European Association of Co-operative Banks
Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken

Committee of European
***Banking* Supervisors**

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CP16@c-ebs.org

Consultation Paper (CP 16) on the Second Part of CEBS advice to the European Commission on large exposures.

Dear Sir or Madam,

The European Association of Cooperative Banks (EACB) welcomes the opportunity to comment on CEBS's orientations on the specific elements of a future large exposures regime.

This matter is of crucial importance for many of our member organisations. Please find below our answer to your Consultation paper. We are available at any time for more detailed comments on the matter in question.

Yours sincerely,

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EACB Answer to the Consultation Paper (CP 16) on the Second Part of CEBS advice to the European Commission on large exposures

20 February 2008

The **European Association of Co-operative Banks** (EACB) is the voice of co-operative banks in Europe. It represents, promotes and defends the common interests of its 28 members and co-operative banks in general. With 60,000 outlets and 4,500 banks, co-operative banks – which are privately owned entities- are widely represented throughout the enlarged European Union and play a major role in the financial and economic system. In Europe, one out of two banks is a co-operative. Co-operative banks have a long tradition in serving 140 million customers, mainly consumers, retailers and SMEs. Quantitatively, co-operative banks in Europe represent 47 millions members, 730,000 employees with a total average market share of about 20%.

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I. General Remarks

- The members of the EACB would like to point out that any regulation on the management of large exposures should have regard in particular to the diversity in size and scale of operations and to the range of activities of credit institutions, i.e. consider the aspect of proportionality. According to the complexity of banks, differing degrees of sophistication are required, also regarding large exposures. A one-size-fits-all-approach would not be appropriate. By consequence, if a large exposures regime is to be a regulatory backstop for unforeseen events, a two way-solution should be chosen:
    1. A simple, rule-based approach for smaller banks. The present proposal is in line with this rule-based idea, also giving an opportunity to more sophisticated Advanced-IRB banks to (partly) use Basel 2 data.
    2. A true principle-based approach for large international active banks. Such an approach still lacks. It, however, would give an opportunity to these banks to use existing internal models/systems and internal reporting lines/reports. The ultimate 25% limit should be adhered to as well and the approval on beforehand of the supervisory authorities should be required (principally all Basel 2 requirements would apply here also: approval of models/systems/procedures, validation procedures, use-test, etc.).
- Furthermore, we think that a large exposure regime should deviate from the CRD solvency standards as little as possible in order to keep it as simple as possible.
- We also support the aim to achieve a harmonized regime on large exposures without national options and discretions.
- We felt that the proposals take too much into account the liquidity aspect of large exposures which should be regulated under the liquidity framework. While the LE framework should focus on the loss that the institution could suffer in case of an unforeseen traumatic loss event, the liquidity effect of the default of an LE should be treated under the liquidity regime. The liquidity situation of an institution that has a high liquid asset ratio would deteriorate little due to the default of a large loan. On the contrary, the liquidity of an institution, that has a low liquid asset ratio, may be endangered by the default of a LE. Especially in the current situation, will it be important to clearly distinguish what is targeted and not to mix up liquidity and large exposure aspects.
- As for institutions using the Advanced – IRB approach, we think that the current proposal to base the calculation of exposure values partly on accounting values (balance sheet value for on-balance items) and partly on EAD is inappropriate. At present, most Advanced-IRB banks have two separate internal reporting lines – one for accounting data resulting in financial reports and one for risk data resulting in Corep reports. At the top level it is ensured that all financial data is incorporated in the risk data. We, therefore, fear that the proposal to combine both lines will create mistakes,

cause additional work and thus prove to be inefficient. In this respect, we would like to propose:

1. To allow Advanced-IRB banks to fully use the Basel II/ CRD data (EAD, LGD, CRM and PD) which is available, gathered in an existing reporting system, complies with the use-test and is checked by the bank, auditors and supervisors;
2. When recognising collateral (LGD, CRM) to apply a haircut based on the estimated time-lag for selling the collateral, e.g.: if, in general, it is possible to sell within one week - 100% recognition; within 3 weeks - 50% and otherwise 0%.

