FEDERATION
BANCAIRE
FRANCAISE

The Deputy Director General

Paris, February 22, 2008

Consultation CP16 - Large Exposures Regime

Dear Madam,

The French Banking Federation (FBF) welcomes the opportunity to comment on the CEBS consultation paper CP16 on the review of the Large Exposures rules. As stated in our comments to the first part of consultation CP 11, the Large Exposures regime should be designed to be an ultimate safeguard against careless lending and must not be commingled with concentration risk which is dealt under Pillar 2.

None of the recent market failures was in our opinion the outcome of a large exposure problem. The CEBS must find the right balance in an amended Large Exposures regime notwithstanding the political pressure to increase controls. Any unnecessary strengthening of the present rules will hinder the lending capacity of banks and affect the economy as a whole in a period of economic downturn.

We acknowledge that the prime target of the Large Exposure regime should be to address unforeseen event risks and exposures to single name counterparties according to simple rules. We are aware that the objectives of a Large Exposure regime may differ from the capital requirements. The FBF has already agreed that credit quality would not be relevant because unforeseen risks events are typically cases of fraud and/or misrepresentations on highly rated companies. However, as the Large Exposure regime is largely conceived as a regulatory tool, we believe the regulators must maintain a strict alignment with the Capital Requirements Directive regarding exposures value and credit risk mitigation.

We request a full harmonization in Europe to keep a level paying field, to prevent national gold-plating and to rely only consolidated reporting and supervision as long as the group is supervised on a consolidated basis.

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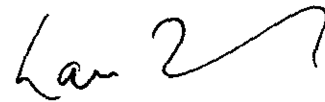
The French Banking Federation is committed to building a level playing field in Europe that a better regulation can contribute to create. FBF is at CEBS's disposal for any further discussion on these issues.

Please find attached our detailed comments on CP 16.

Yours faithfully,



Pierre de Lauzun

FEDERATION
BANCAIRE
FRANCAISE

Le Directeur Général Adjoint

Paris, le 22 février 2008

Consultation CP 16 - Grands Risques

Madame,

Je vous remercie de votre invitation à commenter la consultation CP 16 émanant du CEBS, concernant l'évaluation du régime des Grands Risques. Comme mentionné dans nos commentaires lors de la première partie de la consultation CP 11, le régime des Grands Risques doit constituer de notre point de vue un garde-fou ultime contre de mauvaises pratiques en matière de prêts et ne doit pas être confondu avec la surveillance du risque de concentration qui est traité pour sa part au sein du pilier 2.

Selon nous, aucune des récentes défaillances bancaires constatées n'était la conséquence d'un problème au niveau des Grands Risques. En dépit des pressions politiques pour renforcer les contrôles, le CEBS doit trouver un juste équilibre pour mettre en place un régime des Grands Risques amendé auquel nous sommes favorables. Cependant, tout renforcement inutile de règlementation réduirait la capacité d'octroi de crédit des banques et affecterait l'économie dans son ensemble en cette période de ralentissement économique.

LA FBF est d'accord sur le fait que l'objectif premier du régime des Grands Risques est de surveiller les risques découlant d'évènements imprévus encourus par une banque sur un même bénéficiaire selon des règles simples aussi cohérentes que possible avec la CRD. De ce fait, nous sommes conscients que les objectifs du régime des Grands Risques peuvent différer de ceux relatifs aux exigences en matière de solvabilité. En ce qui concerne la prise en compte de la qualité de crédit, la FBF pense que la notation n'est pas pertinente puisque les évènements imprévus sont par nature des cas de fraudes ou de dégradations fortes des notations. Cependant, étant donné que le régime des Grands Risques est avant tout un outil réglementaire, nous pensons que les régulateurs doivent maintenir un alignement aussi strict que possible sur les exigences en matière de solvabilité pour ce qui concerne les montants des risques encourus et la prise en compte des techniques de réduction des risques.

