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European Banking Authority (EBA)
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Dear Sir/Madam

EBA Consultation – Draft Guidelines on Capital Measures for Foreign Currency Lending to Unhedged Borrowers under the (Supervisory Review Evaluation Process (SREP)

Barclays welcomes the opportunity to comment on the EBA's 'Draft Guidelines on Capital Measures for Foreign Currency Lending to Unhedged Borrowers under the SREP', and valued the opportunity to attend the EBA's public hearing on proposals on 26 July 2013.

Barclays is in agreement with the approach of including all material risks under the ICAAP and capital provisioning against such risks. To this extent we welcome the materiality threshold introduced by the Guidelines. However we are of the opinion that the Guidelines would benefit from improving the clarity of definitions in part to confirm the scope of the Guidelines and some of the terms used. In addition, as the risk of unhedged borrowers is a credit risk it should already be included under the Pillar I assessment of Credit Risk and to require it to be addressed as a standalone risk has the potential to lead to the double counting and provisioning against the risk.

Below is a summary of our key points and recommendations:

1. **Scope of the requirement:** Barclays understands that the guidelines have been drafted at the direction of the ESRB which issued a Recommendation requiring the EBA to address the risk posed to the financial system by 'unhedged borrowers'. According to the ESRB paper and the hearing, the Guidelines are primarily aimed at Retail and Small and Medium Sized Enterprises. Barclays recommends that the scope of application is made clearer in the guidelines with a specific carve out included for larger corporate clients and counterparties.

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2. **The materiality threshold:** Barclays considers that the materiality threshold can be useful in providing a guide as to whether an exposure is material. However we consider that it is important that any add-on applied for this risk is on the basis of unmitigated risk rather than just on the basis that the materiality threshold is met. A differentiation should be made for effective risk management, so if this risk is effectively mitigated by other means (e.g. appropriate controls are in place to grant and monitor the loans) then there should be supervisory discretion as to whether additional provisioning should be applied.

3. **Challenges in identifying hedges**: Even where borrowers do have in place a hedge, the lending bank may not necessarily be aware that a borrower has taken out a hedge elsewhere. To make it a condition of a loan that a borrower has in place a demonstrable hedge, may lead to the borrowers without a natural hedge, taking out a complex product that may not necessarily be suitable for the borrower in question.

4. **Potential for double counting**: Since the risk of unhedged borrowers is a credit risk, it would normally be included under the Pillar I capital charge for credit risk, so it would not normally be addressed separately as a standalone risk and to address it separately may lead to double counting of the risk and the provisioning. Supervisors should have the discretion as to whether a capital add on is applied, to the extent that the risk is not already covered under Pillar I, or unmitigated.

5. **Potential unintended consequences:** Barclays considers that care must be taken to ensure that the requirement to hold capital against unhedged Retail and SME borrowers, does not lead to individual hedging products being sold to borrowers for which such products may not be suited. To address this risk, the EBA could instead focus on a hedge being present at a bank level (e.g. against the whole book of exposures) rather than the individual borrowers entering into a hedge and also seek to ensure that any suitability rules pertaining to such products are strengthened.

6. **Implementation lead in time period:** As part of the credit application process, foreign currency lending borrowers would usually expect to show that they have sufficient matched currency income streams to meet their foreign currency obligations. These details are held on an individual level and not on an aggregate level. Systems development may therefore be required in order that an aggregate view can be taken to review against the proposed materiality threshold. Barclays would therefore encourage the EBA to engage with industry regarding the implementation timing of the guidelines.

We thank you for your consideration of our letter and should this be of assistance, we would welcome any opportunities to engage further with the EBA in the development of its Guidelines.

Yours faithfully

William Hayward
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