II. Responses to the 'High Level' Questions raised in CP 16

Q2. Do you agree with the proposal and suggested interpretation of 'control' and of 'interconnectedness'? Do you find the guidance/examples provided in both cases useful? Please explain your views, provide examples. And where relevant provide feedback on the costs and benefits.

It is certainly important to properly monitor the exposures to groups of connected clients, since such concentration may result in an unacceptable risk of loss. Furthermore, we consider that differentiation between concentrations due to "control" or "interconnectedness" should be made.

We agree with the proposed interpretation of "control" and the provided examples which are well-defined and useful.

On the other hand we feel that CEBS's concept on "interconnectedness" goes too far as it looks at financial dependencies. As a result, extensive groups of connected clients would be generated. In our view, the interpretation of "interconnectedness" should be confined to mutual financial dependency:

- Firstly, it is very difficult or even sometimes impossible to determine a one-sided financial dependency.
  "Routinely assessing" any connectedness would, in practical terms even go far beyond the ""UCI-issue" (uniform customer id), resulting in overall exposure of a client: A requirement to analyse possible financial dependencies for every borrower and counterparty would increase the complexity of the credit processes disproportionately. It will imply a continuous assessment of the business relationships of the total client base of a bank with the help of an enormous database, extra staff and additional procedures and reporting. It will also involve the assistance of banks' clients who would have to submit information on their activities to the bank on a regular basis. In addition, one should bear in mind that one client could belong to more than one circle of connectedness. Possible solutions could be:

  1. To assess "interconnectedness" only for a very limited number of individual exposures that go beyond a certain amount of own funds (e.g. 20% or 25%).

     However, smaller banks very often dispose of many of such exposures. Due to their limited resources they would be fully unable to comply: The analysis required to assess interconnectedness would be more than huge since the amount of information (qualitative and quantitative) required would be enormous, if not impossible to get (why should entities that are legally "non-customers" deliver any information?).

     At a first glance, one may think that such solution could be handled by big banks, where the relevant exposures are more limited and where stronger resources for analysis might be available. However, it has to be kept in mind that the analysis of interconnectedness

would have to be executed for every single private loan, in order to be able to assess whether the lender is connected somehow to any other lender. Thus, the credit assessment processes, even of bigger banks would become much more complicated and burdensome.

2. The other solution would be to apply a system where "interconnectedness" is only recognised if both parties are connected reciprocally. We think that such restrictive approach that is based on clear-cut criteria would be more appropriate and even better to handle.

We therefore think that only the second solution is a realistic option.

- Secondly, the suggested concept of "interconnectedness" could constrain seriously the borrowing capacity of e.g. SMEs which are the only component supplier for a large corporation. If both (the SME and the large corporation) are credit clients of the same institution and the supplier becomes part of the group of connected clients of the large corporation, the borrowing capacity of the supplier would depend entirely on the actual exposure of the large corporation and the unused large exposure limit.

Furthermore, it has to be pointed out that the application of the examples given in Nr. 92 to reality would lead to a numerous practical problems, especially regarding their "limits" which would countervail the objectives of the large exposures regime.

These practical problems are even more serious for smaller banks serving regional markets in case of intensive financial interdependency between their clients. The practical implications of the proposed wide interpretation would be too far-reaching and disproportionate to the supposed regulatory objectives.

We, therefore, urge CEBS to take a far more restrictive approach to interconnectedness, where both parties are connected reciprocally and develop well-cut and measurable criteria. In this context it should be checked, if the interpretation of "control" already covers the relevant cases of substantial "interconnectedness".

Q5. Do you think that low risk items should receive a 0% conversion factor? Do you believe that there is room to apply conversion factors between 0% and 100 % in a large exposures regime? Which items could in your opinion receive a conversion factor different of 100%, and for which reasons? Please explain your views and provide feedback on the costs and benefits of such an approach.

For institutions using the Standardized and the Foundation- IRB approach it is justified to use the conversion factors applied for the calculation of the minimum capital requirements. A uniform calculation would facilitate implementation, thus minimizing additional regulatory burden for institutions.

It has to be taken into account that the exposure value of the off-balance sheet items are estimations, both for banks using the standardized approach and banks using the IRB approach. A 0% conversion factor is justified in any approach,

since that can be used for facilities which are unconditionally cancelable at any time without prior notice.

