Division Bank and Insurance
Austrian Federal Economic Chamber
Wiedner Hauptstraße 63 | P.O. Box 320
1045 Vienna
T +43 (0)5 90 900-DW | F +43 (0)5 90 900-272
E bsbv@wko.at
W http://wko.at/bsbv

CEBS
cp26@c-ebs.org

Your ref., Your message of	Our ref., person in charge	Extension	Date
	BSBV 115/Dr.Ru/Br	3137	27th of August 2009

Re: **CEBS's CP on the revised large exposures regime**

The Bank and Insurance Division of the Austrian Federal Economic Chamber representing the entire Austrian banking industry appreciates the possibility to comment on CEBS's consultation paper on large exposures and would like to submit the following position:

III. Connected Clients, H. Consultation questions (p.16):

1. The concept of control is clear, however, disproportionately extensive for LE purposes. The difficulties do not lie with understanding the (extensive) concept, but with the administrative burden connected to receiving information on control exceeding control by means of majority ownership. It will hardly be possible to receive information on the indicators mentioned in para. 39 because clients are not legally obliged to provide this information.

2. The guidelines are clear, however, constitute a significant revision as compared to the current situation prevailing (at least) in Austria. In Austria, the currently valid provisions for grouping connected clients do not apply for large exposures granted to central and regional states if the risk weights do not exceed 100% (as opposed to 0% according to CEBS's advice).

3. The concept of economic interconnectedness is clear, in practice, however, the collection of the required information is a considerable burden for credit institutions. We miss the clarification that if an economically dependent client is a member of an existing group, only the economically dependent client - but not other members of its existing group - has to be linked with the client on whom it is dependent. Therefore, we recommend the insertion of a statement in the CEBS advice that the connection of clients

due to economic interconnectedness covers the immediately economic dependent client only.

4. While the illustrative case put down in No. 55 is clear, and while being in agreement with CEBS's statement made in No. 67 and 68, we can hardly imagine any cases apart from SPV/circuit structures in which the connection through the main source of funding could play a role, all the more taking into consideration the last sentence in No. 54 (favorable to banks, but hardly logic). Apart from general market conditions - not an idiosyncratic risk - and the creditworthiness of clients - an idiosyncratic risk judged irrelevant- we cannot think of any other reasons why a main source of funding should not be managed to be replaced taking the wind out of the concept of connection through a main common source of funding.

5. We are supportive of a higher treshold, e.g. 5% of own funds at a solo or consolidated level.

6. The concept seems largely clear, apart from our comment re 7.

7. While we share CEBS's comments raised in No. 67 and 68, we do not share CEBS's interpretation made in No. 32, third bullet point which includes in an undifferentiated way cases where the main common source of funding lies outside the (reporting) credit institution. We miss a clear statement that the view of the reporting credit institution (on a solo or (sub-) consolidated basis) is decisive for forming and reporting groups of connected clients.
   No. 32 third bullet should be clarified accordingly (in line with the statement in No. 64 last sentence).

   An example: The parent credit institution grants a loan to client A. The subsidiary credit institution grants a loan to client B. Assuming that clients A and B depend on a common source of funding (the source being 2 credit institutions forming part of the same group of credit institutions) with no replacement possible, the parent credit institution, in its consolidated reporting, would apparently (if we interprete No. 32 correctly) have to form a group of connected clients consisting of client A and B, this, however, cannot be the case for the subsidiary credit institution which has only exposure towards client A.

IV. Treatment of exposures to schemes with underlying assets according to Art. 106 (3) of the CRD, D. Consultation questions (p. 23):

8. It provides flexibility, however, to apply these approaches in a standardised way is not feasible.

9. The fall back solutions b) and d) are not appropriate, please see answer to question 12.

10. Partial look through provides additional flexibility.

11. The mandate-based approach as laid out in this draft is not feasible for a full service bank because for full service banks it is most likely that the scheme is connected with at least some of its direct of indirect exposures. Moreover, as soon a any unknown exposure exists, e.g. from a partial look through of scheme A, a mandate-based approach of scheme B is not possible anymore because it could not be probed that scheme B is not connected with any other exposure in the institution's portfolio since the institution has unknown exposures in its portfolio coming from scheme A.

