Questionnaire sent out to CEBS members and observers

[Indicate the country]

1. The definition of 'Large exposures'

a. General definition

Article 106[1] defines 'exposures' as any asset or off-balance-sheet item referred to in the definition of 'exposure value' for the Standardised approach, without application of the risk weighting or degrees of risk there provided for. More details are further specified in the article.

1. **What is your definition of 'exposures'?**
2. **What is your definition of 'exposure value'?**
3. **What are the elements entirely covered by own funds that are excluded from the determination of exposures? How do you treat those exposures ?**

b. The definition of large exposure and connected clients

Under **Art 108**, a credit institution's exposure to a client or group of connected clients shall be considered a large exposure where its value is equal or exceeds 10% of its own funds. Article 4 (45) provides with the definition of 'group of connected clients'.

4. **What is your definition of 'large exposure'?**
5. **What is your definition of 'connected clients'?**
6. **How are the 'connections' identified –legally and/or economically? What type of information do you use to verify these connections?**

2. The scope of application of LE

[1] the exact wording of the mentioned articles are provided in the final version of the CRD : ECOFIN 299- 12890/5.

Art 68(1), 71(1) and (2), 73(2) define scope of application of LE. Art 69(1) and Art 69 (2a) provide two waivers of how the Member States may choose not to apply Art 68(1) provided certain conditions have been fulfilled.

7. **Do you intend to apply Art 69(1)? Same question for Art 69 (2a)**

Art 118 states that where compliance by a credit institution on an individual or sub-consolidated basis with the obligations imposed in the LE rules is disapplied under Art 69(1), or the provisions of Article 70 are applied in the case of parent credit institutions in a Member State, measures must be taken to ensure the satisfactory allocation of risks within the group.

8. **What kind of measures should be taken to ensure a satisfactory allocation of risks within the group?**

9. **How do you intend to verify them?**

Art 107 defines what ‘credit institution’ means under the LE regime. Moreover, Art 3(2) allows credit institutions permanently affiliated to a central body which supervises them and is established in the same Member State, to be exempted from the LE regime provided that certain conditions are met.

10. **Which types of institutions are subject to the LE requirements under Art 107?**

11. **Is Art 3(2) exercised in your jurisdiction and if so how?**

3. <u>The administrative and accounting procedures and adequate internal control</u>

Under **Art 109,** competent authorities shall require that every credit institution have sound administrative and accounting procedures and adequate internal control mechanisms for the purposes of identifying and recording all large exposures, and monitoring them in the light of institutions’ own exposure policies.

12. **How do you apply Art 109? Have you stipulated more detailed requirements?**

13. **How do you evaluate the procedures and internal control mechanisms that the institutions have in place for controlling large exposures (on-site inspections, desk-based approach etc…)?**

4. The reporting of the LE

Under **Art 110(1)**, Member States are given two options with regard to reporting requirements:

(a) reporting of all large exposures at least once a year, combined with reporting during the year of all new large exposures and any increases in existing large exposures of at least 20% with respect to the previous communication;

(b) reporting of all large exposures at least four times a year.

14. What is the exact frequency of the reporting: annually, twice a year, quarterly, others…?

15. Do you apply the same frequency on an individual basis and consolidated basis?

16. Do you have different thresholds for reporting purposes?

17. Do you perform ad hoc on-site examinations to check the quality of the data reported?

Art 110(2) allows Member State to exempt from reporting some exposures and to reduce the reporting frequency for other types of exposures.

18. Do you exempt institutions from reporting the exposures referred to Art 110(2)? If so, under which grounds and are there any specific requirements?

19. Do you reduce the reporting frequency for certain exposures as laid down in Art 110(2)? If so, under which grounds and are there any specific requirements?

Art 110(3) states that Member states may require credit institutions to analyse their exposures to collateral issuers for possible concentrations and where appropriate take action or report any significant findings to their competent authority.

20. How do you intend to transpose this provision?

21. More generally, do you think that the LE regime should also try to capture (and limit) sectoral concentrations?

4. The limits on LE

a. Their application

Art 111 sets out three limits (1) 25% for a single exposure, (2) 20% for intra-group exposures, (3) 800% for the total of LE. Moreover, it specifies in paragraph (4) that if in an exceptional case exposures exceed those limits, that fact must be reported without delay to the competent authorities which may allow the credit institution a limited period of time in which to comply with the limits.

22. **Do you apply the limits referred to in paragraph (1)? Same question for para (2)? and para (3)? How binding are these limits?**

23. **For your top five largest banking groups: how many large exposures (over 10%) are reported? How many Over 15%? How many over 20%?**

24. **If you exempt the exposures referred to in paragraph (2), what is the content of the 'specific monitoring' provided to you -i.e. what measures or procedures?**

25. **Have you made use of paragraph (4)? If so how do you proceed when an institution has reported an exposure exceeding the limit? e.g. Do you apply criteria to determine the period of time referred to in this paragraph?**

Art 113(1) allows Member States to impose more stringent limits.

26. **In which cases do you impose more stringent limits than those laid down in Art 111(1) to (3)?**

27. **To what extent do you think that the limits laid down in para (1) to (3) "bite" for larger institutions? For smaller institutions?**

28. **Do you think that the current limits of 25% (and 20% for intragroup exposures) combined with the national discretion of imposing more stringent limit is satisfactory, both from a prudential and from a level playing field perspective?**

29. **Do you think that these limits should be lowered?**

Art 113(2) allows Member States to fully or partially exempt from the limits of Art 111(1) to (3) exposures incurred by a credit institution to its parent undertaking, to other subsidiaries of that parent undertaking or to its own subsidiaries, in so far as those undertakings are covered by the supervision on a consolidated basis to which the credit institution itself is subject, in accordance with the CRD or with equivalent standards in force in a third country.

