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Brussels, 11 September 2009

***Subject*: EBF response to CEBS' consultation on its draft implementation guidelines on the revised large exposures regime (CP26)**

Dear M. Vossen,

The EBF welcomes the opportunity to comment on the above-mentioned draft guidance and appreciated that a hearing was organised on the matter for the industry to exchange views with supervisors.

We very much support CEBS in its effort to ensure harmonised implementation across the Member States of the new large exposures regime. This, in our view, requires a clear and unambiguous interpretation of the rules as well as finding the right balance between prudential objectives and supervisory requirements on banks.

As they currently stand, the proposed guidelines would generally increase reporting and (human and financial) resources without a clear prudential benefit. We believe it would be helpful if CEBS could clarify its supervisory expectations so that banks and CEBS can work together towards a solution. As you may have heard from the hearing, European banks are keen to understand better and cooperate with the supervisory community on this issue.

Our detailed response is enclosed. If you have any questions, please contact either myself or my colleague Noémie Francheterre (n.francheterre@ebf-fbe.eu).

Yours faithfully,

Guido Ravoet
Secretary General

a.i.s.b.l. Enclosure: 1 *(D1267D-2009-EBF response to CEBS CP26 on guidelines on revised LE regime)*

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Set up in 1960, the European Banking Federation is the voice of the European banking sector (European Union & European Free Trade Association countries). The EBF represents the interests of some 5000 European banks: large and small, wholesale and retail, local and cross-border financial institutions.
The EBF is committed to supporting EU policies to promote the single market in financial services in general and in banking activities in particular. It advocates free and fair competition in the EU and world markets and supports the banks' efforts to increase their efficiency and competitiveness.

EBF response to CEBS Consultation on draft implementation guidelines on the revised large exposures regime

Key Points

- The EBF is concerned that **supervisors are seeking an abundance of information that they may find eventually difficult to absorb, analyse or act upon**. It urges CEBS to simplify its data requirements to a sufficient extent so that the big picture is not lost in the minutiae of detail. The EBF continues to believe that **a thorough understanding of a bank's own risk management processes will yield more useful information** in both business as usual and a crisis.

- The EBF calls on CEBS to determine **objective definitions, including clear scopes, of the concepts of "control", "economic interconnectedness" and "connection through a common main source of funding" as well as clarify the distinction between idiosyncratic risk and sectoral/geographical risk.** This is central to assist banks in their treatment of their clients and contribute to common and convergent supervisory implementation of the new large exposures rules.

- While the **EBF appreciates CEBS' flexible approach to treat exposures to different types of schemes such as CIUs and securitizations, it underlines that it would be hardly feasible and highly burdensome to look through investment vehicles which are much diversified and whose underlying assets change dynamically**. Such degree of diversification should prevent the interconnectedness of these schemes' underlying assets with other clients. Diversification should be rewarded whereas the proposed treatment would incentivise banks to invest instead in poorly diversified schemes.

- The **EBF strongly supports CEBS' objective to include and harmonise the large exposures' reporting requirements with COREP**. The Federation encourages supervisors to continue the constructive discussions with the industry started in the context of the work on COREP with a view to coming up with a reporting framework that is uniform and adequate for both sides.

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Related documents: CEBS CP 26 http://www.c-ebs.org/getdoc/941a6cdf-d95f-47c9-ba16-f00d6915da36/CP26.aspx

General comments

The objective of CEBS' guidelines at Level 3 is to **ensure common and convergent supervisory implementation** of the revised Capital Requirements Directive (CRD) in the Member States.

The EBF has long strongly supported this objective.

It is however concerned that CEBS' draft implementation guidelines on the revised large exposures regime may not achieve this stated goal. On a number of instances, the proposed guidelines raise more questions than they bring clarification. They also leave some **issues open for interpretation while at the same time being quite specific in the examples given**. Finally, the practical value of the guidelines seems very limited due to the degree of **arbitrariness** involved in the interpretation of connection.

EBF Members are willing to work with supervisors to find solutions but they need to know and understand what supervisors are trying to achieve.

The EBF appreciates that CEBS would take into account that **most banks will need time and resources to comply with the new requirements,** as declared at the 7 September 2009 public hearing. This is essential as this will include e.g. changing credit assessment procedures, receiving more information from and about clients, changing contracts and changing ICT as well as improving the procedures.

