



FEDERATION  
BANCAIRE  
FRANCAISE

*Banking supervision  
And Accounting issues Unit  
The Director*

Paris, March 26<sup>th</sup> 2012

**FBF Response - Draft ITS on Supervisory Reporting Requirements for Large Exposures – (CP51)**

Dear Sir,

The French Banking Federation (FBF) is the professional body representing over 450 commercial, cooperative and mutual banks operating in France. It includes both French and foreign-based organizations.

The FBF welcomes the opportunity to comment the Consultation Paper on draft ITS on Supervisory reporting requirements for Large Exposures.

Although we support the aim of the consultation paper CP51 proposals to introduce uniform and harmonized requirements, we question the interaction of the Large Exposure reporting with pillar II framework. As the geographical and sector information to be provided is already covered under Pillar II framework, we believe it constitutes duplication. Large Exposures reporting should not also distort objective of the Large Exposures monitoring. The proposals of the EBA mix requests necessary for the micro-prudential supervision with those of macro-prudential nature expressed in particular by the ESRB ("European Systemic Risk Board").

The EBA proposals imply to collect very granular data far from the already publishes guidelines. Therefore the high volumetry of information required questions the costs / benefits analysis expected because of the high IT developments costs that will be generated and that would be disproportionate. Moreover clarification is needed with the application of the NACE sector codes and counterparty identification codes.

We would like to refer to the principle of proportionality as stated in the Article 5 of the Treaty on the European Union and encourage the EBA to apply this principle when assessing the data to collect to be "limited to what is necessary according to the pursued objectives" of harmonized and proportionate prudential supervision.

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Accordingly, the first time application of the CP51 reporting as proposed is unrealistic from a practical point of view as to the magnitude of the changes involved. Moreover, other projects related to regulatory supervision should also be considered and notably COREP and FINREP. Therefore, we advocate postponing until 1<sup>st</sup> January 2016. Until then, large exposure regimes as applicable in the Member States should continue to apply. We believe as well that Large Exposures remittance dates need to be extended to 45 business days as granularity of data to provide is higher than the data already reported under the current large exposure reporting.

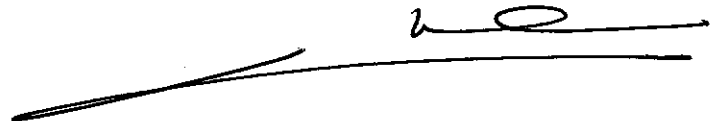
The threshold as defined in the consultation paper is too low and would lead to numerous detailed data to report and significant costs for financial institutions with no added value for supervision of Large Exposures. Thus, we suggest defining for template LE1 an absolute threshold of EUR 300 million and for template LE2 an absolute threshold of EUR 50 million.

The technical tools designed to capture and to process the data reported by the financial institutions should be set up in a way that they would have the technical capacity to absorb the high volumetry of the data reported according to the scale and granularity of the EBA requests.

Our comments to the questions of the consultation paper are detailed in the Appendix to this letter.

We hope you find them useful and would be pleased to provide any further information you might require.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized 'J' followed by a loop and a horizontal line, positioned above a solid horizontal line.

Jean-Paul CAUDAL

## **Appendix :**

### **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.**

Changes imposed by the EBA proposals are of a large scale due to the granular data required, the new breakdown and the introduction of a lower threshold. Introducing such changes takes time to be achieved. It implies important and highly costly IT developments. The development of the interface between data systems and the standard software producing the Large Exposures reporting will imply as well significant costs. Reporting the counterparty's identification codes and the NACE codes is one of the issues the financial institutions would have to face. Codes in the counterparties' databases would have to be linked to the individual counterparts before being collected for the Large Exposures reporting. Some clarification is also needed concerning the look-through approach whether it should be based on the CEBS guidelines or on future new EBA guidelines.

Besides, other projects pending related to enhancement of regulatory supervision should also be considered and notably COREP and FINREP which are envisaged to be implemented at the same time as Large Exposure reporting. All these reporting projects should be analysed with coordination in order to avoid unintended consequences and duplications of data and in order to mutualise sources and data to be collected. They all imply restructuring the IT systems (reporting and sources systems) and reviewing the internal reporting processes.

