International Banking Federation

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Mr. Svein Andresen
Secretary General
Financial Stability Board
Bank for International Settlements
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Email: fsb@fsb.org

Dear Mr Andresen,

Re: G20 summit in Hamburg on 7 and 8 July 2017

At this important juncture, the International Banking Federation (IBFed[1]) would like to provide some thoughts to the international governing community on the importance of creating an environment for economic growth and prosperity.

Importance of Growth Agenda

As the regulatory architecture was revised over the past few years, the IBFed has been an active participant in the various consultation processes and has recently observed the challenges in the finalization of the Basel III standards. In our letter to the G20 dated November 30, 2016, we emphasized the central role that banks play in economic growth and stressed the importance of ensuring that the regulatory foundation of banks as economic intermediaries supports the economic growth objective. We would like to emphatically state that we support international standards as an important foundation for growth of the world economy. However, there is a global consensus amongst IBFed members that standard setting bodies such as the Basel Committee, FSB and IOSCO and other regulators should give closer consideration to balancing prudent supervision, sustainable regulation and

[1] The International Banking Federation (IBFed) was formed in 2004 to represent the combined views of our national banking associations. The IBFed collectively represents more than 18,000 banks, including more than two thirds of the largest 1000 banks in the world. IBFed member banks play a crucial role in supporting and promoting economic growth by managing worldwide assets of over 75 trillion Euros, by extending consumer and business credit of over 40 trillion Euros across the globe, and by collectively employing over 6 million people. The IBFed represents every major financial centre and its members' activities take place globally. This worldwide reach enables the IBFed to function as a key international forum for considering regulatory and other issues of interest to the global banking industry.

economic growth, from a holistic perspective, in order to manage the risk of overregulation stifling healthy economic activity with a balance risk-reward profile. Moreover, we believe that preserving risk sensitivity in the system is crucial to help banks better finance the economy and enhance their ability to carry out their function as financial intermediaries.

While banks are committed to financing the economy, there is increasing concern that excessive regulations will make it very difficult to do so. There has been so much regulatory change and there are so many additional increases to regulatory capital requirements being considered, that we believe this could unbalance the position of internationally active banks in the near future and impede their ability to support robust global growth. As the Basel Committee is now trying to finalise its package of reforms we believe it is equally important to determine the economic impact of these regulations. And once the new standardized approaches are finalised banks can decide what business they wish to participate in and price more accurately for the full impact to their consumers.

It is our view that regulators need to pause in light of what has already been accomplished, and to focus on how to facilitate global growth. We emphasise that jobs, growth and safety and soundness are not mutually exclusive - there is a balance that needs to be found, not a trade-off. A pause would allow time for standard setting bodies and other regulators to reassess the current policy direction, and to develop sound policies that are collectively calibrated to ensure a resilient banking sector and to encourage growth. Now that we have achieved stability in the financial system, we firmly believe that a global framework that balances the need for stability and the need for jobs and economic prosperity would lead to robust growth.

We believe in international cooperation and support the efforts of the Basel Committee and other regulatory bodies in establishing international standards for globally active banks. However, we are concerned that, at this juncture, the credibility of the Basel Committee risks being undermined, which could be contrary to the growth objective. There is concern that loss of appropriately applied standards could significantly increase the complexity and cost of transacting across borders and would lead to reduced global activity and economic growth and prosperity. However, a pause in policy initiatives would allow time to recalibrate the existing standards in a holistic way that enhances the credibility and useful application of the standards, thereby reinforcing the growth objective, while at the same time promoting safety and soundness for the world economy.

Consistent Implementation

One of the other benefits of such pause is that it would permit a closer look at what may be leading to unnecessary divergence in the implementation of cross-border regulations. Some of these differences in the implementation of certain requirements across jurisdictions can prove problematic by increasing complexities and costs and potentially creating operational risks. We note for example that derivatives margin requirements are being applied in different ways in different places. This does not serve cross-border activity well, and we believe that greater emphasis should be placed on encouraging the principles of mutual recognition.

As well as comparable interpretation and implementation, the promotion of common definition may also promote the goal that regulations and their application continue to be harmonised and that the global regulatory framework is strengthened. In some cases, lack of clear and common definitions may act as a barrier to strengthening commerce on a cross-jurisdictional basis.

There have also been particular concerns raised at the apparent lack of global coordination behind various reporting requirements. Although organisations such as CPMI and IOSCO, as mandated by the FSB, continue their work towards increasing harmonisation in this area, our members have found that their banks are often subject to excessive, duplicative and overlapping data requests by regulators who often are not able to analyse the data they are requesting. Excessive data reporting requirements risk failing in their goal to improve financial stability and support regulatory bodies achieving their regulatory objectives. Instead it may generate duplicative or inconsistent reporting requirements and high costs which may be passed onto the consumer, and distract investment and resources from driving innovation and better customer outcomes.

Alignment of Regulatory and Accounting Frameworks

Better alignment between the regulatory and accounting frameworks is needed. While it is true that the objectives of financial reporting and prudential regulation are different, the interaction of the accounting and prudential frameworks is increasing in importance given that the accounting figures are in principle the starting point for calculating regulatory capital and regulatory risk data.

This can be illustrated by the recent change in IFRS standard on leases that introduces fundamental changes in accounting for operating lease. The requirement to recognize operating leases on the lessee’s balance sheet will negatively impact the capital, leverage and net stable funding ratios of institutions that rent property and equipment. The introduction of the expected loss approach for loan loss provisioning by accounting standard setters is another area where efforts are being made to align the accounting and regulatory approaches. In the current set-up there is an overlap, leading to a significant double counting of a single potential loss both by capital and accounting provisions. In addition to ensuring that there is no double counting, we believe that accounting changes should be fully coordinated with capital, including such as when there is no change in risk.

