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EUROFINAS COMMENTS ON THE CP11 CONSULTATION PAPER ON TECHNICAL ASPECTS OF THE MANAGEMENT OF INTEREST RATE RISK ARISING FROM NON-TRADING ACTIVITIES AND CONCENTRATION RISK UNDER THE SUPERVISORY REVIEW PROCESS

Eurofinas, the European Federation of Finance House Associations, is the main voice of the consumer credit industry at the European level. Founded in 1959, the Federation currently represents 15 National Associations, in turn bringing together more than 1,150 finance and credit institutions, the "hard core" of which is consumer credit, car financing and industrial credit. Together, Eurofinas members financed over 352 billion euros worth of new loans during 2005, with outstandings reaching above 600 billion euros at the end of 2005. Companies represented by Eurofinas employ some 69 500 individuals.

Eurofinas would like to thank CEBS for the opportunity to comment on the above mentioned paper and wishes to point out that, given the nature of its members business, only comments on guidance relating to interest rate risk on the banking book are given here. Indeed, while interest rate risk is one of the major risks finance houses face, concentration risk is not a main issue for the consumer credit industry.

If you have any questions on the points made in this paper, please do not hesitate to contact Jacqueline Mills directly on +32 2 778 05 71 or at j.mills@eurofinas.org.

We thank you for taking the time to examine our comments.

Yours sincerely,

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VICE-PRESIDENT OF EUROFINAS AND CHAIRMAN OF THE EUROFINAS ECONOMIC AFFAIRS COMMITTEE

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General Level of Prescriptiveness of the Paper

1. It is an accepted fact that one of the underlying philosophies behind the Capital Requirements Directive is to encourage institutions to move towards more sophisticated methods of risk measurement and management. However, supervisory authorities should not be allowed to impose risk measurement and management techniques upon institutions. Instead, it should be clearly acknowledged that, as is the case for all Pillar II risks, systems for measuring and managing interest rate risk in the banking book are the responsibility of the supervised institution. The institution should have the freedom to develop the tools it considers to be appropriate, accompanied by adequate justifications for its choices. The dialogue procedure already established under the Supervisory Review Process is an essential tool in this respect. Eurofinas therefore considers that it is unjustified for the CP11 guidelines to allow supervisors the possibility of imposing a standardised methodology, such as one provided in Appendix II of the consultation paper, for calculating the impact of interest rate risk.

The Consequences of IFRS on IRRBB

2. In § 2 - 3 of the CP11's General Considerations, CEBS states that the consequences of International Financial Reporting Standards have not been taken into account when developing the subsequent guidance, even though this topic "may merit CEBS' attention at some point in the future". From the Federation's point of view, it is essential that CEBS undertake an examination of the effects that accounting standards and specifically IAS39 and IFRS 7 will have on the reporting and management of interest rate risk.

3. EU institutions currently have to deal with heavy obligations imposed upon them by their regulators. Indeed, they have to cope simultaneously with prudential supervisory requirements on the hand and with IFRS on the other. It is understood that the purposes of the two sets of regulation are different. The objective of the CRD is to contribute to the

stability of the banking system while the aim of IFRS is to communicate financial statements, reflecting a true and fair view of an institution's business to various stake holders. Nevertheless, the Federation is of the opinion that any "synergies" between the two systems should be harnessed so as to avoid increasing the administrative burden for institutions. In this context, Eurofinas strongly encourages CEBS to examine how current IFRS reporting and disclosure requirements can be used for the purpose of interest rate risk management under Pillar II of the CRD.

The Definition of the Standard Shock

Eurofinas would like to comment on two issues relating to the definition of the standard shock.

4. Firstly, the suggestion for the standard shock to be at set at 200 basis points seems to be unsuitable. The Federation has received information from its members that a simulation using a shock of this size has been undertaken in Germany and would have resulted in over 50% of German institutions being outliers, i.e. the shock would have led to a majority of institutions' economic value decreasing by over 20% of own funds, implying that these institutions would potentially have had to set aside additional regulatory capital. Furthermore, in light of current economic conditions and prevailing interest rates, a shock set at this size is not appropriate and is not in line with current business practice.

5. Secondly, IRRBB 5 states that supervisors should use the 200 basis points level as a "starting point" when considering how to determine the standard shock and that supervisors should adjust the shock in order for it to take into account relevant national characteristics. Eurofinas seeks clarification on how such statements can be reconciled with the principle of the "level playing field". While it is understandable that local specificities be considered, how can EU supervisors ensure that the treatment will be equivalent for institutions in different countries? The Federation welcomes the statement in IRBB 5 relating to the cooperation of the supervisors of cross-border groups when it comes developing their approach to setting the standard shock. In light of the absence of consolidated supervision, guarantees to the coordination of supervisors' work are essential in order to alleviate the burdens on institutions.