UBS AG
P.O. Box
8098 Zurich
Tel. +41-44-234 11 11

Governmental Affairs

Steve Hottiger
Bahnhofstrasse 45
8001 Zurich
Tel. +41-44-234 50 64
steve.hottiger@ubs.com

www.ubs.com

The Financial Stability Board
Centralbahnplatz 2
CH-4002 Basel
Switzerland

By email: fsb@fsb.org

Zurich, 11 May 2017

Consultative Document "Proposed Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms"

Dear Madam/Sir,

UBS would like to thank the Financial Stability Board for the opportunity to comment on the Consultative Document "Proposed Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms". UBS welcomes the FSB's endeavour to evaluate the impacts of regulatory reforms which we consider of utmost importance both pre- and post-implementation of reforms.

UBS supports the response letters of the joint associations group – consisting of GFMA and ISDA – as well as the one by IIF. To complement the letters by the associations, we would like to highlight the following aspects of high importance to UBS.

1. Intended vs. unintended consequences

UBS is conscious of the fact that measuring clear cause-effect relationships of regulations will face certain challenges – primarily driven by the combination of a multitude of factors being at play. Nevertheless, when evaluating the effects of a regulation, we propose to conceptually differentiate between intended and unintended consequences in the following way:

- **Intended consequences** of a reform should be defined in a focused way in order to have a meaningful outcome of the analysis. We see a reduction in the probability of a bank's failure as fundamental indicator. The proposed sub-indicators could be (i) an increase of resilience and (ii) an improvement of resolvability.
- **Unintended consequences** should be measured along the following dimensions: (i) increase in economic costs, (ii) reduction of availability of financial services (both at a macro and micro level, e.g. country level and client sub-category level such as SMEs) and market liquidity, (iii) pressure on profitability reducing the product offering (with subsequent losses of diversification) and increasing the regulatory fixed costs, which implies increased barriers to entry, (iv) move of activities into the shadow banking sector (i.e. risk transfer instead of risk elimination), and (v) impact on income/wealth distribution.

2. Proposals regarding individual reforms or interacting set(s) of reforms that should be initially considered

UBS understands that the FSB is targeting to assess 1-2 reforms per year. Given the implied need for a strict prioritisation, we propose to focus on those reforms where the impact assessment has the highest utility (measured in terms of minimisation of unintended consequences). Concretely, we see this being the case in **two overarching areas**:

- **Cumulative effects**: Rules that are designed to serve as backstops but instead operate as binding constraints may lead to a situation where one regulatory target is attempted to be achieved by more than one regulation or regulatory requirements are being ratcheted up by reference to each other, leading to cumulative effects. Concretely, we propose to **focus** primarily on the **effects of** the **Leverage Ratio and proposed capital floor requirements on an RWA basis** (if implemented), **complemented by stress testing** in various jurisdictions.

- **Conflicting incentives**: We observe that a number of regulatory requirements may impose conflicting incentives on banks and other market participants. Especially in the context of reforms being implemented over time, "sunk costs" – such as adjustments to banks' legal structures and business models or capital instruments that have been issued and are no longer recognized – need to be taken into account. We see areas of conflict in particular between resolvability requirements and prudential rules. In terms of impact assessment, we propose to **prioritise** the following **three** interacting **sets of reforms**:
    - **Single Point of Entry** (SPE) resolution strategy **vs. single entity self-sufficiency requirements:** Whereas an SPE strategy foresees a significant amount of fungible loss-absorbing capacity on a firm's top-level, single-entity requirements may lead to a situation where either a firms' stability is weakened due to a fragmentation and lack of fungibility of resources or the sum of the parts significantly exceeds the group requirement.
    - **Treatment** of **HQLA** for the **calculation** of the **leverage ratio denominator:** Whereas the LCR requirements incentivise HQLA holdings with low asset returns, the Leverage Ratio requirement – which does not foresee an exclusion of HQLA in the LRD calculation – offers contradicting incentives.
    - **Margin requirements** for **derivatives transactions and leverage ratio requirements:** Similar to the treatment of HQLA, margin requirements for derivatives transactions intended to provide additional stability in the system are being counteracted by Leverage Ratio requirements.

To close, UBS considers it paramount that the FSB publishes results on an ongoing basis in a transparent manner. It should be possible for the financial industry to comprehend gross costs and gross benefits, rather than a net effect (only). We look forward to this evaluation of the effects of the financial regulatory reforms being an ongoing dialogue and close collaboration. In the future, we would also very much appreciate if the conducting of impact assessments prior to the agreement on new regulations would become an integral part of the policy formulation process.

We would be very happy to discuss with you, in further detail, any questions you may have. Please do not hesitate to contact Thomas Pohl (thomas.pohl@ubs.com; +41-44-234 76 70).

Yours sincerely,

UBS AG

S. Hottiger

Steve Hottiger
Managing Director
Head Governmental Affairs

Th. Pohl

Thomas Pohl
Managing Director
Head Governmental Affairs International