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Submitted via Email

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Response to Consultative Document (2nd) "Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions (NBNI G-SIFIs)"

Ladies and Gentlemen,

we appreciate the opportunity to submit this letter in response to the second Consultative Document on the Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions ("Consultative Document") issued by the Financial Stability Board ("FSB") and the International Organization of Securities Commissions ("IOSCO").

We would like to comment on the FSB's/IOSCO's consideration to exclude **public financial institutions** from the scope of the proposed methodologies for identifying NBNI G-SIFIs and therefore refer to Question 1 of the Consultative Document which reads as follows:

Q2-1: In your view, is the exclusion of (i) public financial institutions, (ii) sovereign wealth funds or (iii) pension funds from the definition of NBNI financial entities appropriate? If so, please explain the rationale.

We think that the exclusion of public financial institutions (as defined in footnote 10 of the Consultative Document) from the definition of the NBNI financial entities is appropriate. From our point of view, this exclusion takes account of the limited risk emanating from those entities in the context of potential negative impact on other financial firms, financial markets or the stability of the global financial system.

This is justified as follows:

The Consultative Document aims to identify NBNI financial institutions whose distress or disorderly failure would cause significant disruption to the financial system or other market participants. Essential in this context is the extent to which financial distress of an NBNI financial entity could be transmitted to the financial system or rather how significant the risk emanating from a respective entity is.

According to the given classification we understand that public financial institutions are – amongst others – non-central government public sector entities ("PSEs") in the meaning of paragraphs 57 and 58 of the Basel II/III framework.

KfW is a PSE in the meaning of Article 4 (1) no. 8 of Regulation (EU) No 575/2013 of 26 June 2013 ("CRR"), the regulation implementing the Basel II/III framework into European Union law. KfW is owned and fully guaranteed by the Federal Republic of Germany. Because of the statutory guarantee of the Federal Republic, there is no difference in the risk of exposures to the Federal Republic or to KfW. Therefore, exposures to KfW may be treated in the same way as those to the Federal Republic in accordance with Article 116 (4) of the CRR (and paragraph 58 of the Basel II/III framework, respectively).

As illustrated by the example of KfW, the risk position of a PSE is clearly that of a government and not that of a NBNI financial institution where claims on that PSE may be treated as claims on the sovereign in whose jurisdiction the PSE is established in accordance with paragraph 58 of the Basel II/III framework. Accordingly, the exclusion of PSEs respectively public financial institutions from the definition of NBNI financial institutions is appropriate and coherent with respect to the objective pursued by the Consultative Document. Moreover, the exclusion of PSEs consequently sustains their treatment within the Basel II/III framework and the implementing EU regulations.

Yours sincerely,

KfW

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