A. Introduction

Deutsche Börse Group (DBG) welcomes the opportunity to comment on BCBS consultative document "Supervisory framework for measuring and controlling large exposures" (BCBS 246) issued in March 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 through regulated Financial Market Infrastructure providers.

Among others, Clearstream Banking AG, Frankfurt/Main (CBF) and Clearstream Banking S.A., Luxembourg (CBL), who act as (I)CSDs[1], are classified as credit institutions according to the respective national banking regulations and are therefore within the scope of the European Capital Requirements Directive (CRD) which is transposing the international banking rules (Basel II / Basel III and any future regulation most likely as well) into European law. Furthermore, Eurex Clearing AG (ECAG) as the leading European CCP is classified as a credit institution under German law and will be within the scope of the targeted rules as well. All three named entities are registered Securities Settlement Systems (SSS).

We have prepared our comments with particular focus on the effects on the companies of our group in scope of the regulations which are not comparable to the majority of other banks.

Besides answering those questions of the consultative documents which are – taking our dedicated businesses into account – relevant for the group's legal entities, we do want to raise certain comments to the document which are not covered by the questions.

[1] (International) Central Securities Depository

B. General feedback on the proposed concept

Deutsche Börse Group supports the BCBS approach to harmonise large exposure regimes globally to reach a level playing field between various jurisdictions and to set clear but adequate rules for quantitative concentration limits. We already contributed to the revised Large Exposure framework on European level in the context of CRD II[2] during 2007 – 2010 and its implementation in both Germany and Luxembourg. Furthermore, with regards to the specialities of cash settlements on financial markets including the need for collateral held in cash (e.g. related to the business of our group companies and the relationships of our clients with our legal entities being CSDs or CCPs) we gained in the past in-depth knowledge and experience on the dedicated issues related to this. Similarly, payment services and short term liquidity alignments are of particular interest.

In general, we believe that there is much benefit from using well proven rules from the solvency regime also for large exposure limitations. We therefore agree to the general concept as described in paragraph 42 in this regards. However, we strongly recommend an even closer alignment with the risk-based capital requirement rules. This is the case i.a. for the credit risk mitigation impacts, the handling of items being zero weighted (e.g. certain exposures to central banks, regional governments, international organisations and multilateral development banks), the capital basis and – in order to reflect the general principle of proportionality – the freedom of choices to some degree.

However, we also clearly agree to the need for some clear differences like a general 100 per cent weight (in case not exempted form exposures definition or being exempted from the maximum limit), dedicated treatment of short term interbank exposures, dedicated treatment of exposures towards CCPs (in principle in line with the risk-based capital requirement rules for special treatment but excluding such positions from the limit) and the treatment of CCPs itself (especially those being in addition credit institutions).

Furthermore, we also disagree to link the large exposure framework to the rules of the leverage ratio. The linkage to the risk-based capital requirement rules in our mind is sufficient. We therefore clearly ask to remove the links to the leverage ratio in the context of paragraph 42 and 51. In addition the hint in footnote 15 should be removed (in this context we refer to our general concerns on CCFs in the reply to question 7).

The European Large Exposures regime, including its 2009 amendments (CRD II), has shown overall a good track record and – not excluding certain adjustments here and there – can be taken as a solid blueprint for international rules. In that context we already recognise positively a substantial overlap of the proposed rules with the existing EU rules. However, we have identified in the proposed framework several weaknesses where we either disagree to the proposal or see room for additional elements in order to overcome problems identified in the past. Especially the proposed level of the large exposure limits (general or specific limits, e.g. for G-SIB's), limitation to (core) tier 1 capital as capital base, the proposal for credit risk

[2] EU directive 2009/111/EU as well as related implementation directives and CEBS guidelines

mitigation technics, the treatment of interbank exposures and some details of the rules for low risk off-balance sheet commitments bear the risk to harm financial markets. Credit institutions provide a specific function to the economy (a) in cash transactions of any kind (mainly payments and financial instrument clearing and as cash providers or takers).

