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BCBS Consultative Document - Guidelines on identification and management of step-in risk

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as legal representative of the entire Austrian banking industry, appreciates the possibility to comment on the above cited consultation document and would like to submit the following position:

I. General Remarks

The proposal in general is disproportionate and overshoots the following targets:

1. On the one hand we assume that the implementation would be burdensome and would be based on many uncertain assumptions (as a forward looking approach is required), in particular relating to the identification of potential "non-contractual step-in obligations".

2. On the other hand material activities are expected (e.g. inclusion in the regulatory / accounting scope of consolidation, liquidity requirements, stress testing, provisioning) based on these uncertain assumptions.

II. Specific Remarks

In our view the following key points of the guidelines shall be addressed and further clarified:

Step-in Risk vs Participation Risk:

Although step-in risk is not necessarily linked to participation risk (sponsor / debt investments / etc.), a main part out of the step-in risk will be based on equity-participations. In our definition and measurement of participation risk (Pillar II), several potential financial losses are included (dividend omissions, provisions on equity value, further financial support due to economic problems of the entity). Therefore, a clarification is needed, if step-in risk in the dimension of an equity investment is partially / fully covered by a calculation of participation risk in pillar II (including further financial support).

The following two remarks (para 28 and para 41-42) are statet with respect to small and regional entities which also make up a small part of the austrian banking landscape.

Para 28 (page 6):

In para 28, an aggregated evaluation of small but similar entities shall be carried out due to "contagion" risk. In our view, this shall be clarified and specified. Generally, a contagion risk is not expected or is reduced if similar and small entities (which e.g. are not in the scope of regulatory consolidation of a bank) do not have interlinkages between each other. The stress or even default of one out of several entities should not have impacts on other entities in such cases especially if all of these entities are mainly owned by a bank.

Para 41-42 (implicit support – page 8):

Implicit support is one of the main criteria regarding the evaluation of the step-in risk evaluation on entities. However, not rated and generally smaller entities do not have a rating (only internal rating available) or the rating is, for simplicity reasons, deducted from the bank's rating. In our opinion, the deduction of the bank's rating for the entities rating would be comprehensible, especially if the entity is owned in majority by a bank. Furthermore, even if internal ratings - generally created by banks - exist, can these ratings be used for this treatment?

Para 77 (page 12):

The conversion approach shows a potential quantification method for step-in-risk. However, two questions arise:

- What level potential conversion factors could have (e.g. deducted from CRR Appendix, CCF)?
- What is the risk exposure amount in the case the bank is a sponsor with advising / decision making tasks? How could the potential risk exposure be deducted?

We ask you to give our remarks due consideration.

Yours sincerely,

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