The EBF would support the EU taking a strong lead on reporting requirements internationally, to ensure that an international agreement is achieved. **Greater international consistency and coordination of reporting requirements would allow avoiding the potential for duplicative, complex and conflicting requirements on banks**. This approach was recently agreed to as a goal of the G-20.

The EBF notes that as they currently stand, the CEBS's proposals are more detailed, and potentially more constraining than regimes in overseas jurisdictions.

I. Connected clients

1. Are the guidelines in relation to the Interpretation of control sufficiently clear or are there issues which need to be elaborated further or which are missing? Please provide concrete proposals on how the text should be amended.

The concept of control is clear, although in the EBF view disproportionately extensive for large exposures purposes. The EBF agrees that a relationship of control is presumed when a majority (over 50%) of shares or voting right is held. However, CEBS lists many other cases, where control may also exist and the clients should be grouped together, in a way that seems arbitrary. For instance, the 50-50 participation: the EBF does not find it appropriate to assume as a rule that a client controls an entity because it owns 50% of it. **Only in exceptional circumstances will a client be able to exercise control with 50%, less or none of the voting rights. Banks should therefore not be required to demonstrate that a control relationship does *not* exist** (§45).

However, with regard to private equity, it should be possible to demonstrate that there is no relationship of control where there is a single general partner despite him owning more than 50% of the voting rights. This is an additional issue where clarification would be useful.

Moreover, receiving information, assessing and monitoring potential control situations in other cases than control by means of majority ownership would be very challenging for the bank (because clients are not legally obliged to provide the required information) and administratively burdensome.

Indicators of control (§39) can be useful in identifying groups of connected clients. However, the mere existence of one or more indicators should not automatically mean that there is a control relationship. Indicators should assist but not replace a critical assessment of the control concept.

In line with the original objective of simplification of the large exposures regime, **the concept of control should be simple, and based on ownership of a majority of voting rights**, which ultimately constitutes control.

2. Are the guidelines in relation to the Exemption from the requirement to group clients in relation to control sufficiently clear or are there issues which need to be elaborated further or which are missing? Please provide concrete proposals on how the text should be amended.

The guidelines are clear. They do however constitute a significant revision as compared to the current situation. Currently, provisions for grouping connected clients do not apply for large exposures granted to central and regional states provided that the risk weights do not exceed 100% (as opposed to 0% according to CEBS's advice).

The purpose of the exemption in paragraph 46 is furthermore not clear as under the current CRD, most Member States use their discretion to exempt exposures to governments that received a 0% risk weight and the revised CRD has made such discretion to exempt an obligation to exempt (Article 113(3)) and maintained the discretion to exempt exposures to governments that receive a 20% risk weight (Article. 113 (4) (b)).

3. Are the guidelines in relation to the Interpretation of economic interconnectedness (single risk) sufficiently clear or are there issues which need to be elaborated further or which are missing? Please provide concrete proposals on how the text should be amended.

The concept of economic interconnectedness is clear, in theory. **In practice, however, the determination of the existence of a relationship of economic dependence as proposed by CEBS will be very difficult**. It will impact the credit process itself, by requiring additional analysis in the credit granting process that currently does not exist in a formalised way. The collection of the additional required information will constitute a considerable burden for credit institutions and be extremely costly.

The potential implication of an overzealous interpretation of interconnectedness is likely to be a withdrawal by banks from lending to those entities on which such information is not readily available. CEBS' guidance therefore needs to reflect the balance required between the authorities' objective of enhancing the soundness of the banking system and for banks to continue lending.

The guidelines should clarify that if an economically dependent client is a member of an existing group, only that economically dependent client – and no other members of its existing group – has to be grouped with the client on whom it is dependent.

The concept of interconnectedness is further complicated by the fact that the dependencies can be mutual or only one way. Additional guidance to distinguish between one way and mutual economic dependencies would be appreciated.

The examples given in the guidelines will be hard to meet, for instance where in a situation of economic interconnectedness customers will have to be regarded as one group of clients. **The requirement to aggregate clients should be based on solvency risk criteria and not solely because there exists some link between the clients**.

