German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments on *Consultative Document: Consolidated Basel Framework* (BCBS 462)

Register of Interest Representatives
Identification number in the register: 52646912360-95

Contact:
Dr. Uwe Gaumert
Director
Telephone: +49 30 1663 2150
Fax: +49 30 1663 2199
Email: uwe.gaumert@bdb.de

Berlin, 8 August 2019

The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent approximately 1,700 banks.

Coordinator:
Association of German Banks
Burgstraße 28 | 10178 Berlin | Germany
Telephone: +49 30 1663-0
Telefax: +49 30 1663-1399
www.die-deutsche-kreditwirtschaft.de

Comments on Comments on

Consultative Document: Consolidated *Basel Framework*

We generally welcome the Basel Committee's intention to make it easier to access the Basel standards externally. This will foster comprehensibility and consistency of the standards. We are thus grateful for the opportunity to comment. At the same time, we still see some room for improvement as regards the presentation of the standards on the BIS's website and have further remarks relating to their content.

The redesigned online portal now makes it possible to view the current version of each standard, as well as old or upcoming versions, in consolidated form for each topic (time traveller). This enhances transparency in practice. A look at the consolidated version of the framework applicable from 2022 shows, however, that the standardised approach for credit risk has, for example, been incorporated from the Basel III finalisation package (December 2017), whilst the revised standardised approach for operational risk has been incorporated into the non-consolidated version, but not into the consolidated version. A renewed quality review is required here.

The FAQs usually contain links to specific passages in the framework. We regard this as generally helpful. When it comes to technical implementation, the following needs to be improved, however:

- The link should take the user to the specific passage and not only to the beginning of the respective chapter.
- A separate window should open via the link so that the FAQ is not "lost".
- A link in the PDF document takes the user into the online portal but not back to the FAQ in the PDF document again. This should be corrected.

Q1. Does the framework accurately, clearly and comprehensively set out the policy contained within the published Basel standards?

Identifiability of changes

The framework adopts what we consider to be a sensible, topic-based structure. The individual introductory sections explaining the sense and purpose of a standard (*Rationale and objectives*) have been duly shortened and summarised. Yet it is difficult for users to identify the differences between current version and future version (or current version and previous version) if they cannot set the versions alongside each other or each new version is presented with changes marked.

It would be helpful if the relevant source documents were listed at the start of each chapter/topic in the final consolidated framework (like in Annex 2 of the consultative document).

Comments on Comments on

Consultative Document: Consolidated *Basel Framework*

FAQs

The consultative document does not specify how new FAQs will be published in future. So far, they have been compiled in a separate document, e.g. "*Basel III definition of capital – Frequently asked questions*", with such documents being regularly updated. Separate presentation of FAQs has proved particularly useful for institutions. It is important that any new FAQs can be recognised quickly and easily in practice. We should therefore welcome it if previous FAQ documents were integrated into the download area for PDF versions at the beginning of every chapter. We also believe that a technically supported information system (e.g. newsletter, email alert) drawing attention to new FAQs would be helpful.

Footnote 7 on page 188 of the Basel framework contains a list of the currently recognised multilateral development banks. From a practical point of view, it would be helpful if a link were provided here to a page that is regularly updated or likewise presents the status quo through a corresponding list of banks.

Output floor in accordance with the Basel III finalisation package of December 2017

The output floor arrangements as set out in the Basel III finalisation package of December 2017 are incorrectly incorporated into the chapter on calculation of minimum risk-based capital requirements in the consolidated version applicable from 2022. This means there is an inadmissible expansion of the capital requirements resulting from the output floor. As explicitly stated in paragraph 4 of the introduction to the Basel III finalisation package, the output floor (referred to synonymously here as capital floor) complements the risk-based capital requirements along with the leverage ratio. Its effect can be seen as similar to that of the leverage ratio: the output floor is a further capital floor. Unlike the non-risk-based leverage ratio, however, the output floor is a risk-based capital floor.

