11 December 2009

Feedback document to the CP26 on large exposures

Introduction

1. On 12 June 2009, the Committee of European Banking Supervisors (CEBS) submitted its draft implementation guidelines for public consultation in relation to three aspects of the revised large exposures regime (i.e. definition of 'connected clients', calculation of exposure values for schemes with exposure to underlying assets and reporting requirements)[1]

2. The consultation period ended on 11 September 2009. Seventeen responses were received; sixteen are public responses and are published on the CEBS's website.[2]

3. This paper presents a summary of the key points arising from the consultation and the changes made to address them. It also includes a feedback table which reflects CEBS's detailed views on the public responses.

General comments

4. A number of respondents raised some concerns about the level of detail of the draft guidelines. CEBS notes that the objective of its guidelines is to achieve a harmonised implementation of the revised large exposures regime. This is only possible if the guidelines are detailed enough to provide concrete guidance to supervisors and institutions on how to implement the Capital Requirement Directive's ('CRD'[3]) requirements, which are high level by nature.

5. In response to a question from some respondents, CEBS notes that its guidelines on the exemptions from large exposure rules for certain short-term exposures arising from the provision of money transmission under Article 106(2), (c) and (d) of the amended Directive 2006/48/EC are currently being developed and should be published in 2010.

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[1] CP26 is published under: http://www.c-ebs.org/Publications/Consultation-Papers/All-consultations/CP21-CP30/CP26.aspx

[2] The public responses are published under: http://www.c-ebs.org/getdoc/9f78301c-2da1-4c62-b7d1-f17174a1ae0c/Responses-to-CP26.aspx

[3] Capital Requirements Directive (CRD) is a technical expression which comprises Directive 2006/48/EC and Directive 2006/49/EC.

Connected clients

6. A number of respondents expressed some concerns about the proposed interpretation of connection based on a common main source of funding. CEBS has redrafted this section of the guidelines in order to clarify in which cases the common source of funding will normally lead to the requirement to connect clients.

7. Most respondents favoured an increase in the proposed 1% own funds threshold – above which institutions would apply a more intensive process to identify connected clients – to a figure between 3% and 5%, which would keep the institutions' burden to an acceptable level. CEBS has considered these comments and has agreed to increase the threshold to 2%, which should reduce the burden for institutions while safeguarding prudential concerns from supervisors.

8. A number of respondents highlighted the fact that in some cases they do not have access to all the relevant information on their clients due to reasons of confidentiality. To address this, CEBS made clear in the guidelines that the information necessary to assess interconnectedness should be gathered on a 'best efforts' basis.

Calculation of exposure values for schemes with exposure to underlying assets

9. Most respondents argued that the proposed treatment of the 'unknown exposures' in the fall-back solutions for the treatment of the underlying exposures of a scheme is too conservative. To accommodate this concern CEBS introduces in its guidelines a 'granularity threshold', i.e. a scheme which is sufficiently granular (if its largest exposure is smaller than 5% of the total scheme) does not fall under the proposed treatment of 'unknown exposures'. Furthermore, the "Mandate based approach" has been replaced by the "Structure-based Approach", which provides larger flexibility. In addition a grandfathering treatment has been provided until 2015.

Reporting requirements

10. Among the respondents, uncertainty existed with regard to the implementation date of the new harmonised reporting. CEBS notes that the revised large exposures regime (thus including Article 110 of Directive 2006/48/EC setting out reporting details) shall be applied from 31 December 2010. As the uniform and binding reporting (COREP) according to Article 74(2) of Directive 2006/48/EC would have to be applied only from 31 December 2012, there will be a two-year period during which common large exposures' reporting template will not be available under the binding COREP. Throughout this period, until the uniform and binding COREP framework is implemented, CEBS recommends that national supervisors incorporate the large exposures reporting as set out in CEBS's guidelines into their national reporting system.

11. One respondent asked that specific national reporting be included in the new large exposures' template. As this reporting is following the CRD and is to be

implemented by all European supervisors in an identical manner, including national reporting in this template is not advisable. With regard to questions on frequency, please refer to the document "CEBS standardises COREP reporting dates"[4], in which quarterly reporting is considered as a maximum reporting frequency. However, as the new large exposure reporting will be included into the COREP framework so as to ensure a unified European reporting system, the large exposures' reporting will finally be based on the same standards (i.e. frequency, remittance dates, formats and platform) as the other COREP data.

