Comments

On the Basel Committee for Banking Supervision's Consultation Paper "Capital treatment of bank exposures to central counterparties" (BCBS 253)

Contact:
Silvio Andrae
Telephone: +49 30 20225-5437
Telefax: +49 30 20225-5404
E-Mail: silvio.andrae@dsgv.de

Berlin, 13-09-27

Coordinator:
German Savings Banks Association
Charlottenstrasse 47 | 10117 Berlin | Germany
Telephone: +49 30 20225-0
Telefax: +49 30 20225-250
www.die-deutsche-kreditwirtschaft.de

Comments "Capital treatment of bank exposures to central counterparties"

On 28 June 2013, the Basel Committee for Banking Supervision published its Consultation Paper "Capital treatment of bank exposures to central counterparties". We appreciate the present opportunity to share our comment.

I. Specific Comments

Under Indent 14(v), the BCBS itself mentions that it seeks to avoid unnecessary complexity. In our view, the proposals contained in the present Consultation Paper are counterproductive with regard to this professed goal. Under the current approach (i.e. under the interim rules) for capitalising Qualifying Central Counterparties (QCCP) exposures, the complexity is still confined to capitalising the prepaid default fund whilst banks' trade exposures are assigned a fixed 2% risk weight, thus keeping the latter fairly simple. Furthermore, under the current interim rules the committed default fund, quite rightly, remain unconsidered for capitalisation purposes. However, the present proposal submitted for comments imbues all scenarios with greater complexity; whilst not limited to, this specifically relates to the following aspects: Also in terms of the calculation formula, under the current proposals, the risk weight on trade exposures shall be made subject to the risk coverage of the entire prepaid default fund.

- Under the current proposals, the 2 percent risk weight on the initial margin shall be subject to contractual terms and conditions
- Under the current proposals, also committed default fund contributions (in terms of the formula depending on the risk coverage of the prefunded default fund) shall be capitalised.

In our view, similar to "method 1" in the "interim rules", the complexity should be limited to the prefunded default fund. In order to keep the complexity down, fixed risk weights for trade exposures should be preserved. In this context, we also recommend maintaining "method 2" for default funds currently covered in the interim rules.

II. Specific Comments

Q1. Which of these two proposed methodological approaches best satisfies the objectives which the capital treatment seeks to achieve and why?

N/A

Q2. What are the pros and cons of using the greater of the minimum Cover level required by the CPSS-IOSCO PFMIs or the hypothetical level of default resources calculated using NIMM as a model for calculating the relative risk of clearing members contribution to QCCP default funds? Should the Committee consider any adjustments to NIMM to improve its measurement of derivative exposures in the context of CCPs? Would it be better to use only one of these measures, or are there other suitable alternatives?*

N/A

Q3. What risk weights / capital charges would best achieve, or appropriately balance, the objectives set out in Section II.C? In particular, how would possibly lower values ensure that clearing members are capable of absorbing losses in times of stress without the drawing down of the default funds threatening the viability of the non-defaulting members who have contributed to them? How would the proposed 1250% risk weight affect incentives to use central counterparty clearing?

Comments "Capital treatment of bank exposures to central counterparties"

N/A

Q4. The Committee invites comments on this potential risk sensitive approach to capitalising trade exposures to CCPs?
Q5. Do you consider it appropriate to treat initial margin, where a QCCP has legally enforceable rules that make initial margin a senior claim to variation margin in the event of losses in excess of default resources, differently from other trade exposures by retaining a fixed 2% risk weight on initial margin posted in a non-insolvency remote manner?

In order to reduce complexity, the fixed 2% risk weight on trade exposures and on initial margin posted in a non-insolvency remote manner should be maintained. The aspect of the risk coverage of a prepaid default fund should remain confined to the calculation of the capital requirement for the prepaid default fund.

Q6. Do the proposed approaches to capture commitments to top up default funds in the capital treatment of exposures to QCCPs satisfy the objectives which the capital treatment seeks to achieve? Are there ways in which the proposed capital treatment of commitments could be improved? Is the proposed α value of 0.5 appropriate?

From our point of view, the capitalisation of committed default fund [contributions] is generally inacceptable. This is due to the fact that there is already implicit recognition thereof in the prepaid default fund: Due to the juxtaposition of the entire prepaid default fund [DF(CCP)+DF(pref,CM)] and the hypothetical level of CCP default resources that it was deemed desirable that the CCP should meet or exceed. In our view, any additional capitalisation would lead to double counting of the same scenario and consequently result in an exaggerated statement of the exposure.

Yours faithfully,

For the German Banking Industry Committee

Dr. Martin Lippert　　　　Dr. Silvio Andrae