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EFBS position paper on BCBS 436 – Consultative document on the Revisions to the minimum capital requirements for market risk (March 2018)

The European Federation of Building Societies (EFBS) welcomes the opportunity to participate in the consultation organised by the Basel Committee on Banking Supervision on Revisions to the minimum capital requirements for market risk.

The EFBS is an association of credit and other institutions promoting and supporting 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.

The members of the EFBS are specialised credit institutions established in seven Member States of the European Union (DE, AT, RO, SI, HR, CZ and HU). The business of the Bausparkassen is regulated by specific national Bausparkassen Acts. In compliance with the strict legal provisions, the Bausparkassen offer contractual savings schemes to their customers and grant them loans which must be secured by mortgage. They are not allowed to practise other forms of banking business. They may invest their excess liquidity only in particularly secure investment products. Bausparkassen are subject to specific supervision by the national authorities. In the context of Bausparen the interest rates on savings and loans are fixed in advance and are usually lower than the market interest rate. In most Member States, Bausparkassen must obtain specific approval from the supervisory authority before offering a new tariff or a new product on the market. As part of this product testing, Bausparkassen must prove the sustainability of their products and tariffs.

In principle, the EFBS welcomes the provisions of the consultative document regulating the boundary between the trading book and the banking book (section 3.2 and Annex E.2). **The EFBS considers, from the point of view of non-trading-book institutions, that further clarification of the interaction between paragraphs 12 and 16 of the standards is necessary.**

In paragraph 12, the Basel Committee has defined criteria which lead to the classification of an instrument or product as a trading book position, for example where the intention is short-term resale or profiting from short-term price movements.

In paragraph 16, the Basel Committee makes a general presumption. In the case of all the instruments listed here, trading intent or the fulfilment of one of the criteria listed in paragraph 12 is assumed and hence assignment to the trading book is required, unless the assignment of these instruments to the trading book is precluded due to legal obstacles (paragraph 10) or according to the listing of banking book positions (paragraph 15).

In paragraph 17, a process is also described for deviating from the presumption (paragraph 16). A bank which considers deviation to be necessary requires authorisation of the supervisor to be able to assign an instrument of the presumption list to the banking book. In particular in the case of non-trading-book institutions, the case may arise that an instrument of the presumption list (paragraph 16) is held without trading intent.

It is imperative, in the opinion of the EFBS, that the authorisation (paragraph 17) is obtainable without a costly and time-consuming process, i.e. for documentation and coordination with the supervisor. It is proposed as well that the trading intent should be recognised as primary reason for assignment to the trading book, i.e. paragraph 12 should be given clear priority over paragraph 16.

Many especially smaller institutions pursue a risk-averse and long-term investment objective, in accordance with their investment policy and risk strategy, with instruments which are listed in paragraph 16, for example with funds (16c) or listed equities (16d). The focus is not on achieving short-term price increases. These instruments are added to the portfolio for strategic purposes. Assignment to the trading book on the basis of the general presumption (paragraph 16) would not be appropriate here. Rather, the institutions in this case should assign on the basis of the criteria of paragraph 12 in conjunction with internal regulations, and be able to report this assignment to the supervisor or have it approved by the supervisor just once.

Should you require further information concerning the issues stated above please do not hesitate to contact us.

Yours sincerely,



Christian König
Managing Director
European Federation of Building Societies