

A. Introduction

Deutsche Börse Group (DBG) welcomes the opportunity to comment on BCBS consultative document “Review of the Credit Valuation Adjustment Risk Framework” issued in July 2015.

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. (CBL), Luxembourg and Clearstream Banking AG (CBF), Frankfurt/Main, who act as (I)CSD¹ as well as Eurex Clearing AG (ECAG) 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.

However, all our group entities in scope of CRD/CRR and therefore Basel III rules are offering limited banking activities ancillary to their function as Financial Market Infrastructure (FMI). In order to operate as a FMI and in line with the dedicated regulatory framework (e.g. CPSS-IOSCO principles for financial market infrastructures as of April 2012) as well as generally recognised business practices, the business models of our group entities are risk averse. None of our entities is performing proprietary trading in order to gain trading profits; some of them are purchasing securities only for intended long-term investments and might enter into a few derivatives positions for limited hedging purposes only.

With regard to SFTs, our group entities enter into reverse repos (secured placements instead of unsecured placements) in order to decrease counterparty risks. For those SFTs we are in general collateralised with a sufficient haircut on the market value of the collateral. As such our companies are only faced with a very limited CVA charge.

In addition, we offer solutions to manage SFTs including the related collateral for clients with the goal to decrease systemic risks in the financial markets. This is in particular true for the position management of our CCP. In this role as service provider

¹ (International) Central Securities Depository

for financial markets we are nevertheless impacted in our service offering by the proposed change of the CVA charge. Consequently we share only generic feedback on the BCBS proposal and do not comment technical details.

B. Comments on the intended approach

As derivative exposures played a prominent role in the financial crisis in 2008 and 2009 and in particular with regard to the solvency and liquidity situation of credit institutions we understand the aim of the BCBS to have these exposures covered adequately via own funds and therefore generally support the measures taken so far.

In the current Basel III framework the CVA risk charge may also be applied to SFT exposures if the competent supervisor determines that the bank’s CVA loss exposures arising from SFT transactions are material². The proposal targets to apply that CVA charge also on SFTs that are fair-valued by a bank for accounting purposes. We consider a CVA charge for SFTs in general as doubtful, in particular for repos, reverse repos and securities lending with cash collaterals (consequently for all items where the risk is not dependent on the market value of the respective securities). We therefore propose to exclude SFTs in general from CVA charge.

In case this proposal is not followed:

- Only those SFTs where the risk position is dependent on the market value of the securities and therefore exposure may change over time should be included. However the treatment should be independent of the accounting standard and should be defined by the kind of the position regardless of the accounting treatment. As such the BCBS should clearly define what type of positions should be in scope [e.g. held with trading intent only] and should not refer to an accounting treatment [fair value for accounting purposes].
- We continue to believe that only material SFT exposures should be included. Therefore only the possibility for competent authorities to demand to include SFTs should be part of the CVA framework.
- The G20 launched in addition measures to have derivatives cleared more secure and reduce risk from OTC derivatives business. The political target is to apply central clearing to the extent possible while on the other hand setting an

² See section VIII (p. 31) of the Basel III framework (<http://www.bis.org/publ/bcbs189.pdf>)

adequate framework for central counterparties. In order to foster central clearing the captured treatment for positions towards CCPs are more favourable than those for OTC positions. Consequently the CVA charge framework entails an exemption for centrally cleared derivatives due to the applied risk management of the CCP and reduced counterparty credit risk.

While the preferred treatment for CCP cleared derivatives has not been changed with the proposed framework which is clearly supported by us, the revised approach for the treatment of Securities Financing Transactions (SFTs) does not have an exemption for centrally cleared SFTs. However, **SFTs form a material portion of CCP cleared transactions and as such the same preferred treatment as for derivatives should also apply for centrally cleared SFTs in the CVA risk framework.**

In general SFT transactions may not be discriminated compared to unsecured loans. This is not only true for the CVA charge but in general also for the solvency regime and the treatment of the leverage ratio.

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, 1 October 2015

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