For (b), this service is explicitly restricted in most jurisdictions by law (mainly based on the Basel Framework) to credit institutions only. As a consequence, this role needs to be reflected in concentration risk supervision in an appropriate manner at the short end of the maturity scale. Interbank exposures are resulting as a consequence of this function for the economy and end of day balances with other credit institutions are in general a result of operations with clients which can be influenced on the very short end only to a limited extent. While we in general agree to also limit interbank exposures (especially those with substantial maturities) and also accept clear rules to avoid misuse of exceptions to the extent possible, a too tight restriction of the interbank market at the (very) short end will have an enormously negative influence on the liquidity supply of the financial market as a whole. A resulting shortage in liquidity supply to the "real economy" would be one of the (most) negative secondary effects. Consequences might be severe damage on the financial markets and in the long run on the real-economy as well. Furthermore the usage of central banks for liquidity management purposes would be further increase and the steering of the money volumes would get even more difficult than already during the recent crisis years. In order to avoid such far reaching consequences, we have included some adjustments to the BCBS proposal below.

C. General remarks to dedicated topics

Limitation of the consultation

The consultative document excludes both (1) rules with regards to treatment of exposures to public counterparties as well as (2) intragroup exposures. However, we consider both aspects as being crucial in the context of Large Exposure limitations.

While paragraph 9 of the consultative document clearly states that the document focusses only on the concentration risk coming from private sector counterparties, the reasoning for this is limited to sovereigns only. Paragraph 97 widens this approach to other entities which are treated like sovereigns. However, it does not for other public sector entities (e.g. regional governments, etc.). Contrary, paragraph 96 explicitly states that such entities as well as multilateral development banks (which to a substantial degree are more public sector entities than anything else) should not receive a specific treatment and the treatment for international organisations like OECD, BIS, EU, etc. seems to be an open topic.

Intragroup exposures result to a substantial degree from combined liquidity management which is partially a cost optimisation but also an efficient way to reduce the reliance on third parties, secure (contingent) funding and reduce consolidated risk positions. The need to have banking groups supervised on a consolidated level and based on their consolidated situation is reflecting this and one of the main drivers of the Basel Framework. This should therefore be taken into account in the large exposure rules as well. We therefore agree to the approach as set out in paragraph 16 but clearly request the BCBS not to stop on that level but also to give clear guidelines for intragroup exposures in case of application on a solo level. Paragraph 17 in this regards seems not to be sufficient.

Therefore, we take the freedom to propose the handling of both topics (public sector counterparties as well as intragroup exposures) under the large exposure regime. Our comments should be taken into account in the course of the general development as outlined in paragraph 11.

Public sector counterparties including international organisations and multilateral development banks

We believe that exposures to public sector counterparties should be treated in large exposure regime based on the treatment for solvency purposes. Therefore exposures to "public sector" counterparties including, but not limited to multilateral development banks, international organisations, sovereigns, regional governments etc. shall be exempted from large exposure limits (i.e. receive a zero weight) regime if these counterparties are provided with a zero risk weight for solvency purposes (We refer in that regard Part 2 (II) of the Basel Framework). This should include exposures to sovereigns and central banks in line with paragraph 54 of the Basel Framework. We cannot see the need to limit concentrations with regards to exposures to the central bank of issue of any given currency in case it is funded by deposits in exactly the same currency. Especially in countries with restricted convertibility of the currency and underdeveloped money markets as well as missing high quality banks, the deposit of client money with the central bank of issue seems to be the most obvious (if possible) and less riskiest option.

Intragroup exposures

Liquidity management in banking groups is in many groups to some extent done between group legal entities. In turn, substantial intragroup exposures may arise. As long as these exposures are within a group under consolidated supervision, we clearly see the need for a special treatment under the large exposure regime on solo level. It is our position that the free movement of liquidity within a group must be possible without restrictions via the large exposure regime as a general rule. However, other measures coming from (qualitative) liquidity rules and proper management of liquidity and concentration risk need to be applied. Furthermore, limitations via pillar II measures may be necessary on a case by case basis taking individual circumstances into account. As the current consultation does not tackle intragroup exposures (beyond the statements in paragraph 16 and 17), we clearly want to address our position that exposures to counterparties within a group under common supervision on a consolidated basis should be exempted from large exposure limits on a solo basis.

