



April 3, 2019

Sent by email

Neil Esho
Deputy Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel, Switzerland
Neil.Esho@bis.org

Re: Proportionality in Regulation at the Global Level

Dear Mr. Esho:

I am writing to thank you for meeting with World Council of Credit Unions (World Council), the Canadian Credit Union Association, the Credit Union National Association of the USA and the Customer Owned Banking Association of Australia last week to discuss the principle of proportionality in the Basel regulatory framework and the prospect of additional work on regulatory proportionality at the global level including a public consultation.

World Council and our members believe that additional Basel Committee on Banking Supervision guidance is needed in order to achieve the goal of better proportionality in regulation. Many policy factors encourage national-level regulatory agencies to adopt Basel Committee standards for non-complex, domestically focused deposit-taking institutions, such as credit unions and other community-based mutuals, notwithstanding that the Basel framework is intended only for internationally active banks.

Many national-level policymakers will continue to feel obligated to apply Basel III and other Basel Committee standards to non-complex, purely domestic deposit-taking institutions unless the Committee outlines more clearly the factors that justify applying less complex regulatory approaches to less complex institutions.

We urge the Committee to issue additional guidance on proportionality in regulation in the form of a set of high-level principles or weighing-factors on when less complex regulatory approaches can be warranted, such as:

- Whether the institution has cross-border operations;
- The complexity of the institution's assets and liabilities;



- The asset-size of the institution;
- The extent of the institution’s leverage;
- The institution’s interconnectedness with the financial system;
- The degree to which the institution reports to multiple prudential supervisors;
- The extent and nature of the institution’s off-balance-sheet exposures; and
- The mix of business activities of the institution, such as whether it engages in community banking, commercial banking and/or investment banking.

We believe that the Committee issuing clearer guidance on the factors that make it appropriate for national-level regulators to consider more proportional regulatory approaches—building on the Committee’s recent report *Proportionality in bank regulation and supervision – a survey on current practices*¹—is a necessary step towards striking a more proportional balance in regulation.

We also welcome the suggestion of a public consultation on the issue of proportionality. We believe that a public consultation on proportionality would receive input from a wide range of smaller, less-complex banking institutions that are impacted by disproportionate regulatory burdens, including joint-stock community banks, savings banks and building societies in addition to credit unions and other cooperatives.

Guidance endorsing institutional diversity and competition in the financial system could also help make regulatory burdens more proportional. Competition from credit unions and other mutual deposit-taking institutions can help promote financial stability by creating a more diverse financial system that is better able to withstand shocks.

Without increased proportionality, the regulatory burdens associated with Basel III and other Basel standards will continue to exacerbate the “too big to fail” problem by allowing the largest deposit-taking institutions to use their market power to get even larger while at the same time increasing the rate of consolidation among community-based deposit-taking institutions.

World Council and its members deeply appreciate the opportunity to discuss the principle of proportionality with you and your colleagues and to urge further work on proportionality at the global level. If you have questions about our comments, please feel free to contact me at medwards@woccu.org or +1-202-843-0702.

Sincerely,

Michael S. Edwards
SVP and General Counsel
World Council of Credit Unions

¹ Basel Committee on Banking Supervision, *Proportionality in bank regulation and supervision – a survey on current practices* (March 2019), available at <https://www.bis.org/bcbs/publ/d460.htm>.