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The Deputy Director General

Paris, June 15th 2006

## **FBF response on The Large Exposures Questionnaire**

Dear Mrs Nouy,

The French Banking Federation (FBF) welcomes the opportunity to comment on the Large Exposures questionnaire about market practices

Banks which were requested to answer by the French Commission Bancaire and another bank answered the questionnaire and described their own practices in relation to the measurement and management of Large Exposures. You will find their answers here attached. As you notice, the banks wish their answers to remain confidential.

The French Banking Federation would like to express its global views on the issues raised by the CEBS questionnaire, in addition to the individual bank's response.

French banks think that the Large Exposure regime should be kept construed as an ultimate safeguard to prevent some institutions from inappropriate lending.

French banks feel that the current regulatory regime is not totally satisfactory and could be marginally improved. As a matter of fact, it does not fully take into consideration the quality of the counterparty and the transaction maturity. The Industry believes that the current regime could be updated and based on risk weights identical to the ones defined in the CRD. The amounts of risks will then be more representative of the real level of risks incurred. This would also alleviate the reporting burden since based on a common metrics with the capital requirement framework.

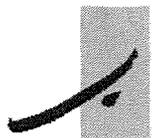
The Large Exposures present limits may be maintained without jeopardizing the regulatory supervision objectives, which are, as stated above, of a safeguard nature. Stricter limits would almost certainly interfere with the banks' management of concentration risk and the related part of their ICAAP.

Please find our detailed comments attached.

Yours sincerely

Pierre de Lauzun

**Mrs Danièle NOUY**  
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## LARGE EXPOSURES CEBS QUESTIONNAIRE ON THE SURVEY OF MARKET PRACTICES

The French Banking Federation (FBF) welcomes the opportunity to comment on the CEBS' consultation on Large Exposures.

Large French banks have answered the CEBS questionnaire and described their practices in relation to the measurement and the management of such risks in individual separate papers, which are attached.

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### General comment of the French banks on the L. E. regime

The French Banking Federation would like to express its global views on the issues raised by the CEBS questionnaire, in addition to the individual bank's response.

- 1- French banks think that the Large Exposure regime should be kept construed as **an ultimate safeguard** to prevent some institutions from inappropriate lending. Stricter limits would almost certainly interfere with their management of concentration risk and the related part of their ICAAP.
- 2- **French banks are clearly in favour of the status quo as far as the L.E regime is concerned.** They don't want to change it when they are implementing the new Capital Requirement Directive. They think that the regime should be amended only when the CRD is fully in place. Banks must have time to integrate the consequences of such a basic new regulation in order to stabilise risk parameters and to industrialise calculations. The industry thinks that **it needs two years after the start of the CRD implementation** before introducing any new regulation regarding Large Exposures.
- 3- Nevertheless, French banks feel that the current regulatory regime is **not totally satisfactory and could be marginally improved.** As a matter of fact, it does not fully take into consideration the quality of the counterparty and the transaction maturity. Moreover, the regulatory reporting is burdensome, notably because of specific regulatory risk weights and many adjustments.

The Industry believes that **the current regime could be updated and based on risk weights identical to the ones defined in the CRD.** The amounts of risks will then be more representative of the real level of risks incurred. This would also alleviate the reporting burden since based on a common metrics with the capital requirement framework.

- 4- The Industry favours a **single regulatory regime** which could be applicable to every bank irrespective of its size and complexity and whatever the capital requirement approach chosen.
- 5- Some French banks questioned the integration, in the L.E regime, of the issuer risk generated in the trading book activities: time horizons and metrics are totally different, making the L.E. reporting most often useless to the bank's management.
- 6- **Banks use other techniques, tools and limits to manage their concentration risk.** Its management should not be regulated as such regulation would be too complex, too costly to implement, unable to anticipate risk evolutions, most certainly inconsistent with the internal practices and eventually inappropriate. Single name, Industry, country concentration analyses must be tailored to the specific risk profile of the bank and the economic forecast; it cannot fit in a standardized approach. Concentration risks should be dealt internally by each bank with its own rules, the onus being on it to show its supervisor the adequacy of its management through the ICAAP.
- 7- **The L.E. present limits may be maintained** without jeopardizing the regulatory supervision objectives, which are, as stated above, of a safeguard nature. However, the current reporting threshold of 300 million euros of gross exposure, which exists in the French regulation, could be reviewed after using the CRD risk-weighting. New products, such as credit derivatives for instance, must also be taken into account.
- 8- French banks are **not aware of any material discrepancies** between national regulations regarding Large Exposures which could distort the level playing field. Nevertheless, they need to be sure that the calculations are consistent across countries and are clearly in favour of ironing out the national discretions.

The stock take on Large Exposures done by the CEBS should be maintained over time and be part of the Supervisory Disclosure.