



Press release

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CEBS PUBLISHES ADVICE ON THE REVIEW OF THE LARGE EXPOSURES REGIME

The Committee of European Banking Supervisors (CEBS) today publishes its Advice on the review of the large exposures regime, in response to the European Commission's Second Call for Advice.

The Advice focuses mainly on the issues raised in the second part of the Commission's Second Call for Advice, but it also summarizes the key findings from the first part of CEBS's Advice, published at http://www.c-eps.org/advice/documents/LE_Part1adviceonlargeexposures.pdf

In keeping with the European Commission's better regulation agenda, the Advice is supported by a high-level market failure/regulatory failure analysis of the issues under review.

In developing its proposals, CEBS has benefited from views gathered from a broad range of market participants. Input was provided in two public hearings and in the industry's responses to the public consultation on CP14 and CP16, which are published at http://www.c-eps.org/Consultation_papers/CP14_responses.htm and http://www.c-eps.org/Consultation_papers/LE_Part2_responses.htm

CEBS's overall conclusion is that the risk of major losses that a credit institution might incur in case of failure of a counterparty to which it is overly exposed is not adequately addressed by the Basel's II three pillars, which justifies regulatory intervention. CEBS considers more specifically that a regime based on limits is the most appropriate regulatory tool, even though several features of the current framework have to be improved, as highlighted hereafter.

After considering the comments received, CEBS has decided to clarify the concept of connected clients and to broaden the definition of 'connectedness' to include common sources of funding between counterparties as an indicator of economic interconnectedness. The objective of the rule on connected clients is to identify clients that are so closely linked that it is prudent to treat them as a single risk.

Consistent with the solvency requirements of the CRD, exposure values for on-balance sheet items should be based on relevant accounting standards. This means that exposure values should be calculated net of accounting specific provisions and value adjustments. In keeping with the notion that large exposures rules should serve as a 'back-stop' against unforeseen traumatic losses, CEBS considers it appropriate that both institutions using the standardised approach and those using IRB approaches should apply a 100% conversion factor to all of the off-balance sheet items listed in Annex II of Directive 2006/48/CE. CEBS is proposing to develop

further guidance on the calculation of exposure values for various types of structured instruments.

CEBS's Advice discusses ways of dealing with unsecured interbank exposures, which can give rise to systemic risk and moral hazard problems. Subject to a further thorough impact assessment CEBS proposes that all interbank exposures should be subject to a limit equal to the greater of 25% of own funds and a specified value in Euros (or other Member State currency equivalent). CEBS believes that the current proposal, also by taking maturity of the exposures into account, could strike the right balance between prudential concerns and the concerns expressed by small and medium sized institutions.

CEBS's Advice also discusses the cost and benefits of imposing limits on intra-group exposures. CEBS notes that limiting these exposures would have significantly different impact on the functioning of different Member States' banking systems. CEBS concludes that removing the national discretion that allows the exemption of these exposures from large exposure limits is not appropriate at this stage, and therefore that the national discretion set out in Article 113.2 of Directive 2006/48/EC should be maintained. CEBS is also proposing to extend this national discretion to exposures that meet the conditions of Article 80.8 (i.e. exposures to entities within the same institutional protection scheme), since these are in certain respects equivalent to intra-group exposures.

CEBS is proposing that credit risk mitigation techniques should be accorded the same treatment for large exposures purposes as for solvency purposes, but only if the associated instruments are considered sufficiently liquid. Physical collateral other than real estate collateral will not be considered eligible for large exposures purposes.

CEBS proposes exempting investment firms with limited licence and limited activity from the regime as the market failure analysis does not in CEBS' view justify continued regulation in this area.

CEBS's Advice also addresses a number of other issues like the scope of application of the large exposures rules with a continued differentiated approach for trading book exposures, the exemption from the limits of exposures to certain sovereigns, the appropriate supervisory reaction to breaches of limits in the banking and trading books, and harmonized reporting across Member States based on reports defined by the supervisors.

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