Moreover, for the concept of economic interconnectedness to be workable, it is essential to draw a clearer distinction between idiosyncratic risk on the one hand, and geographic and sectoral risk on the other hand. In the EBF view, **CEBS' guidelines do not provide a definition that is objective and applicable to ensure sound conclusions by the institution** on how to treat a client in cases beyond those presented in the guidelines.

It is clear from the examples in paragraph 50 that **the distinction between idiosyncratic risk and sectoral or geographic risk is not unequivocal**. The points "only buyer of [a given] product" and "producer and vendors" particularly highlight the blurring of idiosyncratic risk and geographic/sectoral concentration risks. CEBS uses the term "single risk" to describe many common types of concentration risk, which are already addressed by other means, such as Pillar II and which, therefore, are inappropriately addressed here. The above examples, in particular, are already considered when making well-founded loan decisions and are thus factors which influence ratings assigned by banks using the IRB approach.

Finally, the examples relating to the retail market (§50) call into question the scope of the large exposure regime. **Retail loans are not large exposures, even for small banks**. Even if a retail loan is linked to a large exposure, it will not play a significant role in relation to it. It is therefore crucial to refrain from extending the large exposures regime to the retail sector, particularly given that it is, in any event, a backstop instrument unable to accommodate the level of precision needed when operating at the retail level. Extending the scope of the large exposures regime in this way (the number of potential mutual connections to be investigated increases exponentially with the number of elements) would distract attention from the essential issues and thus undermine the smooth functioning of the regime in key areas.

4. Are the guidelines in relation to the Interpretation of connection through the main source of funding being common sufficiently clear or are there issues which need to be elaborated further or which are missing? Please provide concrete proposals on how the text should be amended.

The illustrative case put down in paragraph 55 is clear and the EBF takes note of the statements in paragraphs 67 and 68 regarding the extension of the definition of connected clients.

Once more, a clear distinction needs to be made between sectoral and idiosyncratic risk. While paragraph 53 rightly points out that "the intention is not to include cases where (…) the money market or market for commercial paper in general is in trouble", the example in paragraph 55 states that "the market for commercial paper, which caused the dependence." This creates confusion with respect to CEBS' interpretation of the connection.

The EBF acknowledges that securitization can be covered by the extended definition as SPVs have the same originator/sponsor, servicer and even liquidity provider. It certainly is the interpretation of this last element, which could be determinant in the definition of interconnectedness, and more precisely of common sources of funding (credit support in the structured transactions and/or committed or non-committed liquidity facilities).

Several criteria could however speak for a treatment of clients as independent counterparts, and not as connected clients:

- most of the financing is generally long term, and comes from the market as a whole (long-term investments in senior tranches) while liquidity providers are to be considered as the sole source of short-term funding, which represents only a small part of the financing;

- the vehicles have the opportunity to appoint (from the vehicle launch) a back-up servicer and liquidity provider: they are able to overcome their dependence for short-term funding;

- credit risk for the investors in the senior tranches issued by the vehicle is function of the underlying assets and the characteristics of the vehicle itself (subordination level, excess spread mechanism …).

The EBF stresses the difference between most ABS, where the majority of the funding is long term, and specific conduits, where long-term assets are financed by short-term debts (commercial paper for a large part) and which encountered serious trouble in the past months. The latter's dependence on the 'lender of last resort' was much higher than for the majority of other ABS and, as such, consideration of connection between vehicles is more relevant.

EBF Members can **hardly imagine any other cases apart from SPV/conduit structures in which the connection through a main source of funding could play a role**, especially taking into consideration the last sentence of paragraph 54 whereby clients relying on a common source of funding due to lack of creditworthiness should not be grouped as a single risk.

Apart from general market conditions - not an idiosyncratic risk - and the creditworthiness of clients - an idiosyncratic risk judged irrelevant by CEBS – the EBF cannot think of any other reasons why a main source of funding could not be replaced and thus wonders about the scope for interpreting connection through a main source of funding being common.

Against this background, it seems that CEBS is aiming at addressing cases of common funding sources for specific situations (e.g. structured products) and not for standard lending activities. The EBF would welcome clarification of CEBS' intentions. A way forward could be to **limit the scope of the definition of "a main common source of funding" to situations where the clients are legally restricted to a single source of funding** along the lines of a SPV for instance. As the EBF sees it, this would also reflect the intention of the CRD.

