German Banking Industry Committee

Die Deutsche
Kreditwirtschaft

Comments

on the consultative document
"Global systemically important banks - revised assessment framework (BCBS 402)"

Register of Interest Representatives
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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. Collectively, they represent more than 1,700 banks.

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Comments

The Basel Committee on Banking Supervision (BCBS) published its consultative document "Global systemically important banks – revised assessment framework" on 30 March 2017. We appreciate the opportunity for comment, and are content to share our views.

We welcome the regular review of valuation methods for global systemically important banks (G-SIBs) by the BCBS. Especially in an environment shaped by structural changes and tightening regulatory requirements, the three-year consultation frequency ensures that the G-SIB classification is proportionate, and duly considers the actual risk exposure emanating from the institution concerned.

However, some of the aspects regarding the extension of valuation factors, as set out in the current consultative document, do not appear to be appropriate. The Basel framework generally excludes insurance undertakings from the scope of consolidation. Defining a separate (and specific) scope of consolidated companies for the purposes of G-SIB reporting would render regulatory requirements unnecessarily complex. Differences between jurisdictions should not be harmonised for the G-SIB regime in isolation, but in a wider context.
We would like to ask the Basel Committee to reconsider the planned inclusion of insurance subsidiaries for the categories "size", "interconnectedness with the financial sector", and "complexity". The following aspects also constitute reasons that argue against such inclusion:

<u>Categories "size" and "interconnectedness":</u>
Banking and insurance activities are two fundamentally different businesses in the financial services sector, involving different risks. Enterprises with activities in banking and insurance are generally less exposed to the risk of financial difficulties, thanks to the diversification of business activities. This would be thwarted by a mandatory consolidation of banking and insurance activities under the G-SIB regime.
Furthermore, the meaningfulness of the Leverage Ratio indicator, and of total assets, is limited for insurance undertakings – especially for those underwriting life assurance cover, since some of their investments are held at policyholders' risk.
The consultative document also raises the issue of regulatory arbitrage by moving risk-weighted assets from banking groups into their insurance subsidiaries. Which situations this refers to exactly remains unclear; we therefore ask the Basel Committee to provide more precise explanations. Insurance undertakings are subject to restrictions in their investment activities; in our view, therefore, the scope for regulatory arbitrage is very much limited. Moreover, insurance supervisors have adequate instruments at their disposal, under Solvency II and the G-SII regime, for managing (systemic) risks in the insurance sector.

We therefore propose a solution whereby insurance subsidiaries are included in the Leverage Ratio indicator, at the carrying amount of the equity investment, for the "size" category. Institutions currently deducting the carrying amount of the equity investment in their insurance subsidiary from tier 1 capital should be permitted to add this carrying amount of the investment to the Leverage Ratio indicator.

<u>Inclusion of derivatives positions held by insurance undertakings, especially in the "complexity" category (section 9: OTC derivatives), but also in the "size" and "interconnectedness" categories.</u>
Insurance undertakings are largely restricted to using derivatives for hedging purposes only. Under the regulatory requirements pursuant to Solvency II, insurance undertakings are legally restricted to using derivative financial instruments exclusively for the reduction of risk, or to facilitate efficient portfolio management. Different rules only apply to life assurance policies where investment risk is borne by the policyholder. In certain jurisdictions (including Germany), insurance undertakings are prohibited from entering into derivatives transactions purely for the purposes of trading (arbitrage transactions), or from executing naked short sales. The

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narrow designation of purpose when entering into derivatives positions is a further indication of the marked difference between transactions carried out by banks and those carried out by insurance undertakings.