Eligibility of Collateral

In general the credit assessment (rating) of the issue should be used to assess the treatment of debt securities as collateral in the large exposure as well as in the risk-based capital requirement rules. However, in case a credit assessment (rating) of the issue is missing the credit assessment (rating) of the issuer should be allowed to be used for public issuers including sovereigns, central banks, local or regional PSEs, multilateral development banks and international organisations. As an example issued debt instruments of the Grand-Duchy of Luxembourg are not rated whereas the Grand-Duchy itself has received a strong AAA-rating; Based on the current rules the debt instruments would not qualify as eligible collateral which seems to be an odd outcome. In this context, the inclusion of the multilateral development banks and international organisations should be clearly stated / included in paragraph 145 (c) of the Basel Framework.

Interbank Exposures

Exposures to other credit institutions are to a large extent the consequence of the economic function of the banks in the exchange of money and the delivery of liquidity. Outside major trading currencies money markets are narrow and collateralised placements are difficult to agree. Smaller banks on top of that do not have the operational capacity to diversify in the market and also the usual size of money markets deals do not allow placement of low size.

In turn, we see the need to introduce a second threshold for interbank exposures like the one used in article 395 (1) in combination with 396 (1) CRR[3] (see Annex). This threshold should serve for smaller banks to manage excess liquidity. In addition, an exemption for all interbank exposures with an original maturity of not more than 1 business day should be introduced. This is explicitly necessary in non-major currencies (sometimes referred to as "exotic" currencies).

The general exemption of "overnight" exposures (with an original maturity of not more than one business day) – even for major trading currencies – in our mind bears limited risk of misuse:

- In general short term exposures receive a lower interest rate than long term exposures;
- The general rules to have a risk management for avoidance of concentration risk in place stays valid and supervisors can interact in case policies, procedures and effective business do not reflect this in an appropriate manner;
- Short term liquidity is to be managed based on liquidity needs for both, real cash flows as well as supervisory liquidity ratios.

With regards to interbank rules, any exception for exposures (e.g. exemptions for overnight deposits) to banks should also be valid for central banks in case their (in principle unchanged) status in the category "central governments / central banks" does not lead to a generic exemption anyway. Central banks are also counterparties in the money markets and beside special treatment for cash in the currency of issue (see above) might also take placements in other currencies especially in the course of their open market operations. There exists no good reason why particular funds, held at a credit institution are exempted from the large exposure regime whereas the same kind of deposit at a central bank would fall in scope of the large exposure limits. This can for example be the case for funds in a foreign currency held at a central bank which is not the central bank of issue of that currency and the country of residence of the central bank does not lead to an exemption (i.e. does not receive a zero weight under the risk-based capital requirement rules).

Central Counterparties

The question on how to treat exposures towards central counterparties (CCPs) is closely related to the question of the regulatory framework for the central counterparty in general and in specific how large exposures are treated at the CCP itself. The latter topic is related to the handling of exposures at the CCP in more generally. In that respect, a distinction currently exists for those CCPs which are classified as "credit institution" and those which are not. Already the CPSS – IOSCO principles for financial market infrastructures issued in April 2012 have a clear focus on credit risk but also on concentration risk. Furthermore, the EU rules as de-

3 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

fined by EMIR[4] and the related technical standard on own funds[5] requirements already target for similar rules for CCPs in the area of risk-based capital requirement rules than those laid down for credit institutions. Currently, these rules deviate from the solvency rules for credit institutions mainly in the following areas:

- Differing capital definition;
- Deduction from the CCP's own contribution to the default funds from regulatory capital to cover other risks;
- No application of capital buffers (beside a notification threshold which has a different legal quality);
- Additional risk categories for CCPs (business risk and capital requirements for a winding down or restructuring period);
- Covering of the trade exposure towards the clearing members only with the safeguarding waterfall including the own contribution to the default fund by the CCP.

We clearly see a benefit in the following approach:

1. Exempting positions towards a "qualifying" CCP resulting from those positions which receive a favourable treatment under the risk-based capital requirement rules (i.e. trade exposures, initial margins and default fund contributions but not equity stakes).
2. Aligning risk-based capital requirement rules and large exposures requirements for credit institutions and '"qualifying" CCPs (i.e. grant the exemption for large exposures only to those CCPs, which itself have to fulfil the risk-based capital requirement rules as well as large exposures rules):
    a. Aligning the capital definition to the extent possible (mainly also deduct the own contribution of the CCP to the default funds from regulatory equity);
    b. Exempt trade exposures of the CCP towards its clearing members from the capital and large exposure requirements;
    c. Impose large exposure limits as for credit institutions also for the other exposures of a CCP itself.