5. What do you think about the proposed 1% threshold as proposed above?

The EBF supports the suggestion to set a limit but would prefer a higher threshold than the proposed 1%, at e.g. 5% would be more practicable. A 1% threshold is a low figure, making it difficult for banks to carry out such a review for every exposure at that level across their portfolios and likely to blur the real purpose of identifying portfolio concentrations; **a 5% threshold would be sufficiently high to significantly lighten the administrative burden while low enough to ensure the effectiveness of the large exposures regime**.

Such minimum threshold should apply at consolidated level, or at least only on entities that have a consolidated credit process, in line with most cross-border banks' centralised management of prudential capital and risks business.

6. Are the guidelines in relation to the Control and management procedures in order to identify connected clients sufficiently clear or are there issues which need to be elaborated further or which are missing? Please provide concrete proposals on how the text should be amended.

The concept seems generally clear in objective but less clear as regards practical implementation.

CEBS rightly points out that every bank needs to have a clear understanding of its exposures. It is also true that this will require the active involvement of the bank's loan officers. Such a system can however only function in the long term if clear procedures are in place. This underlines even more how **central it is to have clear-cut definitions of "connected clients" and "single risk" which can be applied on the basis of unequivocal criteria**. As indicated above, no such definitions exist. Without it, a targeted search for information relating to connections between exposures is not possible. Banks (and especially their loan officers) will be forced to continuously seek out and evaluate information pointing to a possible link between any two exposures between which no connection has yet been established. It is perfectly obvious that such an approach is not practicable.

Moreover, **the lengths at which a credit institution is expected to go in order to be compliant are not clear.** Paragraph 64 seems to indicate that credit institutions must identify whether clients of their client are connected to decide whether their client is creditworthy. Although it is an essential part of determining a borrower's credit standing, creditworthiness is, as pointed out by CEBS in paragraph 54, not relevant for the calculation of large exposures.

Please also see the points raised in the answer to Q° 7 below.

7. Are there remaining areas of interpretation of the definition in Article 4(45) of Directive 2006/48/EC that need to be covered in CEBS's guidelines?

First, the EBF does not share CEBS's interpretation of "connected clients" in paragraph 32, third bullet point. It includes in an undifferentiated way cases where the main common source of funding lies outside the (reporting) credit institution and cases where it is within the institution. **It should be made clear that the view of the reporting credit institution (on a solo or sub-consolidated basis) is decisive for forming and reporting groups of connected clients.**

By means of example: The parent credit institution grants a loan to client A. The subsidiary credit institution grants a loan to client B. Assuming that clients A and B depend on a common source of funding (the source being two credit institutions forming part of the same group of credit institutions) with no replacement possible, the parent credit institution, in its consolidated reporting, would apparently (if we interpret paragraph 32 correctly) have to form a group of connected clients consisting of clients A and B. This, however, cannot be the case for the subsidiary credit institution which has only exposure towards client B.

In line with the last sentence of paragraph 64, whereby "the credit institution is not obliged to investigate whether the other entity, to which its client is interconnected, itself is part of other groups of connected clients, as long as the other entity is not a client of the credit institution", the third bullet in paragraph 32 should be clarified.

Furthermore, EBF members remain concerned about the proposal to include a supervisory override (paragraph 33) in relation to individual decisions on connectedness. This does not seem to be a practical proposition and will likely result in banks referring all decisions on connectedness to the supervisor for guidance. It also potentially constitutes shadow management. A more appropriate way forward would be for regulators to focus their attention on whether banks have an appropriate procedure in place for determining connectedness. Obviously such an approach would not preclude the option for banks to approach their supervisor for guidance in relation to individual cases where there is ambiguity.

Moreover, the new notion of “connected clients” potentially differs from the current internal definitions within banks, especially concerning the criterion of "connection through a common main and not easily replaceable source of funding”. It brings a **fundamental problem of compatibility with the definitions currently calibrating the notation systems in the IRBA framework**. These systems are based and calibrated on documented definitions of counterparts and it is not helpful to let the credit analysts apply two different definitions for PD or large exposures calculation purposes.

Finally, the existing definition of “counterpart” and “group” in the internal models are not identical across banks. It should be discussed on a bilateral basis with the regulators how the existing internal definitions could be made compliant with and/or upgraded for the large exposures regime.