A conversion factor of 100% for all other items would be inaccurate and too onerous. The proposed 'worst case scenario' for all off-balance sheet items requiring different calculations for large exposures and solvency purposes would affect 80% of the Member States.

We suggest application of a lower than 100% weighting, especially for:

- Short term business with an original maturity of up to one year
- Products which are not credit substitutes, such as bid bonds, performance bonds, tax bonds and others as the payment obligation of the credit institution does not primarily depend on the financial situation of the customer, but its business conduct

Q9. Do you agree that for large exposures purposes there can be cases where it is justified to treat mitigation techniques in a different way from the treatment under the minimum capital requirements framework? Please explain your view and provide examples. And where relevant, please provide feedback on the costs and benefits.

We think that as a general rule also in this respect the large exposures regime should follow the solvency framework, Supervisory concerns leading to higher liquidity requirements under the large exposures regime should not impede a harmonized method for valuation and calculation of collateral values.

For Standardized approach institutions there should be an option to utilize the simple approach for financial collateral in the same way as under the solvency regime. Beyond that a large exposures regime should take into account the credit risk mitigation techniques to a greater extent than the regime of the minimum capital requirements. The LE regime concentrates on an unforeseen event, for which a large exposure would go into default. Minimum capital requirement framework lies on the concept that specific risk is diversified away, while large exposure regime is about specific risk. From the point of view of specific risk, collaterals are extremely important:

1. The LE regime should recognize physical collaterals even to a wider extent than at the minimum capital requirement. CEBS does not take into account at all the work-out process in case of defaulted loans and it is completely left out of consideration that in several countries there is a market for retail and SME defaulted loans. The better the collateralization of the SME defaulted loan, the higher the market price for such loans. SME loans are collateralized typically by physical collateral mortgages on real estate, mortgages or pledges on machinery, or pledges on goods. The physical collaterals should be recognized for LE purposes provided the institution has a prudent collateral evaluation and monitoring process for physical collaterals. It has to be mentioned that Annex VIII. Part 2 Paragraph 8.b. provides for the property valuation review by an independent value case of loans that are above 5 per cent of own funds. It is very likely that this is a constraint for most of the large exposures.

In order to restrict the liquidity effect of a defaulted large loan, we would suggest that no LE, without taking into account the physical collaterals, should exceed 40 per cent of the own funds.

2. Beside physical collaterals, in the large exposures regime all the guarantees by sovereigns and core market participants which are not prompt, should be recognized as credit risk mitigants. In the minimum capital requirement assessment the recognition of the guarantees that are not prompt is very limited. Meanwhile where the guarantor undertakes the final loss, or a part of the final loss, provided that primarily all other collaterals have been realized, the loss from a specific loan may be none or proportional to the non-guaranteed part.
3. Indirect exposures stemming from financial collaterals and guarantees should be subject to appropriate stress-testing procedures, when their credit risk mitigation effect is taken into account. In all other cases it should be the responsibility of the credit institution how it treats indirect exposures if the excess over the limit is to be detracted from the own funds.

Q15. Do you consider that two different sets of large exposures rules for banking and trading book are necessary in order to reflect the different risk in the respective businesses? What could be the costs/benefits of this? Please explain your views and provide as appropriate feedback on the cost and benefits of this.

We would favor separate sets of rules, since there are fundamental differences resulting from the nature of businesses.

Compliance with the trading book regulation implies that the positions are highly liquid and subject mainly to market risk and counterparty risk. This short term character business is completely different from longer term positions in the banking book which are only subject to credit and counterparty risk. Different risks should be covered by different sets of rules. The higher liquidity of trading book positions should be reflected in adequate privileged rules. Consequently, the current system of two different sets of rules should be maintained.

Q21. What are your views on the proposals/options for the scope of application of the large exposures regime?

The proposed scope of application of the large exposures regime is appropriate.

Q22. Which treatment do you believe is the most appropriate for intra-group exposures i) to entities within the same Member State; ii) to group entities in different Member States and iii) to group entities in non-EEA jurisdictions ? Please explain your response.

