

The Bundesbank's credit register for loans of 3 million Deutsche Mark or more

Changes in the reporting procedure

The credit register maintained by the Deutsche Bundesbank records all loans of three million Deutsche Mark or more granted to a single borrower during the previous quarter in a central database and then notifies the lenders of the overall indebtedness of their borrowers. The register serves the interests of the credit institutions and of the agencies involved in banking supervision and is a significant source of information for both.

Since the last article on the credit register, published in the October 1987 issue of the Monthly Report of the Deutsche Bundesbank, the reporting procedure has undergone several changes and has been brought into line with developments in banking business. The most important changes concern the raising of the reporting threshold from DM 1 million to DM 3 million, which took effect in mid-1993, and the extension of the range of lenders required to submit reports and the introduction of an expanded definition of the concept of "exposure" in mid-1996. In particular, the inclusion of derivatives business in the reporting requirements has provided banking supervisors and credit institutions with extra knowledge. In addition, international cooperation among the national credit registers in the EU has been growing for some years now and is to be intensified further.

Development of the credit register

*Reason for
introducing
the reporting
requirement*

In Germany, a reporting requirement for large loans has been in existence since the mid-thirties. The reporting requirement was introduced at that time because it became apparent in connection with the Great Depression that banks often had insufficient information on the overall indebtedness of their major borrowers and frequently encountered grave difficulties when such enterprises collapsed. In the recent Asian crisis, too, the information relayed back to the banks by the Bundesbank's credit register helped credit institutions which had granted loans to borrowers in those countries to obtain information on the total exposure of all German credit institutions in the countries affected.

Existing legal regulations

Legal basis

The legal basis for the reporting system for loans of DM 3 million or more is the Banking Act as amended by the Sixth Act Amending the Banking Act, which came into force on October 22, 1997. The main provisions governing the reporting system for loans of DM 3 million or more are to be found in section 14 of the Banking Act, read in conjunction with section 2 (2), and sections 19 and 20 of that Act. The details of the reporting procedure are laid down in the Regulation governing large exposures and loans of DM 3 million or more of December 29, 1997, promulgated by the Federal Banking Supervisory Office, and in the Instruction sheet for the reporting of loans of three million Deutsche Mark or more

pursuant to section 14 of the Banking Act, issued by the Bundesbank.

Under section 14 of the Banking Act, read in conjunction with section 2 (2), all credit institutions domiciled in Germany, including their branches and subsidiaries abroad, all branches of foreign credit institutions in Germany, and all enterprises belonging to a group of institutions or a financial holding group, as well as all insurance enterprises, the social insurance funds, the Federal Labour Office, and risk capital investment companies are required to submit quarterly reports. In the case of enterprises belonging to a group which themselves are not required to submit reports, the reports have to be submitted by the German parent credit institution. The report must list all borrowers in Germany and abroad whose indebtedness to these lenders totalled DM 3 million or more at any time in the preceding quarter. The reports have to indicate the amount of the exposure at the end of each quarter.

*Institutions
required to
report*

Since the beginning of 1998, with the entry into force of the Sixth Act Amending the Banking Act, "jobbers", who buy or sell securities and financial instruments on their own account for third parties and who are now subject to banking supervision as financial service institutions pursuant to section 1 (1a) sentence 2 (4) of the Banking Act, and factoring companies, which are financial enterprises within the meaning of section 1 (3) sentence 1 (2) of the Banking Act, are likewise required to submit reports. All other financial services institutions and financial enterprises, by contrast, are only required to

submit reports if they are subordinate to an institution that falls under the reporting requirement.

Changes to the Banking Act and their consequences over the past few years

Fourth Act Amending the Banking Act: reporting threshold raised to DM 3 million

Over the past few years, the provisions governing reporting requirements have been brought into line with developments in credit business on various occasions. Until mid-1993 the reporting threshold was DM 1 million – a level which had remained unchanged since the currency reform in 1948. Owing to economic growth and price increases, the number of reportable loans rose considerably over the years. Parliament therefore responded by raising the threshold in mid-1993 from DM 1 million to DM 3 million in the Fourth Act Amending the Banking Act. The number of reports went down by about half, owing to the previously relatively large percentage of loans between DM 1 million and DM 3 million, although the aggregate volume of the reported loans did not decline perceptibly. The raising of the reporting threshold therefore did not seriously diminish the banking supervisory information gained from the reports.

