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Prudential Banking Rules: Basel III Endgame & the Buy Side

Contents

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Introduction

Following the global financial crisis of 2007-2008, the international standards for the prudential regulation of banks underwent a process of reform, aimed at addressing shortcomings identified in the Basel II framework. It had underestimated some of the risks involved in certain banking practices, and failed to forestall an overleveraged financial system that was undercapitalised. As a result, the Basel III framework was born.

This new body of measures, the implementation of which began in 2013, has been designed to increase the resilience of the banking system, which is critical for financial stability and growth of the global economy. At the same time however, the final set of reforms - **Basel III Endgame (B3E)** - appears to create some unintended but material negative impacts for high-quality funds when transacting with banks.

The new measures are set to increase costs for these buy side institutions, and also have the potential to negatively impact secondary market liquidity. Additionally, a portion of these increased costs are likely to be passed on to investors, and the savers and pensioners that these funds ultimately serve, thus impacting the wider economy.

This paper explores a number of themes, including the implications for the buy side community of the anticipated increase in capital requirements for banks, and potential ways in which the buy side can work with their sell side counterparts to address the upcoming challenges.

Background

The Basel framework is a set of international standards agreed by the Basel Committee on Banking Supervision (BCBS), which is made up of several central banks and supervisors. As of 2023, the BCBS has 45 members from 28 jurisdictions. For more information about the BCBS and the Basel framework as a whole, please see the ISLA publication **'Prudential Banking Rules: Explanatory Note[1]'**.

The agreed standards are implemented within the various jurisdictions that are members of the BCBS to maintain resilient banks and global financial stability. The main focus of the framework is to ensure banks have sufficient capital, liquidity and stable funding in relation to the risks they are exposed to, in order to absorb unexpected losses.

The Basel framework sets out capital requirements for market risk, operational risk and credit valuation adjustment (CVA), although it is the credit risk of counterparties that is of most relevance for broader market participants in relation to potential cost increases. Indeed, credit risk is by far the largest component of regulatory capital for banks.

Since the original Basel framework was created, it has gone through three major iterations:

- Basel I issued in 1988, focused only on credit risk and required banks to maintain total capital of at least 8% of their risk weighted assets (RWAs). The assets were to be classified into 5 risk categories with lower risk counterparties such as The Organization for Economic Cooperation and Development (OECD) central banks, assigned a risk weight of 0% and higher risk counterparties such as private sector debt, assigned 100% risk weight. This began the process of trying to ensure that capital is aligned with risk to maintain financial stability, while ensuring that the real economy is supplied with sufficient funding.
- Basel II introduced in 2004, allowed the use of models to calculate RWAs for credit, market, and operational risk. For credit risk, it effectively divided banks into two types for the calculation of regulatory capital; the standardised approach and the internal ratings-based (IRB) approach.

  The standardised approach involves the use of credit ratings from regulated credit rating agencies, to evaluate the creditworthiness of the counterparty, which in turn has a specific risk weight assigned to it.

  The IRB approach enables banks with more developed risk management systems to use their own assessment of counterparties for risk weighting purposes, and also recognise lower risk from shorter dated transactions by reflecting the lower maturity in the risk weight calculation.
- Basel III is intended to make the global financial system more resilient by addressing a number of concerns that arose during the global financial crisis. Measures that are already in effect include; higher and better-quality capital requirements, a leverage ratio as a backstop to the risk-based capital requirements to prevent excessive levels of leverage, and two liquidity ratios to ensure that banks hold sufficient highly liquid assets and long-term funding.

  In addition, globally systemic important banks (G-SIBs) were subjected to additional minimum capital requirements.

  The final components of the Basel III Endgame were concluded in 2017[2] and include: new standardised approaches for credit risk and operational risk and a revised market risk and CVA risk framework. It also introduced rules to reduce the variability of risk weighted assets between banks via an 'output floor', where a bank's aggregate RWA calculated with the benefit of internal models cannot be lower than 72.5% of the RWA as calculated under the standardised framework. These final Basel III reforms are now being implemented in member jurisdictions.

