



European Banking Industry Committee

European Banking Federation (EBF) • European Savings Banks Group (ESBG) • European Association of Cooperative Banks (EACB) European Mortgage Federation (EMF) • European Federation of Building Societies (EFBS)
European Federation of Finance House Associations (Eurofinas)/European Federation of Leasing Company Associations (Leaseurope)
European Association of Public Banks (EAPB)

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EBiC's views on the Large Exposures review

Dear Ms O'Doherty,

The European Banking Industry Committee would like to thank you for the informal discussion held with you at the last meeting of the EBiC's Banking Supervisory Practices Working Group on the large exposures review. We found it very helpful to hear about the Commission's and the European Banking Committee's current thinking on the issue. Following on that we would today like to share with you some thoughts which we have elaborated on both the approach to the review and the issues to be addressed. However, we note that the views expressed are merely initial and indicative considerations, which we will discuss in more detail over the coming months.

On a general note, we believe that the current regime has some weaknesses, but it has also proven important merits. We find it appropriate to start the discussion in the open and unbiased way the Commission has adopted, which recognises that there should be no review at any price.

Furthermore, the discussions held in various formats so far have made it clear that the significance and usefulness of the current set of rules vary strongly for different types of institutions. On the one hand side, many smaller firms find the rules both helpful and broadly appropriate. The situation is different for a range of other types of institutions, both smaller and larger ones, which have identified various shortcomings of the regime. For these firms, the management of large exposures is just one aspect of the management of concentration risk, which has to be dealt with under the second Pillar of Basel II.

A potential reform of the regime has to keep this picture in mind and start with a clear definition of the objectives of the large exposure rules for all types of firms, and we welcome the Commission's focus on this question in its second call for advice to the Committee of European Banking Supervisors (CEBS). In our view, another important aspect to keep in mind is the impact of European legislation on the global level playing field, as has also been recognised in the Commission's call for advice.

We believe that the logical conclusion of the identified situation might be the adoption of a differentiated regime, which would give different financial institutions the choice to opt for the approach most suitable to their business.

If it is decided to make according changes to the current provisions, it must be ensured that the new rules truly reflect industry practice and not impose separate supervisory requirements on institutions. It should in particular be considered to what extent credit risk mitigation techniques can be further recognized, both for traditional physical collateral and for more recent and sophisticated products.

Furthermore, in case of a more extensive review the reporting requirements should be aligned with institutions' actual internal risk management. As it currently stands, the mismatch that many institutions experience between their own practices and the supervisory requirements is reflected in a reporting function that is little or not at all related to the risk management services.

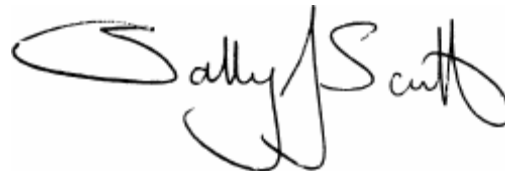
We finally underline that, as foreseen by the better regulation principles, any newly envisaged measures should be subject to an impact study.

We hope that you will find these thoughts helpful as a first indication of industry's shared views on the subject. We believe that it is at this stage too early to make more specific recommendations but we intend to develop our views over the coming months and in cooperation with CEBS, to which we will also send a copy of this letter.

Yours sincerely,



Christopher Pleister
EBIC Chairman



Sally Scutt
Chairman of the Banking Supervisory
Practices WG