Fifth Act Amending the Banking Act: concept of "exposure" expanded

One of the changes introduced by the Fifth Act Amending the Banking Act, which entered into force at the end of 1995, was that the concept of "exposure" defined in section 19 (1), which is also relevant to defining loans of DM 3 million or more, was substantially expanded. Since that time, its scope comprises risk assets, securitised claims and

off-balance-sheet derivatives business (swaps, futures, and options – except options written). For ascertaining the level of indebtedness in the case of derivatives business, the "credit equivalent amount" has to be determined, generally according to the marking-to-market method. The nominal amount of the derivatives transactions, which must also be reported, serves as additional information and is not added to a borrower's overall indebtedness. The Fifth Act Amending the Banking Act also included short-term inter-bank loans with maturities of up to 90 days and loans to public credit institutions in the reporting requirement for loans of three million Deutsche Mark or more. Equities and other participating interests, as well as securities held in the trading portfolio, continue to be exempt from the reporting requirement. Furthermore, lending commitments, loans to the public sector (Federal Government, Länder Governments and local authorities), and loans to the European Communities are exempted from the reporting requirement (section 20 (6) of the Banking Act).

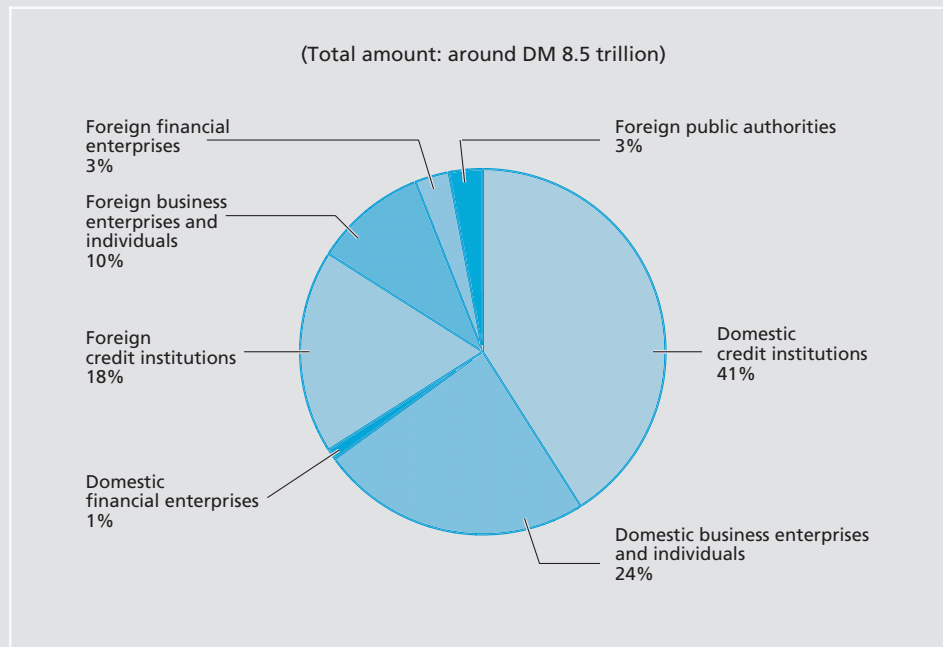
Exemptions from the reporting requirement

Additionally, the Fifth Act Amending the Banking Act expanded the definition of the concept of "single borrower unit" (section 19 (2) of the Banking Act). In the past the reporting system for loans of three million Deutsche Mark or more had already required all enterprises belonging to the same group or affiliated through profit transfer agreements as well as majority-owned enterprises and the enterprises or persons holding a majority interest in them to be aggregated to form a single borrower unit. The same applies to partnerships and their general partners as

Single borrower units

Loans of DM 3 million or more by group of borrowers

Position as at December 1997



Deutsche Bundesbank

well as to persons and enterprises on whose account loans are raised (nominee loans); that is to say, they are treated as a single borrower when applying the Regulation governing large exposures and loans of DM 3 million or more. In addition to these criteria, the Fifth Act Amending the Banking Act makes it possible for borrowers to be considered a single borrower unit (risk unit), even if no dominant influence is involved, if their mutual dependencies make it appear likely that the economic difficulties of one borrower might lead to payment difficulties on the part of all the other members of the single borrower unit (domino effect). In addition, it is no longer necessary for a borrower to be an enterprise in order to form part of a single borrower unit.

