Bundesverband der Wertpapierfirmen e.V.
Schillerstraße 20, 60313 Frankfurt/Main

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbankplatz 2
CH-4002 Basel
Switzerland

your reference

your message of

city_date
Frankfurt/Main, 06.09.2012

Via e-mail: baselcommittee@bis.org

Fundamental review of the trading book

Dear Sir, dear Madam,

the *Bundesverband der Wertpapierfirmen e.V. (bwf)* is a trade association representing the common professional interests of securities trading firms and market specialists at the securities exchanges throughout Germany on a national and European level. In this capacity, the bwf expressly welcomes the possibility to comment on the Basel Committee on Banking Supervison's consultative document on the *"Fundamental review of the trading book"*, published in May 2012.

The bwf acknowledges and supports the Basel Committee's endeavour to carefully revise and where necessary amend or correct the existing capital adequacy framework as a result of the global financial crisis. The issues raised and the proposals made in the consultative document on a fundamental review of the trading book can be seen as a valuable and helpful contribution in the discussion about the right instruments of global "regulatory repair" in order to make financial institutions more resilient and less prone to future shocks.

From a methodical point of view, the *"partial risk factor approach"* and the alternative *"fuller risk factor approach"* can indeed be seen as a useful attempt to "close the gap" between the current *"standardised approach"* and more sophisticated regulatory risk-measures, in particular the *"internal models"* used by large institutions. However, from our point of view, the discussed new approaches should be seen as a possible amendment to the existing set of methodologies for the calculation of regulatory capital requirements rather than a complete replacement of the current *"standardised approach"*.

As a trade association representing independent small and mid-size investment firms, we are strongly concerned that the implementation of an obligatory capital framework for trading book activities with a level of sophistication of the *"partial*

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risk factor approach" or the *"fuller risk factor approach"* would result in a clearly disproportionate and overly complex burden for smaller institutions.

While we are fully aware that the Basel Committee's task lies in the development of regulatory proposals for the control of the banking sector, we kindly ask Committee members to take into account that, depending on the jurisdiction, "Basel rules" *de facto* define a binding regulatory framework for a much broader audience than originally intended. This holds true in particular for the European Union which has, beginning with the first Basel accord and with very few exemptions, always applied the Basel framework in a uniform way, across a large scale with respect of the size of firms and the various complexities of their business models, to credit institutions and investment firms alike. As a result, even small investment firms are currently treated as fully fledged "Basel II institutes". In some cases, these firms can have a headcount of only ten or even less employees.

In this context, it is important to mention that the firms in question, compared to their size and level of business activity, usually have a very sound capital base, resulting in regulatory capital ratios unseen in the banking sector. However, due to their size these investment firms are facing an increasing competitive disadvantage due to the limited scalability of regulatory requirements, since administrative costs arising from regulations can only be allocated to a comparably small revenue basis. In order to avoid further competitive distortion arising from regulation itself, we strongly remain of the conviction that the option of a proportionate and affordable entry level approach of calculating capital requirements based on predefined risk-weights for different asset classes, comparable to the current *"standardised approach"*, should be necessarily maintained.

Yours sincerely,

Michael H. Sterzenbach
Secretary General