The effect of the output floor is somewhat similar to the rule introduced in the United States (US) in 2010 through the Collins Amendment to the Dodd-Frank Act. Under this legislation, large US banks calculate their capital requirements using both their internal models, the 'advanced approaches' as well as using the regulator's standardised approach for credit risk alongside the market risk framework, with the higher of the two capital requirements acting as the firm's binding constraint. This differs to Basel III; in particular, the Collins floor excludes operational risk and credit valuation adjustments from the calculation. As a result of the Dodd Frank Act, US banks were also precluded from using credit rating agencies to assign risk weights and instead must use the regulators' standardised risk weight framework.

1 *https://www.islaemea.org/thought-leadership/prudential-banking-rules-explanatory-note/*

2 *https://www.bis.org/press/p171207.htm*

Examining the Unintended Consequences

The BCBS undertakes impact assessments of the potential effect that any proposed rules might have on other parts of the market. However, the detail involved in practice often means that it can take significant time for specific concerns to be identified, debated and for potential solutions to be put forward. Therefore, regulation can often result in a series of unintended consequences.

The imposition of standardised approaches brings to light some potentially substantial unintended consequences. This is partly because the buy side, including pension funds, mutual funds, and ETFs as well as sovereign wealth funds, have rarely been in focus for banking regulators given these funds are generally highly regulated with low levels of leverage. In addition, it is extremely rare for these types of entities to default, as they are generally low risk.

Buy side funds interact with regulated banking organisations for a number of critical services including areas such as securities finance, foreign exchange, and derivatives. When a fund transacts with a bank, the bank is required by the Basel framework, to assess the creditworthiness of the fund which generates an appropriate risk weight to calculate regulatory capital for credit risk.

To date, much of the activity between the buy side and banks has been carried out by larger IRB banks, who have been utilising their internal models to assess the creditworthiness of different types of funds. Due to the low levels of risk and limited default experience, the risk weights of high-quality funds are generally between 5% - 15%. For comparison an OECD sovereign has a 0% risk weight under the standardised approach and a risky corporate borrower below a BB- rating, would have 150%, which follows the principle that capital ought to be aligned with risk.

The Basel output floor will limit the amount of capital benefit a bank can obtain from its use of internal models by introducing a floor on aggregate RWAs set at 72.5% of standardised approach (SA) RWAs once it is fully implemented.

The standardised approach in general, offers 'risk sensitivity' to counterparty credit quality through external ratings; and even that is eliminated under the US rules. This is problematic for high-quality funds for two reasons:

1 The tens of thousands of high-quality sovereign wealth, pension, insurance and mutual funds, do not seek an external credit rating since they do not issue debt, which is the main use case for buying a rating. In addition, the cost of retaining a traditional credit rating agency for a fund is high, which is why fewer than 1% of these counterparties have a rating today.

2 Under the standardised approach, unrated counterparties are assigned a 100% risk weight and there is no differentiation for short-dated risk, although banks that maintain IRB models can apply a 72.5% factor through the output floor. However, the jump in risk weights from around 12.5% today, to 72.5% is substantial. The net result of the framework will be to require significantly more capital to support banks' exposure to high-quality funds once the output floor is binding.

Impacts on the Sell Side

To illustrate this dramatic increase in costs at the transaction level, **Table 1** compares the implied cost of borrowing[3] in the pre and post Basel III Endgame worlds based on a set of basic assumptions. For analytical purposes, it is assumed that banks allocate the capital requirements from a binding output floor to that business activity, and then pass on the cost of the capital associated with this additional RWA, to their counterparties. It is important to note that the estimates of the variables can differ by bank.

Based on the below assumptions, the current implied cost of equity capital to support borrowing is around 4 basis points (bps) for a typical trade with a fund. This will rise to approximately 23 bps post-implementation of the Basel III Endgame. The net result is an increase of more than fivefold. It is also worth noting that the exposure at default (EAD) calculation may well double, with the loss of the models, significantly increasing costs further.

Table 1: Change in Cost of Borrowing

Factor	Pre-Endgame	Post-Endgame
EAD	20%	20%
Risk Weight	12.5%	72.5%
Cost of Equity	12%	12%
CET1 Capital Ratio	13%	13%
Cost	0.04%	0.23%

In order to maintain the required return on equity (or to cover a bank's cost of equity), a bank would be required to increase its borrower spread, or cost charged to its clients, and reduce the fee it is willing to pay the lender. Alternatively, the bank may decide to exit a specific business, given there may be alternative opportunities for banks to deploy their capital.