By doing so and taking the requirements of the CPSS-IOSCO principles for financial market infrastructures as a whole into account, we clearly see a proper reasoning to grant the large exposure exemption for exposures towards CCPs. As the CCPs have to comply with even tighter rules (limitations to investments, default waterfalls being in place, etc.) the preferred treatment for the risk-based capital requirement rules as well as the large exposure rules are well substantiated.

We will further evaluate on this in our reply to question 14.

---

[4] Regulation (EU) No. 648/2012

[5] Commission Delegated Regulation (EU) No 152/2013

G-SIB's

The proposal to apply lower large exposure limits to globally systemically important banks for their exposure to other globally systemically important banks is in line with the general approach to reduce interconnectedness and the solution on the too big to fail problem. However, taking into account additional capital requirements, strengthened supervision, recovery and resolution plans and other measures taken, we also see substantial risks in that approach. G-SIBs are usually of high quality and therefore are often preferential counterparties in the interbank market. In turn (and taking the general role of banks for the economy into account), they need to place the received funds somewhere. As we are talking about huge sums, the counterparties need to fulfil sufficient quality criteria both with regards to financial as well as operational soundness. Furthermore, they need to be capable to handle large lots and substantial volumes. In turn, in reducing large exposures limits for exposures between G-SIBs, a similar problem arises as described for the short term interbank market as a whole. We therefore ask the BCBS to take a very careful approach and to introduce such limits only after a thorough analysis and potentially one or more QIS. In case the exposures between G-SIBs are limited, that might cascade down to other banks as G-SIBs might not be willing to accept deposits of smaller and mid-size banks including D-SIBs which in turn might have severe impacts on the liquidity situation of financial markets and the economy as a whole.

Concerning the proposed possible lower large exposure limit for domestic systemically important banks, we want to stress the different nature and scale of such institutions.

While G-SIBs are in principle active in all kinds of classical loan and deposit business, domestic systemically important banks might be important due to their kind of business and not due to their size. This is in particular true for financial market infrastructures. As such, limiting large exposures (in case those would not fall anyway in the area of exempted exposures) might harm the functioning of such institutions. It is therefore necessary to have flexible rules in place and not to imply a generic one size fits all approach for domestic systemically important banks. We therefore ask to take into account the circumstances which lead to the classification as being domestic systemically important on a case-by-case basis.

D. Responses to the questions raised in the consultative document

Question 1: The Committee welcomes views on the proposed definition of large exposures and on the proposal for reporting

The current EU framework is setting the large exposure reporting threshold to 10 % of the eligible capital basis. However, a variety of countries are requesting to report based on a second (lower) threshold as well. This second threshold however targets more to get information on the credit structure as well as on the degree of debt for the clients than for the purpose of credit concentration limits. Taking cost / benefits and supervisory relevant information into account, we disagree with both, the proposed reporting threshold of 5 % as well as limiting the capital base to tier 1 only.

We see a reporting level of 10 % (gross, prior to any risk weight and prior to credit risk mitigation) as well as a capital base taking full regulatory capital (including tier 2) into account as the appropriate framework. However, exposures which result from processing in progress (like those listed in Article 390 (6) CRR with the modifications proposed in question 11 below) should not be reported in order to not overstate the exposure to certain counterparties which due to processing in progress will close in due course anyway.

We also disagree to report the 20 largest counterparties in any case as this might lead to reporting of small counterparties in case of well diversified portfolios.

It is to be noted, that "exempted" exposures to CCPs should be reported segregated to other exposures towards the CCP which are not exempted (e.g. equity stake, debt securities purchased, liquidity lines, etc.).

Question 3: The Committee welcomes views and quantitative information on whether the limit should be based on CET1 or Tier 1.

The revised Basel Framework (Basel III) has introduced tighter capital definitions and is also introducing higher levels of tier 1 including the need for further capital buffers comprised of common equity tier 1. Taking this into account, we cannot agree to the need to tighten even further the requirements for large exposure limits compared to the 1991 Committee guidelines. Moreover, various jurisdictions like the EU have tightened their large exposure rules as a consequence of the financial crisis mainly in the area of interbank exposures and collateralisation. These rules are more or less in line with the current proposal of the Committee.

In consequence, we clearly favour an unchanged limit of 25 % total regulatory capital. In addition, a second threshold for interbank exposures as stated above seems to be necessary for smaller banks.

