

A. Introduction

Deutsche Börse Group (DBG) welcomes the opportunity to comment on BCBS consultative document “Revision to the Standardised Approach for credit risk” issued in December 2014.

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 (CBL) and Clearstream Banking AG, Frankfurt/Main (CBF), which act as (I)CSD¹ as well as Eurex Clearing AG as the leading European Central Counterparty (CCP), are also credit institutions and are therefore within the scope of the European Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) which transpose i.a. the Basel III rules into European law. Clearstream subgroup is supervised on a consolidated level as a financial holding group.

However, those group entities are in scope of banking supervision and therefore Basel III rules although they are offering only limited banking activities ancillary to their function as Financial Market Infrastructure (FMI). In order to operate as a Financial Market Infrastructure and in line with the dedicated regulatory framework (e.g. CPSS-IOSCO principles for financial market infrastructures as of April 2012) as well as generally recognised business practices, the business model of our group entities is risk averse, does not include a trading book / proprietary trading, allows loan business only in connection with clearing, settlement and custody activities for very short durations and in general only to other banks and dedicated public sector entities (PSE) and in general on a collateralised basis. Cash received out of the functions of our companies is either invested with creditworthy counterparties to the extent possible on a collateralised basis or to a small portion and together with own funds into high quality government bonds or other securities with similar credit quality. Any collateral taken is of high quality. Since inception of our group companies way back up to 1949 throughout the various financial crises group companies in scope have not suffered any material credit loss.

¹ (International) Central Securities Depository

Based on our specific type of business, we see the need to reflect this adequately in the revision of the Standardised Approach for credit risk.

Our below response to the consultation is reflecting the dedicated business of our group entities. Moreover we raise comments related to unclear provisions or specific topics where we have a different view.

The document at hand contains a management summary in part B, responses to the stated questions in part C and comments on top in part D.

B. Management Summary

In general, we would support an approach that increases risk sensitivity and simplicity while remaining practical. Nevertheless, in our opinion, overwhelming complexity is increasing risks and has the effect that being compliant becomes more and more difficult. The consultative document claims that it is not an objective of the Committee to increase the overall capital requirements under the Standardised Approach for credit risk, rather, capital requirements should be commensurate with underlying risk. While we indeed agree to the intention to have adequate capital requirements for respective risks we clearly conclude that with the proposal in most cases (and in particular in ours) the capital requirements for credit risk will increase dramatically in an environment where requested capital levels via different regimes² are more and more increasing simultaneously.³ We urge the Committee to follow strictly its own intention. Unfortunately, the proposals would lead to increases in capital requirements without proper evidence of risk sensitivity and also lead to more complex rules. This potential outcome also conflicts with the need to have a stable environment to the extent possible.⁴

As such we would support to adequately diversify and adjust the scaling of the risk weights, if sufficient proof for that necessity exists. However we clearly reject the approach of a general upward shift of risk weights. In the aftermath of the financial crisis regulators initiated and enrolled a variety of measures to strengthen the solvency of credit institutions. Therefore not only the solvency regime covering credit risk, but also market risk and operational risk are on the agenda and will be amended. On top of these requirements several capital buffers are introduced in order to put in additional safeguards. In addition the concept of the so called leverage ratio has been introduced as a further back-stop regime to control excessive leverage.⁵

² E.g. minimum solvency requirements (BCBS), total loss absorption capacity (FSB) or the leverage ratio (BCBS)

³ This also includes the discussed introduction of a floor regime based on the standardised approaches for internal model based calculations (see BCBS consultation d306 and our response on that)

⁴ See our response to BCBS #258: <http://www.bis.org/publ/bcbs258/deutschebrsegro.pdf>

⁵ We have in general doubts that the non-risk sensitive leverage ratio with simple calculation basics and unique treatments will add benefits in limiting possible bank failures.

In addition capital requirements to support recovery and resolution plans were introduced.⁶

Currently the FSB is discussing the concept of “total loss absorbing capacity” (TLAC) **for G-SIBs only** which is already implemented in Europe by the Banking Recovery and Resolution Directive (BRRD) **for all banks**.

