



Committee of European Banking Supervisors

CEBS CONSULTATION PAPER (CP 14) ON THE FIRST PART OF ADVISE TO THE EUROPEAN COMMISSION ON LARGE EXPOSURES

The Committee of European Banking Supervisors published on 15 th June 2007 a consultation paper on the first part of its technical advice on large exposures.

The Federation of Finnish Financial Services is a member of European Banking Federation (EBF). While supporting the views put forward in the EBF's response, the Federation of Finnish Financial Services respectfully submits the following comments.

General remarks

We believe that CEBS' general aim and conclusions stated in the paper broadly go in the right direction, but there is still need to clarify the main objective of the new regulatory framework more explicitly. There should be from our point of view a stronger recognition of the existing Pillar 2 requirements, of which many concentration risk elements are adequately managed under stress tests within banks' ICAAP process. In order to avoid double regulation, specific attention in the new LE regime should also be given to the fact, that the general approach to protect against the impact of unforeseen events as well as qualitative mechanisms and systems for banks to mitigate risks in this area are broadly regulated under the new CRD.

If the intention is however to create quantitative regulatory backstops for very unlikely events not sufficiently covered by the Basel 2 framework, then we would support the idea of turning the current large exposures into a relatively 'light touch' regime, within which institutions retain much flexibility to manage risks through their own systems, policies and practices.

We urge a specific consideration to the treatment of intra-group exposures in the second part of CEBS' advice to the Commission. In our view, the intra- group exposures should be exempted from the LE requirements, since the current regulation might create a significant obstacle for centrally managed banking groups.

Another important aspect to ensure effective central management of more complex groups would be to address the issue from the perspective of financial conglomerates. The first positive step, at least in the mid term, would be the wider recognition of cross- sectoral (banking/insurance) risk mitigation products that have similar characteristics.



Detailed remarks

Do you agree with our analysis of the prudential objectives of a large exposures regime?

We generally agree with the CEBS' analysis of the prudential objectives. We find it important that in the new LE regime the number national discretion should be limited only to exceptional cases. In addition, corresponding supervisory disclosure applied under the CRD should be introduced.

Concerning the unforeseen event risk, more attention should be given in further work to evaluate the impacts of other risks (particularly operational risk) than counterparty risk.

With regard to the market failure analysis set out in Section IV, do you agree with the analysis that there remains a material degree of market failure in respect of unforeseen event risk?

We believe that the potential market failures that CEBS has identified should rather be seen as cases of bad management, and that the gap between institutions' interest and the social interest is not as wide as CEBS now seems to assume. In particular, the content of the paragraph on management compensation and incentives remains unclear. It should be point out, that certain mismanagement behaviour could be seen as a part of an operational risk.

We believe that requirement to disclose the distribution of exposures by industry or counterparty type, broken down by exposure classes, as referred to in paragraph 90 is overly granular in our view and does not add to the market's understanding of a firm's risk profile compared to existing Pillar 3 requirements. When considering further disclosure requirements on counterparties, one should also make sure that they are not against the insider nor confidentiality rules. This might be a danger particularly for smaller banks that could have limited number of customers in each counterparty type.

Do you agree with our perception that there are broad consistencies between the EU LE regime and those in other jurisdictions such that there is no systematic competitive disadvantage for EU institutions? If not, could you provide us with a detailed explanation of where you consider the competitive distortions arise?

We believe that the countries chosen for CEBS' comparison are the right ones. However, the available information is quite limited and CEBS' comparison should in our view be deepened in order to truly assess the competitive implications of the LE regime. This is especially true



as regards the practical applications of the official rules, including possible exemptions, as well as the scope of application and the way of exposure calculation.

What are your views in respect of the analysis of the recognition of credit quality in large exposure limits and our orientation not to reflect further the credit quality of highly rated counterparties in large exposure limits?

We think that the credit quality should play a role in structuring the new LE framework at least in a similar manner as they do under existing requirements. In particular, the 0% risk weight for highly rated counterparties should be maintained, as this implies that the risk is considered zero. In addition, we would also suggest considering a specific risk weighting for banks and the netting of the exposures with particularly secure guarantees, such as sovereign guarantees. Also lower risk weighting could be justified for counterparties having better rating than banks.

We find it important that in its further work CEBS will also analyse the possibility to take into account the maturity. An outcome of such an analysis might be that the combination of good credit quality and short maturity receives the most favourable treatment.

What do you consider to be the risks addressed by the 800% aggregate limit? What are your views as to the benefits of the 800% limit?

If there is an intention to maintain certain level of quantitative limitations under new LE regime, we acknowledge that the maintenance of the 800% limit as a general rule could be helpful to make provision against poor concentration risk management, or might be used as a general guideline for simpler institutions.

Do you support harmonisation of the conversion factors applied to the off-balance sheet items set out above? How important are these national discretions?

We welcome the common approach across CEBS' members to be adapted in this area.