We clearly disagree with both proposed measures: Reduced limit percentage and further tightening of the capital basis on top of the changes done with the Basel III changes (tighter definitions, higher tier 1 requirements, tier 1 buffer) anyway.

Question 6: The Committee welcomes views on the proposal for how the exposure values of banks' investments in securities financing transactions should be calculated, in particular on the need to deviate from the risk-based capital requirement rules given the objectives of a large exposures framework.

From our perspective SFTs should be treated for the large exposure regime in line with the solvency regime. We therefore agree to this part of the Committee's proposal.

However, in combination with the Committee's approval on the use of credit risk mitigation / (financial) collateral, we see room for improvement (see also below answer to question 8):

- We feel that both the simple as well as the comprehensive approach for collateral should be allowed;
- We do want to stress that also a zero value of SFT transactions in line with paragraph 170 of the Basel Framework needs to be included in the final rules.

Question 7: The Committee welcomes views on the proposal to generally apply a 100% CCF for "traditional" off-balance sheet commitments.

The Committee's proposal is assuming, that low risk off balance sheet items receiving a 10 % CCF for leverage ratio and in principle a 0 % CCF for solvency purposes are deemed globally irrelevant (see paragraph 65, footnote 15). As we cannot judge this assumption, we clearly disagree to that approach for dedicated banks. Depending on the business, committed, but at any time revocable credit lines might be a major part of the business (e.g. for payment and settlement purposes). To ignore such dedicated business models and assuming a worst case scenario looking to more classical loan business is putting unintended harm to well functioning business which has proven its ability to really cancel the lines with immediate effect. We therefore clearly propose to give such credit commitments a zero weight in line with the risk-based capital requirement rules.

Question 8: The Committee welcomes views on the proposed hybrid approach for banks that apply the "comprehensive approach" to financial collaterals.

While we can agree to the limitation of standardised methods for the usage of collateral in general, we do not see the need to limit the use of own estimates for cross-currency haircuts. Furthermore, we cannot see any argument why the simple and the comprehensive method should not be allowed as a method of choice if the necessary operational requirements for the comprehensive method are fulfilled.

However, we strongly disagree to the proposed hybrid approach instead of the comprehensive method used for the risk-based capital requirement rules. The comprehensive method is also in principle asking for a mark up of the underlying exposure and not only using a haircut for the collateral. In case using the mark up / haircut method combined with a substitution the related charge for large exposure purposes is by far overestimating the underlying risk. Not only the mark up / haircut is used to cover the risk but also the default of both counterparties is assumed.

We furthermore refer to our comment on SFT transactions which should be treated exactly the same under the risk-based capital requirement rules as well as for large exposure purposes. This includes the possibility to reach a zero exposure / zero haircut with the rules as laid down in paragraph 170 of the Basel Framework.

The over-prudent proposed hybrid approach will make proper collateralisation more or less impossible, heavily impact SFT markets / transactions and make collateralised placements more or less worthless. The anyway close to impossible fulfilment of solvency, liquidity, leverage and large exposure requirements at the same time (while still delivering credits to the real economy, gearing settlement and payments as well as securing short term liquidity to non-banks and other banks AND still being a (low) profit making business) is getting impossible. The aim to replace uncollateralised exposures with collateralised exposures as especially requested by the necessary pool of (highly) liquid asset for LCR purposes is more than out-weighted.

Question 11: The Committee welcomes comments on the proposal regarding interbank exposures and in particular in which cases specific exemptions would be warranted.

We agree with the general approach to treat interbank exposures in principle in the same way as exposures to corporates, i.e. with a 100 % weight.

We especially agree to the reservation from that general rule implicitly made in paragraph 100 (only those exposures which attract a capital charge under the risk-based capital requirement rules will be relevant for large exposure limit purposes).

We have already outlined our general position in chapter C of this position paper. Taking the dedicated role of credit institutions in the economy into account, clearly interbank intraday exposures but also exposures overnight (with an original maturity of not more than 1 business day) should be exempted from the large exposure limits.

This is in particular true for intraday exposures and for overnight exposures in non-major trading currencies. These exposures need to be exempted.

In addition this is true for all exposures being held for settlement and clearing purposes of cash (payment service, correspondent banking) or financial instrument transactions (clearing, settlement, custody). As the cash leg of proprietary and client transactions in principle is done over same accounts, an artificial separation of those kinds of transactions is difficult to achieve.

