

ZENTRALER KREDITAUSSCHUSS

MITGLIEDER: BUNDESVERBAND DER DEUTSCHEN VOLKSBANKEN UND RAIFFEISENBANKEN E.V. BERLIN · BUNDESVERBAND DEUTSCHER BANKEN E.V. BERLIN
BUNDESVERBAND ÖFFENTLICHER BANKEN DEUTSCHLANDS E.V. BERLIN · DEUTSCHER SPARKASSEN- UND GIROVERBAND E.V. BERLIN-BONN
VERBAND DEUTSCHER PFANDBRIEFBANKEN E.V. BERLIN

EU Commission

Via E-Mail: markt-h1@ec.europa.ec

10178 Berlin
Burgstrasse 28
15 October 2008
Ref. ZKA: EG-EKV
Ref. BdB: C17.1 –Ga/Sz/G/To

Comments on the Commission Services Working Document of August 2008: “Possible Changes to the Trading Book Capital Requirements”

Dear Sir, Madam,

In mid-August 2008 the European Commission circulated a consultation document entitled “Possible Changes to the Trading Book Capital Requirements”, inviting feedback by 15 October 2008. We are pleased to take the opportunity to comment and wish to outline the position of the German banking industry in the following. May we also point out in this connection that we support the recent EBIC response to the Commission’s working document.

1. General remarks

The Basel Committee on Banking Supervision’s revised consultative document entitled “Guidelines for Computing Capital for Incremental Risk in the Trading Book” was only issued for comment on 22 July 2008. The deadline for feedback is also 15 October 2008. This consultative document contains the Basel Committee’s proposals on the supervisory rules for incremental risk modelling that are the subject of the Commission’s paper. Given that the Basel Committee’s discussions have not yet been completed, the timetable adopted at EU level is unacceptable in our view. The Basel Committee should first have the opportunity to evaluate

the comments on its consultative document before its rules can be transposed into European law. As far as we know, the work of the Basel Committee will not be completed until the end of 2008 at the earliest. This must be taken into account in the timetable set in Brussels, which should first await the Basel Committee's findings.

Because of the heavy overlap between the two papers, we have refrained from commenting separately on most points of the Commission's working document and merely refer in this connection to our enclosed response to the Basel Committee. At the same time, we wish to make the following comments over and above those on the Basel Committee's consultative document:

Detailed guidance

We agree that the Basel Committee's consultative guidelines can "*be considered to offer institutions relatively limited guidance for the implementation of the capital calculations*" (e.g. definition of "default-free interest rate instruments" or "re-securitisations"). This problem, namely the presentation of rather crude and unclear rules by the Basel Committee, must be eliminated in Basel, and not in Brussels, to avoid from the outset any danger of a distortion of competition to the detriment of European institutions. However, as regards the content of Directive 2006/49/EC or CEBS guidelines, we reject any additional European requirements that go beyond the regulatory thrust of the Basel Committee's consultative documents. Furthermore, with the aim of principles-based regulation in mind, detailed rules-based requirements should be avoided as far as possible. This is the only approach that will not impede the further development of internal models reflecting institutions' specific needs.

Timeframe

In our view, none of the EU changes could apply earlier than the beginning of 2011, bearing in mind the time needed for the EU legislative process and national implementing legislation in Member States. It is also highly important to ensure that, given the much greater complexity in future, institutions are given a sufficiently long transition period for development, testing, validation, implementation (use test compliance) and the supervisory approval procedure for the new model components. Article 47 of Directive 2006/49/EC should therefore be modified so that institutions have until the beginning of 2011 to model structured interest-rate products

(particularly securitisation instruments). This will ensure that the comprehensive work still required to further develop models can be performed. For structured interest-rate products in particular, the default-migration-spread risk approach may not be appropriate; implementation for verification by the end of 2009 will not be possible in our view.

The timeframe available to institutions is highly important for planning purposes and is an issue that should be settled as soon as possible.

Supply of quantitative and qualitative information

Trading portfolio models, which are already being refined by institutions in the wake of the financial market crisis, will in all probability fail to meet supervisory incremental risk modelling standards and thus not be use test-compliant, as it may be assumed that the supervisory standards do not match the banks' internal ideas about the further development of models. The incremental risk modelling standards will thus be implemented by institutions solely to satisfy the requirements set by supervisors and not of their own accord. We believe that full-scale implementation of the incremental risk modelling standards (development, testing, validation, implementation) will require a significantly higher use of resources, which will generate substantial bureaucratic costs. It is not possible to estimate these costs by 15 October 2008. We therefore reserve the right to submit a quantitative estimate of the bureaucratic costs incurred by the European banking industry at a later date.

An assessment of the impact on capital requirements is not possible at present and a QIS does not make sense either at this stage, as the level of sophistication of models does not allow a serious assessment at this time.

Interim charge

With regard to the interim solution proposed for re-securitisations, we welcome the fact that the European Commission has no plans to apply the Basel Committee's interim charge (paragraph 50 of the "Guidelines for Computing Capital for Incremental Risk in the Trading Book"). The substantial time and effort required to implement an interim solution is not justifiable in our view. Rather than implementing such a short-term solution, institutions should focus on enhancing incremental risk modelling for these positions. We do not believe that there will be enough time for institutions to adapt the securitisation banking book

approach to specific securitisation trading book positions. Different processes and risk management principles need to be taken into account for trading book and banking book positions, making any short-term adjustment particularly challenging. We therefore assume that European institutions will not have to calculate an interim charge from 2009 onwards and would appreciate clarification to this effect.

2. Specific remarks

Annex 5, paragraph 9 (b) – Calculation of capital requirements

As stipulated in paragraph 45 of the Basel Committee's "Guidelines for Computing Capital for Incremental Risk in the Trading Book", calculation of the IRC should be based here too on the average charge over the reporting period so as to achieve consistency with the Basel Committee rules, which rightly avoid reporting-date effects.

Should you have any questions or require any further clarification of the above points, please do not hesitate to contact us.

Yours sincerely
on behalf of the Zentraler Kreditausschuss,
Bundesverband deutscher Banken


Uwe Gaumert


Anja Schulz

Enclosure