The full requirements for calculation of the output floor are therefore set out in a separate section of the Basel III finalisation package of December 2017. This section explicitly stipulates that the RWAs calculated via the output floor (floored RWAs)[1] are subject to the following capital requirements:

- 8% total capital ratio (comprising at least 4.5% Common Equity Tier 1 capital and 6% Tier 1 capital as set out in paragraph 2 of the *Output Floor* section in the Basel III finalisation package

[1] Floored RWAs are (i) the RWAs calculated by means of the standardised approaches and (ii) the RWAs calculated by means of the approaches actually used by the bank (including supervisory-approved internal models), whichever are higher.

- Capital conservation buffer as set out in paragraph 3 of the *Output Floor* section of the Basel III finalisation package
- Countercyclical capital buffer (also set out therein)
- Capital buffer for global systemically important banks (G-SIB buffer) (also set out therein).

Likewise, only G-SIBs have to use the floored RWAs to meet the total loss-absorbing capacity (TLAC) requirements (paragraph 3 of the *Output Floor* section in the Basel III finalisation package).

A completely different picture emerges from the consolidated version applicable from 2022. It does not incorporate the guidance on the separate capital requirements that have to be met on the basis of the floored RWAs. Rather, a different system is introduced. The capital requirements resulting from the output floor – and thus the capital floor as described in the introduction – are dropped. Instead, a general RWA floor based on the floored RWAs is set. These changes mean that all RWA-based capital requirements are determined by the usually higher floored RWAs.

The consequence is that – unlike the output floor requirements in the Basel III finalisation package – the capital buffer for domestic systemically important banks (D-SIB buffer), as well as all other jurisdiction-specific capital requirements, provided these are RWA-based, must be additionally met on the basis of the floored RWAs. This is at odds with what was agreed internationally in the December 2017 Basel III finalisation package.

To eliminate this inconsistency with the Basel III finalisation package, a separate section on the output floor should be included in the consolidated version applicable from 2022. This section could be incorporated after RBC20 (*Calculation of minimum risk-based capital requirements*) as RBC21 (*Output floor*) and should largely contain the contents of the *Output Floor* section in the Basel III finalisation package unchanged. By the same token, the guidance on the output floor in section RBC20 (*Calculation of minimum risk-based capital requirements*) should be deleted.

Higher loss absorbency requirements for domestic systemically important banks (D-SIB buffer)

Footnote 1, sentence 2 on the requirements for calculating the minimum risk-based capital requirements in RBC20.1 of the consolidated version applicable from 2022 introduces a new requirement for D-SIBs. By incorporating a higher loss absorbency requirement for D-SIBs at this point, this standard stipulates that determination of the higher loss absorbency level for D-SIBs has to be based on the RWAs calculated in accordance with RBC20.4. Neither the Basel framework for dealing with domestic systemically important banks (BCBS 233) nor the Basel

Comments on Comments on

Consultative Document: Consolidated *Basel Framework*

III framework (BCBS 189) nor the Basel III finalisation package (BCBS 424) contain such a requirement.

In line with the Basel framework for dealing with domestic systemically important banks (BCBS 233) – now contained in RCB40.7 et seq. of the consolidated version applicable from 2022 – jurisdictions are instead urged to develop appropriate higher loss absorbency requirements based on the principles specified therein. This flexibility should not be restricted by RBC20.1, footnote 1, sentence 2 of the consolidated version applicable from 2022. This could be made clear by adding wording to RBC20.1, footnote 1, sentence 2 of the consolidated version applicable from 2022 that, for example, confines the higher loss absorbency requirements referred to therein to global systemically important banks. This would also be consistent with the existing rules in the Basel III finalisation package (BCBS 424) and higher loss absorbency requirements for G-SIBS (BCBS 255).

Large exposures

The "*Supervisory framework for measuring and controlling large exposures*" (BCBS 283) of April 2014 contains in paragraph 8 a description of the scope of the large exposure rules that has not yet been incorporated into the consolidated version.

"*The Committee recognises that the risk from large exposures to single counterparties or groups of connected counterparties is not the only type of concentration risk that could undermine a bank's resilience. Other types include both sectoral and geographical concentrations of asset exposures; reliance on concentrated funding sources; and also a significant net short position in securities, because the bank may incur severe losses if the price of these securities increases. The Committee has decided to focus this framework on losses incurred due to default of a single counterparty or a group of connected counterparties and not to take into account any other type of concentration risk*."