[4] Published on the CEBS's website on 11 July 2008 under: http://www.c-ebs.org/getdoc/cfed7367-b806-427e-8548-ac34da3f1356/CEBS-202008-2093-20rev1-20_Amendments-20to-20guida.aspx

Annex

Feedback table on CP26: summary of the public responses and suggested amendments

CP26	Summary of comments received	CEBS's response	Amendments to the guidelines on the revised large exposures regime N/R: change not required
Connected clients			
Question 1 Are the guidelines in relation to the interpretation of control sufficiently clear, or are there issues which need to be elaborated further or which are missing? Please provide concrete proposals on how the text should be amended.	In general, the respondents confirmed that the guidelines are sufficiently clear; although they made the point that the administrative burden is too high to fulfil the required analysis. In addition, respondents raised the following specific issues where clarification or amendments are sought: (i) The provision of an exemption for private equity was requested. (ii) It was stated that only a voting share of 50 %	CEBS acknowledges that there is some burden, but it believes that a proper analysis is necessary to achieve the objectives of the large exposures rules. Moreover, this part of the guidelines is based on current supervisory practice and should not lead to an additional burden. (i) CEBS considered this comment and highlights that private equity companies are in general active shareholders that use their voting powers, at least they have the legal	N/R (i) N/R

	plus 1 vote would be regarded as a control relationship under Company Law. A voting share of 50 % or less would only, in certain circumstances, allow for control. The indicators for control in paragraph 39 of CP26 do not reflect sufficiently the different national laws. (iii) It was stated that the grouping of a joint venture to all controlling owners would over-state the exposure. Other respondents called for an example. (iv) Concerning the interaction between Art. 12 of the Seven Council Directive 83/349/EEC and paragraph 39 of CP26, it was stated that the power to co-ordinate the management of an undertaking with that of other undertakings in pursuit of a common objective, for instance, in the case where the same natural persons are involved in the management or board of two or more undertakings, does not – due to the national discretion exercised in the implementation of the Seven Council Directive - constitute an example for control.	right to do so. Therefore, the possibility of control is sufficient and any voluntarily self-imposed limitations on the exercise of control such as legal ring-fencing or statements of a similar nature issued by the client do not obviate the need to consider such clients as connected. (ii) CEBS considered the comments and notes in paragraph 36 of the guidelines that the institution has the possibility to proof that - despite the general assumptions regarding control are fulfilled - there is no control relationship. This allows institutions in such cases nevertheless to not group such clients. (iii) CEBS considered this comment and notes that with respect to the individual group, the exposure at risk is correct. As there is no aggregated limit, there is no restriction for the business of the institution. CEBS agrees to provide an example. (iv) CEBS considered the comment and notes that these indicators are valid in some Member States and might be refuted in others (paragraph 36 of the guidelines).	(ii) N/R (iii) Paragraph 32 (iv) N/R

Question 2 Are the guidelines in relation to the Exemption from the requirement to group clients in relation to control sufficiently clear, or are there issues which need to be elaborated further or which are missing? Please provide concrete proposals on how the text should be amended.	Respondents sought clarification with respect to the treatment of state-owned companies. Further exemption requested for all governments, as the deterioration of governments' ratings may require that state-owned entities be grouped together. Respondents also asked for an exemption for undertakings mentioned in Art. 2 Directive 2006/48/EC.	CEBS has clarified that this exemption is limited to those governments whose exposures receive 0 % risk weight (and their regional and local authorities) under the Standardised Approach to credit risk, as such default is outside the scope of the risks that the large exposures regime is designed to address. CEBS has also made clear that this exemption does not apply to government-owned entities and subsidiaries of these entities. In such cases, these entities and their subsidiaries are to be included in a group of connected clients.	Paragraph 37
Question 3 Are the guidelines in relation to the interpretation of economic interconnectedness (single risk) sufficiently clear, or are there issues which need to be elaborated further or which are missing? Please provide concrete proposals on how the text should be amended.	Respondents raised the following issues in relation to the topic of economic interconnectedness: (i) The process of connecting clients due to economic connectedness will be extremely difficult, burdensome and will be based on a subjective assessment which will likely lead to differences across institutions. In addition, the respondents are of the belief that not all the required information for meeting the guidelines will be available, and even where they are, the necessity to connect clients may lead to restrictions on lending to smaller entities connected to large clients; (ii) A number of respondents pointed out that the inclusion of one-way dependencies will substantially	(i) CEBS recognises that this will be a burdensome process; however, it is of the opinion that the benefits in terms of limiting exposures to connected clients are extremely important. Cognisant of the issue, CEBS's guidelines are to be applied on a best efforts basis. In addition, the guidelines introduced a threshold whereby only those exposures that exceed 2% of an institution's own funds at a solo or consolidated level have to be intensely examined for interconnectedness. (ii) Article 4(45) (b) of Directive 2006/48/EC does not differentiate	(i) Paragraph 54 (ii) N/R

