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EFBS position paper on the Standardised Measurement Approach for operational risk (BCBS 355)

The European Federation of Building Societies (EFBS) welcomes the opportunity to participate in the consultation organised by the Basel Committee on Banking Supervision on "Standardised Measurement Approach for operational risk".

The EFBS is an association of credit institutions and organisations that assist in and support the financing of home ownership. Its purpose is to encourage the idea of acquiring home ownership in a Europe that is converging, both politically and economically. Bausparkassen grant loans secured by residential property to finance home ownership as a bulk business. In addition to this Bausparkassen business in the stricter sense, Bausparkassen are also allowed to make investments, however only in particularly safe investment vehicles. In times of crisis, Bausparkassen as specialised credit institutions have proved to be particularly resistant. Their low-risk business model is determined by the strict legal provisions for the Bauspar business and for the reduced possibilities of financial investment.

The EFBS welcomes the initiative of the Basel Committee to create a single approach for the calculation of the capital requirement for operational risk by means of the "Standardised Measurement Approach for operational risk". In particular, the EFBS supports the introduction of an Internal Loss Multiplier, which takes account of the loss events observed.

The EFBS would like to make the following comments on the Services component of the Business Indicator, which is of considerable importance for Bausparkassen:

The planned consideration of the maximum of Fee Income and Fee Expenses in the context of the Services component does not result in a realistic risk assessment in the case of fee-based business models. Especially Bausparkassen with fee-dependent sales would be placed at a significant competitive disadvantage by the proposed arrangement of the Services component.

If a financial product is distributed by a freelance collaborator in the field service on the basis of fees, these fees are taken into account in their entirety as expenses in the Services component. However, if employed staff distributes services on the basis of a fixed salary component, this expense is not considered by the Business Indicator. The Fee Income (arrangement fees for the Bauspar contract) and the Fee Expenses (disbursement to the freelance collaborators) are also essentially directly interdependent in the case of Bausparkassen. The differing assessment of cash flows in the sale of financial products is due solely to the distribution channel, but results in a substantial disadvantage for specialised banks such as Bausparkassen, which use a strongly fee and provision-dependent distribution channel.

Contrary to the assumption that the redesign of the Standardised Measurement Approach will not lead to any significant change in the capital requirement for operational risk, for specialised banks such as Bausparkassen it will give rise to a significant disadvantage.

We therefore urgently request that netting of Fee Income and Fee Expenses be permitted, in so far as Fee Income and Fee Expenses are fully mutually dependent. The net fee income should be taken into account (as an absolute value) for the calculation of the Services component.

Finally, we venture to add to our request the indication that several current regulatory initiatives of the Basel Committee will have the result of raising the regulatory capital requirement for Bausparkassen – beyond the extent provided for in the Basel III framework in any case. An additional burden arises for Bausparkassen in particular from the following measures:

- Revisions to the Standardised Approach for credit risk (BCBS 347),
- Constraints on the use of internal model approaches (BCBS 362),
- Capital floors (BCBS 306),
- Revisions to the Basel III leverage ratio framework (BCBS 365) and
- Standardised Measurement Approach for operational risk (BCBS 355).

The Basel Committee explained with respect to individual measures that in principle they are not intended to increase the capital requirements. Nevertheless, for Bausparkassen, as the consultative documents currently stand, an additional burden arises in each case. The cumulative effect of the new regulations shortly to be applied simultaneously on the capital requirements can, in our view, no longer be deemed acceptable.

We therefore consider it to be necessary to review the calculation of the Services component of the Business Indicator in the Standardised Measurement Approach for operational risk. We also suggest that in future the cumulative aspect of the various new regulations is covered in the Basel III monitoring.

Yours sincerely,



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