II. Look-through requirement

8. Does the proposal provide sufficient flexibility for institutions to deal with different types of schemes? If you believe additional flexibility is necessary, how should the proposal be amended?

The EBF supports CEBS’ approach whereby banks should apply one out of four different approaches from a full look-through method to a method for cases where all exposures are unknown.

However, the fact that only one method can apply limits the usefulness of the proposed four-tier look-through approaches. **A more flexible and pragmatic solution would be to allow banks to use a mix of the approaches.** For instance, if a bank has one large investment and a number of very small ones, from a risk perspective it would be prudent enough to focus on the underlying assets in the large portfolio. The Federation therefore calls on CEBS to explicitly allow this in its guidelines.

Flexibility would moreover be enhanced if a reasonable threshold linked to regulatory capital was introduced along the lines of that proposed in section III.F (control and management procedures) of the guidelines. Underlying assets whose exposure is known to be invariably less than 5% should not need to be assessed unless there are clear indications of possible large exposure relevance. Portfolios covered by approach d) (unknown exposures) whose precise asset structure is not known by the bank but whose individual components will never exceed 5% of regulatory capital should receive the same treatment as under approach c) (mandate-based) instead of being added to the group of unknown connected exposures.

Generally, **it is impossible to apply the look-through on investment vehicles that are much diversified and whose underlying assets change dynamically**. The proposed rules for the schemes which are not looked through may thus create incentives for banks to stay out of well diversified schemes and to instead invest in poorly diversified vehicles. The introduction of the above-mentioned threshold would mitigate such a perverse incentive for banks.

In addition, the EBF would invite **CEBS to introduce a definition of granular portfolios**. Treating granular portfolios as one large exposure would not be realistic.

Practically speaking, fall back approaches a) full look-through and b) partial look-through will require on-going monitoring; it will therefore be key to provide for an adequate transition period to allow banks to implement information system changes allowing such permanent monitoring. Moreover, practical difficulties with implementing the look-through approaches relate to the impossibility to always immediately obtain details of the underlying portfolios and commercial relationships. Portfolios and commercial relationships such as landlord and tenant, retailer and supplier, are dynamic and often seasonal in the latter case.

Finally, the impact on smaller institutions of the look-through requirements should be investigated as they may well be disproportionately affected as a big client will have a significant impact on their balance sheet.

9. Do the fall-back solutions (approaches b) to d)) appropriately take into account the uncertainty arising from unknown exposures and schemes?

EBF Members broadly **agree with CEBS's proposed four-tier look-through approaches**. In particular, they believe that the more conservative treatment of schemes about which the bank has little information will set positive incentives.

Approach d), however, is considered too conservative; it will make it significantly more difficult to apply the proposed solutions appropriately (see also below the response to Question 12).

10. Do you think the partial look-through approach provides additional flexibility or would an institution in practice rather apply either a full look-through or not look through at all?

The **partial look-through approach provides additional flexibility**. Being a combination of approaches a) and d), it is expected that it will facilitate switching from d) to a).

It is doubtful, however, that in its present form it would be applied widely. The threshold suggested in response to Question 8 above would increase the positive incentive to use the partial look-through instead of approach d) and thus encourage a more widespread application of the partial look-through approach.

11. Do you think the mandate-based approach is feasible? If not, how could an approach based on the mandate work for large exposure purposes?

In light of the criteria for identifying possible connections between exposures (section III of the guidelines), banks would face considerable challenges when applying the proposed mandate-based approach.

The **mandate-based approach should moreover be used in the most flexible possible way to avoid accumulation of "unknown" categories**. Exclusion from the calculation of large exposures should be defined at the inception of the funds, based on the investment policy.

Therefore, a 5%, or at least 1%, threshold as suggested above would provide the necessary flexibility and thus increase the incentive to apply the mandate-based approach, as it would allow the institution not to analyse in detail all potential assets.

Furthermore the mandate-based approach as currently proposed would not be feasible for a full-service bank as for the latter it would be most likely that the scheme would be connected with at least some of its direct or indirect exposures.

Moreover, as soon as any unknown exposure exists, e.g. as a result of a partial look-through of a scheme A, a mandate-based approach of a scheme B is not possible anymore because it could not be probed that scheme B is not connected with any other exposure in the institution's portfolio since the institution has unknown exposures in its portfolio coming from scheme A.