Following the translation of the EU netting directive into German law in October 1996, netting (offsetting of positions) is now also permitted in the reports of loans of three million Deutsche Mark or more subject to conditions laid down in the Regulation governing large exposures and loans of DM 3 million or more.

All in all, the volume of reported loans of three million Deutsche Mark or more went up by more than double compared with the preceding reporting date as a result of the changes introduced by the Fifth Act Amending the Banking Act, which were to be first applied on September 30, 1996. More than half of that increase was accounted for by the group of domestic credit institutions as borrowers. This sharp growth was due mainly

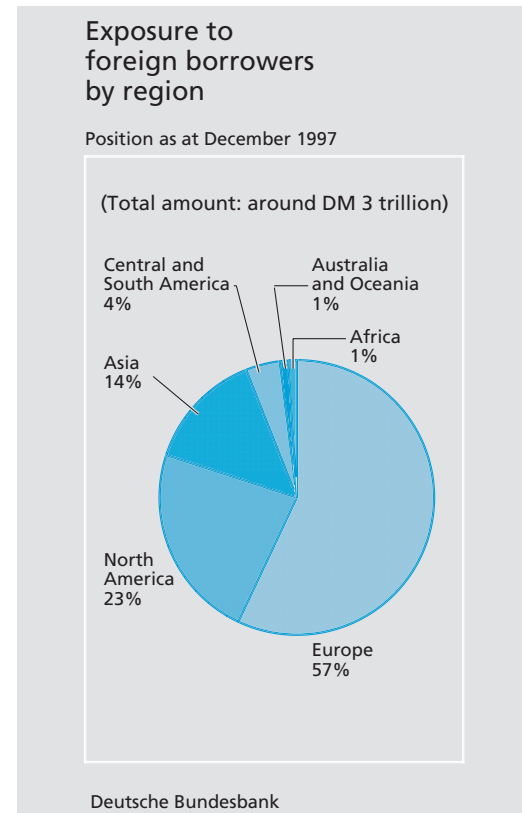
Netting

*Effects of the
Fifth Act
Amending the
Banking Act*

to the inclusion of loans to public credit institutions and interbank loans with a maturity of up to 90 days, which had previously been exempt. The respective shares of the various groups of borrowers in the overall volume of exposure thus underwent a distinct shift. Up to then, about half of the total number of reported loans had been granted to domestic business enterprises and individuals and only around 15% to domestic credit institutions; now, domestic credit institutions constitute the largest group of borrowers, with a share of about 40%. Domestic business enterprises and individuals make up only one-quarter. The rest is accounted for by foreign borrowers; the charts on pages 86 and 87 show the breakdown.

From mid-1996 (when the Fifth Act Amending the Banking Act came into effect) until the end of 1997, the volume of exposure and the number of individual loans of three million Deutsche Mark or more rose by some 30% to around DM 8.5 trillion and by 12% to around 460,000 loans, respectively. The number of reported borrowers increased by about 9% to some 300,000 during that period. At the end of 1997, nearly two-thirds of the borrowers had been aggregated into 60,000 single borrower units in accordance with section 19 (2) of the Banking Act.

Owing to the inclusion in the reporting requirement of all domestic and foreign financial institutions that are subordinated to a domestic credit institution and of ancillary banking services enterprises, and through the modification of the concept of "exposure", the number of lenders required to submit re-



ports has risen by more than 2,000 to over 5,000.

If the overall volume of exposure reported at the end of 1997 in accordance with section 14 of the Banking Act amounting to approximately DM 8.5 trillion is divided into balance-sheet business and off-balance-sheet business, it can be seen that, following the incorporation of derivatives business into the reporting requirement, a little more than 10% is now accounted for by off-balance-sheet business. Slightly over half the reported off-balance-sheet business of the credit institutions results from derivatives business, which at the end of 1997 amounted to a total (credit equivalent amount) of DM 645 billion. The nominal amounts of the financial

derivatives, reported as a memo item, totalled over DM 23 trillion.