However, while proprietary trading cash flows can be steered to some (limited) extent, this is not the case for cash positions resulting out of client business. Clients might instruct cash outflows late or send cash late in the day. In the case of cash outflows (e.g. coming from the settlement of pending securities trades being irrevocable due to national finality rules) they may or may not occur and they might be pending over several consequent days. Credit institutions must have sufficient liquidity on hand to execute the transaction in order not to risk a settlement fail due to own cash shortages while the client has given sufficient cover. On the other hand, incoming cash (e.g. for the payment of due redemptions e.g. of a (government) bond with a nominal of several EUR 100 million counter-value) might come so late in the day on the correspondent bank account, that it cannot be distributed to other counterparties any more.

We therefore in principle agree to the proposals made in paragraph 102. We nevertheless ask for the following extensions of the proposed exemption:

1. The period for exemptions needs to be related to the original maturity (as the position can stay for some days due to e.g. missing securities by the counterparty of a securities settlement transaction) and not to effective maturity.
2. Intraday exposures need to be exempted regardless if related to client or to proprietary activities.
3. Scope of exempted exposures needs to be enhance in order to cover at least those kind of exposures as listed in article 390 (6) CRR (with the modifications proposed here)
4. Indirect exposures as a consequence of client deposits for the relevant purposes need to be covered as well.
5. Extension of the exemption to cash exposures coming from proprietary business (only if accounts are used for transaction purposes only).

In addition, it is necessary to allow substantial amounts up to a threshold to be defined for interbank exposures even if greater than the general percentage of regulatory capital. We refer to the current rules in article 395 CRR as an example of such limit and we also refer to chapter C of this paper for the reasoning.

We want to point out that tight quantitative rules which may be breached on occasion are not acceptable as a gentle way out to overcome most likely events. Due to disclosure requirements not only in a regulatory content but also following the statutory requirements of e.g. IAS 1.135 lit. (d) and (e) such breaches would be visible to the general public and might put management in an unintended way under pressure. The limits set therefore need to be calibrated in a way that breaches are exceptional and not frequent, but accepted by supervisors.

Question 12: The Committee welcomes comments on the calibration of the granularity threshold and whether the mandatory application of the look-through approach to the transaction where an underlying exposure may exceed the granularity threshold will raise specific issues.

We in general agree to the proposed handling for the LTA. However, we disagree to the level set to define a fund as being granular. The Committee of European Banking Supervisors (CEBS) in its "Guidelines on the implementation of the revised large exposures regime" issued 11 December 2009 sets a level of 5 % for real investments to unknown counterparties. Otherwise, a maximum level of 2 % to any given counterparty compared to own funds of the institution is set in case granularity is measured based on investment guidelines. We assess these limits as being appropriate. Having said this, the threshold as proposed in paragraph 109 should be set to 5 % instead of 1 %. In addition, we disagree to the recent proposal by the European Banking Authority made in its consultative paper on the draft Regulatory Technical Standard in this respect (EBA/CPP/2013/07 dated 17 May 2013). The proposed threshold of 0.25 % in relation to own funds of the institution taking into account a theoretical investment in at least 100 similar investments is assuming that the institution would invest only in schemes with underlying assets 10,000 % of its own funds which is unrealistic. Also, the same amount of investments in only 10 similar investments with 10 times higher investment each would not change the overall risk but would not be allowed for not LTA. This does not make sense. We therefore clearly favour the general approach proposed by BCBS and the CEBS guideline to define granularity based on the structure of the fund itself – maybe in combination with the fact that the institution as investor should not have the right to decide on single investment but at the maximum to the general investment guidelines.

Question 13: The Committee welcomes comments on the proposal for the treatment of the identified additional risks in the large exposures framework.

Concerning the two possible options for the treatment of underlying exposures in case no LTA is performed we strongly disagree with the first discussed option to add unknown exposures to all exposures as it seems not appropriate and by far overestimating the risk concentration towards the majority of counterparts. This approach is too prudent and as a result there might be a severe contradiction in the supply of loans and liquidity as the large exposure limits are reached sooner. The second option, aggregating all unknown exposures to one single counterparty to which the large exposure limit would apply, seems to be a reasonable compromise and therefore finds our agreement. We therefore support the BCBS proposal in that regards.