	add to the number of connected clients and suggested that only mutual dependencies should be considered; (iii) A number of respondents suggested that retail exposures should not be included in the determination of economic connectedness on the basis that retail exposures do not justify large exposures and even if fundamentally connected to an existing large exposure, they play no decisive role in relation to that large exposure; (iv) Respondents seek further clarification in relation to "repayment difficulties". In particular, they are of the opinion that the guidelines should be more explicit in stating that these difficulties should be linked to default; (v) A number of respondents were of the opinion that there was a lack of clarity in differentiating "single (idiosyncratic) risk from geographical/sectoral risk; (vi) Concern was raised by a number of respondents in relation to the fact that certain exposures may be captured more than once if counterparties are connected to more than one other counterparty who themselves are not linked; and (vii) A number of respondents requested that the guidelines should explicitly state that the investigation into connectedness should be done on a best efforts basis.	between one-way and mutual dependencies, i.e. both need to be taken into account. Therefore, this point has not been reflected in the guidelines. (iii) While the CRD does not exclude retail exposures from the application of the large exposures regime, the introduction of the 2% threshold will go some way towards meeting the concerns of the industry. (iv) The respondents' point has been noted by CEBS and accordingly changes have been made to the text. (v) The respondents' point has been noted by CEBS and accordingly changes have been made to the text. (vi) While noting the industry comments, CEBS is of the opinion that there will be cases where the one exposure will be captured under more than one group. Some changes have been made to the guidelines to provide further clarity on the issue. (vii) CEBS has noted the industry comments and, accordingly, changes have been made to the text.	(iii) Paragraph 54 (iv) Paragraphs 40, 42 (v) Paragraphs 38 and 39 (vi) Paragraphs 32 and 53 (vii) Paragraphs 52, 55 and 60

Question 4 Are the guidelines in relation to the Interpretation of connection through the main source of funding being common sufficiently clear or are there issues which need to be elaborated further or which are missing? Please provide concrete proposals on how the text should be amended.	Most of the responses received were of the opinion that the draft guidelines were not sufficiently clear on the issue of common sources of funding. In this regard the following issues were raised: (i) A number of comments raised concerns that the proposed treatment goes too far and could cover in general ABCP conduits. In this context it was also mentioned that, in general, conduits are much better managed than in the IKB case. (ii) A couple of comments asked for further guidance beyond the example provided in the paper. (iii) Some comments mentioned that idiosyncratic and liquidity risk might be confused. (iv) A couple of comments raised the issue that the distinction between idiosyncratic and sectoral risk should be made clear	(i) The wording has been clarified to make clear that synchronic risk/risk of contagion must exist between the involved parties in order to be regarded as connected for investing institutions. CEBS acknowledges that other conduits might be better managed. However, neither the quality of management nor the credit worthiness is a factor which the large exposures regime takes into account. (ii) + (iii) The entire section has been revised to give clearer guidance about the scope of this requirement. (iv) A specific section has been added which clarifies the scope of the large exposures rules, in particular, the demarcation line between idiosyncratic risk on the one hand and sectoral and geographical risk on the other hand.	(i) + (ii) + (iii) Paragraphs 44 to 48 (iv) Paragraphs 38 and 39
Question 5 What do you think about the proposed 1% threshold as proposed	In general, the respondents expressed concerns regarding the 1% threshold, arguing that the identification of all connected clients would result in institutions incurring high costs. Respondents often indicated a preference for a threshold between 3%	As already announced in the public hearing, CEBS considered this issue, taking into account the data provided by the industry. However, only three respondents provided data which was quite general and which did not really	Paragraph 54

above?	and 5 %. It was also pointed out that besides a percentage value, the guidelines should also establish an absolute threshold of 1.5 million in order to provide relief to small institutions in the investigation of possible connections.	allow for a deeper assessment and judgment of the issue. Nevertheless, after considering the concerns and arguments of the industry on the one hand and prudential concerns and objectives from supervisors on the other, CEBS decided that an increase of the threshold to 2% can be accepted. Regarding an absolute threshold, CEBS is of the opinion that the identification of connected clients is important in relation to the size of the institution and, therefore, does not propose an absolute threshold.	 N/R
Question 6 Are the guidelines in relation to the control and management procedures for identifying connected clients sufficiently clear, or are there issues which need to be elaborated further or which are missing? Please provide concrete proposals on how the text should be	The guidelines in relation to the control and management procedures seemed clear to the majority of the respondents. However, some of them have noted that the application of the guidelines could possibly result in high costs and additional work in relation to the gathering of necessary information. In addition, some respondents have called for a transition period so that the guidelines would apply only to exposures incurred by the institutions after the coming into force of the amendments to the CRD on the 31 December 2010.	CEBS notes that the requirement to identify connected clients is set out in the CRD. The guidelines only intend to make the application of the requirements clear in order to achieve convergent application. CEBS expects its members – the national supervisors – to apply the guidelines from the implementation date of the revised large exposures regime (31 December 2010). However, CEBS recognises the potential impact of its guidelines and will recommend to its members that sufficient flexibility be provided – on a	N/R Paragraph 18

