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Internal Market and Services DG

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Dear José Maria,

**Subject: Call for Advice (No. 5) to CEBS on the review of the Large Exposures rules**

I am very pleased to send to you the Commission's fifth official call for technical advice from the Committee of European Banking Supervisors (CEBS).

In recognition of the limited changes to the longstanding rules on Large Exposures (LE) contained within the Capital Requirements Directive (CRD), Article 119 requires that a review of the rules on LE, together with any appropriate proposals be carried out by 31st December 2007. It is intended that this review be wide-ranging, and in order to co-ordinate the work, a working group of the European Banking Committee (EBC) will be established.

I would be grateful if CEBS could carry out a number of pieces of work to inform the Commission. Specifically, to conduct a stock-take of current supervisory practices in relation to the existing LE rules; to carry out an industry consultation on current practices and to provide an analysis of the types of credit risk mitigation products that impact on the calculation of what constitutes a large exposure.

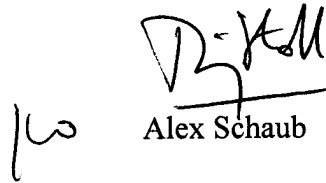
In addition to the specific areas in which technical advice is being requested, advice from CEBS will also be welcome in relation to two further areas of work that will form part of the LE review:

- a) Analysis of the fundamental prudential principles – this will focus on the development of a set of underlying principles upon which monitoring methodologies and reporting requirements could be based.
- b) Credit risk management – this will consider whether or to what extent, good credit risk management should be recognised and/or rewarded within LE rules.

Work on these two areas indicated above will commence later in 2006, drawing strongly from the CEBS technical advice that is received. Additional support from CEBS within these work areas will be welcome, although the exact extent and nature of input from CEBS cannot be specified at this time. It is anticipated that this should be assessed as the work progresses and through ongoing discussion between the EBC Working Group and CEBS.

I am attaching to this letter a copy of our call for advice.

Yours sincerely,

  
Alex Schaub

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**EUROPEAN COMMISSION**

Internal Market and Services DG

**FINANCIAL INSTITUTIONS**

**Banking and financial conglomerates**

Brussels, 28 November 2005

## **CALL FOR TECHNICAL ADVICE (No.5) FROM THE COMMITTEE OF EUROPEAN BANKING SUPERVISORS (CEBS)**

**Subject:** *Large Exposures*

### **1. Background**

In recognition of the limited changes to the longstanding rules on Large Exposures (LE) contained within the Capital Requirements Directive<sup>1</sup>(CRD), Article 119 requires that a review of the rules on Large Exposures, together with any appropriate proposals be carried out by 31<sup>st</sup> December 2007. Following the meetings of the European Banking Committee (EBC) on 5<sup>th</sup> July & 8<sup>th</sup> November 2005, the scope and planning of the work to be undertaken as part of the review of the LE rules were agreed by written procedure.

The EBC agreed that the review should be wide ranging, and that an EBC Working Group should be established to co-ordinate the work. The EBC also agreed to the establishment of five distinct workstreams to undertake and prepare the various elements of the review. EBC Members also agreed upon an appropriate allocation of the work between the EBC, Commission Services and CEBS.

### **2. Specific Call for Technical Advice**

Following agreement in the EBC, the Commission Services wish to seek the technical advice of CEBS on the following issues as they relate to banks and investment firms:

#### **(a) Stock-take of Current Supervisory Practices**

A stock-take on the national implementation by Member States of the LE rules in the Consolidated Banking Directive (2000/12/EC) and the Capital Adequacy Directive (93/6/EEC), is an important piece of the initial work on the LE Review. The LE rules as currently drafted facilitate the exercise of a number of discretions by Member States. As a result, a range of different regulatory approaches are permitted within the LE rules. A stock-take on the implementation and national

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<sup>1</sup> Re-casting Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions and Council Directive 93/6/EEC of 15 March 1993 on the capital adequacy of investment firms and credit institutions.

application of the LE rules will highlight the range of practices across Member States. Consideration in particular should be given to the synergies and conflicts of practice between national supervisory authorities. The format of this stock-take could be expanded to include other supervisory concerns or practices and could also map local market behaviour against the various national approaches.

The Commission Services would welcome the receipt of this stock-take by 31<sup>st</sup> March 2006.

### **(b) Industry Consultation**

Early and ongoing consultation with industry should play a key role in reshaping any proposals developed as part of the LE review. This consultation cover the full range of thinking on LE being undertaken at industry level, at all levels of consolidation. In particular, consideration of industry best practice and firms' own monitoring and reporting for internal purposes should be addressed. In this regard, the consultation should cover the full range of banking and trading activities. Regard should also be given to the needs of both smaller and larger firms, recognising that the needs of both may not necessarily be the same.

Particular outputs of the industry consultation would include:

- An analysis of the measure(s) of exposure used by firms for monitoring concentration risk as well as the horizon over which this risk is assessed
- An analysis of the manner in which firms address large exposures (e.g. specific capital reserves, use of credit risk mitigants, etc).

The Commission Services would welcome the receipt of this industry consultation by 30th June 2006.

### **(c) Input to the credit risk mitigation workstream**

As part of the review of LE, one of the workstreams will consider the extent to which the development and recognition of credit risk mitigation techniques which are used within the solvency regime may be eligible for recognition within an LE framework. To inform this workstream, CEBS is requested to prepare an analysis of the types of products that impact on the calculation of what constitutes a large exposure. This analysis should be both quantitative and qualitative in nature, contemplating credit risk mitigation techniques used in the banking and trading books of both smaller and larger firms.

The Commission Services would welcome the receipt of this industry consultation by 31<sup>st</sup> August 2006.