Therefore, the postponement of the implementation of the Large Exposures should be considered to allow a minimum time delay to financial institutions to properly lead these projects.

We advocate for the date of implementation as at 1<sup>st</sup> January 2016. Meanwhile, as far a transitional period is concerned, reporting could be carried out on the basis of existing reporting structures.

### **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?**

Please refer to question 1.

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

Large Exposure reporting comes within the framework of the implementation of large scope of ITS on supervisory reporting and notably the implementation of COREP and FINREP reporting which are expected to be implemented at the same time. Therefore, Large Exposures Reporting is closely linked to the other ITS supervisory reporting.

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

We see no rationale to reduce the absolute threshold as proposed by the EBA. Such level of threshold would imply additional constraints of constitution of clients or groups of connected clients, possible additional reporting for small-sized underlying entities with increased granular information.

We do not believe these additional requirements and additional information provided generated by a so low threshold would help the EBA to meet its aim of monitoring financial institutions compliance with large exposure.

We believe that adequate proportionality should be applied when assessing the data to be collected and to limit them to what is necessary according to the pursued objectives of harmonized and proportionate supervision of concentration and contagion risks.

So the absolute threshold of EUR 150 million would generate higher and disproportionate costs as the number of counterparties to be reported would be more than doubled. As an example for some French banks, the current large exposure reporting contains, with the current threshold of EUR 300 million, up to 300 counterparties which correspond to about 12 000 third parties that should be reported under the LE2 proposals.

Therefore we strongly propose to maintain the current threshold of EUR 300 million for the template 1.

Besides, we suggest as well defining a second threshold for the template 2. We propose an absolute threshold of EUR 50 million.

**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.**

Some clarification is needed regarding the following items:

Netting agreements: These contracts are managed by legal entities making difficult a breakdown by underlying assets. Indeed netting agreement transactions towards big banks are traded by clearing houses. Thus it is difficult to provide such breakdown for the underlying assets unless to define rules of breakdown of the exposures by counterparties. Reporting the netting agreement in Template LE2 by detailed counterparties is very burdensome.

Moreover, we assume that exposures from netting agreements and collateralised derivatives are already included as net positions in column 070 and that no breakdown is required in columns 230 to 250.

Breakdown of exposures: The breakdown of exposures should be aligned with the COREP exposures (on-balance, off-balance, counterparty credit risk) instead of according to FINREP.

Column 020 / Code of the group: What are the practices to be retained for an "unknown client" to whom the establishment was not able to use the look-through approach? Considering the increase of the counterparties to be provided in Template LE2, would the "fictitious" codes still be supplied?

Column 050 / Sector: Since the NACE code indicates also the sector to which the client belongs, we suggest to report the NACE code for all the clients, but not to report the Sector.

Column 060 / NACE code: It is unclear what is to be entered in this field: the codes or the names of the NACE code? We suggest to report the NACE code for all the clients, but not to report the Sector.

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

Cost implications of introducing a breakdown by residence of counterparties would result in a relatively low marginal cost.

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

First of all, we would like to highlight the discrepancies of the definition of the segmentation by sector with the segmentation proposed under COREP reporting. Increasing reference tables because of different definitions used for a same concept would lead to various interpretations of notions. Then, it would generate additional burden and costs. It would also prevent from possible comparisons. For these reasons, we urge the EBA to reconsider the issue. We consider that common reference tables are needed. We believe that the segmentation by sector should be envisaged in line with the segmentation under COREP.

Concerning costs implications, introducing a breakdown by sector of counterparties would generate a rather low marginal cost subject to consistency of the definitions with those of COREP.

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

The marginal costs of implementation of the breakdown by codes NACE of the counterparties should, even there, be relatively low. These costs could even be reduced since the basis of the codes NACE would be made available for banks by the regulators

Having said that, since the NACE code indicates also the sector to which the client belongs, we would propose to report the only NACE codes for all the clients and consistently, not to report the sector. Supervisors and the ESRB would have at their disposal granular information about the whole population of large exposures. Furthermore it would avoid any misinterpretation of the definition of the sector, as in some cases clarification might be needed (i.e. to which sector are allocated to local authorities, public sector entities, multilateral developments banks and international organization?).

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

We suggest to report the NACE code for all the clients, but not to report the sector.