amended.		case-by-case basis - in the application of specific sections of the guidelines in order to minimise any major and unjustified disturbance in the market.	
Question 7 Are there remaining areas of interpretation of the definition in Article 4(45) of Directive 2006/48/EC that need to be covered in CEBS's guidelines?	In general, respondents do not see the need for CEBS'S guidance on further areas. One comment received relates to 'common source of funding'.	Agreed. The comment on 'common source of funding' seems to be a misunderstanding. There is no doubt that the intention with regard to Article 4(45) of Directive 2006/48/EC is to cover and include cases of a common significant source of funding within the institution or its group. However, it would be unreasonable and sometimes impossible to require the institution to collect information about an external funding source to its own clients. CEBS has clarified this aspect in the text.	N/R Paragraphs 45 to 52
Treatment of exposures to schemes with underlying assets according to Article 106(3) of Directive 2006/48/EC			
Question 8 Does the proposal provide sufficient flexibility for institutions to deal with different types of schemes? If you believe	Comments on Questions 8 and 9 are closely linked and will be dealt with together. In general, respondents expressed some concerns regarding the proposal and called for some relief, namely: (i) Grandfathering of items acquired before the end	CEBS sees merit in some of the comments raised by respondents and proposes to address them in the following way: (i) CEBS proposes that its guidelines will apply to schemes acquired after 31 January 2010. For the schemes	(i) Paragraph 75

additional flexibility is necessary, how should the proposal be amended? And **Question 9** Do the fall-back solutions (approaches b) to d)) appropriately take into account the uncertainty arising from unknown exposures and schemes?	of 2010. (ii) Apply look through only at sufficiently long intervals, e.g. three months. (iii) Apply a *de minimis* rule for granular portfolios: underlying assets less than 5 % of own funds. (iv) General exclusion of trading book items due to short holding periods. (v) Exclusion of regulated investment funds from look through and a 20 % single counterparty limit. (vi) For granular portfolios, look through into 80% of assets should be sufficient; the remaining 20 % can be neglected. (vii) All underlying exposures of less than 5 % of the large exposures limit can be neglected. (viii) Higher limit / lower risk weight for residual category (unknown clients). (ix) Treatment of non-granular securitisation items as independent borrowers with increased weighting. (x) Some respondents also noted that it should be possible to apply a mixture of approaches.	acquired before 31 January 2010 CEBS proposes to apply a transitional period until 31 December 2015 where institutions may treat these schemes according to the treatment of schemes that was required prior to the 31 December 2010. This transitional period aims to prevent unjustified disruptions to the business of the institutions. (ii) CEBS agrees to increase the minimum interval for look through to one month. (iii) CEBS agrees to the setting up of a 'granularity threshold', which means that for schemes where the largest item is not more than 5% of the scheme, no look-through is needed (5 % of a 25 % limit to the scheme = 1.25 % of own funds), and the scheme can be considered as a separate counterparty. (v), (vi), vii), (viii), (ix) In CEBS'S view, the 'granularity threshold' and the 5-year transitional period address sufficiently all concerns regarding the burden for institutions of applying the look through approach. CEBS sees no need to provide further relief as required by other respondents. (iv) Regarding the request to exempt	(ii) Paragraph 75 (iii) Paragraph 74 (v), (vi), vii), (viii), (ix) N/R