We think that intra-group exposures within one country, as well as over the EU or the EEA countries that fulfill the conditions laid down in articles 80(7) and 80(8) of the CRD should be exempted from the large exposure rules. Most of

these exposures are generated due to a central treasury function within an international banking group. The treasury is often located in a country with high supervisory standards which is not necessarily the country with the highest part of balance sheet exposure. So (long term) funding and (short term) liquidity management as well as risk management are centralised. Such intra-group exposures are the 'natural' result of an international group looking for optimal management and overview.

We think, however, that such exemption should not only apply to the groups as described under articles 80(7) and 80(8) of the CRD. There are several networks of small institutions across Europe grouped around a central institution which is responsible for cash-clearing operations within the network. Liquidity access for these small banks is held by a central institution. In terms of liquidity management, these systems have proven their merits.

Furthermore, the bundling of deposits in one central entity that may also provide access to financial markets is very often essential to achieve competitive conditions. It has to be kept in mind that interbank exposures are playing in many co-operative groups a central role as regards holding liquidity reserves with the sectoral central bank. The exemption provided for in article 113.3 n) should, therefore, be further maintained.

Q26. What are your views on the proposal to remove the national discretion and to automatically exempting exposures to sovereigns and other international organizations (within Art 113.3 (a–f)), as well as some regional governments and local authorities? Please explain your views.

This proposal is justified, since it builds on the same presumption as the 0% weighting for the solvency aspects.

Furthermore, it will ease the current rules. It will be of particular advantage for banks operating on a cross-border basis as they would not have to comply with a different set of rules.

Q31. Given the market failure and costs/benefit analysis set out, what treatment would you consider appropriate for interbank exposures?

As regards interbank exposures, it has to be considered that banks are regulated entities.

It has to be kept in mind that interbank exposures are playing in many co-operative groups a central role in holding liquidity reserves, at least when liquid also for collateral for Central bank credit. A 100% conversion factor for such exposures would endanger liquidity buffers of banks.

The 0% weighting for interbank exposures with a maturity of less than a year is indispensable for the interbank liquidity management and justified by the experience that there is no actual counterparty risk for regulated credit institutions.

As far as maturities of more than one year are concerned we suggest that a privileged treatment should be maintained since maturities of more than one year are still part of credit institution's liquidity management.

Q34. Respondents' views on the approaches to non trading book breaches of the limits would be welcomed. Please explain your views and provide examples and feedback on relevant costs and benefits.

In our opinion the second option would be the only appropriate and effective reaction to a breach of the banking book limits. The supervisory authority should agree with the institution upon a suitable adjustment period.

The possibility to maintain the breach over a longer period of time and to agree upon the conditions on a case by case basis would cause high operating expenses for credit institutions and supervisory authorities without yielding additional benefit or increasing regulatory efficiency.

Only that portion of the exposure that is in excess of the large exposure limit should be deducted from own funds. A deduction of the entire exposure would lead to the deduction of more than 25% of the institution's regulatory capital before calculating solvency ratios. A dramatic drop of the capital ratios, if not even a crisis, with all the regulatory consequences even in the case of a minimal breach of the large exposure limit would be the consequence.

Q37. What is your opinion on CEBS' initial thinking regarding the elements to be reported under the large exposures regime?

We partly agree with the proposed key elements. In our opinion the reporting should be based on net exposure values. Thus, an exposure of more than 10% of own funds that would be reduced to less than 10% of own funds after applying credit mitigation techniques, need not to be reported.

We do not think that it would be appropriate to include breaches of the backstop limit in the disclosure requirements of Pillar 3.

Q38. Do you agree with CEBS' views on the recognition of good credit management? Please explain your views.

Certainly, institutions with a good credit management under solvency regime should get also an incentive under the large exposure regime (despite the partially more conservative treatment) because of lower net exposure values.

III. Responses to the more 'technical' questions raised in CP 16

Q1. CEBS would welcome respondent's views on the high level impact assessment of the policy options (Please see Annex 1)

The members highly appreciate the efforts of CEBS concerning the high level impact assessment which have lead to a well-constructed paper. Such assessment is essential for CEBS, as well as for the industry, to have a good understanding of the issues at stake.

We favor option 6 of the analysis. An EU-wide amended limit-based backstop regime is a simple and consistent approach to reduce the probability of a failure that could arise from an unforeseen event with regard to a single name borrower or group of connected clients. We concur with the analysis of the advantages of this option.