To address these concerns, we recommend that a review mechanism should be put in place at the international level to allow a systematic assessment of the impact of prospective accounting changes on the regulatory framework. Such assessment should be done in a timely manner to ensure that the envisaged changes to the prudential framework or transitional arrangements are coordinated with the effective date of the revised accounting standard.

Regulation and Consumer Protection in the Digital Age

The first G20 consumer summit which was held on 7 April 2017 issued a number of recommendations in order to both strengthen and protect consumers in digital market. These recommendations related to issues such as consumer control over personal data, consumer privacy, and holding digital providers accountable. While digitalization brings many advantages into the daily lives of consumers and indeed empowers the customer vis-à-vis the intermediary, changes in regulation have also resulted in an increasing number of organizations other than banks (e.g. FinTech start-up or non-banking FinTech) having access to data from (bank) customers. It is important to note that in the eyes of the consumer, banks still bear the responsibility for their data as well as the liability and risks. We think it is important to make sure that consumers are informed about the consequences when they allow third parties to access and use their data. We also support appropriate efforts to step up digital education & awareness, and to protect against fraud and abuse.

In general, we note that discussions on FinTech developments and a potential framework are just in their infancy, and there are no world-wide overarching standards. While regulations specifically addressing non-banks providing bank-like services are for now not pervasive across the world, we appreciate that almost every banking supervisory agency is monitoring FinTech issues closely with regard to potential regulation. Conducting extensive research before issuing any guidance is appropriate because any potential regulations could have long lasting effects on the financial services industry and the consumers it serves.

Governments considering proposals related to FinTech should ensure that the policy underlying the existing bank regulatory framework is maintained and that applicable rules are applied evenly and fairly across every entity that provides a financial service, whether it is a chartered financial institution or not. To customers, a loan is a loan and a payment is a payment, regardless of the provider. Regulators should thus be guided by a 'same-services/activities, same risks, same rules' principle. A point in case is the current treatment of software in some jurisdictions. Banks need to invest in software development to remain competitive and to strengthen their cybersecurity. However, software investment remains penalized as it has to be deducted from capital instead of being risk weighted as an ordinary asset, like premises and equipment.

It is our view that it is important to clarify that FinTech refers to "financial" and "technology" meaning the application of new technologies to financial services. It is however sometimes understood as referring only to start-ups or tech-giants that develop innovative financial services solutions. Innovative financial technology based solutions and services are increasingly being developed by banks. This is why it is important to point out that the "FinTech" concept should be understood as finance enabled by or provided via new technologies, affecting the whole financial sector in all its components. Whereas the value chain increasingly includes alternative actors such as start-ups or tech giants, any actor can be a FinTech, regardless of the kind of legal entity it is. The FinTech concept should be connected to the products and services offered to the client and should therefore be activity/services-based. This will ensure consumers are protected and do not inadvertently participate expecting the same protections to exist.

It is also important to ensure that regulation of the digital and data economy is designed and implemented so as to interface effectively with financial services regulation to avoid conflicts and tensions. For example, implementation of the General Data Protection Regulation across member states should ensure that financial services firms are able to meet their other regulatory obligations, in particular the prevention of fraud. Ensuring the current framework is up to date, future-proof and does not impede innovation and competitiveness in the Digital Market for financial services remain of paramount importance.

The Role of Taxation in the Economy

We would like to share the concerns of our members regarding the rationale, incidence and implications of imposing additional taxation on the banking sector. It is time for governments to revisit the overall impact of taxation of the banking industry on the overall economy, including on the efficiency and availability of banking services. We believe that when contemplating the tax treatment of banks, the international governing community should consider the points set out below.

A strong banking system is critical to all economies. It provides vital intermediation, services and products, helping customers, businesses and communities to grow and prosper. It is important to remember that bank taxation is ultimately borne by customers, employees, suppliers and/or shareholders. Moreover, bank taxation implies that profitability is something to be penalised where, in fact, the banking industry's profitability benefits and supports the whole economy.

Investor confidence in any particular bank is based on confidence in that bank and the broader framework within which it operates – including political, legal and taxation frameworks. Bank taxation impacts investor confidence and where punitive it creates political uncertainty. There is concern that banks are being singled out, and that they can be repeatedly and indefinitely targeted for more tax without consideration for the consequences on those who depend upon banks and their services. Unwise tax policies will affect banks' ability to compete for funding and capital on a global basis and potentially increases the risks, which in turn potentially impacts on the credit ratings of banks and therefore their cost of funds.

The banking system is very competitive, and truly global. Banks typically provide consumer, business and institutional banking services, wealth management and administration services and insurance services to customers domestically and globally. Banks compete for customers, products, pricing and funding.

Conclusion

Overall, we would like to stress to the G20 the importance of embracing the growth agenda. This means not only ensuring that regulation is geared towards growth, but also that it is implemented consistently and that consumer data and privacy are protected in the rapidly developing FinTech start-up/non-banking FinTech space. It also crucial to ensure that the accounting framework does not create distortions on the capital front, and that jurisdictions do not erode investor confidence and create competitive distortions through inappropriate taxation that is eventually borne by the consumer.

We thank you for taking our concerns into consideration, and would be pleased to discuss our thoughts at your convenience.

Yours sincerely.

Mrs. Hedwige Nuyens
Managing Director