While the above analysis is assessed at the transaction level, the output floor is implemented at the portfolio level which may reduce the overall costs given that the Basel framework may have both positive and negative effects across different business lines. Furthermore, in practice, some banks may absorb a portion of the higher transaction costs depending on the overall value a relationship with a fund brings to the bank. Nevertheless, without mitigating solutions being put in place, as discussed in more detail in this paper, the impact on the capital markets is likely to be noteworthy.

[3] *Cost of Borrowing is approximated by: EAD x Risk Weight x Cost of Equity x CET1 Capital Ratio*

Implications for Buy Side Counterparts

Although it is difficult to forecast how this increase in the cost of borrowing securities will impact the buy side if no mitigating solutions are found, it is assumed that banks will pass on at least some of the increase associated with additional RWA, to their counterparties. The impact on funds, as well as the savers and pensioners that funds serve, will therefore be significant in a negative way. This includes an increase in the cost of doing business and a reduction in revenue for funds, which will reduce returns to savers, as well as reduce market liquidity, impacting the efficient functioning of capital markets and the round-trip costs of trading (through wider bid-offer spreads). It is important to note that it is not just securities lending that will be impacted, but rather all activities carried out between unrated high-quality funds and banks.

In summary, the buy side will experience a number of effects driven by these changes on the sell side:

Reduction in securities lending volumes

The considerable increase in costs is likely to make the general collateral business more expensive, which is the main driver of securities financing activity by volume. It is estimated this will result in income flowing to the European buy side falling by approximately 35% to €800m, down from €1.2bn.

Increase in costs of hedging and foreign exchange activity

If the cost of hedging and foreign exchange transactions increases to cover the rise in the cost of capital, the buy side will either pass these costs onto investors, savers and pensioners, resulting in lower future incomes, or decide not to hedge, thereby increasing the risks borne by savers and pensioners. Furthermore, a decline in the willingness of funds to invest across markets in different currencies will result in less diversified portfolios, potentially resulting in lower returns and increased risks.

Reduction in economic activity

A fall in returns to savers and pensioners may result in a decline in future consumption, negatively impacting the future rate of economic growth, and potentially feeding through to lower levels of investment and employment.

Reduction in market liquidity

An analysis of the potential fall in securities financing activity on market liquidity indicates this alone could add an estimated €20-40 bn of trading costs to the buy side across Europe through wider bid-offer spreads. Reduced market liquidity will also increase risks across the capital market more broadly as well as increasing price volatility.