		trading book items, CEBS believes that holding periods of trading book items are not generally so short, that these items can be ignored for large exposure purposes. Therefore, CEBS sees no valid reason to exempt them from the proposed treatment. (x) CEBS has provided examples how to apply or combine the different approaches.	(iv) N/R (x) Paragraphs 76 to 79
Question 10 Do you think the partial look-through approach provides additional flexibility or would an institution in practice rather apply either a full look-through or no look through at all?	The majority of respondents to this question thought that the partial look-through approach did provide additional flexibility. Some respondents felt that there would be increased use of such an approach if there was the introduction of an exemption for very granular products.	The revised guidelines will maintain the partial look-through approach as it does provide for additional flexibility. A granularity threshold has been introduced into the guidelines as mentioned above.	N/R Paragraph 74
Question 11 Do you think the mandate-based approach is feasible? If not, how could an approach, based on the mandate, work for large exposure purposes?	Some respondents believe that the mandate-based approach poses considerable challenges, or is even not feasible, especially not for full-service banks. The mandate of a CIU often does not list the names of the issuers in which the portfolio managers are/are not allowed to invest. The respondents mainly refer to their proposals set out in Question 8. They make two concrete proposals concerning only the mandate-based approach pointing out that the aspect of diversification of the	CEBS has taken into account these concerns and has revised the mandate approach. The scope is now more general, because it refers to the structure of the scheme (which can be known by the institution by different means, e.g. the mandate) and further relief has been provided by limiting the requirement to check the connection of a scheme's underlying assets against the institution's portfolio to exposures in	Paragraph 74

	scheme should be given more attention. Some comments underline that the mandate-based approach should be shaped in a way that the evidence of the connectedness can be proved from the mandate of the scheme. A comprehensive analysis should not be necessary.	the institution's portfolio which are higher than 2% of own funds. The aspect of diversification is part of Question 8 and the background to the introduction for the granularity threshold.	
Question 12 Do you believe that considering all unknown exposures and schemes as belonging to one group of connected clients is too conservative (approach d))? What alternative treatment would you propose (please note that, as explained above, an approach which allows for the treatment of unknown exposures and schemes as separate independent counterparties is not considered to be prudentially appropriate)?	Most respondents to this question said the proposed treatment was too conservative and represented an unrealistic worst case scenario. One alternative treatment included the exemption of exposures to schemes where diversification rules / granularity ensured that name specific exposures in the pool remained below a given threshold. Another alternative was for a higher limit than 25 % on the unknown client, or that there could be several different unknown client groups. A further alternative was to apply a haircut to the total exposure to the 'unknown client' in order to account for possible diversification.	As explained above, CEBS has taken into account most concerns from the industry and has addressed them by providing relief in various areas in comparison to the original proposed treatment for schemes. CEBS believes that the treatment which has now been proposed provides the right balance and that the remaining "unknown exposures" which do not fall under one of the exemptions should be considered together. Therefore, the proposal for a limit higher than 25%, or for haircuts has not been taken on board.	N/R (see above)

Question 13 What are your views about the proposed treatment for tranched securitisation positions?	A number of respondents supported the proposal. A few considered the proposal too burdensome, but they provided no specific data on the quantitative impact. One respondent considered the proposal disconnected from the institutions' risk management practices because the proposal did not take into account the correlation between the individual exposures within the portfolio. Given that the scenarios considered for large exposures purposes (i.e. the failure of a counterparty) are mutually exclusive, the grossing up of exposures does not reflect the true risk. Also a number of specific comments were raised as follows: (i) The 50% haircut applied to mezzanine tranches seems arbitrary as the risk would depend on each specific structure. The use of haircuts is very problematic in practice. (ii) For very granular portfolios, the alternative to add the exposition to the "unknown pool" is very conservative. Granularity should be taken into account. (iii) There is no reference to other types of credit enhancements such as liquidity facilities or guarantees. (iv) Subordination within the first loss tranches group should also be recognised (v) Given the variety of schemes more flexibility	CEBS considered the comments on diversification. Against the background that the purpose of the large exposures' rules is to limit the risk of failure of one, single counterparty, CEBS concludes that diversification effects can not be taken into account. As the risk of a first loss tranche is leveraged in relation to the risks of the underlying assets, an investor in a first loss tranche could suffer losses if any of these underlying assets defaults. The fact that these losses are mutually exclusive does not matter as the aim is to protect the institution from all these scenarios without taking into account their likelihood. This is consistent with the objectives of the large exposures regime. CEBS considered the specific comments and amended the guidelines to clarify that the 50% haircut was just an example of how any concern on the recognition of the mitigation value of junior tranches (i.e. due to the lags in the reassessment of the expositions once a counterparty has defaulted, or given the losses that could arise if the bank has to quickly adjust its positions due to a large exposure breach after a reassessment due to a counterparty default) could be addressed. Recognising that the	N/R Paragraph 85, Example 2

	should be provided in order to admit departures from the treatment in the guidelines (vi) First loss tranches should be exempted given that they attract a risk weight of 1250% in the solvency regime and therefore are fully covered by capital. Finally, some respondent asked for clarification of some parts of the text.	practical experience with the proposed treatment is limited and that the calibration of haircuts in this context needs further investigation, the guidelines do not prescribe the use of any haircut. CEBS plans to investigate further the application of specific haircuts. The problem of grouping all unknown exposures of very granular portfolios should be consistent with the treatment for non-tranched schemes; therefore, the same exemptions would apply here. Regarding other enhancements, CEBS has clarified in the guidelines that this section is only about the mitigation provided by a tranched structure and does not refer to other credit enhancements that could also be attached to the scheme such as guarantees or credit lines. This is because the recognition of these types of enhancements is not exclusive to these products but more general and, therefore, the general rules for recognition would fully apply. CEBS believes that the comments on the subordination within the first loss tranche should be addressed and this should, therefore, be recognised.	Footnote 17 This paragraph has been deleted from the guidelines

