# BELGIAN FINANCE FEDERATION

Febelfin

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Mrs Danielle Nouy
Chairman
Committee of European Banking Supervisors
(CEBS)
Floor 18, Tower 42
25 Old Broad Street

LONDON EC2N 1HQ

Brussels, 23 June 2006

**BY E-MAIL**: le@c-ebs.org

Dear Madam,

**Large exposures: questionnaire on the survey of market practices**

Febelfin, i.e. the Federation of four trade associations from the Belgian financial industry[1], welcomes the CEBS questionnaire on market practices concerning Large Exposures (LE). Although a comprehensive answer to the technical questions raised is preferably given by our member institutions on an individual basis, we welcome the opportunity to comment on some of the general issues of the future LE-scheme.

Although the current LE-scheme has proven to be adequate up to now, we think that some aspects are outdated or not in line with the new IRB-approach. For these reasons, we fully support a redefinition of the scheme in order to bring it into line with the new CRD-framework. In doing so, we would like to express our clear preference for an integration of the LE-scheme into the Pillar II-framework (concentration risk), without there being a need for a detailed regulation, because the scheme would be fully integrated into the ICAAP-process. This process – which also takes into account other elements of concentration risk - falls under the proper responsibility of the institution and is subject to an evaluation through a dialogue with the regulator.

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[1] The following trade associations are part of Febelfin: the Belgian Bankers' and Stockbroking Firms' Association (ABB/BVB); the Professional Union of Credit Providers (UPC/BVK); the Belgian Association of Asset Managers (BEAMA); the Belgian Leasing Association (BLA).

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In other words, we advocate a full removal of the LE-scheme from Pillar I. There are several reasons for this, which refer to the conceptual differences between the existing LE-scheme and the new CRD-rules. An important example within this context is that, in our opinion, the system of risk transfer as used in the LE-scheme is outdated, as it sums up direct and indirect exposures and does not consider diversification benefits (correlation matrix). We also think that it is a backward step as compared to the double-default concept introduced by the Basel Committee. Furthermore, we would like to point out the difficulties in measuring exposures when the measurement of outstanding amounts is at odds with the measurement of the risk-weighted volumes.

Should CEBS choose to keep the LE-scheme under Pillar I as a second best solution, then we strongly advocate the following in order to avoid that institutions need different IT- and measurement systems for the follow-up of large exposures on the one hand and 'normal' exposures on the other hand:

- Pillar I large exposures are maintained as caps for the risk on a single counterparty risk or on a single group of linked counterparties. CRM or other elements of concentration risk should not be added as a burden to this current concept under Pillar I. In other words, we are not in favour of an integration of Pillar II into Pillar I.

- The own funds needed for covering the LE should be those as defined in the COREP-table 'Capital adequacy'. COREP should be completed in order to ensure that trespassing of LE limits will be reported in a uniform way throughout the EU.

- The risk weights, which were taken over in the CRD from the existing LE-scheme, should be entirely removed and replaced by the risk-weighted assets of Pillar I, following the approach chosen by the institution.

- We think that the LE-limits are still appropriate and need not be changed. However, they will have to be recalculated in the light of the previous paragraph, with the aim of maintaining equivalent prudential limits.

- There should be no national discretions in the new LE-scheme. The same rules should apply for all European institutions.

- Consistency and use test should remain within the ICAAP-process under Pillar II, concentration risk being part of this Pillar.

As for the level of application, we are of the opinion that the measurement of LE makes sense on a top consolidated level only, so that compensation effects between the different legal entities of a single group may be taken into account. Conditions for such an application are: management of the LE on a unified basis within the group, the inclusion of subsidiaries and branches, the supervision on a consolidated level and a free transfer of capital.

In the light of our remarks mentioned above together with our separate comments on CEBS consultation paper CP 11 '*Supervisory Review Process of the management of interest rate risk* *(non-trading) and concentration risk'*, we wonder if the deadline mentioned in the CRD for a review of the LE-regime is still realistic, because the institutions will need sufficient time for preparing themselves in order to comply with the new rules.

Please do not hesitate to contact our services and our working group should you require any further information.

Yours sincerely,

Michel Vermaerke
Chief Executive Officer

Daniel Mareels
Head of the Taxation, Accounting Standards
and Prudential Regulations Department

cc: Mr. E. Wymeersch, Chairman of the Banking, Finance and Insurance Commission