

Revision to the Standardised Approach for credit risk

Subordinated debt, equity and other capital instruments

The proposed increase of the risk weight of equity holdings from 100% to 250% under the standardised approach for credit risk would be overly punitive.

The users of credit risk Standardised Approach are primarily unrated smaller or medium-sized institutions. The application of the SA is usually more conservative than the IRB approach. The increase of these risk weights of equity holdings to 250% the disadvantage between the more conservative SA and the IRB approach would expand significantly again.

Usually they are small or medium-sized institutions which also provides equity to companies in their region, mainly to protect the location and the jobs of these domestic companies.

The significant increase of the risk-weights of equity holdings under the SA generates one of the following consequences

- a) significant reduction of the capital ratios of the institutions under the SA
or
- b) massive sale of the existing equity holdings

A massive sale of equity holdings to obtain the capital ratios would otherwise endanger the companies locations and jobs.

The intention to increase the risk weight of equity holdings unfortunately consider only a small perspective without consider the effect on the real economy

Would other industries implement these restrictions and barriers for capital investments in institutions conversely, the intended result of capital strengthening of institutions would probably not succeed, because only the retention of earnings would remain as the only possibility strengthening capital in the banking system.

Therefore a proposal for the application could be, that the revisions to the standardised approach for subordinated debt, equity and other capital instruments only be applied for those new investments, acquired after the entry into force of the revised Standard approach for credit risk.

Investments in subordinated debt, equity and other capital instruments which exist before entry into force of the revised Standard approach for credit risk **or** Investments in equity holdings, which do not increase the existing extent, particularly from capital increase of non financial institutions, Article 133 of Regulation (EU) No 575/2013 shall apply.

Second consultative document

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Comment on Risk weight for unrated bank exposures

Banks incorporated in jurisdictions that allow the use of external ratings for regulatory purposes will classify their **unrated** bank exposures into one of three risk-weight buckets (ie Grades A, B and C).

The lowest „base“ risk-weight in Grade A is 50%. In contrast rated exposures to banks in the best rating class AAA to AA- a risk weight of 20% can be applied.

It assumes that unrated exposures to banks have a lower credit quality than rated exposures to banks automatically.

In its first consultative document the committee proposed reducing reliance on external credit ratings.

However, the proposal in the second document prefer rated exposures to banks.

To avoid the disadvantage between rated and unrated exposures to banks the lowest risk-weight for unrated exposures should also be at 20%.

Proposal:

Banks incorporated in jurisdictions that allow the use of external ratings for regulatory purposes will classify their unrated bank exposures into one of **four** risk-weight buckets (ie Grades A, B, C and D)

The „base“ risk-weight in Grade A is 20%, Grade B 50%, Grade C 100% and in Grade D 150%