		The treatment of exposures that attract a risk weight of 1250% is a more general question; therefore, the treatment of the first loss tranches should be consistent with the treatment for direct exposures in the large exposures regime. As requested by some respondents, some changes were made to provide further clarity; in particular the formulas have been dropped and replaced by the examples that were in the annex to CP26.	N/R Paragraphs 87 and ff
Question 14 Do you consider the proposed treatment of tranched securitisation positions, when look through is applied, as appropriate? Do you think that the proposed treatment sufficiently captures the risks involved in such an investment?	Apart from some overlap with comments already made in Question 13, one respondent also mentioned the fact that with the crisis rating agencies have downgraded some senior tranches to the point where they attract a risk weight of 1250%, which precludes the treatment foreseen in point 88 (for very granular portfolios).	See comments in Question 13.	See Question 13
Question 15 With respect to the treatment of tranched securitisation positions,	Again, there was some overlap with comments already made in Questions 13 and 14. The majority of respondents believe that the mitigation effect of junior tranches should be	See comments in Question 13.	See Question 13

if it was necessary to take every tranche into account from the outset instead of the proposed treatment, would such a treatment address all risk involved in such a transaction and would it be sufficient to address concerns on undue burdens?	recognised. In general, they think that the proposed treatment is too conservative, therefore, no one supports a tightening on top of the current proposal.		
Question 16 In which cases is there no risk from the scheme itself so that it can be excluded from the large exposures regime?	A number of respondents said that the exposure to the scheme itself should be excluded when the only risk arises from the underlying credit exposures within the scheme and no other factors. These respondents identified funds that were issued in accordance with the requirements of the UCITS guideline as an example. They stated that as investors in these funds have an entitlement to restitution of the underlying assets in case of insolvency of the scheme, there should be no exposure to the scheme itself. Another respondent thought non-consolidated UCITS managed by an institution should be excluded from the large exposures regime. A further respondent said that where exposures are deducted from capital, such as first loss positions, they did not believe that there is any exposure to record for large exposures purposes.	CEBS believes that there will always be risk to the scheme itself and, therefore, does not abstain from the 25% limit for single schemes. If, however, an exposure is able to benefit from the specific exemptions in Article 113(3) & (4) of Directive 2006/48/EC available for intra-group exposures, the exposure to the scheme may be exempted. Exposures which are deducted from capital are not to be treated as exposures for the purposes of the large exposures regime.	N/R

<table>
<tr><th colspan="3">Reporting requirements</th><th>Amendments to the guidelines on large exposures' reporting

N/R: change not required</th></tr>
<tr><td>Question 17

Do you agree that the net exposure should be calculated as proposed above?</td><td>Less than half of the respondents answered this question. The majority of the respondents agreed with the proposal for the calculation of net exposure.

A minority of respondents raised the following concerns:

(i) The wording ‘net exposure’ seems confusing since it means prior to CRM.

(ii) For IRB banks the risk mitigation is inbuilt in credit models and, thus, not available for reporting purposes. This treatment would not seem compatible with the approach of IRB banks.

(iii) One respondent wonders if the derivatives should be categorized separately and states that indirect exposures guarantees issued by Central Governments etc should not be reported under column 1.8, but as being ‘credit protection’.

(iv) Another respondent misunderstood the concept ‘value of property’.</td><td>CEBS considered the comments received and has the following remarks:

(i) CEBS agrees and the wording ‘total net exposure’ was replaced by ‘total exposure before CRM’ in order to avoid any misunderstandings.

(ii) This information should be available regardless of the approach (Standardized or IRB) used by the institution. The rules on large exposures did not change; the framework is different to solvency requirements.

(iii) Exposures to counterparties that have the guarantee of Central Governments etc, should be reported as being ‘credit protection’, as it is clearly described in Annex 5, example no. 5 of the CP26.

