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Presseinformation

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Association of German Banks: Adjust regulatory treatment of sovereign exposures – keep a sense of proportion

Kontakt

Dr. Kerstin Altendorf
Association of German Banks
Director, Media Spokeswoman
Tel. +49 30 1663 1250
kerstin.altendorf@bdb.de

The regulatory treatment of sovereign exposures needs to be adjusted. But we warn against acting hastily," said Michael Kemmer, General Manager of the Association of German Banks, at a press conference today in Frankfurt. At the very latest, the government debt crisis had shown that sovereign exposures are not in themselves risk-free. "Particularly the undifferentiated preferential treatment of sovereign exposures led to wrong incentives for governments, banks and thus for the financial system as a whole," Mr Kemmer added.

So it was right, and important, that there was now ongoing discussion both nationally and internationally on how regulators could handle sovereign exposures in future. "But, in the process, it shouldn't be overlooked that banks are already required today under Pillar II to set aside capital to cover the risk resulting from sovereign exposures," Mr Kemmer stressed. At the same time, they had to keep an eye on potential concentration risk.

“If we now make regulatory changes in some areas – if we introduce tougher large exposure rules, for instance – this may lead to undesirable developments in other areas,” Mr Kemmer cautioned. Negative consequences could, for example, be an increase in total portfolio risk due to substitution effects, or hampered market-making and less market liquidity for government bonds.

“To adjust the preferential regulatory treatment of sovereign exposures, measures should be planned carefully, checked and introduced circumspectly,” Mr Kemmer said. For example, the Association of German Banks does not believe it makes sense to put public and private debtors on a completely equal footing. Also, adjustment-related shocks should be cushioned by way of grandfathering and transitional rules. Furthermore, to avoid any distortion of competition, a uniform approach should be adopted globally. “But, above all, bearing in mind Germany’s strong export sector, we mustn’t lose sight of the impact on efforts to promote trade and industry.”