

CEBS

Via E-Mail

Bundessparte Bank und Versicherung
Wiedner Hauptstraße 63 | Postfach 320
1045 Wien
T +43 (0)5 90 900-DW | F +43 (0)5 90 900-272
E bsbv@wko.at
W <http://wko.at/bsbv>

Ihr Zeichen, Ihre Nachricht vom

Unser Zeichen, Sachbearbeiter
BSBV 115/Dr.Ru/Dr.Pr/Br

Durchwahl
3137

Datum
14th of Aug, 2007

Re: Comment on CEBS Paper CP 14 - Large Exposures (LE)

Referring to the above mentioned issue the bank and insurance division of the Austrian Federal Economic Chamber welcomes the opportunity to comment on CEBS' consultation paper:

First of all we would like to thank CEBS for this detailed CP and the hearings to give the industry the opportunity to expose their point of views. We assume that CEBS will continue this dialogue to come to a final result which is also acceptable for the industry.

We recommend that new regulations should not lead to a further administrative burden. Those recommendations should help banks to reduce the workload without any loss of quality or increase of risks concerning the LE regime.

- 1) We agree with the analysis that concentration risk consists of three general aspects: (undiversified idiosyncratic risk, sectoral and geographic concentration risk and unforeseen event risk). We also agree that the first two aspects should be taken into consideration in Pillar II (ICAAP/SREP process), but should not lead to changes in Pillar I. We agree with CEBS' analysis of the concept behind the LE rules and support the idea of a backstop regulatory regime which leaves a wide space for institutions' own risk management practices in general.
- 2) We partly affirm CEBS's opinion as unforeseen event risks are often caused by inadequate and insufficient management. Market failure may be a reason for unforeseen event risks, but we consider this as a topic of Pillar II as well.
- 3) No further evidence.

- 4) We also think that there is no systematic competitive disadvantage for EU institutions. Nevertheless we are aware that U.S. banks might not have to consider all their assets in their LE reports (esp. derivatives). We recommend verifying this topic in order to have the same source of data for all market participants. We suppose that a level playing field is important for banks, especially for those which are located in the EU countries.
- 5) We think that this is a very important and particular issue that should be reflected carefully. We agree in principle with CEBS' view not to reflect further the credit quality of highly rated counterparties in large exposures limits, however based on the understanding that exemptions of the existing regime will be maintained (e.g. sovereigns). We also suggest considering a specific risk weighting for banks. Further reflection regarding exemption to a LE regime may be given for very short term exposures. We furthermore concur with your analysis in item 161 of the CP (we see the danger of a potential crisis for counterparties too that would be downgraded. Banks would have to reduce their limits with such a downgraded company and so accelerate the deterioration).
- 6) The limit of 800% should not be tightened. Especially for smaller institutions this would be a competitive disadvantage which is not justified. The limit of 800% is well introduced and therefore it should be kept. As an alternative this limit could also be shifted to Pillar II, especially for larger institutions this limit is not significant.
- 7) We think that this should be a topic for Pillar II.
- 8) The question regarding to use internal calculation methods for regulatory purposes has to be additionally taken under a specified examination because this question is an important issue between smaller and larger credit institutions. In general there should be no separate LE approval criteria in addition to the IRB approach.
- 9) - 11)
A harmonisation would be a step in the appropriate direction, but only if this doesn't mean to apply higher risk weightings for the market participants in those countries in which the national discretions were exercised. Notwithstanding we suggest to demand the same conversion factors (CF) as applied in risk-weighting the asset classes.
- 12) CIU or Purchased Receivables should be handled as own LE and there should be no need for a look-through provided the granularity of such a construction is given, e.g. 5% for a single customer or unit within a CIU or Purchased Receivable as a maximum. At least for rated CIUs this should be accepted. This would be in accordance with common internal practices.

Yours sincerely

Dr. Herbert Pichler
Managing Director

Division Bank & Insurance
Austrian Federal Economic Chamber