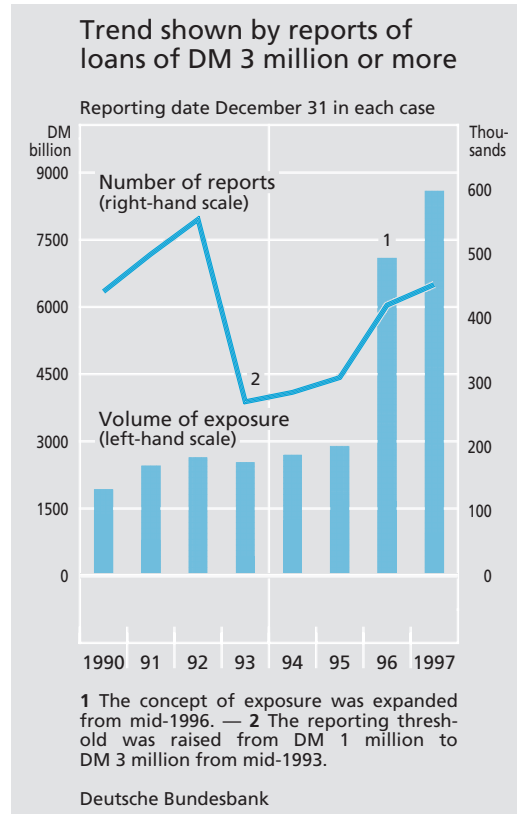
Sixth Act Amending the Banking Act: reporting requirement extended

Simplification of the reporting procedure

The Sixth Act Amending the Banking Act, the most important parts of which came into force at the beginning of 1998, also made jobbers, i.e. own-account traders who buy or sell securities and financial instruments on behalf of third parties, and factoring enterprises subject to reporting requirements. In addition, the reporting procedure was made simpler for the institutions; after a transitional period necessary for the conversion of the relevant computer programs, these simplifications will come into effect on the reporting date December 31, 1998. The lenders subject to reporting requirements then will only need one reporting form to submit their large exposure reports pursuant to sections 13, 13a and 13b of the Banking Act and their reports of loans of three million Deutsche Mark or more pursuant to section 14 of the Banking Act. The combined form for large exposures and loans of three million Deutsche Mark or more makes it easier for the credit institutions to submit their large exposure reports, too, in paperless form – as is already the case for loans of three million Deutsche Mark or more. That streamlines the reporting process both for the reporting institution and for the Bundesbank.

Advance inquiries prior to granting loans

Since the beginning of 1998 lenders may also ask the Deutsche Bundesbank to inform them of the cumulative debt level of a potential customer, as recorded in its credit register, prior to granting a loan. The conditions for this, however, are that the envisaged loan to the customer amounts to DM 3 million or



more and that the customer has agreed to the advance inquiry. This new provision enables credit institutions to check the financial situation of a potential borrower more carefully before actually granting a loan, which makes it easier for the credit institutions to judge the potential borrower's creditworthiness.

Operational details of the reporting procedure pursuant to section 14 of the Banking Act

The reports of loans of DM 3 million or more have to be submitted by lenders to the branch office of the Land Central Bank responsible for that particular institution; as a rule, they are processed and keyed into the

database by the Main Offices of the Deutsche Bundesbank.

*Submission
of reports*

The reports can be submitted as individual reports or as prepared report forms. Individual reports must always be submitted when a borrower becomes subject to the reporting requirement for the first time or if the borrower's standard data have changed. Individual reports may only be submitted using the conventional procedure, i. e. in a paper-based form. Prepared report forms are lists prepared by the credit register on the basis of the last report submitted by the lender in question and contain all the borrowers reported by the lender in the preceding reporting period. All the lenders have to do is to add the latest debt status in each case and, if appropriate, to delete borrowers who are no longer subject to the reporting requirement. Prepared report forms can also be submitted in a paperless form using magnetic tapes. The electronic submission of data is becoming increasingly important in the reports of loans of three million Deutsche Mark or more. Today nearly two-thirds of the reports are submitted via data media. Ten years ago only one-third of all reports were submitted in paperless form. Soon lenders will also be able to transmit the data to the Bundesbank's computer centre direct by means of telecommunication.

*Breakdown of
the loans*

In the reports of loans of DM 3 million or more the loans must be broken down into traditional lending instruments within the meaning of section 19 (1) sentence 2 of the Banking Act ("conventional" asset items) and off-balance-sheet transactions. Furthermore,

the report must specify how much of these are derivatives, underwriting of derivatives, guarantees and other indemnities, mortgages, publicly guaranteed loans, or inter-bank loans with a maturity of up to one year. With the entry into force of the Sixth Act Amending the Banking Act, leasing and factoring claims, too, have to be listed separately. However, the credit register does not receive any information on collateral or the intrinsic value of the reported loans of three million Deutsche Mark or more.

