FINANSRÅDET

DANISH BANKERS ASSOCIATION

Committee of European Banking Supervisors

Sent by e-mail: le@cebs.org

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Dear Madam, dear Sir,

CEBS-Questionnaire on Market Practice on Large Exposures

With reference to the EU-Commission's forthcoming review of the provisions of Large Exposures, CEBS on 23. March 2006 published a questionnaire addressed to market participants concerning industry best practice in terms of monitoring and management of concentration risks.

Additional to the specific responses on the questionnaire Danish banks submit to CEBS, the Danish Bankers Association would like to take this opportunity to present some more general considerations which we hope will be taken into account in the review of the Large Exposure provisions.

The current Large Exposure provisions actually need to be reviewed and to add value to both banks and the supervisory authorities the review ought to be wide ranging in scope and take into account new techniques in supervision and regulation developed by the Basel Committee on Banking Supervision and stated in the Capital Requirement Directive.

Especially we would like to emphasise that there is a big gap between banks' own measurement and handling of concentration risks and reporting for internal purposes and the upper limits and reporting requirements contained in the Directive and national legislation.

In view of the above, we find that separate reporting on large exposures will be superfluous in the future. The reporting requirements would be unduly burdensome as they do not fit with current industry practice. They would only be calculated because of legislative requirements and not used for other purposes.

A new and more holistic approach to these issues is needed and should be linked to the principles of the newly adopted Capital Requirements Directive (CRD) providing a more sophisticated and sensitive approach to the calculation and regulation of capital which banks have to hold against their risks.

A distinction should be made between larger more advanced banks using the IRB method and smaller banks using the Standard Method as they have different approaches.

For both groups, however, it is fundamental that new principles are administratively simple and relevant and that the calculation of exposures and concentration risks does not differ from that for calculation of capital requirements. Moreover regulatory burdens and national discretions should be reduced to a minimum or totally abolished.

Especially concerning banks using the IRB-approach we would emphasise that monitoring and management of exposures and concentration risks should be aligned with the CRD-framework concerning the IRB approaches in terms of risk and mitigation techniques etc. Thus monitoring and management of these risks should be part of the institution's own IACCP and subject to Pillar 2 risks of CRD provisions based on a dialog with the local FSA.

No specific requirements needs to be introduced but monitoring of exposures and concentration risks should take into account the institution's own internal practice and reporting.

Yours sincerely

Kim Busck-Nielsen