bankenverband

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BCBS Consultative Document on Domestic Systemically Important Banks (D-SIBs)

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Prepared by Jg/Ae/Rd

Dear Chairman Ingves,

We wish to thank you for giving us the opportunity to comment on the BCBS consultative document entitled *A framework for dealing with domestic systemically important banks*.

Our general positions have already been outlined to you in the comments submitted by the German Banking Industry Committee (GBIC). May we therefore draw your attention today to the special features of certain groups of institutions in the context of systemic importance for a financial marketplace.

Not only individual banks and banking groups but also certain groups of institutions, e.g. savings banks and cooperative banks, should be regarded as potentially systemically important and considered accordingly in their entirety when assessing systemic importance. Previous financial crises – such as the US savings and loans collapse in the 1980s - have shown clearly that smaller institutions with a virtually identical business model and therefore the same risk profiles may pose a threat to financial system stability if they, for example, become distressed simultaneously – they are then too many to fail. Systemic importance is also likely to result from the design of their institutional protection schemes alone. We hence believe that it would be appropriate to regard groups of institutions such as savings banks and cooperative banks as single units and to apply capital surcharges accordingly.

In particular, banks which are members of the same institutional protection scheme can give rise to systemic risk and should on no

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account be excluded from discussions about the treatment of systemically important financial institutions. This applies especially to Europe. Under the European solvency and large exposure regime, intra-group exposures, including exposures between members of the same institutional protection scheme, enjoy a number of privileges. As a result, exposures within such a scheme are not subject to capital requirements and are not included in calculations of large exposures.

If one member of an institutional protection scheme gets into financial difficulties, this may thus have serious repercussions for all other members since no capital is set aside to cover such eventualities and insufficient account is taken of concentration risk. If financial difficulties are experienced by only one or two small banks in economic good times, the consequences may well be limited. But if the other members of the institutional protection scheme have already been weakened by an economic crisis and/or if the ailing bank is comparatively large, the entire system will begin to falter, posing a considerable threat to financial market stability.

A look at the funding strategy of such banks and at the associated liquidity risk illuminates the potential for problems. If a number of small banks have very few or even only one source of funding, this can jeopardise the stability of the entire system. An example would be an interest rate increase which would make funding, mainly through deposits, more expensive. As the whole group performs very similar maturity transformation, this could lead to severe problems.

Furthermore, the access to the capital market might dry up for all the members of the institutional protection scheme simultaneously if a central financial institution gets into difficulties. Alternatively, a combination of similar business models and external shocks may give rise at a number of small member banks to a simultaneous need for liquidity which a central financial institution is unable to meet. And it must be borne in mind in all cases that the effects of a liquidity shortage make themselves felt very rapidly – there is no time for involved discussions about burden-sharing between legally independent entities.

We should be grateful if you would more strongly underline the significance of such groups of institutions for financial market stability in the proposed regulatory framework and advise supervisors to take an integrated approach when assessing their systemic importance.

Yours sincerely,

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General Manager
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