The TLAC regime (in Europe MREL) relies heavily on the calculation of solvency requirements, especially capital requirements with regards to credit risk. Therefore increasing capital requirements in the solvency regime will have a kick effect on total capital requirements. The TLAC (and MREL regime) are in the process to be calibrated on current solvency figures. The isolated capital regime might be sound but on an aggregated basis those capital requirements are overwhelming. Related to that issue we propose to have a calibration of capital requirements under consideration of all (partly cumulative) capital regimes.⁷

As we already stated in the consultation process on Large Exposures⁸ we need to know the Committee’s intention with regard to the treatment of credit risk towards sovereigns to have a solid picture of the revised Standardised Approach in its entirety. The sovereign debt market is by far the biggest and discussing a Standardised Approach without the future treatment of these exposures in neither complete nor adequate. Results can only be preliminary. We understand that a general 0% risk weight for sovereigns is seen critical and adjustments/upward shifts are discussed.

Taking this into account the current proposal in the context of our credit risk portfolio but also with regards to many other credit institutions will lead to a massive increase of capital requirements for credit risk. Taking into account that we did not suffer any credit loss in our group we strongly doubt that the proposed sharp increase of the minimum and maximum risk weights is the result of more risk sensitivity. We do not oppose any adjustment with the result of an upward shift on capital requirements. However it needs to be reasonable.

⁶ See FSB guidance for recovery and resolution planning: http://www.financialstabilityboard.org/wp-content/uploads/r_130716b.pdf?page_moved=1

⁷ As several capital regimes build on each other capital requirements have gear-up effect, see our statement on FSB TLAC requirements: <http://www.financialstabilityboard.org/2015/02/public-responses-to-the-november-2014-consultative-document-adequacy-of-loss-absorbing-capacity-of-global-systemically-important-banks-in-resolution/>

⁸ See our response to BCBS #246: <http://www.bis.org/publ/bcbs246/dbg.pdf>

In the aftermath of the recent financial crisis the regulators have reacted with the introduction and calibration of several regulatory measures. It is increasingly difficult to fulfil all of these simultaneously as they follow different rules which are partially contrary to each other. As a consequence even institutions operating to high standards cannot rule out a breach to, for example, the (future) large exposures limits for a short time while still substantially over-fulfilling the bulk of all other ratios. Consequently we cannot accept that such situations would lead to a risk weight of 300% at least for one year. The respective proposal is therefore clearly and sharply rejected.

In addition and as general criticism it is not helpful to replace information like credit ratings, which take into account a broad range of current, up-to-date as well as forward looking information with static backward looking information only. We therefore fear that the proposed replacement of the rating based approach with an approach relying on financial information published by the counterparties is just replacing one criticised indicator by another with even greater weaknesses.

The revised approach would derive risk weights for exposures towards banks from the CET1 ratio. While in the solvency regime the minimum CET1 ratio is 4.5% plus capital buffer requirements (which also must be covered by CET1) counterparties must fulfil at least a 12% CET1 ratio to receive the lowest risk weight of 30% (which is still 50% higher than the current minimum risk weight of 20%). The requirement to cover almost three times the minimum CET1 ratio for achieving the lowest possible risk weight doesn't seem appropriate. A side effect might be that banks which are facing only minor financial stress may end up in a situation of severe stress as risk weights of counterparties' exposures towards those banks are increasing and funds are withdrawn. This is creating cyclicity which the Committee is supposed to avoid.

It is not only that the risk weight ladder is being shifted significantly upwards, in addition the criteria to achieve lower risk weights are being tightened.

Further this approach contradicts the character of capital buffers which may be under fulfilled by a credit institution for a certain time. Under fulfilling capital buffers is narrowed by the proposed framework as falling CET1 ratios (which include the CET1 capital built up to achieve buffer requirements) have a direct effect on the capital charge of counterparties as this is penalising the counterparty with high risk weights. This situation has a direct impact on the funding possibilities and costs of banks.

Once more: Cyclical effects are increased in contradiction to the target of the buffers introduction!

