

BVI Position on the Second consultative document of the Basel Committee on the Standard Approach for credit risk

BVI¹ gladly takes the opportunity to present its views on the Basel Committee's second consultative document on revisions of the Standardised Approach for credit risk. We generally welcome the Committee's decision to reintroduce the use of external ratings and to reject the proposal in its first consultative document to completely remove their use. However, the revised proposals for risk weighting might significantly affect the advantages and efficiency of fund investments, in particular with respect to investments made by small and medium-sized banks. We would therefore like to share with the Committee some observations and concerns with regard to the proposed measures.

Annex 1, paras 14-15 and 32 (Due diligence requirements):

According to the Committee's proposals, risk weights for exposures to banks or corporates should be determined on the basis of a comprehensive internal due diligence of the bank counterparties' operating and financial performance levels. In the context of such internal credit analysis, external ratings may serve as a primary basis only. In a second step, "banks must perform due diligence to ensure that the external ratings appropriately and conservatively reflect the creditworthiness of the bank counterparties".

We believe that the proposed requirement for an internal credit analysis with respect to every single counterparty could potentially lead small and medium sized banks away from fund investments. For small and medium sized banks, (indirect) investments via a fund vehicle offer considerable benefits over direct holdings. In particular, the concept of a fund enables such banks to invest in a risk diversified portfolio of attractive asset types without themselves being required to have adequate asset and risk management knowledge and experience and sufficient personnel and operational resources. If such small and medium sized banks were required to implement internal processes, systems and controls in order to ensure that the appropriate risk weights are assigned to all of their counterparties, they could no longer benefit from the advantages of an indirect investment, where the credit analysis in respect of the portfolio is performed by a skilled and experienced investment manager.

We therefore believe it should be sufficient to link the proposed due diligence analysis to objective criteria and uniform procedures rather than to individual internal processes. With respect to fund investments, it would then be possible for the investment manager to carry out the due diligence analysis rather than requiring each individual bank to perform the task itself. Any other approach would entail an enormous amount of additional work and expense which, for smaller banks in particular, would be virtually unmanageable. We therefore strongly ask to abstain from the concept of an individual due diligence based on internal methods.

¹ BVI represents the interests of the German investment fund and asset management industry. Its 95 members manage assets of some EUR 2.6 trillion in UCITS, AIFs and assets outside investment funds. As such, BVI is committed to promoting a level playing field for all investors. BVI members manage, directly or indirectly, the assets of 50 million private clients over 21 million households. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.



Annex 1, para 31 (Exposures to corporates):

According to Annex 1, para 31, the risk weight category of “exposures to corporates” is meant to encompass exposures to “incorporated entities, associations, partnerships, proprietorships, trusts, funds and other entities with similar characteristics”. German investment law provides for corporate-style funds, however, in the German investment fund market, the vast majority of open-ended collective investment schemes are structured as contractual-type funds. Such funds have no legal personality and hence cannot be deemed to be “corporates”. The same concept is being used e.g. in Luxembourg (*fonds commun de placement*, FCP) or Ireland (*common contractual fund*, CCF).

As a result, including corporate-style funds in the definition of “corporates” and hence subjecting them to the specific risk-weight for corporates would lead to an unjustified discrimination between corporate and contractual-type funds. In addition, “all types of funds” (i.e. both corporate and contractual type) are already covered by the 2013 framework. Hence, the discrimination would also run counter to the all-embracing approach of this framework. We therefore suggest deleting the term “funds” in the context of exposure to corporates.