We request that this passage be incorporated into the consolidated version. The large exposures regime is geared to the existence of so-called idiosyncratic risk factors to which members of a group of connected counterparties are equally exposed, but not to concentration risk that may arise through sector affiliation or geographical distribution.

Sectoral or geographical risk designates a dependence tied to an external factor (e.g. a specific goods market or a certain region) that affects all persons/entities active in this sector or region in the same way. Sectoral and geographical risk therefore do not lead, on their own, to the creation of groups of connected counterparties and thus do not fall within the scope of the large exposure rules. We believe that this definition of the scope should also be incorporated into the consolidated version. This would be important particularly for understanding the concept of groups of connected counterparties.

The wording of paragraph 9 that excludes intragroup exposures from the scope of the framework should also be retained.

In LEX30.20 and LEX30.21 of the consolidated version applicable from 2019, adjustments were made according to the mapping table[2] by way of two FAQs, though they are still subject to the approval of the Basel Committee (PDG/17/30 FAQ1 and FAQ2). These are not mentioned in section 2: *FAQs* of the consultative document, however, and should therefore be identified as new FAQs.

FAQ1 with regard to LEX30.20:

> *"Is the measurement of exposure values of options measured according to LEX30.20 different from the gross jump-to-default risk positions measurement of options with a fixed 100% LGD as described in the market risk standard applicable from 2022?*
> *No. The exposure amount of options measured according to LEX30.20 is equivalent to the exposure amount measured according to the market risk standard which will take effect on 1 January 2022*."

In LEX30 of the consolidated version applicable from 2022, the measurement of exposure values is then adjusted, referring to "*Reflects changes in market risk requirements*". This concerns LEX30.17 to LEX30.20 of the consolidated version applicable from 2019, though the adjustments as per the mapping table based on the above-mentioned FAQ1 have been made subject to the approval of the Basel Committee. This should also be clearly indicated in the consolidated version.

As far as FAQ2 is concerned, it should be noted that no FAQ with regard to LEX30.21 has, however, been included in the consolidated version applicable from 2019.

It could be concluded from the newly included final sentence in LEX30.21 of the consolidated version applicable from 2019 (or LEX30.20 in the consolidated version applicable from 2022) that covered bonds held in the trading book are also to be subject to the "look-through" approach. We are strongly opposed to such an amendment of the finalised standard agreed in April 2014. This is not consistent with the April 2014 framework currently in force.

Covered bonds held in the trading book and banking book are dealt with exhaustively in LEX30.36 to LEX30.39. Reference thereto is unnecessary. Covered bonds that satisfy the conditions in LEX30.39 are given preferential treatment under the large exposures regime.

---

[2] Consolidated Basel Framework mapping table: Version 1.0 (published 9 April 2019)

Comments on Comments on

Consultative Document: Consolidated *Basel Framework*

Mandatory application of the "look-through" approach would undermine such preferential treatment.

Q2. What are your views on the technical amendments in section 1?

No comment.

Additional comments on section 2 (FAQs)

In the following new FAQ in section 2 of the consultative document, "*Reference*" and "*Summary of clarification*" do not go together in our view. Please make clear which FAQ is actually meant (e.g. CAP10.11 FAQ23 and/or CAP10.16 FAQ9).

Topic	Reference	Summary of clarification
Additional Tier 1 and Tier 2 capital eligibility criteria	CAP10.11 FAQ15, CAP10.16 FAQ3	Clarifies that the measurement of Additional Tier 1 and Tier 2 capital instruments should consider any tax liabilities or payments resulting from conversion or writedown

Additional comments on topics not explicitly addressed

Large exposures

LEX30.25/LEX30.26 of the consolidated version applicable from 2019 and LEX30.24/LEX30.25 of the consolidated version applicable from 2022 ought to refer to "financial instruments" instead of "securities" as this standard should also be duly applied to financial instruments that are not securities.