Categorisation, Risk & Jurisdictional Divergence

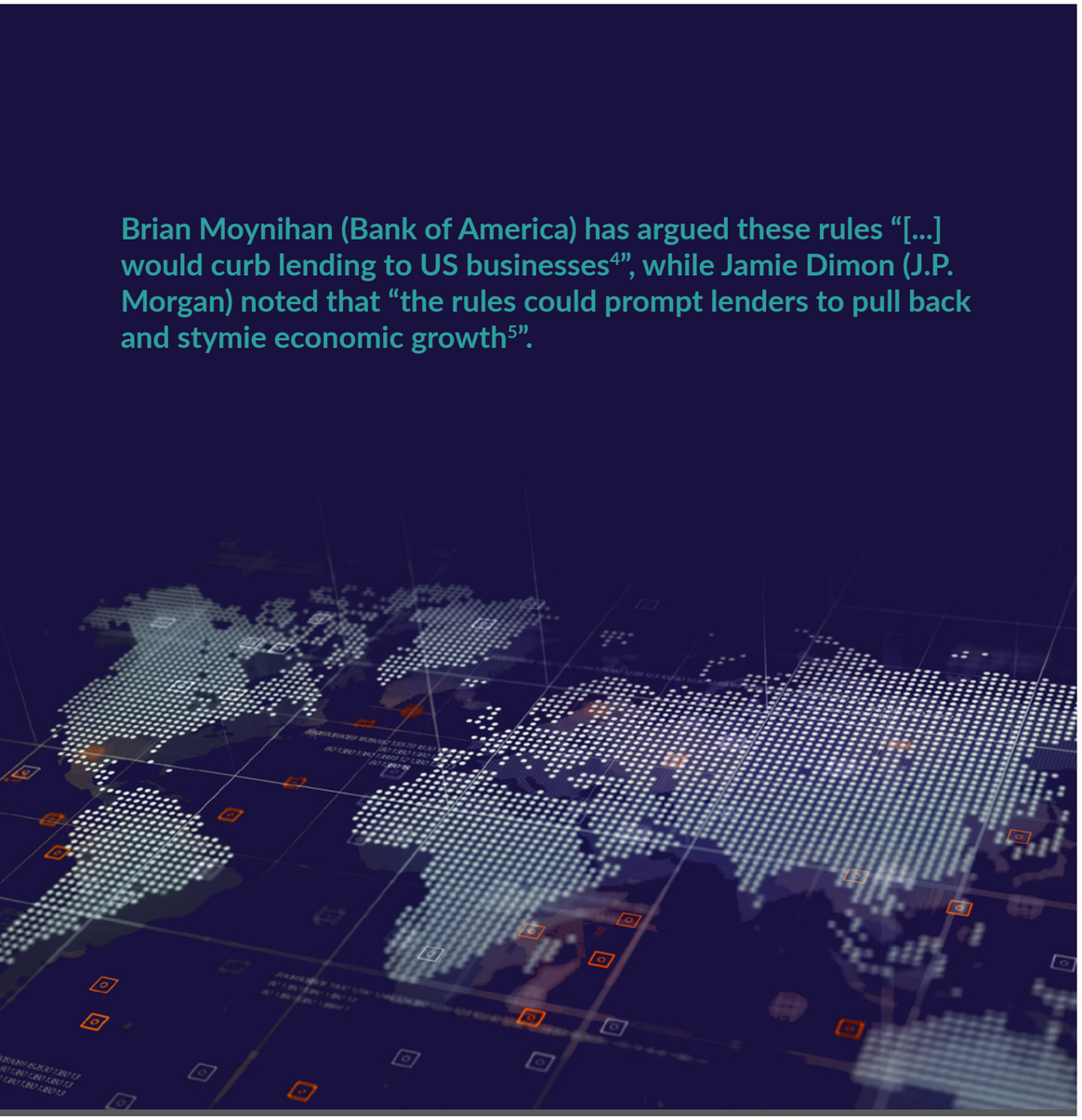
Although the Basel framework is international in its scope, the implementation of the rules in each jurisdiction are determined by national regulators, hence there are differences that emerge in the way the rules are applied, as well as differences in the timing of the implementation. It is important the buy side is aware of these differences to better understand when and where additional costs might start to impact them. In addition, the buy side should be aware of how banks will most likely treat them from a risk weight perspective, given this will feed through to potential changes in transaction costs.

Although mutual funds and ETFs would be considered ‘corporates’ under the Basel classification, it is possible that some sovereign wealth funds might be classified as sovereigns (if they are unconditionally backed by the sovereign itself), while some public sector pension funds could be classified as public sector enterprises (PSEs). The Basel framework provides a high-level definition of sovereigns and PSEs, although national regulators need to be convinced of the respective classification by the bank. Funds that do not fit these definitions will be classified as corporates resulting in much higher risk weights. However, banks can and do classify funds differently, resulting in significant differences in risk weights allocated by banks to the same fund.

In addition to the classification, the riskiness of the entity also plays a key role in determining the risk weight, and in many jurisdictions whether the counterparty has an external rating. The Basel framework allows two approaches to standardised assessments of regulatory capital:

- The external credit risk assessment (ECRA) permits the use of external ratings to determine risk weights which is the case in the EU, UK, Switzerland and Canada, whereas;
- The standardised credit risk assessment (SCRA) does not permit external ratings, as is the case in the US.

Brian Moynihan (Bank of America) has argued these rules "[...] would curb lending to US businesses[4]", while Jamie Dimon (J.P. Morgan) noted that "the rules could prompt lenders to pull back and stymie economic growth[5]".



[4] *https://www.reuters.com/markets/us/bank-america-ceo-says-fed-has-won-near-term-battle-against-inflation-2023-09-27/*

[5] *https://www.reuters.com/business/finance/jpmorgan-ceo-jamie-dimon-blasts-draft-capital-rules-2023-09-11/#:~:text=NEW%20YORK%2C%20Sept%2011%20(Reuters,back%20and%20stymie%20economic%20growth.*

Furthermore, banks in the US have a different starting point due to the imposition of the Collins Floor in 2010, which has become a binding standardised framework for credit risk. For mutual funds, risk weights are already higher, although this is not necessarily the case for sovereign wealth and pension funds. Moreover, the 2023 Basel III Endgame consultation issued by US regulatory authorities proposes to replace the current advanced approaches with a new expanded risk-based approach (ERBA) which removes the use of internal models for capitalising credit risk alongside new standardised approaches for operational and CVA risk, and the new market risk framework.