With regards to the credit risk mitigation framework we in general agree to the proposal made, nevertheless we have few comments/requests for amendments:

- § The current treatment of collateralisation in securities financing transactions (SFTs) must be continued in the sense that the exposure minus collaterals (under consideration of haircuts) must be covered by own funds. In case the collateralisation exceeds the exposure no capital requirements shall occur. In addition SFT exposures must be continued to be zero weighted under certain conditions⁹. Therefore paragraph 117 in Annex 1 of the proposed framework needs to be included in the final framework in order to reflect SFTs appropriately.
- § In the current and proposed framework certain substitutions of ratings are not allowed which are eligible for exposures in the credit risk framework:
 - In the current credit risk framework substitution of missing rating information on an instrument level by rating information on a programme or issuer level is allowed¹⁰;
 - In addition the current credit risk framework allows the usage (substitution) of the sovereign or central government rating for local governments / regional governments etc. under certain conditions¹¹.

As for some debt instruments rating is only on programme level and not on a single issue level or even available for the issuer as such we urge the Committee to allow the substitution for the purpose of the CRM framework in the same manner as it is allowed for the general credit risk framework. Moreover with regards to local/regional governments which fulfil the conditions mentioned above we propose to the Committee to allow the usage of the rating of the central government in line with the general credit risk framework.

⁹ See Annex 4 of the Basel II framework, paragraph 6

¹⁰ See paragraph 99 of the Basel II framework

¹¹ See paragraph 58 and footnote 23 of the Basel II framework

Summarizing the arguments above we strongly support simple rather than complex rules for any kind of regulatory measures as the possibility to fulfil requirements and control the compliance is given to a higher degree of certainty.

C. Responses to the questions up for consultation

1. What are respondents' views on the selection of the capital adequacy ratio? In particular, is the CET1 ratio superior to the Tier 1 ratio or the Leverage ratio? Do respondents agree that it is necessary to require calculations in accordance with Basel III in order to ensure a consistent implementation?

In general we do not agree with the capital adequacy ratio as a major determinant for the calculation of capital requirements with regard to credit risk (in combination with asset quality) towards banks. The current approach to determine capital requirements depending on the positions/counterparty's rating is superior from our perspective as ratings cover the complete picture of a counterparty and not only solvency or asset quality figures. In addition ratings are also forward looking while the two proposed figures are based on data which may date back quite some time and is not forward looking at all.

One of the main targets of this revision is to decrease the dependency on external ratings as those have not always projected an adequate picture of counterparties in the past, especially in the financial crisis. We agree to the statement that risks have not always been assessed appropriately and that rating agencies played an important role in the upcoming financial crisis in 2007 and 2008. Nevertheless regulators should not leave the general concept of external credit ratings but rather strengthen specific and prudent rules for rating agencies and their credit assessments and their application.

With regards to excessive complexity and lack of clarity within the standards the proposed revised Standardised Approach for exposures to bank seems to be in our mind overly complex. As the proposed framework is relying on data issued by each counterparty themselves instead of a few third parties (like ratings) we consider the collection and processing of this data be far more complex and with higher risk of conformity. A further criticism concerns to the usage of any regulatory ratio **as at any given date (i.e. year end as proposed)**. Ratios may fluctuate (sharply) and the snapshot taken (at the given date) may be at the upper or the lower end of the fluctuating value (Window dressing may occur!).

However, in case beside our concerns external credit risk assessments (“ratings”) will be replaced by measures derived from regulatory ratios, we would like to state the following:

§ The target of the Standardised Approach for credit risk is to be risk sensitive as risk weights are based on the character of the counterparty, the respective rating and the remaining maturity. We consequently reject the Leverage Ratio as it is not risk sensitive, therefore it should not be migrated into a binding pillar 1 ratio. The Leverage Ratio is introduced as the back-stop regime for the risk sensitive approach, linking both would jeopardise this approach. Therefore the CET1 ratio would clearly be superior to any kind of leverage ratio¹².

§ Contrary to the proposal we see no good reason to exclude Additional Tier 1 capital or even Tier 2 capital from that assessment. So far the rule set of the Basel framework allows having certain levels of Additional Tier 1 and Tier 2 capital to cover credit risk. Calculation of capital requirements isolated on the level of CET 1 capital doesn't seem to be appropriate and is therefore also rejected.