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Nous souhaitons une harmonisation totale au sein de l'Union Européenne pour conserver une égalité de concurrence, pour éviter les dispositions nationales divergentes et pour disposer d'une supervision s'appuyant uniquement sur un déclaratif réglementaire consolidé pour les groupes soumis aux ratios de solvabilité sur base consolidée.

La Fédération Bancaire Française est attachée à la mise en place de saines conditions de concurrence et juge qu'une réglementation appropriée permet d'y parvenir. Elle est à la disposition du CEBS pour toute discussion complémentaire sur ces questions.

Vous trouverez nos commentaires détaillés sur le CP 16 dans l'annexe jointe.

Je vous prie d'agréer, Madame, l'expression de ma considération respectueuse.

Pierre de Lauzun

Second consultation paper on CEBS's technical advice to the European Commission on the review of large exposures CP 16

Fédération Bancaire Française answers

Q1: CEBS would welcome respondent's view on the high level impact assessment of the policy options (Please see annex 1)
As already stated in the responses to the first consultation, we are is of the advice to keep the existing LE regime; indeed, we deem that neither the market discipline enforced by the rating agencies nor the one imposed by the requirements of Pillar 3 sufficiently address the unforeseen event risk, as it might arise on large counterparties.
We agree with CEBS that the most effective regime will be an amended limit-based backstop regime (v of page 16 or Option 6 of Annex 1 page 83)

Q2: Do you agree with the proposal and suggested interpretations of 'control' and 'interconnectedness' in the context of LE regime? Do you find the guidance/examples provided in both cases useful? Please explain your view, provide examples. And where relevant provide feedback on the costs and benefits
We agree with the interpretation of control provided by CEBS, and, in general terms, with the exemption envisaged in the consultation paper in the case of subsidiaries of a central government.
We agree with the interpretation of interconnectedness and, in general terms, to the underlying idea of financial dependency, nevertheless we deem unnecessary to translate into binding definitions the interpretation of CRD article 4 -45. The examples given by CEBS must remain illustrative. Furthermore, many of those lead to have groupings that would be addressed by pillar 2 concentration risk.

More broadly, we have some reserves in following a regulatory approach suggesting an individual assessment of the counterparties given the burden that this would imply in terms of monitoring and compliance costs (i.e. additional IT costs)

Q3: In your view, how do exposure values for on-balance sheet items should be calculated, gross or net of accounting provisions and value adjustments? Please provide examples to illustrate your response and feedback on relevant costs and benefits

With regards to the calculation of exposure values, banks will calculate their gross exposures, consitent with the CRD Approach applied for credit risk. They constitute the base of risk monitoring of risks. Then, banks deduce the provisions to calculate the net exposures. Exposures should also be consistent with the definition of capital including expected loss amounts, value adjustments and provisions.

Q4: In your opinion what could be the costs/benefits of applying a 100% conversion factor to the generality of off-balance sheet items?

We deem that a 100% conversion factor is too conservative and it is not too representative of the real risk that banks take on these items; we prefer the use of the CRD CCF for two main reasons:

1) reduction in the costs created by the possibility of declaring limit infringement more often than otherwise, therefore limiting the possibility to conducting business
2) no need to manually re-treat data coming from the data provider or to develop, at a high cost, a new LE regime specific data provider.

The CRD CCF give a realistic evaluation of the risk which is quite different from the probability of default. Generally speaking, banks monitor their off balance sheet commitments and can reduce the amounts granted according to covenants or to their own decision as they monitor risk on a on-going basis.

Q5: Do you think that low risk items should receive a 0% conversion factor? Do you believe that there is room to apply conversion factors between 0% and 100% in a large exposures regime? Which items could in your opinion receive a conversion factor different of 100% and

for which reasons? Please explain your view and provide feedback on the costs and benefits of such an approach

We agree that a 0% conversion factor should be applied to low risk items, as defined in Annex II of 2006/48/EC, namely: undrawn credit facilities which may be cancelled unconditionally and at any time without notice and other items carrying low risk as communicated to the Commission.

