September 30, 2020

Submitted electronically

Randal K. Quarles
Chair
Financial Stability Board
Bank for International
Settlements CH-4002
Basel, Switzerland

Re: Evaluation of the effects of too-big-to-fail reforms Consultation Report

Dear Chairman Quarles:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on your Consultative Report on the *Evaluation of the effects of too-big-to-fail reforms Consultation Report.*[1] Credit unions are cooperative depository institutions and World Council is the leading trade association and development organization for the international credit union movement. Worldwide, there are over 85,000 credit unions in 118 countries with USD 2.1 trillion in total assets serving 274 million physical person members.[2]

World Council supports the Financial Stability Board's (FSBs) objective "to examine the extent to which the reforms are reducing the systemic and moral hazard risks associated with systemically important banks, as well as their broader effects on the financial system."[3] We would, however, ask that the FSB consider the issues stemming from too-big-to-fail (TBTF) reforms that are unique to credit unions.

World Council response to FSB's Questions for Consultation are below. (We do not have any comment submissions for the questions that were omitted):

Overall:

1. Does the report draw the appropriate inferences about the extent to which TBTF reforms have achieved their objectives?

World Council agrees that the report outlines the extent to which TBTF has achieved their objective. We, however, with the understanding that TBTF reforms are aimed specifically at

[1] Financial Stability Board, *Evaluation of the effects of too-big-to-fail reforms Consultation Report*, June 28, 2020; available at: https://www.fsb.org/wp-content/uploads/P140420-1.pdf.
[2] World Council of Credit Unions, *2018 Statistical Report* (2019), *available at* http://www.woccu.org/publications/statreport.
[3] See, *Evaluation of the effects of too-big-to-fail reforms Consultation Report*, Preface, June 28, 2020.

both global and domestic systemically important bank (SIBs), believe credit unions fall subject to these reforms through trickle down assignment by national regulators that find it difficult to bifurcate the application of TBTF reforms from financial cooperatives such as credit unions. With the understanding that the objective of TBTF reforms are to reduce “the systemic and moral hazard risks associated with systemically important banks, as well as their broader effects on the financial system”; we realize that in effect these reforms have likely affected the operational ability of credit unions. World Council asks FSB to provide clear, unmitigated guidance to national level regulators that these reforms apply only to SIBs and should not, without proper tailoring, apply them to smaller, less complex financial institutions.

5. The analysis was carried out before the COVID-19 pandemic, which may have produced new evidence relevant to the evaluation. Within the terms of reference,1 what updated analytical work would be most useful?

TBTF reforms: We concur that the COVID-19 pandemic will likely create opportunity to produce new evidence relevant to the evaluation. Particularly that ability to tap into capital buffers that are designed to provide resiliency during a crisis. We would urge carful study to consider whether adjustments to the overall framework would be warranted after studying this effect. We also note that numerous relief measures were adopted such as changes to accounting standards, delays in implementing Basel III and IFRS 9 and other favorable accounting treatment for payment moratoriums. We would urge study to determine whether any adjustments could be made to based on the effect of many of those measures.

6. Does the report accurately describe the ways in which TBTF reforms may affect banks’ behaviour and markets’ responses? Are there other channels that the evaluation has not considered?

World Council respectfully requests the FSB to consider the effects of these reforms on small or cooperative institutions such as credit unions. Credit unions are important to the financial market, not only for the stability they provide during a market downturn, but for the financial services they provide to underserved and underbanked communities. While banks are forced to surrender during times of financial crises such as the one that ignited the current TBTF reforms and the current Covid-19 pandemic, credit unions have remained viable and poised to provide services to their communities. The TBTF reforms have strengthened the resolve of national regulators to enforce many these reforms that are tailored for SIBs to any institution within their purview. Not mentioned within this evaluation is any language with regards to proportionality, or how smaller financial institutions should be treated under these reforms. While the absence of any language targeting these reforms to credit unions should indicate that the reforms do not apply to such institutions, regrettably, this omission alone is not suitable or apparent to our national regulators. We ask that the FSB provide unequivocal language that excludes financial cooperatives from TBTF reforms constructed specifically for SIBs.

Finally, we support the FSB’s statement that the question to be investigated in this section is whether market concentration has changed and aggregate supply of financial services has been affected. If supply by G-SIBs decreases, and if other banks or financial institutions are unable to provide more of these services in response, the aggregate supply of these services could fall and concentration could rise, potentially generating adverse effects for economic growth or financial stability. We urge study in this regard and in particular how it might affect smaller, community based financial institutions role in the marketplace.

World Council of Credit Unions, Inc.
99 M Street SE, Ste 300, Washington, DC 20003 • +1-202-638-0205 • +1-202-638-3410
www.woccu.org

Feasibility of resolution

7. Does the report accurately describe the remaining obstacles to the resolvability of systemically important banks (SIBs)? Are there other major obstacles that should be highlighted?

We believe much work needs to be done in studying how a large systemically important bank that operates on a cross-border bases can be resolved. We believe the complexities involved in such a resolution are vast and involve the cooperation of multiple regulators across many jurisdictions.

Additional considerations:

11. Are there any other issues that should be considered, within the terms of reference?

We have previously appealed to the FSB to consider proportionally tailored guidelines and reiterate our request for consideration of proportionally tailoring for the following factors:

- 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.

Furthermore, World Council urges the FSB to consider the implementation of resolution tools; which would provide specific guidance to supervisors with how to respond when a bank is too big to fail.

FSB has stated that "The objectives of the reforms are thus to shield taxpayers from losses, by increasing loss-absorbing capacity, mitigating risk-taking incentives and facilitating orderly resolution."[4] In some instances, however, the effort to shield taxpayers has in effect, resulted in impacting the very financial institutions whose inherent mission is to protect and provide for the banking public, and therefore subjecting credit unions to overburdensome regulation.

World Council appreciates the opportunity to respond to the FSB's request for comment on the Evaluation of the effects of too-big-to-fail reforms, Consultation Report. If you have questions about our comments, please feel free to contact me at pmonford@woccu.org or +1-202-510-9347.

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[4] Financial Stability Board, *Evaluation of the effects of too-big-to-fail reforms Consultation Report*, June 28, 2020; see, section 2.1 The problem of too big to fail; available at: https://www.fsb.org/wp-content/uploads/P140420-1.pdf.

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99 M Street SE, Ste 300, Washington, DC 20003 • +1-202-638-0205 • +1-202-638-3410
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Sincerely,

Panya Monford, Esq.
Advocacy Counsel
World Council of Credit Unions

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