2. Do respondents believe the net NPA ratio is an effective measure for distinguishing a bank exposure's credit risk? What alternative asset quality measure, if any, should be considered by the Committee?

We repeat our concerns to replace a comprehensive and forward looking counterparty assessment like a rating by only a few selected sub-indicators being not forward looking. As such, we reject the NPA ratio.

In addition even CET1 ratio and NPA ratio together lack of risk sensitivity as several risk factors are not considered at all, e.g. liquidity risk, counterparty concentration risk, maturity transformation risk, market risk, interest rate risk, etc.

Taking these aspects into account we come to the conclusion that a mixture of CET1 ratio and NPA ratio is not adequate to derive the solvency of banks for the purpose of the Standardised Approach for credit risk. For the assessment of risks within a bank

¹² See our comments on BCBS consultation on the revised Basel III leverage ratio framework and disclosure requirements: <http://www.bis.org/publ/bcbs251/deutschebrsegro.pdf>

the Basel Committee is using a variety of indicators. More and more of these indicators are introduced but in this proposal only a very limited scope of indicators is covered. The Basel framework for banking supervision consists of a variety of factors, even qualitative ones.

In the consultation paper it is stated that *analysis* suggests that the proposed definition of a bank’s net NPA is an effective predictor of bank failure. Providing this analysis would be helpful to take own conclusions with regards to the effectiveness and usefulness of the NPA ratio.

Not knowing the referred analysis we reject the NPA ratio for a variety of reasons.

Nevertheless, we take the opportunity to also give a judgement to that in case the Committee is nonetheless continuing to follow its proposal:

- § Non performing loans get a higher risk weight and are therefore already potentially covered;
- § With the isolated view on asset quality and “asset quality structure”¹³ only a rather small portion of the whole picture of the counterparties solvency is assessed. As already mentioned above the proposed framework is indeed backward looking and not forward looking.

3. Do respondents have views on the proposed treatment for short-term interbank claims?

First we support the intention of the Committee to continue to privilege short term interbank exposures in order to acknowledge the reduced risk and the dedicated purpose of short term interbank exposures. This also supports to maintain liquidity in the interbank market. A functioning interbank market is crucial for banks to perform maturity transformation, supply of funds to the real economy etc. In addition we agree that the risk weights of short term interbank exposures may not be lower than the lowest bucket of risk weights for exposures towards credit institutions.

However the proposed treatment of short-term interbank claims as shown in section 2.1 point (iv) of the Consultative Paper is partly rejected.

Currently there exist two options in the Basel framework with regard to risk weights of claims on banks (Option 1: Risk weights are derived from the credit assessment of

¹³ Limited to non-performing loans

the sovereign, Option 2: Risk weights are derived from the credit assessment of the bank itself). For “unrated” banks the risk weight of the third bucket (BBB+ to BBB-) is used (100% under option 1 and 50% under option 2).

Contrary to the proposal to derive risk weights from a matrix depending on CET1 ratio and NPA ratio we propose to continue with a rating based approach for claims on banks. Option 1 and 2 should be continued, including the current treatment of short term exposures.

In case of unrated banks we propose to use the risk weight of the fourth bucket (BB+ to BB-) which is 100% under both options.

Further we cannot follow the proposal to have no preferential treatment of short-term exposures with a risk weight of or beyond 100%. Banks must comply with the liquidity coverage ratio (LCR) and therefore the short term liquidity supply must be given (we acknowledge that the LCR is based on a 30 days horizon and the preferential treatment of bank exposures is applicable on exposures up to 3 months). For short term exposures, regardless under which option, we therefore propose a risk weight ladder that is derived from option 2 with a shift to the right by one bucket with a floor of 20%. The maximum risk weight would be 100% (bucket 5). For unrated short term exposures the risk weight should be taken as well from the fourth bucket for short term exposures which would be 50%. Following this proposal some small increases for some buckets would occur which seems to be reasonable. This is not jumping to 300% as it is proposed in the framework what we judge as not reasonable.