The proposals by the US regulators would increase binding common equity tier 1 capital requirements by an estimated 19% for holding companies subject to Category I or II capital standards, which cover the largest US banks involved in capital markets transactions. Hence for US domiciled banks, these rules are a far greater priority than the Basel output floor rule.

To understand how the rules impact securities finance transactions, **Table 2** highlights the importance of classification with regards to risk weight allocation, particularly for sovereign wealth and public sector pension funds compared to funds classified as corporates. It also indicates the disparity in risk weights in Basel jurisdictions that permit the use of rating agencies for high investment grade risk weights (20%) in comparison with unrated counterparts (100%). The US, which does not permit the use of external rating agencies, has broadly similar risk weights for sovereigns, based on a mapping between the OECD country scores and equivalent credit ratings. Corporates (which include pension and mutual funds) are treated somewhat differently in the US and receive the preferential 65% risk weight if the counterparty is both investment grade and listed on a securities exchange. If these two conditions are not met, then it is allocated 100% risk weight. This is different to the EU transitional relief where the investment grade definition does not take into account whether the entity is listed or not.

Table 2: Summary of Standardised Risk Weights by Asset Class

	ECRA - Permitted to use rating agencies			SCRA - Not permitted to use rating agencies				
Regulatory Category	Basel III Risk Weight Sovs	Basel III Risk Weight PSEs[7]	Basel III Risk Weight Corps	OECD Country Risk Weights	US Risk Weight Sovs	US Risk Weight PSEs	Corps - Credit Quality	US Risk Weight Corps
AAA - AA-	0%	20%	20%	0 to 1 (OECD)	0%	20%	Investment Grade	65%[6]
A+ to A-	20%	50%	50%	2	20%	50%		65%[6]
BBB+ to BBB-	50%	100%	75%	3	50%	100%		65%[6]
BB+ to BB-	100%	100%	100%	4 to 6	100%	150%	Sub Investment Grade	100%
B+ to B-	100%	100%	150%					100%
CCC-	150%	150%	150%	7	150%	150%		100%
Not rated	100%	100%	100%	No Score	100%	100%		
Default	150%	150%	150%	Default	150%	150%	Default	150%

Source: BIS, Federal Reserve

[6] *Requires the fund to be investment grade AND with a publicly traded security outstanding or controlled by a company that has a publicly traded security outstanding.*

[7] *The Basel framework provides national regulators with 2 options for PSE risk weights including those linked to sovereign ratings as set out in Table 2, alongside using external ratings - where an unrated PSE carries a risk weight of 50%. Hence Basel banks using a ratings-based approach are potentially at a competitive disadvantage compared to US banks given high-quality PSEs would receive a 20% risk weight.*

While the recent US Notice of Proposed Rulemaking (NPR) on the Basel III Endgame has not fundamentally changed the risk weight approach for funds (corporates), the Federal Reserve is aware that some high-quality funds might receive 100% risk weight purely for the fact that they are not publicly traded, which in turn might be considered a poor way of allocating capital. Question 39 of the NPR[8] consultation raises the possibility that highly regulated entities (such as open-ended mutual funds, mutual insurance companies, pension funds, or registered investment companies) could be assigned the lower risk weight of 65% assuming they were also investment grade.

Following the publication of the Basel rules in 2017, the banking industry raised the unrated corporates issue with regulators with a particular focus on high-quality funds that do not have a rating. In response to these concerns, a number of regulators have come up with slightly different ways to treat the issue.

As shown in **Table 3**, the United Kingdom (UK) and Canada have offered banks the option to apply a slightly more risk sensitive approach permitting 65% for investment grade names and 135% or 150% for non-investment grade counterparties. Both the PRA[9] and OFSI[10] believe that if Option A is chosen, the overall portfolio risk weight is likely to be close to 100% and therefore compliant with the Basel guidelines. The regulations, however, do not permit banks to pick and choose the approach for each asset class, hence the choice must be allocated to all unrated counterparts to which they have exposure. Depending on the credit quality of a bank's portfolio, it is plausible that some banks may choose to allocate 100% to the unrated counterparties to optimise regulatory capital rather than using the more risk sensitive approach. The risk sensitive approach would be applied to both the pre-floor standardised approach and the output floor.

