CEBS Secretariat Ltd ®

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Dear Mr Holmquist

CEBS' Advice on the review of the large exposures regime

CEBS is delivering today its Advice on the review of the large exposures regime in response to the European Commission's Second Call for Advice. In developing its Advice, CEBS has benefited from views gathered from a broad range of market participants. Input was provided in two public hearings and in the industry's responses to the public consultations on CP14 and CP16.

CEBS believes that large single name exposures can lead to traumatic losses due to "unforeseen events". In our view this market failure is not adequately addressed by the Basel's three pillars. CEBS's opinion therefore is that there remains a risk related to large exposures that justifies regulatory intervention. CEBS concluded that a limit-based "back-stop" regime is the most appropriate regulatory tool. Because of this, CEBS proposes to improve several of the features of the current regime.

In line with the European Commission's better regulation agenda, CEBS conducted a high level impact assessment / cost benefit analysis on several of its proposals. Due to the tight timescale, it was however not possible to fully assess the costs and benefits associated to all the proposals put forward in the Advice. The input received during the consultation process, although extremely valuable, was mainly of a qualitative nature. This made it difficult, if not impossible, to carry out a quantitative impact study.

CEBS believes that its current proposals address in a number of areas the concerns raised by the industry in analysing the identified market failures. However CEBS is also of the opinion that a thorough impact analysis of the overall proposal would still be beneficial. CEBS is certainly willing, if required, to coordinate such a work with the Commission and the industry on a suitable work programme that helps better assess the impact the overall large exposures regime will have on institutions.

CEBS regrets that the timeline cannot be extended to have a further round of consultation on some delicate issues addressed in the advice. With the aim to better understand the effect of its most recent proposals, CEBS met with representatives of several trade associations on 13 March 2008. CEBS especially asked feedback on the topics for which in the opinion of the industry an upcoming overall impact assessment

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should be focused. In the following paragraphs we will present the main findings for follow-up work.

Intra-group exposures treatment

CEBS investigated a number of options to deal with intra-group exposures. It concluded that, at this stage, the better way to address this issue is to retain the current national discretion set out in Article 113.2 of the CRD that allows for the exemption of intra-group exposures from the large exposures limits. This is because of the significant differences in the impact of limiting these exposures on the functioning of Member States' banking systems.

CEBS understands that the proposal to keep the status quo does not ensure convergence among Members States. In particular, home and host supervisory authorities can have different approaches and may take a different view on the exemptions to be considered within the same banking group; this also raises an issue of competitive distortion between banking groups.

In its Advice CEBS puts forward its views on possible considerations, which the supervisors may take into account when deciding on the application of the exemption of intra-group exposures from the large exposures limits. In addition CEBS believes that further work should be conducted to fully understand the costs and benefits of keeping the current national discretion.

Interbank exposures

CEBS analysed the appropriate solution to deal with unsecured interbank exposures. CEBS proposes to limit these exposures to 25% of own funds, except for smaller credit institutions for which CEBS proposes to limit the exposures to the higher of a Euro threshold amount or 25% of their own funds. The Euro threshold amount would be € 50 million (€ 150 million provided that the maturity of the exposures would be less than 3 months). The second threshold will especially allow smaller banks to have exposures which reflect the levels necessary to perform banking business and recognises to some extent the low maturity of the exposures.

The suggestion of an exemption below a certain threshold arose following feedback received from CP16 and as such it was not possible to perform a consultation on the actual threshold levels. In a subsequent meeting with some industry representatives it was indicated that industry believe that the thresholds of € 150 million and € 50 million are too low. In the consultation process, a number of respondents (particularly smaller banks) were in favour of having an exemption for short term exposures of less than three months in case an overall large exposure limit were to be introduced. Also a number of banks argued that for some markets (for instance the credit derivatives markets) which are so concentrated that large interbank exposures would easily occur, other risk mitigating measures should be taken. As stated in the advice, CEBS believes that the LE regime should (like the solvency regime) recognize legally binding netting sets and suitable collateral.

Given these remarks, CEBS believes that the work that would be carried out together with the Commission on further impact assessment needs to focus on the appropriate level of the thresholds and on the pros and cons of excluding short term maturities in the calculation of interbank exposures and the question of whether such an exemption would deliver on the objectives of the regime.

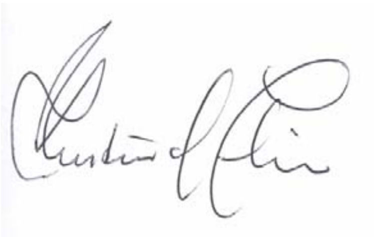
Connected clients

As laid down in the Advice, CEBS considers it necessary to clarify the concept of 'connected clients' and to broaden the scope of the definition set in Article 4(45) of the CRD.

Some market participants questioned the materiality and the applicability of the second part of the definition of 'connected clients' which relates to the concept of 'interconnectedness'.

In the context of the 'better regulation agenda' further consideration could be given in the impact assessment to the costs and benefits of retaining this second part of the definition.

Yours sincerely,



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