We in general reject the proposed risk weight ladder between 30% and 300% as it is shifting capital requirements significantly upwards without evidence that this is increasing risk sensitivity. Instead we propose to keep the current risk weight ladder between 20% and 150%. It may be discussed and challenged whether the 150% risk weight for weak banks may be increased to – let's say – 200% (if adequate evidence is given), but there is not good reason or evidence that risk weights of the low buckets (20% risk weight) have to be increased due to increasing risks (Risk sensitivity of the proposal questionable). If our argumentation is not followed at least a sufficient phasing-in period should be introduced.

The resulting table for option 2 / short term exposures would be:

Credit assessments of banks	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk weights under option 2	20%	50%	50%	100%	150%	50% 100%
Risk weights for short-term claims	20%	20%	20% 50%	50%	150%	20% 50%

Another issue is the treatment of single entity banks which are not disclosing financial information. Using consolidated data may not be proper or adequate. The current regulation deriving risk weights from the country only is not reflecting the individual counterparty risk. Nevertheless the proposed change is only replacing one weakness with another.

Although we reject the proposed treatment of the consultative document we nevertheless want to comment on some specific aspects in case the Committee nevertheless follows the outlines route:

§ Via paragraph 17 of the proposed revised Standardised Approach in the consultative document a breach of any binding minimum prudential standard shall lead to a 300% risk weight. This general complementary approach is also rejected completely. While we understand to apply this penalty in case the CET1 minimum ratio is breached we see no necessity to apply this for any breach of a regulatory ratio (**e.g. large exposures**), particularly in case the breach has already been solved when risk weights are assessed (in this case, no further penalty should apply). Especially for long-term investments the proposed concept is more than problematic. In case a counterparty has a single breach in the reporting period counterparties must apply a 300% risk weight and suffer a severe capital charge. The effect would be a dramatically drying-up interbank markets. As one of events may boost risk weights for exposures towards banks mid- to long term interbank lending would sharply decrease. The framework suffers pathological risk aversion!

In addition paragraph 17 should not be applicable on short term exposures at all. For other exposures towards banks the current risk weights may be shifted one bucket upwards, if at all.

§ In addition the proposal for punishment of late disclosure is rejected. This doesn't seem to be appropriate as the regulatory environment is getting more and more complex, resources are rare assets and their hiring becomes increasingly difficult and therefore delays in disclosure of information can not be ruled out. Although this shows deficits in the proper corporate governance it cannot be taken as a sign of increased risk or lower creditworthiness. In any case it is not justifying a 15 times higher capital requirement compared to high quality exposures towards banks in the current approach. Contrary to that we propose to use temporarily the next higher risk weight bucket compared to the last assessment if data is not available instead of jumping to 300% immediately (which should be reversed once the updated assessment is available again). Further the issue of different disclosure frequencies occurs and the operational effort required for banks which must check ongoing the disclosure reports of their counterparties. From our perspective this is not compatible with one of the main principles of this revision: **Simplicity**. For the sake of clarification paragraph 18 of the Annex I should not only refer back to paragraph 13 with regards to the possible discount on risk weights.

4. Do respondents have suggestions on how to address these concerns on the treatment of exposures to banks? In particular, do respondents have views on how to treat exposures to banks not subject to Basel III in a consistent and risk-sensitive manner?

In fact these concerns show even more that the proposed framework has many downsides which make it inferior to the current approach. Therefore we recommend staying with the current approach and approach weaknesses at their individual root instead of replacing a framework with some downsides with an even weaker framework.

In addition the fact that the Committee is considering to include other risk metrics like country risk clearly shows that the chosen risk metrics are not sufficient. Adding further risk measures however is not granting appropriate risk sensitivity and definitely making the concept more complex. As such the general principles of the Committee of risk sensitivity, simplicity and comparability seem to be disregarded.

5. Do respondents have views on the selection of risk drivers and their definition, in particular as regards leverage and the incorporation of off-balance sheet exposures within the ratio? Would other risk drivers better reflect the credit risk of corporate exposures?

In general we do not consider leverage an appropriate metric for the assessment of risk weights. Especially for corporate exposures the currently applied ratings are a useful tool for the assessment of credit risk (we refer to our comments above). With regards to excessive complexity and lack of clarity within the standards it is our opinion that the proposed revised Standardised Approach is overly complex. As the proposed framework is relying on data issued by counterparties themselves instead of third parties' ratings we consider the revised framework as more complex. In addition the publication of financial data of corporates may take up to 12 months or even more. Reliance on these data sets doesn't seem to be accurate (Note: US companies only publish consolidated accounts!).

