

Deutsche Börse Group Response

on BCBS consultative document d386

‘Regulatory treatment of accounting provisions – interim approach and transitional arrangements’

issued on 11 October 2016

Eschborn, 22 December 2016

Contact: Jürgen Hillen
Telephone: +49 69 211 - 15561
Telefax: +49 69 211 - 13315
E-Mail: juergen.hillen@deutsche-boerse.com

A. Introduction

Deutsche Börse Group (DBG) welcomes the opportunity to comment on BCBS consultative document 'Regulatory treatment of accounting provisions – interim approach and transitional arrangements' issued in October 2016. In this line we want to refer to our response to the simultaneously issued and related discussion paper 'Regulatory treatment of accounting provisions' of the BCBS¹.

DBG is operating in the area of financial markets along the complete chain of trading, clearing, settlement and custody for securities, derivatives and other financial instruments and as such mainly active with regulated Financial Market Infrastructure providers.

Among others, Clearstream Banking S.A., Luxembourg and Clearstream Banking AG, Frankfurt/Main, who act as (I)CSD² as well as Eurex Clearing AG as the leading European Central Counterparty (CCP), are classified as credit institutions and are therefore within the scope of the European Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) which transposed i.a. the Basel III rules into European law. Clearstream subgroup is supervised on a consolidated level as a financial holding group.

None of our group entities has ever recognised a credit loss out of the loan business. Nevertheless, we want to participate in the consultative process regarding the regulatory treatment of accounting provisions in general as well as in a potential transitional period. The document at hand contains our general comments based on the approaches and issues discussed in the consultative document.

¹ www.bis.org/bcbs/publ/d385.pdf;

² (International) Central Securities Depository.

B. General comments

Currently, changes in the accounting treatment of loan loss provisions are upcoming or at least in several accounting standards predictable. This has led to further discussions of the regulatory treatment going forward. In principle, there is a choice of method being either following the accounting treatment or setting an own regulatory standard. We have raised our slight preference for the usage of the accounting standards being in line with the guiding principle of simplicity in our comment to the BCBS discussion paper d385.

Independent from the method to be chosen any (future) change of the accounting treatment or the regulatory approach will create a one-off effect on (a) the exposure value, (b) the exposure class of a given exposure and/or (c) the overall equity. Following this, in any such change of treatment an appropriate transitional arrangement has to be put in place.

We honour, the current consultation in that regards and kindly ask the BCBS to apply the transitional arrangements whenever accounting treatment or regulatory treatment for loan loss provisions is changing.

Comparing the approaches proposed by the BCBS in the consultative document we prefer Approach 1 as outlined in Section 3.3 which determines the quantitative impact of a change in the accounting framework (or as a consequence of a change in the regulatory treatment) at the first day of the adjustment and phases in the impact over a specific period of time. Nonetheless, we prefer a slightly amended transitional period.

Firstly, we agree to the approach to capture day 1 adjustments in equity. However, we rather assume adjustments between accounting and regulatory treatment to be an additional tier 1 (AT1) equity adjustment.

Secondly, any transitional adjustments therefore should be on that first day adjustment.

Thirdly, we agree not to consider adjustments on the exposure values.

Fourthly, we agree to amortise transitional adjustments on a straight-line basis over a specific period of time.

The European Commission has proposed in Article 473a of its revision proposal³ to the CRR (Regulation (EU) No 575/2013) a similar treatment as Approach 1 of the current consultation of the BCBS. Nonetheless, the European Commission proposes to distribute the one-time adjustment over a period of five years compared to the treatment proposed by the BCBS over three years. We regard the five-year period as superior to the current BCBS proposal and kindly ask the BCBS to consider five years within its Approach 1 in order to have a smoother phasing-in as well as a level playing field.

We are at your disposal to discuss the issues raised and proposals made if deemed useful.

Yours faithfully,

Jürgen Hillen

Ralph Kowitz

³ <https://ec.europa.eu/transparency/regdoc/rep/1/2016/EN/COM-2016-850-F1-EN-MAIN.PDF>; issued on 23 November 2016.