(iv) CEBS has clarified in the text that</td><td>(i) Paragraphs 26, 30, Annex 2 (ID 10)

(ii) N/R

(iii) N/R

(iv) Paragraph</td></tr>
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		the meaning of 'value of property' is the market or mortgage lending value.	38
Question 18 Do you agree that the 10% limit should be calculated as proposed in column LE 1.11 above?	Only half of the respondents responded to this question. One gave his explicit consent; those disagreeing did so on the following two grounds: (i) Some respondents disagreed on the proposed simplification in para.123 of CP26 to calculate the 10% limit based on own funds given in COREP CA 1.3.LE only. This would put those credit institutions operating in Member States where the respective national discretion is exercised at a disadvantage. (ii) Some respondents disagreed that the 10% limit should be applied to the net exposure (LE 1.10) as this would also cover intra-group exposures and exposures to sovereigns weighted at 0%. One respondent remarked that the 10% should be calculated on a post-CRM basis.	CEBS considered the comments received and concluded the following: (i) CEBS agrees and the respondents' suggestion is taken up. Two more columns are included in the part of Template 1 headed 'Exposure value before CRM' (analogous to calculation of 25%-limit). (ii) CEBS disagrees and did not address this comment in the guidelines. The CRD is clear on this (see Article 108 of Directive 2006/48/EC). Only for the calculation of the 25%-limit, shall the exemptions of Articles 112 to 117 of Directive 2006/48/EC be taken into account. This is already applicable law, i.e. there were no changes to the CRD in this regard. The revised Article 110(1) of Directive 2006/48/EC underpins this by explicitly requiring that large exposures exempted from the calculation of the 25%-limit in the reporting be included.	(i) Paragraphs 30 31 and 32, Annex 2 (ID 12 and 13) (ii) N/R
Question 19 Regarding the example	Most respondents did not comment on this question. With regard to those who did, some gave their explicit consent, one expressed his indifference and those disagreeing were critical of the fact that the	The first comment on double counting was not taken up by CEBS on the basis of the Commission's answer to CRDTG-Question No. 247. This	N/R

concerning the Credit Linked Note (set out in the text above and in Annex 5 as Example 6), Bank X is the protection seller and reports its potential exposure to Bank B as indirect exposure (5). Do you believe it is correct to report such exposures in column 8 or would it be better to report them in column 5 as direct exposures, because they did not arise as a consequence of substitution?	exposure linked to the CLN is counted twice (under Bank B as indirect exposure and under the SPV as direct risk). One respondent proposed to treat protection sold in the form of credit derivatives like extended guarantees. It was suggested that the indirect/potential exposure to Bank B be reported under column LE 1.7 ("of which: Off-balance sheet").	response is very definite about the issue of indirect exposures: "*both the exposure to the issuer of the note and to the obligor of the protected reference exposure have to be counted towards the limits for the respective client or group of connected clients*"; (see footnote 21 in CP26). The second comment on the treatment of protection sold in the form of credit derivatives was not taken up in the guidelines. CEBS decided to stick to the proposed treatment in CP26, as the exposure arising from the underlying of a CLN is more similar to an indirect exposure.	N/R
Question 20 Please express your preference for one of the two alternatives outlined for the identification of a client or group of connected clients (2-Templates-Approach vs. 1-Template-Approach).	All responses to this question except one favoured the two-template approach. One comment mentioned that there are differences with respect to COREP as to terminology. Another respondent criticised the level of detail of the draft guidelines.	In line with the majority of the comments received the guidelines will propose the two-template approach. Where possible wording is in accordance with other COREP templates, however, differences in wording still exist as they reflect the differences in concepts and calculations between the large exposures regime and solvency regime. As already mentioned in CP26, the level of detail is required by the	Paragraph 16 and Annex 1 N/R N/R

		Directive.	
Question 21 Do you agree with the proposed reporting of CRM, in particular to differentiate only between "unfunded", "funded" and "real estate"?	Most comments agreed with the proposed reporting. One respondent thought it too detailed. Some comments questioned which "real estate value" should be used.	As already mentioned in CP26, the level of detail is required by the Directive. CEBS has made it clear in the text that the market or mortgage lending value should be used.	N/R Paragraph 38
Question 22 Would it be possible to include more detailed information in the large exposures reports, such as the total amount of collateral and guarantees available vs. the eligible part?, types of securities and issuers provided as collateral, or would this be too burdensome?	All respondents to this question were of the opinion that adding additional detailed information would be too burdensome. If needed, supervisors could ask for extra information under the supervisory review process.	Agreed. CEBS does not propose to add further detail.	N/R
Question 23 Please provide examples where the reporting instructions	Respondents called for further clarification with regard to the following issues: (i) Para.108 vs. 138: some respondents asked for clarification with regard to the reporting of groups of connected clients in Template 1; their understanding was that GCCs are to be treated as one single client	(i) Agreed. In CP26 the reporting of all large exposures (i.e. also those belonging to a group of connected clients) was proposed; however, as the 10%-limit applies before CRM and exemptions, this would have resulted in a potentially significant increase in	(i) Paragraph 49 and 50 and Annex 1 (template 2)