In addition certain thresholds are required in order to have small exposures exempted from the obligation to assess balance sheet figures. Exposures are not always loan related. Therefore required information may not be readily available as not for all exposures a balance sheet analysis is necessary or reasonable. For the sake of simplicity for exposures below 500,000 EUR or 0.5% of own regulatory capital (what ever is higher) the usage of balance sheet data should not be required and instead a risk weight of 100% should be possible (“unrated”).

Also with regards to the treatment of corporate exposures we see the proposal as a change from an approach with weaknesses to another approach with even more and greater weaknesses!

In addition the penalty to have 300% risk weights in case required data is not available seems to be overpowering and not justified at all as already stated above. Moreover the general upward shift also for corporate exposures is rejected. We therefore clearly ask the Committee to stick with the current range of risk weights (20% to 150%).

6. Do respondents have views on the appropriateness of the proposed treatment, especially with regard to SMEs? And about the more lenient treatment for start-up companies?

We are not engaged with such kind of exposures and therefore we refrain of replying to the question. However like for other exposure classes we reject the proposed move from 150% maximum risk weight to 300% maximum risk weight. It is contradicting the general intention of the Committee not to increase capital requirements per se.

7. Do respondents think that the risk sensitivity of the proposal can be further increased without introducing excessive complexity?

No. Risk sensitivity and low complexity are in general a trade off that cannot be prevented. Instead of gathering ways to slightly improve the trade off we rather prefer a framework which continues to rely on rating which rely not only on backward looking data but also on qualitative information and forward looking principals.

Further, a change away from the rating based approach including granting the two options for exposures towards credit institutions to derive risk weight from either the sovereign’s credit assessment or the credit assessment of the bank itself is rejected.¹⁴ These options should only be replaced in case superiority of the new concepts has been proven. It must be clear that a change for the only reason to have a change should not be performed and the principle of continuity over time should be followed if no strong evidence is given which justifies a change.

8. Do respondents agree that introducing the specialised lending category enhances the risk sensitivity of the standardised approach and its alignment with IRB?

Beside general comments made above we do not comment on this question as it is not related to our business.

¹⁴ Option 1 in this regard may be set as a standard while option 2 may only be the back-up / alternative to the discretion of the institution.

9. Can respondents suggest, and provide evidence on, how to increase the risk sensitivity of the regulatory retail exposures treatment, either by differentiating certain product subcategories for which a specific risk weight may be appropriate; or by suggesting simple risk drivers that could be used to assess the risk of all retail exposures?

Having exposures towards individuals included in the retail exposure class is agreed on. Beside this we have no further comment.

10. Do respondents agree that LTV and/or DSC ratios (as defined in Annex 1 paragraphs 40 and 41) have sufficient predictive power of loan default and/or loss incurred for exposures secured on residential real estate?

No comment.

11. Do respondents have views about the measurement of the LTV and DSC ratios? (In particular, as regards keeping the value of the property constant as measured at origination in the calculation of the LTV ratio; and not updating the DSC ratio over time.)

No comment.

12. Do respondents have views on whether the use of a fixed threshold for the DSC ratio is an appropriate way for differentiating risks and ensuring comparability across jurisdictions? If not, what reasonably simple alternatives or modifications would respondents propose while maintaining consistent outcomes?

No comment.

13. Do respondents propose any alternative/additional risk drivers for the Committee's consideration in order to improve the risk sensitivity in this approach without unduly increasing complexity?

No comment.

14. Which of the two options above is viewed as the most suitable for determining the risk-weight treatment for exposures secured on commercial real estate?

No comment.

15. What other options might prudently increase the risk sensitivity of the commercial real estate treatment without unduly increasing complexity?

No comment.

16. Do respondents agree that a risk weight add-on should be applied to only retail exposures and exposures secured by residential real estate? What are other options for addressing this risk in a simple manner?

The proposal brought forward by the Committee is reasonable. The add-on should be limited to the proposed exposure classes.