Table 3: Treatment of Not Rated Corporates by Jurisdiction

	Portfolio Description	EU	UK	Canada
Option A	Investment Grade	65%	65%	65%
	Non-Investment Grade	100%	135%	150%
Option B	Entire Unrated Portfolio		100%	100%

Source: European Commission, PRA, OFSI

The European Union (EU) has applied a more generous risk weight rule for unrated corporates to the output floor, allowing banks to allocate investment grade counterparties a 65% risk weight without affecting non-investment grade unrated counterparties, which remain at 100%. This however, will result in an overall risk weighting of significantly less than 100%, and is one reason why the European Central Bank[11] and the European Banking Authority (EBA) are unhappy about this approach, raising concerns this might not be in compliant with the Basel guidelines. These EU arrangements have been described by the European Commission (EC) as transitional in nature, with a review expected in 2028. This approach potentially gives European banks a competitive advantage with regards to risk weights for high-quality but unrated funds during the transition phase.

With regards to the timing of the implementation of the new output floor rules, although the BCBS provided guidelines on when the output floor rules should be implemented, various jurisdictions have pursued different approaches. **Table 4** highlights the Basel guidelines were directly followed by Switzerland, however, Canada has legislated for a more aggressive rollout of the output floor. The EU and the UK[12] have opted for a more generous roll out of the implementation of the output floor.

[8] https://www.fdic.gov/news/board-matters/2023/2023-07-27-notice-dis-a-fr.pdf
[9] https://www.bankofengland.co.uk/prudential-regulation/publication/2022/november/implementation-of-the-basel-3-1-standards
[10] https://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/CAR22_chpt4.aspx
[11] https://eur-lex.europa.eu/legal-content/EN/TXT/?home=ecb&uri=CELEX%3A52022AB0011
[12] The UK has decided to extend the transition phase by an additional 6 months to July 2025

Table 4: Transition of the Output Floor

	2023	2024	2025	2026	2027	2028	2029	2030
Basel Standard	50%	55%	60%	65%	70%	72.5%		
Switzerland	50%	55%	60%	65%	70%	72.5%		
Canada	65%	67.5%	70%	72.5%				
UK			50%	55%	60%	65%	70%	72.5%
EU			50%	55%	60%	65%	70%	72.5%
United States[13]			80%	85%	90%	100%		

Source: BIS, European Commission, OFSI, PRA, FINMA, Federal Reserve

Given the complexity of the rules and the divergence in implementation across different jurisdictions at different times, it is unsurprising that many funds are either not aware of the changes or fully appreciate how and when it might impact their businesses.

To fully understand the potential impact, funds should begin to discuss these rules with their banking partners to ascertain when and how they will be impacted.

[13] The United States transition is related to the expanded total risk-weighted assets of the new risk-based approach indicating when higher capital requirements will impact the market rather than an output floor. The UK has delayed its output floor transition to be in line with this US implementation which commences in July 2025.

Minimum Haircut Floors

Although most of the regulatory concern impacting the buy side is related to funds and the standardised approach, some concerns have been raised by organisations including ISLA about the potential impact of proposed rules on minimum haircuts for Securities Financing Transactions (SFTs). While the basis for these rules is to 'limit the build-up of excess leverage', the global rules as they currently stand today, do not distinguish between SFTs that do not increase leverage and those that do. Hence, these rules have the potential to significantly reduce securities financing activity which in turn, may reduce market liquidity and drive-up costs for the buy side.

In response to these concerns, the EC[14] has proposed the EBA to report in close cooperation with ESMA on the appropriateness of implementing the minimum haircut floors framework applicable to SFTs at a later date. The UK has also delayed their implementation of this proposal.

The federal agencies in the US have published proposed rules for minimum haircut floors that exempt certain transactions from the rules which largely mitigates the issue of non-leveraged transactions. More specifically, an exemption is allowed where 'transactions in which a banking organization borrows securities from an unregulated financial institution for the purpose of meeting current or anticipated demand, such as for delivery obligations, customer demand, or segregation requirements, and not to provide financing to the unregulated financial institution.'

