DEUTSCHE BÖRSE GROUP

Deutsche Börse Group

Response

on BCBS discussion paper d385

'Regulatory treatment of accounting provisions'

issued on 11 October 2016

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A. Introduction

Deutsche Börse Group (DBG) welcomes the opportunity to comment on BCBS discussion paper 'Regulatory treatment of accounting provisions' issued in October 2016.

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 and Clearstream Banking AG, Frankfurt/Main, 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 transposed i.a. the Basel III rules into European law. Clearstream subgroup is supervised on a consolidated level as a financial holding group.

None of our group entities has ever recognised a credit loss out of the loan business. Nevertheless, we want to participate in the discussion process regarding the regulatory treatment of accounting provisions. The document at hand contains our general comments based on the approaches and issues discussed in the discussion paper.

[1] (International) Central Securities Depository.

B. General comments

In general, we appreciate the objective of the BCBS not to increase the overall capital requirements across banks.

In the line with the general principle of simplicity we support a regulatory approach which follows the accounting treatment of loan loss provisions.

However, we also support the general aim of the BCBS to reach a treatment which is harmonised across different accounting standards and therefore follows the principle of comparability.

As such, the BCBS needs to find an appropriate way to balance out simplicity (following the applicable accounting standard) and comparability (setting a dedicated regulatory treatment by adjusting accounting entries where needed).

For this purpose of comparability, a uniform approach for the regulatory treatment of expected credit losses could be established. Also we are in general indifferent on the method to be chosen in this matter, we have concerns that the expected credit loss approach may push institutions like ours with a long lasting proven good quality of loans[2] to recognise loan loss provisions and therefore receive a higher capital charge. As such, this approach should be carefully considered if pushed forward.

In case, dedicated regulatory treatment independent from the underlying accounting framework is implemented, there needs to be a clear rule on the treatment of the valuation difference with regards to its potential allocation to equity. As any income or loss of loan valuation differences under the accounting standards can either change the distributed shareholders' income (dividends) or retain equity, any regulatory adjustment will create possible inconsistencies. However, in case despite the mentioned difficulties a dedicated regulatory treatment is chosen, we favour an allocation of the difference of regulatory and accounting treatment as a portion of additional tier 1 (AT1) capital. Nevertheless, these possible adjustments in equity would make a uniform regulatory approach more and more complex.

Taking our general preference for a reasonable and simple approach into account the above mentioned complexities also indicate a preference to follow the accounting treatment for the handling of loan loss provisions.

[2] No credit loss since incorporation in 1949.

In any case whenever the treatment of loan loss provisions is changing either due to a revised accounting framework or with the introduction of a dedicated regulatory approach we see the need of appropriate transitional or phasing-in rules. In this regard we refer to our reply to the simultaneously issued consultative document (BCBS d386[3]).

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We are at your disposal to discuss the issues raised and proposals made if deemed useful.

Yours faithfully,

Jürgen Hillen Ralph Kowitz

[3] www.bis.org/bcbs/publ/d386.pdf.