seoul Summit in November 2010 the G20 leaders have issued regulatory and supervisory initiatives to address shadow banking practices and entities. According to the FSB, shadow banking can be defined as "a system of intermediaries, instruments, entities or financial contracts generating a combination of bank-like functions but outside the regulatory perimeter or under a regulatory regime which is either light or addresses issues other than systemic risks and without access to central bank liquidity facility or public sector credit guarantees".

On 29 August 2013 the FSB published three documents: 1) a Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos, 2) a Policy Framework for Strengthening Oversight and Regulation of Shadow Banking Entities and 3) a document that comprises an overview of the measures taken so far and the roadmap of the initiatives to come on five specific areas in which it believes policies are needed to mitigate the potential systemic risks associated with shadow banking.

At the September 2013 Moscow Summit, the G20 leaders recognised that nonbank financial intermediation can provide an alternative to banks in extending credit to support the economy. They agreed to work towards timely implementation of the recommendations that have been made while taking into account country specific circumstances. They welcome the respective FSB reports and agreed on a roadmap for future initiatives. The FSB began a quantitative impact study to assist in finalising the proposed regulatory framework for haircuts on securities financing transactions.

Furthermore during this time-lapse, several regulation proposals on shadow banking elements have been submitted by national and international bodies: an example of this can be found for Money Market Funds, markets that detain capital goods and can represent a financing alternative to the banking sector. In June 2013 two different proposals on MMFs were issued: one by the European Union and the other one by the US. The divergent US and European proposals on MMF regulation are bound to create problems for fund managers across the world, particularly for funds in America that are permitted to retain a constant NAV and their counterparts in Europe could only do so by holding a 3% capital buffer.

Generally speaking, WSBI is in favour of the initiatives taken both at international and national level to address the risk stemming from shadow banking entities. Shadow banking entities can be dangerous for the normal functioning of the financial system as they are difficult to monitor and help to circumvent the rules of the banking system. They entail a competitive disadvantage for the banking business and moreover they can end up accumulating huge risk to the system. The measures which are currently being undertaken will help to reduce the risk of shadow banking by increasing transparency, extending regulation to non-bank entities and addressing risks that can arise from the link between banks and non-banks. It is important that the initiatives on shadow banking focus on shadow banking entities and not on specific activities such as securitisation, securities lending and repos. These activities are already regulated under some regulations (such as CRR/CRD IV in the European Union) for credit institutions, but we have to prevent other non-regulated entities from performing them outside the regulatory framework.

However not all non-banks are what we understand as shadow banking and we should be very careful when undertaking future measures in this regard. Indeed specific situations should be taken into account such as the ones encountered by some WSBI members who are other financial intermediaries (OFIs) or partnered with OFIs which are defined as "All financial institutions and quasi-institutions which are principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits and/or close substitutes for deposits from institutional units other than monetary financial institutions, or insurance technical services." Indeed some OFIs are Non-Bank Financial Institutions (NBFIs) that are engaged in lending by involving the flow of capital from savers to borrowers. Through non-bank financial intermediation, final borrowers still access loans, leases and mortgages; this serves the purpose of financial inclusion which is a major concern for WSBI members, in particular in developing countries.

In case these OFIs would be strictly regulated by falling under the scope of shadow banking, this may undermine their role in the area of financial inclusion. This is why WSBI suggests that a specific regime can be applied to these entities which aim to be beneficial to society as a whole.

## 2. Tax

WSBI members support the ongoing initiatives to address tax avoidance and evasion, both at a global and EU-level. WSBI recognises that information-sharing in order to combat tax avoidance and tax evasion is inevitable and we are grateful for the opportunity to represent our members in the different foras where these standards are currently being developed such as the Business and Industry Advisory Committee (BIAC), which is an independent international business association devoted to advising government policymakers at the OECD.

We believe that it is imperative to have one system for multilateral AEOI and ask the different institutions (the OECD, the European institutions, the US IRS) involved to consider the enormous reporting requirement placed on individual institutions, and to coordinate the request for information so that all information can be standardised and provided in the same format worldwide.

With the final publication of the CRS by the OECD and the subsequent endorsement by the G20 finance ministers in September this year we believe that an appropriate global standard has been established. Our fear is that lower-level regulations for the CRS will stray from the original text thus establishing multiple reporting systems worldwide. We must raise a critical concern regarding the absence of thresholds for individuals' accounts in the new global standard. We are concerned that without thresholds for these accounts the data volumes for reporting entities and tax jurisdictions will become disproportionately high compared to the tax recuperated.

One global standard will ensure that a level playing field is established globally as all jurisdictions participating in the information exchange would be subject to the same requirements. It will also ensure that smaller institutions such as savings banks are not subjected to a disproportionately large reporting requirement putting them at a competitive disadvantage to larger and more diversified financial institutions.

[i] The WSBI member banks in G20 countries are: Caixa Economica Federal do Brasil, Postal Savings Bank of China, Caixa Economica Postal de Macau, Banque Populaire Caisse d'Epargne (BPCE) (France), Deutscher Sparkassen- und Giroverband (DSGV) (Germany), NABARD (India), National Savings Institute Government of India, P.T. Bank Tabungan Negara (Persero) (Indonesia), Associazione di Fondazioni e di Casse di Risparmio (ACRI) (Italy), BANSEFI (Mexico), Postbank (South Africa), Korea Federation of Savings Banks (KFSB) (Republic of Korea), Dongbu Savings Bank (Republic of Korea), Korea Post (Republic of Korea), Şekerbank (Turkey), Lloyd's Banking Group (UK), ICBA (USA), Wells Fargo (USA).

[ii] Research commissioned by WSBI on "Access to Finance- what does it mean and how do savings banks favour access" published in 2006 found that 1.4 billion accounts exist at institutions with an explicit mission to foster access across the developing and transition economies of the world and that WSBI members were the largest suppliers of these accounts supplying more than three quarters of the total. Today it is estimated that WSBI members account for some 600 million out of a total of circa one billion active accounts held by low income segments worldwide. This estimation is based on findings from the WSBI "Doubling Savings Accounts for the Poor Programme."

## About WSBI (World Savings and Retail Banking Institute)

**WSBI – The Global Voice of Savings and Retail Banking**

WSBI brings together savings and retail banks in all continents and represents the interest of 6,200 financial institutions. As a global institution, WSBI focuses on issues of global importance, affecting the banking industry. It supports the aims of the G20 in achieving sustainable, inclusive and balanced growth and job creation around the world, whether in industrialised or less developed countries. WSBI favours an inclusive form of globalization that is just and fair, supporting international efforts to advance financial access and financial usage for everyone. It supports a diversified range of financial services that responsibly meet customers' transaction, savings and borrowing needs. To these ends, WBI recognizes that there are always lessons to be learned from savings and retail banks from different environments and economic circumstances. It therefore fosters the exchange of experience and best practices among its members and supports their advancement as sound, well-governed and inclusive financial institutions.

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