

The Director General delegate

Paris, March 31st 2010

FBF comments on the proposed guidelines on the management of concentration risk under the supervisory review process - CEBS Consultation paper CP 31

Dear Sir,

The French Banking Federation (FBF) is the professional body representing over 450 commercial, cooperative and mutual banks operating in France. It includes both French and foreign-based organizations.

The FBF is pleased to take this opportunity to comment on the proposed implementation guidelines on the management of concentration risk under the supervisory review process (CEBS Consultation paper CP 31). The FBF welcomes the initiative of the CEBS to introduce specific principles and implementation measures for the identification, control and monitoring of concentration risk.

The FBF agrees on both the purpose of CP 31 and the principles exposed in the document and considers that these principles are a significant contribution to improve the management of concentration risk.

However the FBF points out that the level of requirements proposed is very high and cannot be implemented within the proposed timeframe especially for inter-risk concentrations which are the most difficult to assess. Moreover it will be necessary to ensure that the proposal does not distort competition by penalising European banks.

You will find in the attached annex our detailed comments on the proposals.

The French Banking Federation wants to see the instigation of healthy competitive conditions and believes the only way to do is to establish appropriate regulations. The FBF remains at your disposal for any further discussion on these matters.

Yours sincerely,



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FBF Detailed comments on proposed guidelines on the management of concentration risk under the supervisory review process - CEBS Consultation paper CP 31

The main principles set out in the CEBS consultation paper have been favourably received by the French banks. However, they would point out that the level of requirements proposed is very high and in all likelihood, cannot be implemented within the proposed timeframe, especially for identification of inter-risk concentrations which are the most difficult to assess. In fact, the application date desired by the CEBS, which is set at 31 December 2010, is very ambitious and French banks ask for greater flexibility in its gradual implementation by the supervisors, particularly within banking groups (paragraph 12).

The French banks agree on the principle of proportionality, which must apply in terms of concentration risk management as in terms of frequency and intensity of the supervision and assessment of this risk by supervisors as mentioned in paragraph 11. Where an entity belongs to a group, its situation must be assessed within the context of the group which may have decided to specialise some of its subsidiaries in certain activities or on a local or regional basis. Similarly, this proportionality principle needs to take account of the size, systemic importance, nature, scale and complexity of the activities of the institution concerned.

The French banks believe it is useful to use stress testing in order to identify and monitor the concentration risk (GL 3 and GL 4). They recognise that the intra-concentration risk will be more easily to analyse than the inter-concentration risk. Institutions must retain a certain degree of freedom in the implementation of the Pillar 2 approaches which should not be totally normalised: this must remain a dialogue between the bank and its supervisor which must adapt its methods to the establishment's risk profile.

For securitisation transactions, the CEBS' recommendation is very difficult to implement (paragraph 54) and is already disadvantageous in respect of large exposures limits. Consequently, the banks would need a more appropriate timeframe.

Moreover, it will be necessary to ensure that the proposal does not distort competition, by penalising European banks. On international level, it would be advisable that discussions between supervisors come to a harmonized level of requirements.

The French banks consider that the concentration risk should indeed be taken into account in the ICAAP (GL 7) but they believe that the regulatory response should not be limited to imposing additional capital requirements. Moreover, they consider very important to sidestep the obstacle of standardization of methods. Other measures can be put in place by each bank in order to limit this risk, notably through an improvement in the internal control system.

For market risks (paragraph 61 et seq.), the CEBS' proposal should be covered by the new market approaches, which will be implemented under Pillar 1 and will lead to increased capital requirements (CRD III). Notably, the IRC model of an institution will take into account market concentrations, counterparties and concentrations within and between class of products in a stress period. Consequently, requirements under Pillar 2 must not be duplicated with these new requirements under Pillar 1.

For the operational risk, under the AMA approach (section 4-3), the proposed guidelines should take into account the concentration risk's approach via correlations calculated during a high risk period, in parallel to the market concentration rules and on counterparties which will be used in Pillar 1, as for example IRC. In the same way, the AMA approach models the losses resulting from operational risk and their frequency, just as their recurrence's probability and the level of capital required to cover exceptional losses. Once again, every double counting must be dismissed.

For the liquidity risk, we consider the principles proposed by the CEBS to be globally fairly sound (GL18). However, an additional capital requirement laid down in Article 136 of the CRD does not appear to us to be the appropriate answer to a concentration risk deemed to be excessive. Here again, better coordination between the supervisors within the colleges should make it possible to obtain individual decisions that are consistent with the group situation and the positions taken by the supervisor on a consolidated basis. This point seems to be essential for the French banks.