Q3. In your view, how should exposure values for on-balance sheet items be calculated, gross or net of accounting provisions and value adjustments? Please provide examples to illustrate your response and feedback on relevant costs and benefits.

We share the view that the exposure values for on-balance sheet items, for "standardized" and "foundation IRB banks" should be calculated net of accounting provisions and value adjustments. Such solution will be easy to handle. Furthermore, e.g. if the net value of a large loan is zero, even if an unforeseen event happens, it has no direct loss effect on the accounts of the credit institution. (The indirect loss effect generated by the potential liquidity problem caused by the default of a large exposure, should be treated within the liquidity regulation framework.)

Exposure values for purposes of the evidence system for exposures of 1.5 million euros or more, however, should be based on gross exposure values. Otherwise it would be impossible to determine the total indebtedness of a counterparty or group of connected clients, and the overall objective of the evidence system to provide this information to the lending credit institutions would be compromised.

Q4. In your opinion, what could be the costs/benefits of applying a 100% conversion factor to the generality of off-balance sheet items?

Such uniform approach would be the simplest but probably highly inappropriate. We take the view that off-balance sheets exposures by themselves dispose of a lesser degree of probability. A 100% conversion factor for low/medium risk items would lead to overestimating the risks of such exposures.

Q6. In your opinion, how can a large exposure regime address the risk that credit institutions may not be able to exercise their legal right to cancel an undrawn credit facility?

When banks have the legal right to cancel an undrawn credit facility, they are typically able to exercise it.

There are only exceptional situations and circumstances, where undrawn credit facilities may not be exercised. However, when a large exposure is in question and there is evidence that the borrower is in difficulties every bank manager will understand that the cancellation of that facility is vital for his bank. The non-cancellation of the credit facility, which would result in a major financial loss, if not crisis of the institution, would then be a matter of management failure, not of the risk of traumatic losses.

The 50% conversion factor represents a uniform (average) drawing probability. Eliminating this concept on the basis of a very conservative argumentation seems disproportionate compared to an economically prudent application of the rules, i.e. considering not only the legal right but also the economic feasibility to cancel an undrawn facility.

We do not share the opinion that the recent events in the market would justify a general tightening of the regulation for undrawn cancellable facilities.

Q7. CEBS would welcome comments on the proposed set of principles. Are they appropriate for allowing Advanced IRB institutions to use their own exposure calculations? Please provide feedback on the costs and benefits that you consider would arise from adopting such an approach.

No Comments.

Q8. In the context of schemes with underlying assets, do you agree that for large exposures purposes it is necessary to determine whether the inherent credit risk stems from the scheme, the underlying assets or both? Do you agree that the proposed principles are appropriate to identify the relevant risk in a large exposures back stop regime? Are there other relevant criteria that you wish CEBS to consider? Please explain your views and where relevant please provide feedback on the costs and benefits.

In view of the existing variety of structured products with different degrees of complexity a principles based approach is the only practical way to address the inherent credit risk appropriately. A general look-through approach is often difficult to implement due to the non-availability of sufficiently detailed and complete current information about the underlying portfolio, consequently, it could be inefficient and would overstate risk in case of diversified structures. We appreciate highly CEBS' proposal to allow institutions to apply their own risk management policies and procedures on a case by case basis.

The principles and proposed approaches presented in Annex 3 provide a suitable basis for further discussions.

Q10. Do you agree that the three alternatives set out for the recognition of CRM techniques are the relevant ones? Do you think there are other alternatives CEBS should consider? Please explain your views and provide examples. And where relevant, please provide feedback on the costs and benefits

Other alternatives must be considered too. In our view, large exposures are about specific risk, therefore, credit protection treatment can be different from that of the minimum capital requirement and should recognise a wider range of collaterals but requiring additional conditions (see question 9). Even if some collateral cannot be recognised on a portfolio view, given their specific features, they should be taken into account at the calculation of the large exposures.

Q11. Are there costs/benefits that have not been identified? Are the costs/benefits identified correctly assessed? In particular could you provide CEBS with more information on the impact of each of the alternatives on the institutions' and collateral market's behavior?

No comments.

Q12. Do you support CEBS' proposal that institutions that use the simple method should follow the minimum capital rules (substitution approach) instead of applying the haircuts included in the current large exposure rules? Please explain your views and where relevant provide feedback on the costs and benefits.

