



BNP Paribas Comments on
EBA Consultation Paper on Draft Implementing Technical Standards on
Supervisory reporting requirements for large exposures
(CP 51)

I. General Comments

BNP Paribas welcomes the opportunity to comment EBA Consultation Paper on Draft ITS on Supervisory reporting requirements for large exposures (CP51).

EBA has been given a very clear mandate as per Article 383(3) of the CRR, namely to specify (i) reporting formats, (ii) reporting frequencies and dates (reference dates, remittance dates) and (iii) IT solutions to be applied. BNP Paribas strongly supports this initiative which will ensure that uniform reporting standards will be consistently implemented across EU.

However, the Draft ITS proposal goes far beyond the aforementioned mandate in two major areas: (i) the scope of large exposures reporting, and (ii) the nature of the information to be reported for each large exposure.

(i) Scope of large exposures reporting

Article 381 of the CRR clearly defines a large exposure as an exposure whose value is equal to or exceeds 10 % of the institution's eligible capital, and Article 383 requires institutions to report those large exposures as defined in Article 381. The only exception to this principle being that institutions applying the IRB approach are anyway required to report their 20 largest exposures whatever their amount.

The threshold is thus a *relative* threshold in the CRR (10% of the eligible own funds). By introducing an *absolute* threshold (EUR 150 Millions) on top of the relative one, EBA either changes the definition of a large exposure, in contradiction of Article 381 or, if such exposures equal to or exceeding EUR 150 Millions but below the 10% threshold are not seen as large exposures by EBA, changes the scope of the large exposures reporting, in contradiction with Article 383.

EBA means indeed to require institutions to report exposures which are neither large exposures nor part of the twenty largest exposures. And EBA is in contradiction with Articles 381 and/or 383 of the CRR and goes far thus beyond its prerogatives.

Moreover, such a granular reporting – which is not the purpose of the large exposures regime at all – would be extremely burdensome and totally counter-productive both for institutions and for competent authorities.

(ii) Information to be reported

Article 383 of the CRR clearly defines the nature of the information to be reported: (i) the identification of the client **or** the group of connected client; (ii) the exposure value before CRM; (iii) the type of CRM; and (iv) the exposure value after CRM. The CRR never meant to require institutions to report geographical or sectorial information in the large exposure reporting. Moreover, this information is already available in the other CoRep templates.

It was never meant either to require institutions to report exposures per counterparty when a counterparty belongs to a group. The added value of such further information is not justified by EBA.

In our opinion, the Draft ITS proposal actually embeds in an existing reporting (the large exposures one) an additional reporting, not foreseen by the CRR and for which EBA has not been empowered: reporting of a large number of (sometimes small) exposures to single counterparties, classified by country and sector, with a view to macro-prudential supervision.

We strongly advocate EBA keeping the large exposures regime as defined by the CRR (which is in line with the CRD II), removing the absolute threshold of EUR 150 Millions not foreseen by Article 381 and removing the extra information (a.o. country and sector) not foreseen by Article 383.

Please also refer to BNP Paribas Comments on EBA Consultation Paper on Draft ITS on Supervisory reporting requirements for institutions (CP50) – more specifically, to comments given in the Introduction and under points 1 (“too short implementation timeline”) and 2 (“Remittance date”).



II. Answers to Questions for Consultation

1. **What would be the minimum implementation period to adjust IT and reporting systems to meet the new ITS reporting requirements? Please elaborate on the challenges which could arise.**

Ca. 550 man-days for project ownership (MOA) and supervision (MOE).

2. **What would be the minimum implementation period required for institutions NOT subject to large exposures reporting at the moment to implement the large exposures reporting described in this consultation paper?**

Not applicable.

3. **Would the required implementation period be the same for reporting requirements on an individual basis and on a consolidated basis?**

Not applicable.

4. **Compared to previous versions of the large exposures templates are there additional reporting requirements which, cause disproportionate costs?**

The main differences with the current French Large Exposures templates are:

- New threshold of 150 millions EUR exposure vs. 300 millions in France. Groups to be reported will be multiply by 2 or 3.

BNPP figures (Q4-2011): from ca. 450 to ca. 950 Groups.

- Reporting of individual counterparties belonging to reported Groups will lead to report several thousands of individual counterparties.