The EBF suggests that the proposed version of a mandate-based approach, being feasible with the above-mentioned caveats for specialised banks, be retained.

Additionally, the mandate-based approach should allow credit institutions not to add a scheme to the group of unknown exposures if the maximum amount possible to be invested under its mandate in a single exposure does not exceed 0.1% of the credit institution's own funds.

12. Do you believe that considering all unknown exposures and schemes as belonging to one group of connected clients is too conservative (approach d)? What alternative treatment would you propose (please note that, as explained above, an approach which allows the treatment of unknown exposures and schemes as separate independent counterparties is not considered to be prudentially appropriate)?

It is far too conservative to require – as does approach d) – all unknown exposures to be regarded as connected. **Assuming that all unknown exposures are entirely related to one entity is a highly unrealistic worst-case scenario** which is not supported by the S&P report mentioned in footnote 14 of the guidelines.

This would lead in practice to a virtual ubiquitous grouping of clients. In fact, most schemes aim at a minimum level of diversification at least, which precludes interconnectedness in the sense of single risk. EBF Members believe that, in addition to introducing thresholds for assessing schemes (see responses to questions 5, 8 and 11), it would be appropriate to **apply different treatments to different asset structures**.

In particular, schemes on which national regulators, for example, impose a strict minimum level of diversification should be included in the resulting large exposure with a weighting of much less than 100%.

13. What are your views about the proposed treatment for tranched securitisation positions?

The proposed treatment seems **appropriate and consistent** with the rest of the framework.

CEBS suggests that the formula for the handling of tranched products be used for products with "many names" (paragraph 88). The EBF invites CEBS to define or at least elaborate on "many".

14. Do you consider the proposed treatment of tranched securitisation positions when look through is applied as appropriate? Do you think that the proposed treatment sufficiently captures the risks involved in such an investment?

It is an **appropriate treatment**. Given the diversity of potential structures available in the market, however, the proposed approach would **not be suitable for all products**. Such approach should be considered as a basic principle from which it should be possible to diverge in cases when it can be demonstrated that the proposed procedure would not appropriately reflect the risk associated with the tranche in question.

15. With respect to the treatment of tranched securitisation positions If it was required to take every tranche into account from the outset instead of the proposed treatment, would such a treatment address all risk involved in such a transaction and would it be sufficient for addressing concerns on undue burdens?

To **take every tranche into account would be unduly burdensome**. The treatment of tranched securitization positions as proposed in paragraph 89 sufficiently captures the risk.

It is appropriate to take into account the risk mitigating effect of first loss tranches. Treating mezzanine tranches as suggested in example 2 would be problematic, in our view. The introduction of haircuts moreover raises the question of how to determine and apply them consistently. **Difficult methodological issues would be involved in applying haircuts on complex structures**. The dividing line between most senior, senior and mezzanine tranches would need to be precisely defined.

16. In which cases is there no risk from the scheme itself so that it can be excluded from the large exposure regime?

Exposures to CIU's under the form of committed credit lines and short-term overdrafts have to be excluded from the proposal because the only risk out of these exposures arises from the underlying credit exposures within the scheme and no other factors.

If the look-through approach is the most efficient way to ensure that there are no interconnections between the underlying assets and the institution's portfolio, this approach is to be avoided for most part of securitizations.

By nature, the underlying assets in several securitization types are to be excluded from the large exposures' perspective. The investment strategy and the degree of diversification of the vehicle should prevent the interconnectedness of the underlying assets in the scheme with other clients. A compulsory look-through approach for this type of assets would be an inappropriate burden for banks; and the alternative of considering all underlying exposures to belong to one separate group of connected clients would imply a breach of the large exposures limit.
Investment in this type of assets is certainly motivated by diversification goals, approach which should be rewarded and not discouraged by additional burden.

For example, residential mortgage-backed securities (RMBS) are in general composed of thousands of underlying mortgage credits on individuals aiming at purchasing their own housing. The probability of connection with other credits in the bank's portfolio is, by nature, extremely low, and certainly so when the assets of the SPV are located in another country than the home country of the bank investing in the securitization, and when there is no link with the originators of the underlying credits.
The individual amounts of underlying credits are in general quite limited, avoiding large exposures' concerns.