In addition the Federal agencies have exempted transactions in which a bank receives a representation that an 'unregulated financial institution lends, sells subject to repurchase, or posts as collateral securities to a banking organization in exchange for cash and the unregulated financial institution reinvests the cash at the same or a shorter maturity than the original transaction with the banking organization' as well as, 'collateral upgrade transactions in which the unregulated financial institution is unable to re-hypothecate, or contractually agrees that it will not re-hypothecate, the securities it receives as collateral.'

While these exemptions are welcomed, they will however require banks to deploy additional resources to identify which beneficial owners are exempt and which are not, increasing costs. Furthermore, with regards to the re-investment of cash, banks may need attestations from the buy side that re-investment is conducted in line with the rule. This may be problematic for agent lenders, who collect securities from hundreds of beneficial owners, further reducing visibility as to whether a beneficial owner's re-investment is in line with the rule.

Finally, banks providing leveraged funding to hedge funds will be impacted by minimum haircut rules, and may therefore have to increase collateral held for those portfolios.

[14] *https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0664*

Alternative Products & Services

The Basel reforms have unintentionally created a significant and wide-ranging problem for high-quality funds. Funds must begin to engage with banks to better understand when it will begin to impact them and to what extent it will raise the cost of doing business. The legislative framework in individual jurisdictions is now much clearer and there is sufficient time for the market to develop appropriate solutions within the existing framework. This will however require industry participants to rise to the challenge and start to deploy resources to ensure these unintended regulatory impacts are mitigated. As was noted in our previous ISLA publication, there are a number of potential solutions that could be explored to mitigate this challenge, to better align capital with risk including:

- **Global Master Securities Lending Agreement (GMSLA) Security Interest over Collateral Version:** 'Pledge' allows borrowers of securities to transfer collateral to lenders by way of security interest rather than an absolute transfer of title. However, this has some limitations given that it is only applicable for securities lending and is not permitted for certain types of funds including UCITS and is also not accepted by regulators in certain jurisdictions, such as the US.
- **Utilising a Central Counterparty (CCP) for SFTs:** This requires parties to become members of the CCP which has both initial costs as well as ongoing fees, although it can reduce the risk weight of the counterparty to 2%. In addition, CCPs tend to focus more on standardised types of transactions in certain geographies which is likely to require multiple CCPs.
- **Increased Credit Rating Coverage:** Funds have traditionally chosen not to request ratings due to their cost and the fact that funds mostly do not raise money on the capital market.
- **Capital Markets Transactions:** Capital market transactions can potentially reduce exposure through significant risk transfer transactions (SRT) and total return swaps (TRS). However, these types of transactions are not typically accessible to the vast majority of funds due to the level of complexity and may not be scalable.

As a practical example, some banks may consider central clearing or 'pledge back' solutions, which would require changes for the buy side to adopt. Meanwhile, other banks could pursue an alternative set of solutions, including perhaps the GMSLA Security Interest over Collateral and external ratings, which would also require changes for the buy side to adopt. Each of the solutions has a different set of pros and cons, for which individual and groups of funds may have different preferences. However, for the securities lending industry as a whole, it is essential that we find a set of solutions that better align capital with risk.

ISLA would advise that firms seek independent guidance on the use of any solutions considering the type of entity involved in the transaction, among other factors.

While all of the solutions being discussed have advantages and disadvantages, it is critical that the buy side liaise with their banking partners to understand which of the potential solutions could be mutually agreeable. Funds and their banking partners should work together to ensure that one of the most important principles of the Basel framework, that capital should be aligned with risk is met where possible. It is clear that assigning 100% risk weights to high-quality funds transgresses this principle, as well as potentially causing widespread increased costs for investors, savers and pensioners with potentially significant negative effects on market efficiency and the economy.

About ISLA

ISLA is a non-profit industry association representing the common interests of Securities Lending and Financing market participants across Europe, the Middle East and Africa. Its geographically diverse membership of over 190 firms includes a broad range of institutional investors, asset managers, custodial banks, prime brokers and service providers. Working closely with the industry, as well as national, regional, and global regulators and policy makers, ISLA advocates for, amongst other things, the importance of securities lending to the broader financial services industry. It supports both the Global Master Securities Lending Agreement (GMSLA) legal framework, as well as the periodical enforceability and security enforcement across global jurisdictions. ISLA's EU Transparency number is 575 888 466 70.

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