We prefer to apply different conversion factors according to the risk that is taken on the different items and therefore we consider that there is room to apply CCF between 0% and 100%, in line with the CCF-Bale II

The CRD already sets a large number of qualitative requirements to comply with before applying a 0 % conversion factor to address prudential concern. There is no need to consider other conversion factors for off balance sheet commitments. Provided that their own calculation methods for regulatory capital have been approved, IRB institutions should be permitted to use the same CCF for the Large Exposures regime.

Q6: In your opinion how can a large exposure regime address the risk that credit institutions may not be able to exercise their legal right to cancel an undrawn credit facility?

The undrawn credit facilities which can be cancelled at any time without notice do not constitute a commitment for the banks, they are not generally brought to the knowledge of the clients and the close relationship between the bank and its clients make anyway possible to regularly inform them when these facilities are no longer available, due to a deterioration of the counterparty credit quality. The issue of reputation risk should not be commingled with the Large Exposure Regime.

Q7: CEBS would welcome comments on the proposed set of principles. Are they appropriate for allowing Advanced IRB institutions to use their own exposure calculations? Please provide feedback on the costs and benefits that you consider would arise from adopting such an approach

Referring to our answer to Q4, we consider appropriate to authorize the IRBA institutions to use their own exposure calculations since the models that these institutions use for their calculations have already been approved by the regulators and the IRBF institutions to use the regulatory IRBF CCF.

Q8: In the context of schemes with underlying assets do you agree that for large exposures purposes it is necessary to determine whether the inherent credit risk stems from the scheme, the underlying assets or both? Do you agree that the proposed principles are appropriate to identify the relevant risk in a large exposures backstop regime? Are there other relevant criteria that you wish CEBS to consider? Please explain your views and where relevant please provide feedback on the costs and benefits

We agree with the position of the CEBS that both the schemes and the underlying assets should be taken into account, and in some circumstances just one or the other, should be taken into account when measuring credit risk. Indeed, we deem to be able to operate this kind of evaluation internally.
We agree that these principles can be appropriate to identify the risk in a large exposures backstop regime.
We are in favour of a complete alignment with the CRD treatment of credit risk.

Q9: Do you agree that for large exposures purposes there can be cases where it is justified to treat mitigation techniques in a different way from the treatment under the minimum capital requirements framework? Please explain your view and provide examples. And where relevant, please provide feedback on the costs and benefits

We disagree with the CEBS position and we consider that all CRM taken into account under the minimum capital requirement framework should be taken into account in the large exposure regime; each bank will then use the same CRM of the minimum capital framework, according to the method that has been agreed to them. . The credit risk mitigation requirements in the CRD minimum capital framework are already conservative (e.g. haircuts taking account of possible negative movements in value...).

Q10: Do you agree that the three alternatives set out for the recognition of CRM techniques are the relevant ones? Do you think that there are other alternatives that CEBS should consider? Please explain your views and provide examples. And where relevant, please provide feedback on the costs and benefits

CEBS discusses the three following alternatives:

1) *to accept the same protection treatment in both the large exposures and the minimum capital frameworks (eligibility, minimum requirements and effects)*
2) *to accept the same treatment in the large exposures framework as in the minimum capital framework only for those CRM instruments considered liquid enough*
3) *to accept the same eligibility list as in the CRD but adopt a more conservative calculation of the protection effects*

CEBS's preferred alternative is option 2)

We consider the three alternatives provided in the consultation paper as sufficiently exhaustive of the regulatory possibilities that can be envisaged but our preferred alternative is option 1).
The CRD already sets a large number of qualitative requirements to comply with before applying a 0 % conversion factor to address prudential concern. There is no need to consider other conversion factors for off balance sheet commitments. Provided that their own calculation methods for regulatory capital have been approved, IRB institutions should be permitted to use the same CCF for the Large Exposures regime.

Q11: Are there costs/ benefits that have not been identified? Are the costs/benefits identified correctly assessed? In particular could you provide CEBS with more information on the impact of each of the alternatives of the institutions' and collateral market's behaviour?

Option one seems the most appropriate for the benefits it would imply in terms of compliance and monitoring costs
Option three would imply an unnecessary burden in terms of compliance and monitoring costs
Option two seems still too costly because of the need to implement two different systems of calculation of the CRM.