Return flow of information to lenders

If several lenders report loans of three million Deutsche Mark or more to the same borrower, the Bundesbank sends the lenders concerned a notification of the total indebtedness of that reported borrower and the total number of lenders involved. For data protection reasons, no information is provided on the identity of the other lenders. To facilitate a better assessment, the total indebtedness of the borrower is broken down in the notification into the aforementioned categories.

Notification

From the reporting date March 31, 1999, lenders can choose to submit their reports either in Deutsche Mark or in euro until the Deutsche Mark has been completely superseded by the euro. During this period the notification will be submitted in the same currency in which the institution submitted its reports.

If a borrower forms part of a single borrower unit, the credit register notifies the lenders of

the total indebtedness of that single borrower unit, as well as the indebtedness of the particular borrower in question.

*Indebtedness
by country*

Besides this notification, the credit register also provides lenders who report loans of DM 3 million or more to foreign borrowers with figures showing the aggregate exposure from all loans granted to borrowers in a given country.

The prudential value of information on loans of DM 3 million or more

*Insight into
credit com-
mitments ...*

Information on loans of three million Deutsche Mark or more is not intended solely to inform lenders of the overall indebtedness of their borrowers, but also provides banking supervisory bodies with revealing data. By evaluating the data, the Federal Banking Supervisory Office and the Deutsche Bundesbank can gain an up-to-date insight into the credit commitments of the major lenders and borrowers. In particular, when major debtors become insolvent, the banking supervisory authorities can quickly obtain a current overview of the exposure of individual institutions and the overall burden on the banking sector as a whole. By including derivatives business, with the associated credit equivalent and nominal amounts, in their monitoring of loans of DM 3 million or more, banking supervisors have since mid-1996 been able to gain an additional insight into this rapidly expanding area of business. In this context it is particularly significant that banking supervisors now have information on the counterparties with whom the credit institutions have

*... into
derivatives
business ...*

concluded such transactions. Since the credit equivalent amount of derivatives business is included in the total indebtedness, and this business is reported back to the credit institutions as a separate item, the quality of the notification from the credit register has improved for credit institutions as well, since the risks stemming from derivatives business with their customers have now become transparent.

Furthermore, on the basis of the reports of loans of three million Deutsche Mark or more, information on the country-specific risk (overall exposure of German credit institutions to borrowers in a given country) can be provided. This is particularly important whenever economic or political developments in a particular country cause it to become the focus of prudential interest. The requirement to submit quarterly reports on loans of DM 3 million or more meant that during the recent Asian crisis, for instance, banking supervisors had up-to-date information on the exposure of German credit institutions to borrowers in the South-East Asian countries. In compiling and evaluating the information on loans of DM 3 million or more, the Bundesbank's credit register classifies loans according to the legal domicile of the borrower, and hence the ultimate risk bearer. That makes reports of loans of three million Deutsche Mark or more currently the only statistical instrument in Germany which classifies loans on an ultimate risk basis and not according to the location of the immediate counterparty.

*... and into
country-specific
risk*

Thanks to the knowledge which lenders obtain from the notifications on their borrowers'

indebtedness, and the knowledge which banking supervisors gain from their evaluations of the data, the Bundesbank's credit register of loans of three million Deutsche Mark or more contributes to achieving the prudential objective of keeping the banking system as a whole stable and smoothly functioning.

International cooperation between European credit registers

*Cross-border
exchange of
information for
prudential
purposes*

In the light of the growing internationalisation of banking business, banking supervisors also need to be informed increasingly about borrowing by domestic debtors from banks abroad. The efforts made in the past by the EU Commission to establish an international credit register have so far not been successful, owing both to the different nature of the systems already existing in individual countries and to the unwillingness of the countries without a credit register to set up their own national reporting system. The credit registers

already in existence in the EU (Austria, Belgium, France, Germany, Italy, Portugal and Spain) therefore agreed a few years ago to exchange information across borders on the indebtedness of borrowers in specific individual cases as a first step towards enhancing cooperation; so far, though, the information exchanged may only be used for prudential purposes. To enable commercial banks as well to obtain information about their customers' borrowing abroad, there are plans to broaden the already existing cooperation in future and to give commercial banks, too, access to information on the indebtedness of their borrowers which is stored at the other credit registers. Since the legal preconditions for this do not yet exist in every EU country – they do not exist in Germany, either – and various technical and organisational problems also still need to be solved, it will take a while before cooperation between the credit registers in the EU is extended to enable information on borrowing abroad to be made available to commercial banks as well.