III. Reporting requirements

The EBF welcomes CEBS' objective to harmonise the reporting requirements for large exposures purposes with the COREP framework. Consistently, the EBF suggests clarifying the term "exposure" with "regulatory exposure".

Frequency of reporting: the EBF understands that CEBS' intention is that large exposures reporting will only be required on a quarterly basis, consistently with the COREP framework. EBF Members would wish to ensure that this requirement is clearly documented on an EU basis to ensure that more frequent reporting will not be extended to large exposures reporting.

EBF Members take this opportunity to strongly reiterate their preference for consolidated/group level reporting, in line with their position on COREP.

Reporting criteria should, as rightly underlined by CEBS, be uniform. For the EBF, this also means that there should not be one set of reporting rules for IRB banks, and another set for banks on the standardised method.

17. Do you agree that the net exposure should be calculated as proposed above?

An important difficulty in relation to the implementation of the proposed reporting framework is that banks will have to report both before and after credit risk mitigation (the term "net" could thus be confusing). For most IRB banks, the risk mitigation mechanism is inbuilt into the credit models and thus not available in the financial data warehouse for reporting purposes.

Furthermore, the treatment of value adjustments and provisions follows the standardised approach as large exposures should be reported net of these adjustments. This treatment would not seem compatible with the approach of IRB banks.

18. Do you agree that the 10% limit should be calculated as proposed in column LE 1.11 above?

A majority of EBF members agree, although some are concerned that limiting the capital basis to Tier 1 and Tier 2 as per the calculation of the 25% limit does not deliver any benefit for the banks because more exposures would have to be reported; and therefore believe that the 10% limit should continue to be calculated on a broader capital basis.

19. Regarding the example about the Credit Linked Note (set out in the text above and in Annex 5 as example 6), bank X is the protection seller and reports its potential exposure to

Bank B as indirect exposure (5). Do you believe it is correct to report such exposures in column 8 or would they be better reported in column 5 as direct exposures, because they did not arise as a consequence of substitution?

Exposures arising from collateral and those arising from credit linked notes are not comparable. The risk on a credit linked note is much more direct that the risk arising from a guarantee. However, protection sold in the form of credit derivatives would be comparable in economic terms with extended guarantees, which would be reported in column 7. Therefore, the potential exposure to Bank B should neither be reported in column 8 nor in column 5, but in **column 7**.

20. Please express your preference for one of the two alternatives outlined for the identification of a client or group of connected clients (2-Templates-Approach vs. 1-Template-Approach).

EBF Members prefer the 2-Template approach. This approach is indeed more synthetic and allows for a more suitable presentation for both review and analysis without adding too many columns.

As EBF members understand it, cases when exposures on a single client do not exceed the 10% limit but this client belongs to a group of clients the exposure to which exceeds this limit would be mentioned in the second template only.

This being said, EBF members do not understand the relevance and usefulness of providing this level of detail to the supervisor. While it is clear that delivering this additional information would be burdensome for banks, it is less evident what supervisors would do with the information once received.
Counterparties are grouped together based on the reporting institution's assessment of common risk as required by the supervisor's rules. Is it then justifiable to require reporting of each and every counterparty under that group? For example, under this new reporting proposal the return from one cross-border bank would capture over 200 lines for its home entity, assuming that the solo entity reports 20 counterparty groups and each of them has 10 connected clients within the group. Some cross-border bank's counterparty groups include over 50 entities. Therefore, the return would be large and potentially difficult to follow both for reporters and users.

The inclusion of a threshold in paragraph 140 would also reduce the number of counterparties to be reported in Template 2.

21. Do you agree with the proposed reporting of CRM, in particular to differentiate only between "unfunded", "funded" and "real estate"?

EBF Members agree with the proposed reporting of CRM. Further differentiation is not necessary.
The use of the terms "unfunded credit protection" and "funded credit protection" for large exposures purposes is consistent with the part related to CRM in the CRD (2006/48/EC, annex VIII).

Nevertheless, following annex VIII of the CRD, the real estate guarantee is included in the "funded credit protection". In order to be fully compliant with the CRD, the real estate column of the large exposures reporting should consequently be a sub-part of the funded credit protection column as follows: "Funded credit protection - of which real estate".