30. **Do you apply Art 113(2)? If so, under which circumstances?**

31. **What third countries have you recognised as having 'equivalent standards'?**

Art 113(3) allows Member States to fully or partially exempt a list of exposures from the application of Article 111.

32. Please list in the excel worksheet attached the items which are exempted from Art 111 and provide comments on the extent to which they are exempted.

b. The value of the exposures

In respect of credit institutions using the Financial Collateral (Comprehensive Method) under Articles 90 to 93, **Article 114(1)** allows Member States to permit such credit institutions, in the alternative to availing of the full or partial exemptions permitted under the specific points of Article 113(3), to use a value lower than the value of the exposure, but no lower than the total of the fully-adjusted exposure values of their exposures to the client or group of connected clients.

33. Do you intend to use the discretion laid down in Art 114(1)? If so how?

34. Do you consider that further collaterals should be recognised?

35. If "thresholds" were to be re-calibrated to make limits more "biting", to what extent do you think that the list of collateral/ guarantees should be enlarged to keep pace with industry developments (e.g. in the case of Credit derivatives)?

Art 114(2) allows credit institutions permitted to use own estimates of LGDs and conversion factors for an exposure class under Articles 84 to 89, to recognise, where it is able to the satisfaction of the competent authorities to estimate the effects of financial collateral on their exposures separately from other LGD-relevant aspects, such effects in calculating the value of exposures for the purposes of Article 111(1) to (3). Supervisors shall be satisfied as to the suitability of the estimates produced by the credit institution.

Moreover, credit institutions which does not calculate the value of their exposures using the method referred to in Art 114(2), shall use either the approach set out in Art 114(1) or the approach set out in Article 113(3)(o).

36. How do you intend to apply Art 114(2)? What is your understanding of 'separately from other LGD-relevant aspects'?

37. What criteria/indicators etc do you intend to use to be satisfied as to the suitability of the estimates produced by the institution? Have you assessed the impact of this procedure in terms of capital relief?

Art 114(4) allows Member States to treat any covered part of the exposure as having being incurred to the collateral issuer rather than to the client.

38. Do you intend to apply Art 114(4)? If so, how?

c. Weighting of claims on Member State regional governments and local authorities

Art 115(1) allows Member States to apply 0% (resp 20%) to asset items constituting claims on Member State regional governments and local authorities where those claims would receive a 0% (resp 20%) risk weight under the SA.

Art 115(2) allows Member States to apply a weighting of 20% to asset items constituting claims on and other exposures to credit institutions with a maturity of more than one but not more than three years and a weighting of 50% to asset items with a maturity of more than three years, if certain conditions are met.

Art 116 allows Member States to apply a weighting of 20% to asset items constituting claims on and other exposures to institutions, regardless of their maturity, in derogation from Article 113(3)(i) and Article 115(2)

Questions

39. Do you intend to treat the claims on regional governments and local authorities in accordance with Art 115(1)? If not, what will you do?

40. Which treatment - Art 115 (2) or Art 116- do you apply to the claims on institutions?

d. Third party guarantor

Article 117 gives two possibilities for Member States to treat an exposure to a client which is guaranteed by a third party.

41. How do you apply Art 117(1)?

5. Application of the LE rules to the Trading book in accordance with the recast Directive 93/6/EEC

Art 28 sets out that the LE regime of institutions subject to the recast Directive 93/6/EEC is the same as that set out in Art 106 to 118 of the Directive 2000/12/EC. As derogation, institutions which calculate the capital requirements for their trading book in accordance with Annexes I, II and V, shall monitor and control their LE in accordance to the Directive 2000/12/EC regime subject to the amendments laid down in Art 29 to 32 of Directive 93/6/EEC.

42. **Is this derogation used by institutions in your jurisdiction? If so, give indication on how important this use is.**

Under **Art 30(4)**, competent authorities may allow assets constituting claims and other exposures on recognised third-country investment firms and recognised clearing houses and exchanges in financial instruments to be subject to the same treatment accorded to those on institutions laid out in Art 113(3)(i), 115(2) and 116 of Directive 2000/12/EC

43. **Do you make use of this derogation? If so, how? e.g. applying criteria on the assets themselves, or using a list of recognised third-country investment firms and recognised clearing houses and exchanges in financial instruments?**

Art 31 allows competent authorities to allow the limits laid down in Art 111 to 117 to be exceeded provided that certain conditions are met

44. **Have you made use of this provision? What procedures do you follow?**

45. **How frequently –in average- does the breach of limits happen? How important the breaches are?**

Art 32(1) requires competent authorities to establish procedures to prevent institutions from deliberately avoiding additional capital requirements. These procedures should be notified to the Council and the Commission

46. **What procedures have you established and required institutions to put in place?**

Art 32(2) allows competent authorities to permit institutions to use the alternative determination of own funds under Art 13(2) to use that determination for the purposes of the calculation of large exposures provided that certain conditions are met

47. **Have you made use of this provision? If so under which circumstances and give indication on how important this use is.**