A. Introduction

Deutsche Börse Group (DBG) welcomes the opportunity to comment on BCBS consultative document "Basel III: The Net Stable Funding Ratio" issued in January 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 and Clearstream Banking AG, Frankfurt/Main, who act as (I)CSD[1] as well as Eurex Clearing AG, Frankfurt/Main as the leading European Central Counterparty (CCP), are classified as credit institutions and are therefore within the scope of the European Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) which transposed i.a. the Basel III rules into European law. Clearstream subgroup is supervised on a consolidated level as a financial holding group.

However, all our group entities in scope of CRD/CRR and therefore Basel III rules are offering 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, allows loan business only in connection with clearing, settlement and custody activities for very short durations. Similarly, deposits and similar funds are taken as cash collateral or on short term basis (in principal overnight) only.

The document at hand contains a management summary in part B and specific comments in part C.

[1] (International) Central Securities Depository

B. Management Summary

In general the NSFR differentiates between "available stable funding" and "required stable funding". Available stable funding must always cover required stable funding (100% minimum ratio).

The balance sheet positions (assets and liabilities) are weighted with factors in order to consider the remaining maturity and asset or liability class. It appears that in general credit institutions are incentivised via the NSFR proposal to borrow funds with longer tenors and re-invest for shorter tenors in order to strengthen the liquidity gap over the various maturities. We agree that this will strengthen the ability of banks to meet their obligations, but we also want to bring to the attention of the Basel Committee for Banking Supervision (BCBS) the issue of profitability. In case credit institutions are restricted in their ability to perform maturity transformation (what is one of their essential duties and shall be performed by credit institutions as these are prudentially regulated and have the ability to perform a proper risk management) the profitability of those credit institutions will narrow. It is empirically proven that a low profitability has implications on the resilience of credit institutions and their ability to withstand financial stress. The NSFR might lead to a situation where the (isolated) liquidity situation of credit institutions is improved, but the overall situation of credit institutions is harmed as the ability to perform maturity transformation is limited and lower profitability would have negative implications on banks capital and the ability to issue debt. It is a specific duty of credit institutions to connect borrowers and lenders and accept certain levels of maturity transformation. A net stable funding regime should only limit excessive maturity transformation.

Further the NSFR regime shows some inconsistencies with the LCR regime concerning the treatment of high quality liquid assets (HQLA) as maturities are not considered.

With regards to the situation of the DBG entities in scope of the NSFR we state that due to the balance sheet structures (high levels of equity, short term assets and short term liabilities) the NSFR ratio is well above the required 100%.

C. Specific comments

In the following we split our comments separated into the nominator (available amount of stable funding) and the denominator (required amount of stable funding).

A) Definition of available stable funding:

- In paragraph 21 lit. b operational deposits receive a 50% ASF factor. In the LCR framework it is stated in paragraph 93 (BCBS #238) that those outflows must only be weighted with 25% due to the limited availability for the depositing bank (which in effect may not consider these deposits as an inflow, see paragraph 98 in BCBS #238). We want to mention that there exist other deposits with a certain residuum which are not legally required to be held or a minimum value that has to be placed and cannot be withdrawn in their entirety or are revolving in order to participate in dedicated businesses. This is in particular true for the interbanking business related to financial instruments or payment transactions as well as placing cash collateral for financial instruments businesses (mainly trading and clearing). In fact institutions often place funds in that context and keep a certain residuum value. At least on an aggregated level at the receiving credit institution it should be considered as available stable funding to an appropriate percentage. Contrary to the above mentioned "operational deposits" these deposits are however currently associated with a 100% outflow rate in the LCR regime and not considered at all as available stable funding in the NSFR regime. We clearly see the less binding character of such deposits compared to operational deposits. This should lead to a higher outflow rate for LCR and a lower ASF factor for NSFR compared to operational deposits. As already mentioned in the consultation process of BCBS #165 in 2010 we consider a LCR outflow rate of 40% and a 25% available stable funding factor in the NSFR regime as adequate compared to the current proposal. In addition we acknowledge the interconnectedness of financial institutions which would be covered with the above proposed rates, too.

B) Definition of required stable funding:

- In paragraph 29 assets assigned with a 0% required stable funding factor (RSF) is discussed. Under point (c) unencumbered loans to banks are listed. We ask for further specification what is meant by the term "unencumbered loans".
- In the paragraphs 30 to 32 unencumbered Level 1, Level 2A and Level 2B assets under the LCR regime are mentioned. Depending on their quality they require

stable funding with RSFs between 5% and 50%. The maturity of these assets is not regarded. In this context we urge the BCBS to allocate all unencumbered HQLA with a 0% RSF factor in case they mature within one year, otherwise those HQLA receive higher RSF factors than unencumbered loans to banks regardless of the counterparty quality. If maturities are beyond the one year period we agree to proposed RSF factors.

- In paragraph 36 the asset categories and associated RSF factors are summarised. We propose to delete the second bullet in the 50% row. The fifth bullet should be complemented by "encumbered loans to banks subject to prudential supervision with residual maturities of less than six months".

Concerning the disclosure frequency institutions should be permitted to disclose on a semi-annually or even annually basis in case the competent authority agrees.

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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, 11 April 2014

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