The EBF would like to ask CEBS to consider that in some jurisdictions, making the proposed differentiation would require systems changes, in particular as regards the differentiation between "funded" and "unfunded" CRM.

22. Would it be possible to include more detailed information into the large exposure reporting, like total amount of collateral and guarantees available vs. the eligible part, types of securities and issuers provided as collateral or would this be too burdensome?

It would be feasible to report more detailed information but **this would generate a significant additional burden which would not, in our view, be matched by a corresponding additional benefit**.

Information about the total amount of collateral available can be provided but it is far from clear what the supervisors would do with such information since it is not used for calculating large exposures.

In addition, the form of collateral, especially for private banks lending to high net worth individuals, evolves regularly. It can be difficult to track. As long as the lender has the collateral, the nature is not of great importance.

Furthermore, reporting other information such as the eligible part, types of securities and issuers provided as collateral would be very burdensome to implement. It would also make the reading of the templates too difficult and would not allow national authorities to have a synthetic view on the large exposures.

23. Please provide examples where the reporting instructions are not clear to you.

1. **Paragraph 108(i)**: "the full information required by Article 110(1) of the CRD is only reported for those exposures that exceed the 10% limit (as a single client or as a group of connected clients)". This indicates that, in case a group of connected clients and two members of that group exceed the 10% limit, the full information has to be reported for the group of connected clients as well as for each of the two members (see also example page 34).

   Should this understanding be correct, this would be an **excessive interpretation of the wording "information about every large exposure" of Article 110(1)** of the CRD;
   It would also be in contradiction to paragraph 138, second bullet point, which states that a group of connected clients is treated as one single client. Furthermore, it would be confusing if template 1 for large exposures reporting would contain the members of the group of connected clients that exceed the 10% limit while the reporting of the 20 largest exposures would not contain these members.

   Therefore paragraph 108 should be amended as follows:
   "the full information required by Article 110(1) of the CRD is only reported for those exposures that exceed the 10% limit (~~as a single client or as a group of connected clients~~ groups of connected clients or clients not belonging to a group of connected clients)".

   The example on page 34 should then be amended accordingly: in Template 1, Bank C and Individual B should be deleted.

2. In order to make the effect of COREP CA 1.3.LE and COREP CA 1.6.LE clear for the calculation of Columns 1.19 and 1.20, EBF Members ask CEBS to **provide an example where Tier1+Tier2 is 100 and Tier1+Tier2+Tier3 is 110**.

3. **Paragraph 129**: which value is referred to and what is the rationale for 50%?

4. Clarity regarding the **1% connectedness, the starting figure and the impact of netting** would be appreciated.

5. In **annex 5**, a few corrections should be brought:
   - The additional capital requirements for trading book in example 4 (amount: 20) is mentioned, by mistake, in two of the columns linked to Ex 5, instead of the column related to “Ex.4”.
   - Details in example 5: BCD group “the reporting bank X has 3 large exposures vis-à-vis ~~Bank A,~~ Bank B ~~and~~ Bank C <u>*and Bank D*</u>…”
   - In column B “Code” in row 16 should read “ (-) Article 113 (3) + (4) exemptions if applicable” instead of “Article 113 (1) + (4)”

24. Do you think the identification system of the counterparty as proposed and based on national practices is practical? Does an identification system based on national practices generate problems for cross-border banks? If yes, please describe the problems and propose how they can be solved.

EBF Members feel that **an identification system based on national practices would be difficult to align with the internal systems of each bank**. It is moreover unlikely that any national coding system in place across Europe is likely to cover the portfolios of all European banks.

It should be avoided that banks have to use a manual process to label the counterparties they report to their supervisor after the report has been compiled as this would be quite costly, taking into account our response to question 20 above.

A solution could be to develop and apply a codification system which should be applied at the international or at least European level in order to simplify the reconciliation data for cross-border banks.

The country-ISO-code of the country where the company is registered combined with the commercial register number of the company could be used. In this way any client that is a registered company could easily be identified and no additional codes would have to be invented.

25. Are the references to COREP provided in this paper and in Template 1 – as set out in Annex 4 - clear and sufficient or is further guidance required? If yes, please specify the problems.

The references to COREP are sufficient.