17. Do respondents consider the categories for which a CCF is applied under the standardised approach to be adequately defined?

Per-se we disagree to shift the CCFs towards the values as used in the IRB without proper underlying quantitative evidence.

Different CCFs have been introduced on intention and for good reason in the Standardised Approach compared to the IRB. Therefore the different characteristics of methods are taken into account. Harmonisation of CCFs for the only reason of harmonisation is neither justified nor helpful.

For the CCF of commitments that are unconditionally cancellable at any time the CCF of 0% should be continued to be applied. This is especially true in case the commitment is given to a credit institution or investment firm (or any other financial institution to whom this framework applies). Otherwise it cannot be justified to have a 0% inflow rate in the Liquidity Coverage Ratio (LCR) regime.

Cancellation of these lines is a common measure in the interbank market and performed on a daily basis.

18. Do respondents agree that instruments allocated to each of the CCF categories share a similar probability of being drawn and that the probabilities implied by the CCFs are accurate? Please provide empirical support for your response.

See response on question 17 as other categories are not relevant for our business.

19. What are respondents' views on the alternative treatments currently envisaged for past-due loans?

As we have not experienced past due loans we do not comment.

20. Do respondents agree with the proposed treatment for MDBs?

Yes. In addition we welcome the introduction of a clear definition of MDB in the proposed text (paragraph 10 of the Annex).

21. What exposures would be classified under “Other assets”? Is a 100% risk weight appropriate? (Please provide evidence where possible).

No comment.

22. What are respondents' views on the above alternative ways to define eligible financial collateral?

We in general agree that for the credit risk mitigation (CRM) framework the use of the ratings to determine collateral eligibility is the preferred choice. We agree ratings may have some weaknesses. We in general regard them in the current context of credit risk mitigation technics as minor and acceptable.

Nonetheless we disagree to base the collateral eligibility on issue rating only. Like in the general credit risk framework substitution by a programme or issuer rating or under certain circumstances by the issuer rating of the central government needs to be taken into account¹⁵.

¹⁵ For further details see part B and the respective rules in the Basel III framework.

Example:

In case the proposed substitution is not followed, government bonds of the Grand Duchy of Luxembourg, certain debt instruments of a variety of German regional governments and Dutch Treasury bills are not eligible for CRM purposes although they receive a 0% risk weight under the credit risk framework.

We disagree to any attempt for a general change of concept with regards to jurisdictions that cannot use external ratings in their regulations at this point in time prior to a thorough analysis of quantitative impact of any alternative solution. On top of that we wonder how such countries have implemented the Basel II / Basel III framework at all as it is relying with regard to the Standardised Approach in various areas on the external credit ratings. This is i.a. true for the majority of exposures to central governments and other public sector entities. Starting to solve in the CRM concept a general problem for countries which – based on the above – are currently not using the Basel III framework at all seems to be wrong.

In this regard history shows that this may be the first step to replace the current rating based approach by a non-rating based approach in its entirety, which we reject.

[23. What are respondents' views on the recalibrated supervisory haircuts shown in Table 4? What are respondents' views on how to eliminate references to ratings from the supervisory haircuts table? What could be the implications of eliminating references to external ratings?](#)

First from our perspective cash in the sense of paragraph 145 (a) of the Basel II framework must also be possible as collateral cross currency as respective volatility haircuts for foreign currencies exist. This treatment is already enrolled in the European Union and should be introduced in the Basel framework

With regards to the supervisory haircuts we urge the Committee to include paragraph 117 of Annex I in the final framework as SFT exposures must be privileged under certain conditions listed in paragraph 94 and 95 of Annex I of the proposal.

The newly introduced buckets for other issuers including the proposed haircuts seem to be reasonable and are supported. Moreover we disagree to the revised haircuts for equities, convertible bonds and gold. The current haircuts 15% and 25% are in our mind adequate and any upward shift needs appropriate quantitative evidence.

Table 5 is detailing the alternative approach as also covered by Question 22. We therefore refer to our concerns raised there. Although ratings are supposed not to be used in those countries at all they determine the risk weights to a large extent at least under the current rules including the changes proposed with the current BCBS consultation. As such important elements how the risk weight for the various buckets are determined are missing.