are not clear to you.	(i.e. large exposures within a GCC should not be reported in Template 1). This would be seen as in line with para.138 (IRB-reporting requirement of 20 largest exposures). (ii) Annex 3 (Reporting Template): some respondents miss an explanation for reporting CCFs (Article 113 (4) (i) of Directive 2006/48/EC. (iii) Para. 129: some respondents would appreciate further clarification with regard to the 50% figure. (iv) Annex V: some respondents asked for clarification of the examples given in Annex V, e.g. example 2 - rule for haircut application; additional example to clarify the calculation in LE 1.19 and LE 1.20 (COREP CA 1.3.LE = 100; COREP CA 1.6.LE = 110). (v) Para. 101: one respondent asked whether point-in-time reporting is required, or the reporting of average figures over the reporting period (i.e. maximum usage or data per reporting date only, as in solvency regime). (vi) Some respondents asked for further explanation of the term "exposure value" (accounting vs. solvency regime). (vii) Para. 104: some respondents would appreciate guidance on how the analysis of concentrations (Article 110(3) of Directive 2006/48/EC) should be executed. (viii) Para. 120: some respondents remarked that it would be difficult to trace the correct weighting given that only a breakdown between on and off-balance	exposures to be reported that do not add to the 25% limit. Therefore, the guidelines (Template 1) now will henceforth regard the reporting of exposures that exceed the 10% limit as a single client <u>or</u> as a group of connected clients (the example was amended accordingly). To receive information on which clients within the group constitute large exposures and which add to the 25%-limit, an additional column was introduced in Template 2. (ii) Exemptions are to be reported in LE 1.16 (now LE 1.18). (iii) Agreed. Further clarification was taken up in the text. (iv) Agreed. The examples in the Annex were revised. (v) Agreed. Clarification was included in the text. It is CEBS's understanding that for the 10% limit a point-in-time (data as per reporting date) is required, i.e. exposures that grow to become large exposures during the reporting period, but fall again under the 10%-limit at the reporting date need not be reported. Exposures which go beyond the 25% limit shall be reported without delay. (vi) The draft guidelines do not require accounting numbers to be	(ii) N/R (iii) Paragraph 38 (iv) Annex 3 (v) Paragraph 9 (vi) N/R

	sheet exposures is requested in LE 1.5 to LE 1.8.	used; all references are to the requirements of the solvency regime. (vii) This would go beyond the scope of these guidelines (dealing with standardised reporting only). (viii) The two parts of the proposed Template 1 – "Exposure value before CRM" and "Exposure value after CRM" – do not mirror each other (e.g. in LE 1.16, the sum of exemptions if applicable is to be given, no further breakdown); both templates were designed on a need-to-know basis.	(vii) N/R (viii) N/R
Question 24 Do you think the identification system of the counterparty as proposed and based on national practices is practical? Does an identification system based on national practices generate problems for cross-border banks? If yes, please describe the problems and propose how they can be solved.	Around half of the respondents provided their comments and highlighted the following aspects: (i) The need to introduce an international identification system as a more practical and simple solution. (ii) With regard to changes in encryption, the cost involved must be taken into consideration and suitable lead times planned. (iii) The difficulty in codifying any group of connected clients as the component of each group of connected clients may change from one quarter to another.	CEBS notes the points raised and sees some merit in the proposal for the introduction of an international centralised system. However, such a proposal is far reaching and goes beyond the scope of the present guidelines. Therefore, CEBS is not in a position to propose that solution at this moment and in this context, but it would give it due consideration in future work.	N/R
Question 25	Respondents sought for further clarification on the	Agreed. CEBS provided the necessary	

Are the references to COREP provided in this paper and in Template 1 – as set out in Annex 4 - clear and sufficient or is further guidance required? If yes, please specify the problems.	following issues: (i) In the legal references and comments the amount in column 16 should be negative. (ii) The exact counterparties that should be reported in Template 1 in a 2-Template approach (all large exposures within 1 group, or only 1 large exposure for each group). (iii) Additional code (intra-group non-credit institution) that should be foreseen when defining the type of institution (column 2).	clarifications in the guidelines.	(i) Annex 2, ID 18 (ii) Paragraphs 49 and 50 (iii) Annex 2, ID 2