EUROPEAN COMMISSION, Internal Market and Services DG. Financial Institutions, Banking and financial conglomerates

Call for technical advice (No. 7) to Committee of European Banking Supervisors (CEBS) on the review of the Large Exposures rules.

(second consultation paper on the CEBS' technical advice to the European Commission on the review of the Large Exposures rules (7 Dec 2007, 101 pages)

(the comments below reflect person's own opinion only, they do not necessarily represent the view (if exists) of his organization)

High Level questions

Q2. Do you agree with the proposal and suggested interpretation of 'control' and of 'interconnectedness'? Do you find the guidance/examples provided in both cases useful? Please explain your views, provide examples. And where relevant provide feedback on the costs and benefits.
=>Basically the in inclusion of "constitute a single risk" is somewhat odd. Especially so, because "risk" is so broad term.
91. wording "If its is more likely than not that the …" Could it be simply "If it is likely…". Would term "connectedness" be enough, without "inter" at the beginning? Basically the definition and examples are fine.

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 views and provide feedback on the costs and benefits of such an approach.
=> A conversion factors between 0% and 100% sounds fine. However, difficulty is to define "right" conversion factor for each particular situation. Guidance for "right" level of percentage should be as clear as possible.

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 feed back on the costs and benefits.
=> This could be well possible. This option of different mitigation techniques for large exposures creates confidence at the markets.

Q15. Do you consider that two different sets of large exposures rules for banking and trading book are necessary in order to reflect the different risk 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.
=> Yes, two different sets are necessary and the importance of difference is likely to increase through time. Benefit is that it could eliminate some of the potential gaming between banking book and trading book.

Q21. What are your views on the proposals/options for the scope of application of the large exposures regime?
=> National differences in, say, level of enforcement may cause an additional risk if national authorities would be authorized to allow exempt subsidiaries.

Q22. Which treatment do you believe is the most appropriate for intra-group exposures i) to entities within the same Member State; ii) to group entities in different Member States and iii) to group entities in non-EEA jurisdictions ? Please explain your response.
=> It is important to recognize that even in a situation where legislation and regulation is identical among countries the level of enforcement may well differ among countries. In that sense, in different Member States situation alternative 224.ii) sounds less riskier compared to 224.iii) and to 224.iv). Alternative 224.i) sounds too rigid and ancient in the modern banking business. Logically, for non-EEA jurisdictions alternative 226.II) would be preferable.

Q26. What are your views on the proposal to remove the national discretion and to automatically exempting exposures to sovereigns and other international organisations (within Art 113.3 (a – f)), as well as some regional governments and local authorities? Please explain your views.
=> 250. It is true that sovereigns …can also print money in their own currency. However, of course, it should be take into account the dangers with this kind of activity for a Sovereigns economy, reputation etc. Instead of automatic exemption, I would prefer some sort of analyses before exemption.

Q34. Respondents' views on the approaches to non trading book breaches of the limits would be welcomed. Please explain your views and provide examples and feedback on relevant costs and benefits.
=> View presented in 296 is easy to support. Regarding 302 I suggest the more conservative approach first (alternative (i)), and gradual transformation towards alternative (ii).

Q35. What are your views on the 3 reporting options?
=> Best practices (variations between different Member States) approach would be recommendable here. I support the alternative 3 "Reporting to supervisory authorities based on reports defined by the supervisors", but with event reporting basis.

Q37. What is your opinion on CEBS' initial thinking regarding the elements to be reported under the large exposures regime?
=> Initial thinking looks fine. The level of details to be reported in a reporting situation seems to be still open.

Q38. Do you agree with CEBS' views on the recognition of good credit management? Please explain your views.
=> I agree with CEBS.

More technical questions

Q13. Do you agree that physical collateral should not in general be eligible for large exposures purposes? Do you support CEBS' views 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.
=> I am not fully convinced that physical collateral should not be eligible for large exposures purposes. With other points in this question I agree with CEBS.

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.
=> Yes indeed I agree. I believe that gradual development towards principles in greater depth is right direction.

Q16. Since the boundary between trading book 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 feed back on relevant costs and benefits.
=> Yes, that is likely. Basically, whenever there is a wa to benefit that will be used by somebody. Important thing is to try to eliminate its potential harm for bank's interest groups.

Q36. Do you support CEBS' thinking on the purpose and the benefits of regular reporting using predefined reporting templates?
=> Predefined reporting templates enhances highly the possibilities to compare different firms with each other. More importantly, predefined reporting templates decrease the risk that something is hided into the disclosures of tailor-made, firm-specific, reports. Predefined reporting formats are required for firms listed in the USA (eg F-20).

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