Leverage in Non-Bank Financial Intermediation: Consultation report

Response to Consultation

German Banking Industry Committee

Recommendation 1

1. **Is the description of the financial stability risks from leverage in NBFI accurate and comprehensive? Are there additional vulnerabilities or risk dimensions related to NBFI leverage that authorities should consider for monitoring purposes?**
2. **What are the most effective risk metrics that should be considered by authorities to identify and monitor financial stability risks arising from NBFI leverage?**
3. **What are the most effective metrics for the monitoring of financial stability risks resulting from:**

   (i) specific market activities, such as trading and investing in repos and derivatives

   (ii) specific types of entities, such as hedge funds, other leveraged investment funds, insurance companies and pension funds

   (iii) concentration and crowded trading strategies

Recommendation 3

4. **What types of publicly disclosed information (e.g. transaction volumes, outstanding amounts, aggregated regulatory data) are useful for market participants to enhance their liquidity or counterparty credit risk management? Are there trade-offs in publicly disclosing such information and, if so, what would be the most important elements to consider? What is the appropriate publication frequency and level of aggregation of publicly disclosed information?**

Recommendation 5

5. **Do Recommendations 4 and 5 sufficiently capture measures that would be used to address the scope of non-bank financial entities under consideration in this report? In what ways may the policy measures proposed in the consultation report need to be adjusted to account for different types of non-bank financial entities?**

   Our comment is limited to question 5, which does not imply that we necessarily support the FSB's other recommendations.

We do not agree with the concentration-related measures proposed in Recommendations 4 and 5. In particular, we do not see the need for concentration and aggregate limits on large exposures to the NBFI sector. Limits should be set on an institution-specific basis, as provided for in EU regulation, in line with the European Banking Authority (EBA) guidelines EBA/GL/2015/20.

Justification:

- European banks are already subject to extensive regulatory requirements with regard to shadow banks under the EU Banking Regulation (CRR). For example, they must monitor, manage and limit risks from lending to shadow banks within the meaning of the CRR as part of their internal risk management processes. To this regard, many institutions set appropriate individual and aggregate limits for each institution as part of their internal risk management.

- In the EU, large exposure reporting (LE reporting) also requires groups of institutions to report their ten largest exposures to shadow banks. Under the revised CRR III, institutions will also have to report and disclose the total amount of their exposures to shadow banks in future.

- Transparency of transactions and counterparties is ensured by the extensive trade repositories for derivatives and SFTs. Moreover, derivatives and SFTs are already priced close to the market and have a high degree of collateralisation through margining.

- Supervisory measures and limits are possible at any time on an institution-specific basis via Pillar II (SREP process).

- There is no need for further regulation in the EU. Stricter rules would put European banks at a considerable disadvantage in international competition, without the rules already established in the EU being implemented internationally first.

6. **In what circumstances can activity-based measures, such as (i) minimum haircuts in securities financing transactions, including government bond repos, (ii) enhanced margin requirements between non-bank financial entities and their derivatives counterparties, or (iii) central clearing, be effective in addressing financial stability risks related to NBFI leverage in core financial markets, including government bond markets? To what extent can these three types of policy measures complement each other?**

7. **Are there benefits to dynamic approaches to minimum margin and haircut requirements, e.g. where the requirements change based on changes in concentration or system-wide leverage? If so, what types of indicators capturing concentration or system-wide leverage should the requirements be linked to?**

8. **Are there any potential unintended consequences from activity-based measures beyond those identified in the consultation report?**

9. **For non-centrally cleared securities financing transactions, including government bond repos, what are the merits of margin requirements compared to minimum haircuts?**

10. **In what circumstances can entity-based measures, such as (i) direct and (ii) indirect leverage limits be effective in addressing financial stability risks related to NBFI leverage in core financial markets?**

11. **Are there ways to design and calibrate entity-based measures to increase their risk sensitivity and/or their effectiveness in addressing financial stability risks from NBFI leverage?**
12. **Are there any potential unintended consequences from entity-based measures beyond those identified in the consultation report?**
13. **To what extent can activity-based and entity-based measures complement each other? What are the main considerations around using these two types of measures in combination?**

Recommendation 6

14. **How could counterparty credit risk management requirements for leverage providers be enhanced to be more effective in addressing financial stability risks from NBFI leverage in core financial markets, such as government bond repo markets? In what circumstances can they be most effective?**

Recommendation 7

15. **Would a minimum set of disclosures to be provided by leverage users to leverage providers be beneficial in improving counterparty credit risk management and reducing financial stability risks from NBFI leverage, including concentration risks? If so, which types of information and what level of granularity should (and should not) be included in this minimum set and why?**
16. **What are the main impediments that leverage users face in sharing additional or more granular data with their leverage providers? Is there a risk that a minimum recommended set of disclosures may lead leverage users to limit the information they share with their leverage providers to that minimum set?**
17. **Should such a minimum set of disclosures rely on harmonised data and metrics to ensure transparency and efficiency in the use of such information for risk management purposes? Do respondents agree that such a minimum set of disclosures should be based on the list of principles outlined in the consultation report? If not, which principles should be added, deleted or amended?**
18. **Should leverage users be required or expected to provide enhanced disclosures (beyond that provided in normal market conditions) to their leverage providers during times of stress?**
19. **Should authorities design a minimum set of harmonised disclosures and guidelines on its application, or should they convene a cross-industry working group to do so? How do respondents believe such a standard should be incorporated into market practice? Through regulation, supervisory guidance, and/or via a Code of Conduct or similar approach?**

Recommendation 8

20. **Are there areas where the principle of “same risk, same regulatory treatment” should be more consistently applied? Are there circumstances in which the principle should not apply or should not apply comprehensively?**