Transparent Systemic-Risk Scoring[*]

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Abstract

Regulatory data used to identify Systemically Important Financial Institutions (SIFIs) have gradually become public since 2014. Exploiting this transparency shock, we show that the scoring methodology implemented by the Basel Committee on Banking Supervision is biased and can create wrong incentives for regulated banks. Using regulatory data for 106 US and international banks, we show that the economic magnitude of the bias turns out to be important as the regulatory capital of some banks is reduced by more than EUR 20 billion or 16% of their Tier 1 capital. The banks that benefit the most from the bias are US global and custodian banks. We then propose a modified methodology that corrects for the bias.

Keywords: Banking, Macroprudential Regulation, Systemically Important Financial Institutions, Financial Crises, Financial Risk and Risk Management.

JEL classification: G01, G32.

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