Q12: Do you support CEBS' proposal that institutions that use the simple method should follow the minimum capital rules (substitution approach) instead of applying the haircuts included in the current large exposures rules? Please explain your views and where relevant provide feedback on the costs and benefits?

We agree in general terms with the proposal, as this would guarantee further harmonization.

Q13: Do you agree that physical collaterals should not in general be eligible for large exposures purposes? Do you support CEBS's view that residential and commercial real estate should be eligible and that the current large exposures rules should be applied instead of the minimum capital rules? Please explain your views and provide examples. And where relevant, please provide feedback on the costs and benefits.

We think that physical collaterals should be eligible under the large exposure regime if they are eligible under the minimum capital framework.
We share the opinion of the CEBS that residential and commercial real estate should be eligible under the large exposures regime.
The question of the physical collateral liquidity is quite different from its effective value. What matters is the collateral value after appropriate haircuts and not the ability for the bank to obtain immediately the corresponding liquidity. We support a complete alignment with the Capital Requirement framework whose LGD seem appropriate.

Q14: Do you agree that the development of a set of principles or guidance to require institutions to take indirect exposures into account when addressing 'unforeseen event risk' is the best way forward? Which principles do you think are relevant? Do you have suggestions

for possible principles? Please explain your responses and provide feedback on the costs and benefits where relevant.

We agree with the development of a set of principles capable to guide institutions to include, as far as possible, indirect exposures into their analysis.. Moreover, the issue will be addressed under Pillar 2 when considering stress testing and the concentration of protection providers..

Q15: Do you think that two different set of large exposures rules for banking and trading book are necessary in order to reflect the different risks in the respective businesses? What could be the costs/ benefits of this? Please explain your views and provide as appropriate feedback on the cost and benefits of this

From a MFA perspective, CEBS' view is that unforeseen event risk could affect exposures in the trading book as well as in the banking book; nevertheless, a series of exemptions are guaranteed to trading book exposures due to:

- *the significantly shorter time horizons for taking positions*
- *active risk management concerns*
- *no negative externalities associated with the possibility of systemic crisis and of moral hazard*
- *excess in the trading book are only possible when banking book limits are respected*

We share the view of the CEBS that, in spite of the possibility for the unforeseen event risk to arise also in the case of trading positions, it is still reasonable to reserve a different treatment to the two books, for the reasons mentioned here above.

Q16: Since the boundary between trading and banking book exposures is increasingly blurred, do the current large exposures rules create an incentive to book business in trading book (which would otherwise be disallowed in the banking book)? Please explain your views and provide feedback on relevant costs and benefits
We think that the present definition of the trading book must be strictly applied.
Moreover including the incremental default risk charge in the trading book will reduce some of the differences between banking book and trading book risks.

Q17: Instead of the current risk based capital charge for excess exposures in the trading book, would a simple approach that allows any excess in the trading book to be deducted from an institution's capital resources be more appropriate in the context of a limit based back stop regime? Please explain your views. Please provide examples and feedback on relevant costs and benefits
We do not agree with a simple approach and we are in favour of a separate approach for the trading book. Nonetheless, within the large regulatory exposures declarations, all trading positions should be taken into account when an individual counterparty is identifiable as the one whose underlying assets constitute the basis of the trading activity and when there is a credit risk on this counterparty. In this case, the exposure resulting from the trading activities should be added to the overall exposure on the counterparty and weighted with the LE counterparty weighting..

Q18: Do credit related products such as credit derivatives and structured products in the trading book require special attention and a different treatment from other positions in the trading book? Please explain your views, provide examples

No, we think that the present definition of the trading book should be maintained. As long as the trading book risks can be constantly hedged , credit related products such as credit derivatives deserve the same treatment.

Q19: Do you have any comments on the market failure analysis on intra-group exposures?
Q20: Could intra-group large exposures limits give rise to other costs and benefits? Please explain your response
Q21: What are your views on the proposals/ options for the scope of application of the large exposures regime?

