

ZENTRALER KREDITAUSSCHUSS

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10178 Berlin, 7 March 2008
Burgstrasse 28
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Call for Advice: Calculation of own funds in the insurance and banking sectors

Dear Sir, Madam,

On 28 January 2008 CEBS and CEIOPS published a consultation paper containing recommendations to address the consequences of the differences in sectoral rules on the calculation of own funds of financial conglomerates and invited comments by 7 March 2008.

We are grateful for the opportunity to comment and wish to do so as follows:¹

We welcome it that the Interim Working Committee on Financial Conglomerates (IWCFC) takes broad account in its recommendations of the significance of the sectoral differences. This should continue to be the approach in the future as well, particularly in the revision of the Financial Conglomerates Directive (2002/87/EC).

May we now make the following two points:

1) Deduction of participations

The section on participations and deductions (paragraph 69 ff.) refers to the differences in the deduction of participations in the banking and insurance sectors. We wish to propose that a

¹ We should like to point out, however, that the comments are subject to final approval by the relevant committees of the Association of German Banks.

cross-sectoral alignment of the rules on mandatory deduction of participations should continue be kept in sight in order to ensure a level playing field.

Irrespective of this, we wish to point out, however, that besides the difference in the treatment of participations in banks regardless of whether the participation is held by a bank or an insurer, there are also national differences among EU member states as regards the definition of the term “durable link”. For example, in Germany micro-participations held by banks in insurers must also be deducted in some cases even if they do not allow the holder to exercise any influence on the management of the held entity. In contrast, in many European countries a durable link is only deemed to exist in the case of a participation of less than 20% of the capital or voting rights if this participation allows a significant influence to be exercised on the held entity.

We therefore welcome the proposal to establish uniform, clear criteria determining when a durable link is deemed to exist (as set out, for example, in paragraph 86 d)). Any criteria should be geared to whether the participation allows a significant influence to be exercised on the held entity. Furthermore, the regulatory definition should be based whenever possible on the applicable accounting definition of a durable link. The criteria set with regard to participations in banks should also generally apply to participations held by banks in insurers.

2) Methods for cross-sectoral calculation of own funds

The IWCFC recommends calculation of the own funds of financial conglomerates on the basis of consolidated accounts (accounting) as the default method and is considering dropping the book value/requirement deduction method. We welcome the envisaged abandonment of the book value/requirement deduction method, since this method – as the IWCFC notes in paragraph 101 – is too simplistic and delivers doubtful results. At the same time, we believe that adopting solely the accounting consolidation method would be inappropriate and are in favour of additionally retaining the deduction and aggregation method along with the possibility to use a combination of these methods.

In paragraph 102, the IWCFC explains that accounting consolidation would be consistent with the methods customarily used in the banking sector. Many European and German banks which are the superordinated entity in a banking group do indeed use the accounting consolidation method. However, we wish to point out in this connection that a superordinated entity in a banking group which is required by law to prepare group accounts is not compelled to use these group accounts under the accounting consolidation method to calculate the consolidated own funds and risk positions in Germany². For banks where the own funds of the banking

² Transitional arrangement until 31.12.2015

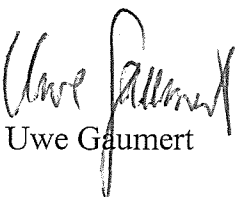
group are not yet calculated on the basis of the group accounts prescribed by law, calculation of the own funds of financial conglomerates on the basis of the group accounts would therefore be much more difficult, impose extra costs, and even mean a completely new calculation for the financial conglomerate.

Irrespective of this, the proposed default method is feasible in our view for a bank-driven financial conglomerate particularly where the banking group already prepares group accounts based on international accounting standards and the scope of consolidation for prudential and statutory purposes is largely the same. However, in many cases – particularly in the banking sector – there are differences between the scope of prudential consolidation and statutory consolidation, so that statutory group accounts have to be transferred to the scope of prudential consolidation. To this end, the entities that are of no relevance prudentially first have to be eliminated and the entities to be additionally included for prudential purposes must be added by means of the aggregation method. This difference is due to, among other things, the fact that, because of the low threshold for bank holdings, banks – unlike insurers – have many more holdings to deduct but deduction can be avoided by way of voluntary consolidation. Against this background, the aggregate results of the banking group on the basis of the individual accounts are used in some cases – depending on the conglomerate structure – for calculating the own funds of the conglomerate, whilst the aggregate results of the insurance group are based on the consolidated accounts of the sub-group, with the required deductions to avoid double gearing then being made at financial conglomerate level.

When calculating the own funds of financial conglomerates, it should therefore be possible to use the methods referred to alongside each other and also to combine these in order to allow flexible and practicable implementation geared to the structure of each conglomerate.

We should be grateful if you could take our comments into account. Should you have any questions or require any further information, please do not hesitate to contact us.

Yours sincerely,
for the Zentraler Kreditausschuss
Association of German Banks


Uwe Gaumert


Franziska Löke