A. Introduction

Deutsche Börse Group (DBG) welcomes the opportunity to comment on BCBS discussion paper "The regulatory framework: balancing risk sensitivity, simplicity and comparability" issued in July 2013.

DBG is operating in the area of financial markets along the complete chain of trading, clearing, settlement and custody for securities, derivatives and other financial instruments and as such mainly active with regulated Financial Market Infrastructure providers.

Among others, Clearstream Banking S.A., Luxembourg (CBL) and Clearstream Banking AG, Frankfurt/Main (CBF), who act as (I)CSD[1] as well as Eurex Clearing AG as the leading European Central Counterparty (CCP), are classified as credit institutions and are therefore within the scope of the European Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) which transpose i.a. the Basel III rules into European law. Clearstream subgroup is supervised on a consolidated level as a financial holding group.

We are in general very supportive for the approach to balance out risk sensitivity, simplicity and comparability (over time) while we on the other hand are critical towards the measures proposed. We fear that the Committee is underestimating the current burden, misfunctioning and internal contradictoriness of the various quantitative measures within the Basel III framework. We therefore want to highlight our concerns towards the current framework (part B) as well as our thoughts on the proposals made and on alternative actions (part C). However, given the general nature of the discussing paper, we have set up our response also as a high level fruit for thought argumentation without going into details.

B. GDB concerns on the current Basel III framework

The current Basel III framework has developed over time and it has reacted on dedicated weaknesses of the financial systems as well as weakness of single financial institutions and their (insufficient) risk management. It has replied to demands of national regulators and industry representatives and developed from a high level principle driven set of rules (Basel I) to a comprehensive rule book with very detailed regulations (Basel III and beyond). However, even the detailed regulations have various weak-

[1] (International) Central Securities Depository

nesses, are vague in several areas (definition of high quality liquid assets being a good example) and still do not properly reflect all existing national specialities and business models (and will never do). As such, we clearly share the aim of making simplicity a core principle of the standard development.

On the question of comparability, a comparison over time is hardly to achieve as the rules are changing frequently which does not allow comparison at all. We therefore strongly suggest having the target of a stable framework being included in the guiding principles as well. Furthermore, not any two banks are comparable in their business model, client basis, legal framework and product offering. In addition, also the risk management framework is different. On that basis, comparison between different banks has its limits from the starting point and these differences need to be noticed.

Finally, the more complex the regulatory framework is, the less likely is its correct implementation. Increasing complexity results in an increasing probability of misunderstandings, data failures and errors in the computation of regulatory figures. As a consequence, this lead to differing interpretations of the rules and different computations of results based on same underlying business.

The current pillar III report has (similar to the IFRS notes) reached substantial volumes and considerable content and is likely to increase with full Basel III implementation. We also feel that this is creating more dis-information than clarity.

In addition, as the various elements of the quantitative regulatory framework namely solvency, liquidity and leverage plus (from a Basel perspective in the future) concentration risk in the form of large exposure limits all target different kinds of limits, it is impossible for an institution to look to all of these limits with the same quality and more important to reach the same level of fulfilment. Even worth, there are elements which improve one limit while harming the other and vice versa and under certain circumstances a bank might be caught be the choice which limit to be breached.

A network of very granular, hard to achieve but still not fully clear rules for us seems not to be the right solution. Here, problems occurred in the past are taken with the "worst case always happens everywhere" approach and are pushed to all banks even those which have totally incomparable business models but on isolated view same transactions. Supervisors being in charge for a single bank should be in the position via pillar II measures to have an adequate and deep understanding of the business as such and therefore some degree of freedom to increase capital or liquidity requirements to us are the better way than over detailed quantitative rules. As such, we regard the introduced capital buffers for systemically important institutions as well as the systemic risk buffer as introduced in the EU for the right approach while we completely disagree to the over simplified concept of the leverage ratio.

We clearly see the need to incorporate some level of difference for national specialities as well as special treatment for certain business also in a simple approach and a complete "one size fits all" approach for sure is not promoted. However, having set an adequate base level of quantitative requirements and a general principle based qualitative framework including an adequately reflected principle of proportionality, we belief that necessary further differentiations in both direction (malus as well as bonus) to the quantitative rules should be part of proper day to day supervision.

As such, we clearly advocate for a much simpler, less quantitative, in principle risk sensitive approach (principle based rules) with comparability over time in a stable environment and with room to manoeuvre for the individual supervisor.

C. Dedicated comments on proposed changes

While we share the aim to incorporate simplicity as a general target for the framework and an objective for the development of the supervisory framework, we encourage the Committee also to add stability of the rule set (low rate of changes) and consistency (interaction of quantitative measures is assured) to the list of objectives. Furthermore, it should be recognised that simplicity should also include self limitation on the number of quantitative measures as well as the scope of disclosures.

In the same vein, we strongly oppose to even further additions to the disclosures and rather recommend reducing the targeted details and reconciliation requirements foreseen with full implementation of Basel III. We have doubts that comparability between any given two banks is really possible (see above) and we strongly oppose to the proposal made in paragraph 53 of the discussion paper which is anything but leading to simplicity.

The same arguments are valid for adding even further metrics which add complexity (instead of simplicity), room for further misinterpretation and misunderstandings and further missing clarity. Already today there is virtually nobody understanding the rule set in its entirety especially in combination with the effects on real business and real available master date for at least counterparties as well as financial instruments of any kind to that level of granularity as needed to fulfil quantitative regulatory rules. And again this proposal is once more an opposition to the proposed principle of simplicity.

Furthermore, we cannot see a real added value of the leverage ratio being an additional binding limit under pillar I. The ratio is either too simple or the original target (which is being simple) is outruled from scratch. Even adding buffers to the leverage ratio is just making things worse. We have raised our strong concerns on the leverage ratio and its proposed fine tuning inter alia in our consultation response to the Committee’s consultative document “Revised Basel III leverage ratio framework and disclosure requirements” issued in June 2013.

In addition, we also disagree to introducing new or additional floors on internal model outputs, based on standardised methods. This again is adding complexity instead of reaching simplicity.

We share the view of the Committee to reduce national discretion in the rules and therefore securing better supervisory consistency for the majority of the banks. However, as stated in part B of this document, we clearly ask for less rules and more principles which gives the authority to the regulator to fine tune quantitative requirements. This nevertheless also relies to some extent on some room for discretion.

The current set up of the rules is however going exactly the opposite direction. As the rule set is very granular, banks need to have clarity on the rules which in turn is leading to further clarification of the rules and even more details and more granularity. This cycle of getting more and more granular needs to be stopped.

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We hope that our comments submitted are useful in the further consultation process and are taken into account while going forward. We are happy to discuss any question related to the comments made.

Eschborn

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