

## Santander response to the EBA consultation on the method for the identification of the geographical location of the relevant credit exposures under article 140(7) of the capital requirements directive (EBA/CP/2013/35)

Santander welcomes the opportunity to comment on this consultation on the method for the identification of the geographical location. Santander supports, in general, the responses of the industry associations (EBF, AFME), but we would like to highlight some comments we consider particularly relevant from our perspective.

### Criteria to determine the geographical location

Between the options provided by EBA, Santander supports the option based on the guarantor principle in the corporate and SME class. This option is the most consistent with Basel regulatory framework given that, for these exposure categories, the ultimate risk lies on the guarantor to the extent that it covers the obligor's exposure.

### Criteria to decompose the IRC across geographies

Most firms have to run IRC over various aggregation levels to reflect the IRC requirement by desk, entity level and for Group. Like VaR, the IRC at a higher level of the aggregation is less than the sum of the parts being aggregated. In other words there is a diversification benefit such that IRC for an entity is less than the sum of IRC by desk within the entity, and IRC at Group level is less than the sum of IRC for each entity. Nevertheless, in order to decompose IRC by geographic region it should be possible for firms to use the same aggregation infrastructure to compute IRC by geographic location of the obligors. This simply requires the obligors to be grouped by geographic region and IRC run for each region and then also on an aggregated basis. The results of these runs can then be used to prorate aggregate IRC according to the obligor geography IRC:

$$IRC_R = IRC_{AGG} \frac{irc_r}{\sum_i irc_i}$$

Where  $IRC_R$  is prorated IRC for region R,  $IRC_{AGG}$  is aggregate IRC, and  $irc_i$  is standalone IRC for region i.

Other prorate schemes could similarly be applied. For example, by region of ownership rather than region of obligor if required, which may correspond to the entity level aggregation firms may already carry out.

**Materiality threshold**

In order to avoid an unjustified burden for the institutions we consider that 2% threshold proposed by the EBA for the relative size of foreign exposures should be raised to at least 5%. In order to fulfill the proportionality principle, it is necessary that the associated burden of an institution to prove that their exposure is not material, is significantly lower than the burden implied by exempted calculations.

In addition, the RTS should clarify the application of the proposed threshold (2% RWA art 2 RTS), which we understand applies at the sub-consolidated level. Consequently and as an example, the measured exposure must be directly related to the concept of cross-border from the perspective of individual entities belonging to banking group, regardless of the country of residence of the parent company. That is, the requirements for the cross-border exposure would apply only to the sub-consolidated individual legal entities and not for the whole Group. In any case a materiality threshold of 2% of the consolidated cross-border exposure (with respect to home country) should apply.

Moreover, we consider that a correction should be made at Art 2.4. CP RTS, given that the ratio should be defined either foreign RWA over total RWA, instead of foreign exposure over total RWA.

It would be useful to know if it shall be considered only “relevant exposures” for the threshold calculation (as defined in CRD IV art 140.4).

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We believe it should be sufficient to satisfy the threshold condition in an annual base (or semiannual) in order to avoid excessive reporting efforts. We also think it should be defined in terms of exposure instead of RWAs. Total exposure is a simple metric, more direct and one that IT systems have already available for detailed segmentation. This modification in the threshold calculation would have no material impact on the final weighting of the countercyclical buffer, while simplifies the reporting assignments for financial entities.

With regard the materiality threshold set in Article 3(4), of 2%, is too low. We believe that a materiality threshold of 10% would still represent an acceptable level of potential error, but provide a more proportionate approach for firms with relatively small trading book exposures.

Article 3(4) of the RTS defines the materiality threshold by the relative size of “total trading book risk-weighted exposures”. We believe, in the context of the RTS, it should be clarified that the reference to ‘total trading book risk-weighted exposures’ in fact relates to ‘own funds requirements for specific risk in the trading book or incremental default and migration risk’. As a general point it is important that references such as this are very precise in the RTS.

## Coherence with Reporting requirements

With respect to the materiality threshold for credit exposures in Article 2(4), we note that a similar but differently-calibrated threshold is being used for the purposes of COREP (Article 5 of EBA-ITS-2013-02), where information on geographical location is not required unless original 'non-domestic' exposures are greater than 10% of total original exposures. We believe that consideration should be given to increasing the consistency among this regulations, especially in the following aspects: 1) materiality threshold in this RTS should be align with that in the COREP ITS; and 2) baseline use as reference for threshold calculations. While CR GB is intended to serve as a basis for calculation the countercyclical buffer (see CR GB 9.3 as detail in Part II point 3.4 of Annex II of ITS on Supervisory Reporting), it would be very useful that the CP criteria or threshold of this RTS are aligned with the ones outlined in the ITS on reporting.

Therefore, we think it should be clarified and leveled the use of definitions (original exposures and risk weighted assets) and the level of thresholds. In the CR GB, a 10% threshold is directly applicable to the CR GB 9.1. and 9.2., but not for the CR GB 9.3 (related to the countercyclical buffer). That is, there is an implicit calculation requirement by country, with no threshold defined.

Regarding the schedule, we believe that reporting requirements of all kind of exposures related to the countercyclical buffer, which enters into force in 2016, should not be anticipated by any kind of reporting templates.