We think that such a solution would be easy to apply for less complex institutions.

Q13. Do you agree that physical collateral should not in general be eligible for large exposures purposes? Do you support CEBS' views that residential and commercial real estate should be eligible and that the current large exposures rules should be applied instead of the minimum capital rules? Please explain your views and provide examples. And where relevant, please provide feedback on the costs and benefits.

The eligibility of physical collateral for large exposure purposes is a complex issue:

- Commercial and residential real estate should be eligible as a mitigant for large exposures purposes.
- We support CEBS' opinion, that there is no reason to alter the current privilege for covered bonds.

- Furthermore, we think that also rules for collateral that can easily be commercialized should be eligible (e.g. commodities, ships or aircrafts)
- But even beyond this, we think that physical collateral should be recognised to a great extent by additional conditions (see question 9). We think that in the current rule residential real estate treatment is quite conservative, especially because a great number of the collaterals tied to large exposure belong to the 3 year revaluation review requirement by an independent valuer under Annex VIII. Part 2 paragraph. 8. b), since it is very likely that the loan amount of the LE is over 5 per cent of the own funds.

Q14. Do you agree that the development of a set of principles or guidance to require institutions to take indirect exposures into account when addressing 'unforeseen event risk' is the best way forward? Which principles do you think are relevant? Do you have suggestions for possible principles? Please explain your responses and provide feedback on the costs and benefits where relevant.

Indirect risk should be taken into account for those financial collaterals and guarantees which are accounted as credit risk mitigants when calculating large exposures, e.g. if a guarantee reduces the exposure value at a specific large exposure, this indirect credit risk should be taken into account when calculating exposure on the guarantor and should be added to the direct exposure.

Addressing indirect exposures by stress tests seems to be an adequate solution as well: Existing Pillar 2 regulation could be reviewed and possibly amended. However, indirect exposures should not be subject to strict 25% limits since there seems to be the need for more discussion about the calculation of expected losses from the default of a guarantor / protection seller / issuer of financial collateral.

Q16. Since the boundary between trading book and banking book exposures is increasingly blurred, do the current large exposures rules create an incentive to book business in trading book (which would otherwise be disallowed in the banking book)? Please explain your views and provide feed back on relevant costs and benefits.

We do not share CEBS' concerns about incentives for regulatory arbitrage. The classification as trading book position requires compliance with a differentiated set of rules and procedures concerning e.g. liquidity, trading intent, possible hedges, appropriate daily calculation of market values, fungibility of products and appropriate control procedures. It has to be underlined that in some member states there are procedures to avoid misuse: e.g. the internal criteria catalogue for application in the trading book has to be disclosed to the supervisory authority and the policies and procedures are subject to internal and external audits.

Q17. Instead of the current risk based capital charge for excess exposures in the trading book, would a simple approach that allows any excess in the trading book to be deducted from an institution's capital resources be more appropriate in the context of a limit based back stop regime? Please explain your views. Please provide examples and feedback on relevant costs and benefits.

The current regulation should be maintained in order to reflect the different character of both books adequately. The current risk based capital charge which rises along with the period in which the breach of the large exposure limit could not be remedied takes the short term character of trading book exposures into account. In contrast, the deduction of the full excess amount from regulatory capital is consistent with the longer term character of banking book exposures.

There is concern that any simplification may lead to rules that are more stringent for smaller institutions.

Q18. Do credit related products such as credit derivatives and structured products in the trading book require special attention and a different treatment from other positions in the trading book? Please explain your views, provide examples.

Structured products require in our opinion a separate treatment in line with the treatment of structured products in the banking book because of their special and complex nature. Our suggestion is to apply the same principles proposed for the banking book but for the modification that the adequate treatment has to be determined with regard to credit / counterparty and market risk (underlying).

Q19. Do you have any comments on the market failure analysis on intra-group exposures?

No comments.

Q20. Could intra-group large exposures limits give rise to other costs and benefits? Please explain your response.

Certainly, it would increase inefficiency inside groups.

Q23. What are your views on the high level principles to define intra-group limits?

Exemptions as described in article 113.3 n) should further on be recognized in connection with the definition.