Question 14: The Committee welcomes views on the options for the treatment of banks' exposures to CCPs.

For the treatment of bank's exposures towards qualifying Central Counterparties (Q-CCPs) we strongly support the second option as described in paragraph 125 of the consultative document.

Based on international recommendations and in line with the revision of the risk-based capital requirement rules the usage of CCPs has been made the preferential treatment from the view of supervisors and the supervisory rules. In order to cover the risks a CCP is exposed to, the CPSS-IOSCO principles for financial market infrastructures as of April 2012 clearly set high standards for the CCPs itself.

The standards include appropriate measures to manage credit as well as concentration risks. Moreover, they require a default waterfall and in general a risk limiting business model.

Having said this, we propose to consider a further harmonisation of the risk-based capital requirement rules and large exposure rules for credit institutions and CCPs as outlined in chapter C of this paper.

By doing so, concentration risk towards a CCP should not be limited via a pillar I measure but rather be part of pillar II assessments. In addition, when harmonising the capital and large exposure rules for CCPs and credit institutions, only those CCPs should qualify for the exemptions on the large exposure limits, which are fulfilling these rules.

With regards to the exposures towards Q-CCPs that fall in scope of the exemption from the large exposure limits as set out in paragraph 127, we disagree to the inclusion of an equity stake in such a CCP. Equity stakes are not part of the dedicated rules of the risk-based capital requirement rules which only cover trade exposures, collateral posted and default fund contributions. The equity stake also covers any potential loss including those out of operational and other risk (like general credit risk, business risk etc.) and therefore should not receive a preferred treatment as those risks are also not covered within the default waterfall of a CCP. Moreover, the equity risk resulting from equity stakes in CCP are by no means less risky than an equity stake in a credit institution.

We also agree to the proposal in paragraph 128 related to the treatment of indirect clients' exposures to Q-CCPs.

We do not consider the mapping of the concept of connected counterparties to Q-CCPs being interconnected via clearing links as an appropriate approach. A clearing link between Q-CCPs does not lead to an interconnectedness in the sense of large exposure rules. Such a link in principle will not result in a high probability of default of one Q-CCP in case another Q-CCP defaults. Both Q-CCPs are subject to prudent requirements and highly regulated to withstand a default of a connected counterparty, including another Q-CCP. The proposed approach would dis-incentive central clearing. Therefore this approach is not sufficient to strengthen financial markets.

While we agree on the proposed treatment of exposures to non Q-CCPs as proposed in paragraph 130 sentence 1, we do not understand the intention of sentence 2. In case the CCP has a banking license, the targeted treatment is clear. However, the Basel Framework does neither have a clear definition of "financial institution" nor a dedicated treatment for exposures towards such entities. In consequence, we kindly ask to clarify that topic.

*****

We hope that our comments given are useful in the further process and are taken up going forward. We are happy to discuss any question related to the comments made.

Eschborn, 28 June 2013

Jürgen Hillen Matthias Oßmann

Annex

Article 395 (1) CRR

Limits to large exposures

1. An institution shall not incur an exposure, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, to a client or group of connected clients the value of which exceeds 25 % of its eligible capital. Where that client is an institution or where a group of connected clients includes one or more institutions, that value shall not exceed 25 % of the institution's eligible capital or EUR 150 million, whichever the higher, provided that the sum of exposure values, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, to all connected clients that are not institutions does not exceed 25 % of the institution's eligible capital.

Where the amount of EUR 150 million is higher than 25 % of the institution's eligible capital the value of the exposure, after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403 shall not exceed a reasonable limit in terms of the institution's eligible capital. That limit shall be determined by the institution in accordance with the policies and procedures referred to in Article 81 of Directive 2013/36/EU, to address and control concentration risk. This limit shall not exceed 100 % of the institution's eligible capital.

Article 396 (1) CRR

Compliance with large exposures requirements

1. If, in an exceptional case, exposures exceed the limit set out in Article 395(1), the institution shall report the value of the exposure without delay to the competent authorities which may, where the circumstances warrant it, allow the institution a limited period of time in which to comply with the limit.

Where the amount of EUR 150 million referred to in Article 395(1) is applicable, the competent authorities may allow on a case-by-case basis the 100 % limit in terms of the institution's eligible capital to be exceeded.