    Therefore, we suggest that this version of a mandate-based approach, being feasible for specialized banks, is retained. Additionally, the mandate-based approach should allow the credit institution not to add the scheme to the group of unknown exposures if the maximum amount possible to be invested under its mandate in a single exposure does not exceed 0,1% of the credit institutions own funds.

12. The fall-back solutions b) and d) assume that all unknown exposures are entirely related to one entity. This assumption is a highly unrealistic worst case scenario which is not supported by the S & P report mentioned in footnote 14.

13. The proposed treatment is appropriate.

14. Yes.

15. To take every tranche into account would be unduly burdensome. The treatment of tranched securitisation positions proposed in para 89 sufficiently captures the risk.

16. A scheme itself can be excluded from the large exposure regime when the only risk out of the exposure to a scheme arises from the underlying credit exposures within the scheme and no other factors.

V. Reporting Requirements, E. Consultation questions (p. 34)

17. Yes.

18. Yes.

19. It is correct to report the exposure to Bank B arising from the underlying of a CLN in column 8 "indirect exposures". This is necessary to differentiate between the direct exposure arising from the CLN and the indirect exposure from the underlying.

20. We prefer the 2-Template-Approach.

21. We agree with the proposed reporting of CRM. Further differentiation is not necessary.

22. It would be too burdensome for the industry to provide more detailed information, especially information that is not used for calculating the large exposures, e.g. total amount of collateral available.

23.

a)

The wording in para 108 "…the full information required …. is only reported for those exposures that exceed the 10% limit (as a single client or as a group of connected clients)" indicates that, in case a group of connected clients and two members of that group exceed the 10% limit, the full information has to be reported for the group of connected clients as well as for each of the two members (see also example page 34).

This would be an excessive interpretation of the wording "…information about every large exposure" of Article 110(1) of the CRD, and it would be also in contrast to para 138 second bullet point that says a group of connected clients is treated as one single client. Furthermore, it would be confusing if the template 1 for large exposure reporting would contain the members of the group of connected clients that exceed the 10% limit but the reporting of the 20 largest exposures would not contain these members.

Therefore para 108 should be amended:
" …. Exposures that exceed the 10% limit (groups of connected clients or clients not belonging to a group of connected clients)"

And the example on page 34 should be amended accordingly, i.e. in Template 1 the Bank C and Individual B should be deleted.

b)

In Order to make the effect of COREP CA 1.3.LE and COREP CA 1.6.LE clear for the calculation of Columns 1.19 and 1.20, please provide an example where Tier1+Tier2 is 100 and Tier1+Tier2+Tier3 is 110.

24. If identification systems based on national practices were used, cross-border banks would still be able to identify clients only by name and address when consolidating their data. Since the names and the addresses of clients may change frequently, a continuous updating process between the reporting units of the cross-border banks is necessary. This problem could be solved by the introduction of an international identification system.

25. The references to COREP are sufficient.

Comment to the EXCEL sheet:
In column B "Code" in row 16 is should read "(-) Article 113(3) + (4) exemptions if applicable"

Comments to the consultation paper regarding reporting requirements:
The text in the 'example for identification of counterparty' says the reporting institution has 5 large exposures (5 clients), 2 of which have to be grouped to Group A. We understand that in this case the reporting institution has actually only 4 large exposures

(3 clients and 1 group) – this is in accordance with the explanations of the reporting of 20 largest exposures in para 138 second bullet point which says that a group of connected clients is treated as one single client. If our point of view is correct please rectify the text of the example.

Yours sincerely,

Dr. Herbert Pichler
Managing Director
Division Bank & Insurance
Austrian Federal Economic Chamber