Q24. Do you agree with the proposal to invite the Commission to consider exempting investment managers from a future large exposures regime? Please explain your views and provide feedback on the relevant costs and benefits.

In principle, the large exposure regime should relate to all institutions that fall within the scope of CRD.

An exemption of investment managers on a solo basis from a future large exposure regime can be appropriate, if client assets are segregated from the assets of the firm and no client deposit has to be protected against failure of the investment manager. Furthermore, it has to be ensured that any competition between such institutions and those that are subject to a large exposures regime is excluded.

Q25. Do you agree with the proposal on the treatment of other financial institutions for large exposures purposes? Please explain your response.

As mentioned above, we think that, in principle, the large exposure regime should relate to all institutions that fall within the scope of the CRD. An exemption on a solo basis could be appropriate, in particular, if firms cannot be funded by deposits and no depositor has to be protected against failure of this financial institution. If this is not the case, firms operating on the same market and carry on the same activities should be subject to the LE regime as well. In this respect, we would like to add that we do not consider the special treatment for capital requirement purposes allowed in art. 20.2 and 20.3 of the CAD as justified.

Q27. Please provide feedback on the costs and benefits that you consider would arise from the proposal.

In our opinion no additional costs would arise. As a benefit we see a harmonized treatment of such borrowers.

Q28. Is there room for further exemptions? Please explain your views and provide feedback on the costs and benefits that you consider would arise from the further exemptions that you propose.

We do not see further exemptions under this point.

Q29. Do you consider that large interbank exposures of all maturities are associated with the market failures identified?

No comments.

Q30. What do you consider to be the implications of the caveats set out above for the conclusions of the cost/benefit analysis? Do you have any other comments on the cost/benefit analysis?

No comments.

Q32. Would a 25% limit on all interbank exposures unduly affect institutions' ability to manage their liquidity? Should maturity of the exposure continue to play a role? CEBS would find any practical examples useful as aids to its thinking (CEBS would not disclose confidential information).

A general 25% limit on interbank exposures without the above mentioned privileged treatment of short and medium term exposures would certainly unduly affect the institutions' ability to manage their liquidity.

Q33. If you believe there is a market failure but a hard 25% limit would not be appropriate, what would you consider an appropriate treatment for interbank exposures?

As CEBS has rightly pointed out, the application of the 25% limit may in fact cause problems for smaller banks, which, in order to achieve competitive conditions for their deposits, can work with only very few, if not one, counterparty. We, therefore, think that derogations are important mainly for smaller banks.

Q35. What are your views on the 3 reporting options? Please explain and provide feedback on the costs/benefits of CEBS' initial views.

A pillar 3 reporting would not be appropriate because it would conflict with the disclosure principles. The disclosure of detailed information about clients and their exposure would presumably be considered confidential and / or proprietary information. Credit institutions are allowed to exclude these types of information (Annex XII, part 1, 2006/48/EC) from the pillar 3 disclosure. Thus, a pillar 3 reporting would not be a suitable tool to serve the regulatory objective of providing supervisory authorities with reliable information about concentration risk with regard to single clients or groups of connected clients.

A reporting which is based on internal reports would at first view reduce the burden of institutions but it would possibly not serve the regulatory objective of the reporting. Depending on the size of institution internal reports, their degree of sophistication and the complexity of the credit institution's business, a comparison of the reporting between institutions is only possible with additional data input. Consequently, the efficiency of the reporting is reduced whereas the costs in the banking sector as a whole may increase.

Reporting based on reports defined by the supervisors would facilitate comparisons between institutions and the implementation of harmonized

reporting templates with unique definitions would increase the efficiency of the reporting.

Q36. Do you support CEBS' thinking on the purpose and the benefits of regular reporting using predefined reporting templates?

After implementation of harmonized reporting templates with unique definitions the reporting would be much more efficient and allow institutions to standardize internal reporting processes as well. However, on the background of the experiences with the excessively detailed COREP/FINEP-templates, the development of EU-wide reporting templates should account for the additional implementation burden for the institutions and confine core information to an absolute minimum.

Contact:

The EACB trusts that its comments will be taken into account.

For further information or questions on this paper, please contact Mr Volker Heegemann, Head of Department (v.heegemann@eurocoopbanks.coop).