German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments

BCBS Consultation "Guidelines for counterparty credit risk management" (BCBS 574)

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks.

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General Comments

The motivation for guidelines on CCR management is understandable insofar as individual default events at large banks with close links to the shadow banking sector can trigger major losses. However, the adjustments, clarifications and extensions to existing regulations contained in the consultation paper are too detailed and extensive in many areas. In addition, the new rules once again focus on the already heavily regulated and intensively supervised banking sector.

Our assessment of the overall design of the guidelines is set out below:

- The consultation paper sets out rules on IT infrastructure, data and risk systems, which are based on the Principles for effective risk data aggregation and risk reporting (BCBS 239), among others. Although the consultation paper recognises in section 1 that the implementation of these regulations should be based on the size and complexity of a bank's CCR exposure in accordance with the proportionality principle, but does not provide any specific details regarding the design of proportionality.

- The detailed, prescriptive requirements of the draft would unnecessarily overburden and disadvantage in particular smaller banks with low risk exposures. We would therefore strongly recommend reconsidering the concept of these guidelines as a whole: the application of the guidelines should either initially be restricted to large credit institutions with extensive trading activities and close links with the NBFI sector. Alternatively, only principle-orientated basic requirements should be formulated first and these should then be supplemented by an 'add-on' for institutions with particularly high CCR.

Specific Comments

- As part of the due diligence process and the ongoing monitoring of counterparties, the consultation paper requires institutions to collect information on the quality of risk management, non-financial risks, the composition of staff and staff turnover of the counterparty, some of which is not publicly available, and to incorporate this information into decision-making processes (e.g. lending, internal ratings, limits, contractual terms, etc.).

    - These extensive requirements represent a major challenge for institutions. Small institutions in particular would be disproportionately affected due to their comparatively low negotiating power with counterparties in order to obtain the required information. This would result in competitive disadvantages for smaller institutions.

    - In particular, the requirement to collect information on risk metrics (e.g. stress test results), trading strategies and trading positions for 'high-risk' and 'complex' counterparties is challenging for institutions, as this involves highly confidential counterparty information, resulting in potential conflicts of interest. We are therefore of the opinion that the implementation of this requirement would result in competitive disadvantages for smaller institutions and, as explained, request that the concept of these guidelines and the design of the proportionality principle as a whole be reconsidered.

- The call for a dedicated wrong-way risk framework is comprehensible in principle. In our view, however, quantification procedures for wrong-way risk are not sufficiently clarified, so that the supervisory expectation from the BCBS guidelines is not fully transparent here.

    - The requirements for the margin framework with regard to risk appetite, monitoring and backtesting go well beyond existing requirements and market practice and would therefore pose extensive challenges in terms of implementation. The additional work involved would be unreasonable, particularly for institutions with smaller CCR portfolios.

    - The new regulations regarding stress testing, such as simultaneous market shocks for netting sets and collateral, consideration of portfolio wind-down costs, hard-to-replace transactions and illiquid collateral in scenario design and stress-induced restrictions in risk mitigation measures, go well beyond the European market standard and would represent a significant methodological and procedural expansion for institutions. A restriction of the scope of application or differentiation of the regulation depending on the size, complexity and risk of the institution-specific portfolio is absolutely necessary.

    - As part of the requirements for exposure measurement, the focus is on modelling requirements for potential future exposure (PFE) on the one hand and on the existence of a range of non-equivalent risk measures to reflect all material CCR dimensions on the other. For non-IMM banks in particular, the requirements go significantly beyond existing regulations and would mean significantly more complex procedures for determining exposure. The significant additional effort associated with this would generally be unreasonable in view of the often low risk exposure. In particular, the increased modelling requirements for non-IMM banks should be reviewed in terms of proportionality.

- Where the guidelines specifically mention risk indicators, methods etc. to be considered, these should be clearly labelled as examples.