KfW Bankengruppe, Postfach 111141, 60046 Frankfurt am Main

Secretariat of the Basel Committee on Banking Supervision
c/o Bank for International Settlements
CH -4002 Basel, Switzerland

Jochen Leubner
Our ref.: Lbn
Phone: +49 69 7431-2569
Fax: +49 69 7431-4324
jochen.leubner@kfw.de

Date: 29/12/2015

» Consultative document dated 5 November 2015 on "Haircut floors for non-centrally cleared securities financing transactions"

Ladies and Gentlemen,

we appreciate the opportunity to submit this letter in response to the consultative document dated 5 November 2015 on "Haircut floors for non-centrally cleared securities financing transaction"s published by the Basel Committee on Banking Supervision (the "Consultative Document").

We fully support the work of the Financial Stability Board (the "FSB") and the Basel Committee on Banking Supervision (the "Committee") in response to the G20 Leaders' request at the Seoul Summit in November 2010 to strengthen oversight and regulation of shadow banking, i.e. to address bank-like risks to financial stability emerging outside the regular banking system. With respect to the Consultative Document, we would like to comment on the Committee's consideration to exclude non-centrally cleared securities financing transactions ("SFTs") backed by government securities from the scope of the proposed haircut floors and the consideration of sovereign debt securities as cash equivalent in the context of certain computations and therefore refer to Question 1 of the Consultative Document which reads as follows:

Q1: Are there any weaknesses or further improvements to the proposals that the Committee should consider?

We take note that the Committee intends to adopt the FSB's approach to include in the scope of application of the framework of numerical haircut floors SFTs in which financing against collateral *other than government securities* is provided to non-banks[1]. For this purpose, the FSB framework defines the term "government securities" to be "claims on sovereigns under the Basel II standardised approach. This includes claims on: central governments (and their central banks); certain non-central government public sector entities (PSEs) identified as sovereigns in the standardised approach; multilateral development banks (MDBs) that meet the criteria for a 0% risk-weight under the standardised approach; the Bank for International Settlements (BIS); the International Monetary Fund (IMF); the European Central Bank (ECB); and the European Union (EU)."[2]

However, the Committee does not propose to include a definition of the term "government securities" in paragraph 143(i) of the Basel rules text. We think that it is imperative for the effectiveness of the proposed requirements that supervised entities know how to exactly determine the scope of application of the numerical haircut floors and thus urge the Committee to include the definition of government securities as used in the FSB framework to further improve the Committee's proposal. The definition of "government securities" used in the FSB framework is based

[1] See section 3.2 of the Regulatory framework for haircuts on non-centrally cleared securities financing transactions published by the FSB on 14 October 2014, as amended (the "FSB framework").
[2] See footnote 4 of the FSB framework as amended as of 12 November 2015.

on a set of issuers of government-related securities that has consistently been treated to represent sovereign risk in a variety of regulatory requirements that are part of the Basel rules text (e.g. risk-based capital requirements, large exposure limits, Level 1 high-quality and liquid assets). It therefore seems conclusive to refer to the same set of government-related issuers for purposes of determining the scope of the numerical haircut floor requirements with respect to sovereign collateral.

Also for purposes of consistency, we kindly request to clarify the scope of the term “sovereign debt securities” in the proposed paragraph 143(x) of the Basel rule text in the same manner as for the term “government securities”.

Technically, the requested amendments could easily be implemented by inserting the text of footnote 4 of the FSB framework (in the version dated 12 November 2015) as footnotes to the term “government securities” in paragraph 143(i) and to the term “sovereign debt securities” in paragraph 143(x), respectively. Additionally, the Committee could consider using the same term in paragraphs 143(i) and 143(x), i.e. either “government securities” or “sovereign debt securities”.

We thank you very much for taking our comments into due consideration.

Yours sincerely,
KfW

Dr. Karsten Hardraht
Director

Markus Schmidtchen
Director