Having said this we have some remarks to table 5 in detail:

- § Our comment with regards to equity, gold, convertible bonds and cash are valid as well;
- § As we reject the general proposal to shift upwards the respective ranges the table needs to be updated accordingly;
- § The haircut for sovereigns with 0% risk weight and a remaining maturity of maximum one year is not matching the value in table 4. Whatever is used it should be used in both tables, either 0% or 0.5%.

24. What are respondents' views on the proposed corporate guarantor eligibility criteria?

No comment.

D. Comments on top

§ In the executive summary of the consultative document it is claimed that the revised Standardised Approach shall be substantially improved by strengthening the link between the Standardised Approach with the internal rating based approach. From our perspective this target lacks of justification and evidence. Furthermore the proposal seems to strengthen this link by moving the Standardised Approach towards the IRB. It is not proven that the IRB is superior to the standardised one. The IRB is heavily relying on own estimates and expectations which by definition are providing room for interpretation and the opportunity to understate risks.

The Basel framework has captures this by introducing on purpose differences in certain parameters compared to the Standardised Approach. In now moving the parameters for the IRB into the Standardised Approach the origin of the differences is ignored. Moreover the move of the Standardised Approach towards the IRB which according to the introduction of the Basel II framework is more risk sensitive, is contradicting the proposal of the BCBS consultation d306¹⁶ which is aiming to set a floor to the IRB based on the Standardised Approach. Once more lifting the parameters for the Standardised Approach and reaching higher capital requirements by doing so and subsequently putting this as a floor to the IRB is gearing up capital requirements by different measures (not talking about the various attempts to increase the levels of capital to cover the capital requirements i.a. TLAC, various capital buffers etc.).

We refer in this regard also to our comments to BCBS consultation d306 as well as our document to the TLAC consultation¹⁷.

Page 18 of the consultative document demonstrates what we have said above, i.e. the intended linkage always results in higher risk weights without evidence that this is more risk sensitive.

¹⁶ See <http://www.bis.org/bcbs/publ/d306.pdf>

¹⁷ See <http://www.financialstabilityboard.org/2014/11/fsb-consults-on-proposal-for-a-common-international-standard-on-total-loss-absorbing-capacity-tlac-for-global-systemic-banks/>

§ In 1.2 weaknesses of the current Standardised Approach are discussed:

○ Lack of granularity

The consultation paper states that certain exposure classes provide flat risk weights or an insufficient number of risk buckets. We are missing a clear evidence for this conclusion and tend to disagree. In our mind the current framework is balancing simplicity, risk sensitivity and comparability. Any change without proper justification would harm the principle of stability over time. Moreover especially taking our criticism on the proposal into account we have not identified what actually is the proposed reaction of the Committee to overcome this potential weakness.

○ Out-of-date calibrations

If relevant data clearly demonstrates that current risk weights do not properly reflect the underlying risks and therefore respective adjustments (in both directions) may be considered. However the consultative document does not contain evidence that current risk weights are not appropriate. Further the proposal mainly contains massive upward shifts of risk weights which is not a calibration rather than a general tightening of requirements without the respective proof.

§ In 1.3 it is outlined that the rationale for the review of the Standardised Approach is facing a trade-off between addressing all weaknesses of the current framework and ensuring that the Standardised Approach remains both simple and practicable. We disagree that the trade off has been reached as the revised framework seems to be way more complicated and has not demonstrated more risk sensitivity.

§ With regard to the treatment in section 2.3 (Subordinated debt, equity and other capital instruments) we clearly reject the commonly applied risk weights on these capital instruments. Risk of exposures in those instruments varies a lot. Contrary to the argumentation given in the consultative document we see that this is not risk sensitive and the targeted trade off of simplicity and risk sensitivity is punishing those exposure classes.

§ With regard to point 2.4.2 “Other retail exposures” it is our opinion that results are not changing materially the shift from corporate exposures to retail exposures provides more clarity and as it has no major further impact it is supported.

We hope that our comments given are useful in the further process and are taken up going forward. We are happy to discuss any question related to the comments made.

Eschborn

27 March 2015

Marcus Thompson
Managing Director

Jürgen Hillen
Executive Director