BNPP figures (Q4-2011): ca. 2,800 individual counterparties.

- The template is very different: in France (GRAN_RISK template), there is currently one table by Group of counterparties (several columns and lines for one single Group), while in the new template Groups are reported in the same table (one line per Group).

- New data required:

- (col. 030) Group vs. Individual.
- (col. 050) Sector of the counterparty: no definition of the proposed values. **Definitions of sectors should be consistent with COREP.**
- (col. 060) NACE code: would involve setting up a new referential (as the French sectorial codes are currently implemented in the systems).
- (col. 080) Of which: defaulted.
- (col. 200) Schemes 'look through' effect.
- (col. 220) Exposures deducted from own funds: not enough clear (impact of the franchise?) (and inconsistent with CRR Article 379 (6), see below, answer to Question 5).

5. **Are the templates, related instructions and validation rules included in Annex VIII and Annex IX sufficiently clear? Please provide concrete examples where the implementation instructions are not clear to you.**

- Draft ITS, Annex IX, point 14: "In LE templates, assets and off balance sheet items shall be used without risk weights or degrees of risk in accordance to Article 378 of CRR. Specifically, credit conversion factors shall not be applied to off balance sheet items".

The reality is a little bit different, as amounts exempted (as per CRR Article 389) actually reflects the application of implicit RWs (e.g. a 0% RW for some sovereigns) or CCFs (e.g. a 50% CCF for some documentary credits) lower than the 100% RW/CCF default value. Just saying that RW and CCF are systematically ignored is misleading.

Please, clarify this point in the draft ITS.

- Draft ITS, Annex IX, point 15: "Exposures' for the purposes of the large exposure is defined in Article 378 of CRR and shall mean: a. Any asset or off-balance sheet items in the non-trading and



trading book including items laid down in Article 389 of CRR, but excluding items which fall under effect of Article 379 (6) of CRR; [...]"

According to this definition, exposures deducted from own funds (excluded as per Article 379 (6)) shall not be reported in LE templates. However, in the current LE proposals, col. 220 actually requires exposures deducted from own funds to be reported (in both LE1 and LE2). This is contradictory.

Please, remove col. 220 from LE1 and LE2 templates, to be consistent with both Article 379 (6) of CRR and point 15 of draft ITS.

- From a theoretical point of view, it should be allowed (even if not frequent) to report a guarantee on an equity position (this is not forbidden by the regulation), potentially leading to an outflow from the issuer's line / an inflow into the guarantor's line (when relevant compared to the LE thresholds). However, there is no column foreseen for 'Equity instruments' neither under '(-) Substitution effect of eligible CRM techniques' nor under 'Indirect exposures'.

Please, add columns for 'Equity instruments' in both LE1 and LE2 templates (new col. 155 and 265).

NB. We understand col. 260 to 300 refer to the exposure type, not to the CRM one. **Is this assumption correct?**

- There is no column for reporting the amount of the exposure after value adjustments and provisions (**which, by the way, should now be renamed 'credit risk adjustments', in line with CRR**) and after CRMs but before exemptions (i.e. before implicit RW and/or CCF, when applicable as per CRR Article 389).

Such a column (new col. 325 of both LE1 and LE2 templates: 'Exposure value after CRM before exemptions) would be a 'nice to have'.

- There are no instructions at all for reporting exposures to the 'Unknown client' (when institution does not look-through some schemes while it is supposed to) as defined in EBA's Guidelines on the implementation of the revised large exposures regime (11.12.2009).

Please clarify this point in the draft ITS.

6. What are the cost implications of introducing a breakdown by residence of the counterparties?

Low/Medium. Actual cost to be assessed based on exact definition of country of counterparty.

7. What are the cost implications of introducing a breakdown by sector of the counterparties?

Low (if consistent with COREP), Medium/High (depending on the inconsistencies).

8. What are the cost implications of introducing a breakdown by economic sector by using NACE codes?

Medium/High (actual cost to be assessed), as a new referential is to be set up.

9. Would other classifications be more suitable or cost efficient?

Actually, no breakdown at all should be requested in the LE templates as it is not the purpose of the LE reporting to build a referential of counterparties. Moreover, those classifications could be inconsistent amongst different banks.

It would far be better for EBA to promote the use of a single, harmonised codification of counterparties (cf. FSB LEI initiative).