Q22: Which treatment do you believe is the most appropriate for intra-group exposures to entities within the same Member State, to entities in different member States and to group entities in non-EEA jurisdictions? Please explain your response
Q23: What are your views on the high level principles to define intra-group limits?
Q24: Do you agree with the proposal to invite the Commission to consider exempting investment managers from a future large exposures regime? Please explain your views and provide feedback on the relevant costs and benefits
Q25: Do you agree with the proposal? Please explain your response?

We think that the most appropriate treatment is not to impose any limit on intra-group exposures neither for those entities in the same Member State, nor for those entities in the EEA nor for those outside the EEA
We request a full harmonization in Europe to keep a level paying field, to prevent national gold-plating and to rely only consolidated reporting and supervision as long as the group is under consolidated solvency ratios.

We think that more attention should be put on the risk of imposing limits that could impose unreasonable burden on the liquidity management and the conduct of the business of the companies.
A restriction on a banking group's ability to manage their liquidity may lead to increase the funding needs on inter-bank market and consequently increase sectoral and possibly geographical concentrations, which would be counterproductive.

Q26: What are your views on the proposal to remove the national discretion and automatically exempting exposures to sovereigns and other international organizations, as well as some regional governments and local authorities ?

We agree with the proposal to remove national discretion and automatically exempting exposures to OCDE sovereigns and international organizations

Q27: Please provide feedback and the costs and benefits that you consider would arise from the proposal

N/A

Q28: Is there room for further exemptions? Please explain your views and provide feedback on the costs and benefits that you consider would arise from the further exemptions that you propose

N/A

Q29: Do you consider that large interbank exposures of all maturities are associated with the market failures described above?

We share, in general terms, the positions of the CEBS and we consider inappropriate to weight differently the exposures according to their maturity..

Q30: What do you consider to be the implications of the caveats set out above for the conclusions of the cost/ benefit analysis? Do you have any other comment on the cost/benefit analysis?

We consider some of the caveats of the cost-benefit analysis valid.

Q31: Given the market failure and cost/ benefit analysis set out above, what treatment would you consider appropriate for interbank exposures?

Q32: Would a 25% limit on all interbank exposures unduly affect institutions' ability to manage their liquidity? Should maturity of the exposure continue to play a role? CEBS would find any practical example useful as aids to its thinking

We consider that a 25% weighting on interbank exposures (instead of 20%) would not affect large institutions.

Q33: If you believe there is market failure but a hard 25% limit would not be appropriate, what would you consider an appropriate treatment for interbank exposures?

N/A

Q34: Respondents' view on the approaches to non trading book breaches of the limits would be welcome. Please explain your views and provide examples and feedback on relevant costs and benefits

As far as non trading book breaches are concerned, our position is not to accept any breach of limit at all.

Q35: What are your views on the 3 reporting options? Please explain and provide feedback on the costs/ benefits of the CEBS's initial views.

CEBS considers three reporting options:

1) *Pillar 3 reporting (i.e. a full overview of individual large exposures on a regular basis within their Pillar 3 reporting)*
2) *Reporting to supervisory authorities based on financial institutions' internal reports*
3) *Reporting to supervisory authorities based on reports defined by the supervisors*

We tend to agree with CEBS' opinion on option 1 as we deem that individual large exposures are proprietary and confidential information not to be diffused.
Nevertheless, our preferred option is option 2 because option 3 impose us very high costs in terms of compliance with the requirements of the reports defined by the supervisors

Q36: Do you support CEBS' thinking on the purposes and the benefits of regular reporting using predefined reporting templates?

We agree on a general harmonization of definitions of the regular reporting but the use of a common reporting template seems too constraining to us.

Q37: What is your opinion on CEBS' initial thinking regarding the elements to be reported under the large exposures regime?

Exposures exempted from the imposition of the limits (for example because of their 0% risk weight in the capital adequacy framework) should not be reported.

Q38: Do you agree with CEBS' views on the recognition of good credit management? Please explain your view

We agree; indeed, the large exposure regime is also used for internal credit risk management