

# Swedish Bankers' Association

## Svenska Bankföreningen

POSITION PAPER  
20<sup>th</sup> February 2008

CEBS  
By email to:  
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### **Second consultation paper on CEBS' technical advice to the European Commission on the review of the Large Exposures rules (CP16)**

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Swedish Bankers' Association welcomes the opportunity to comment on CEBS second consultation paper on the review of the Large Exposures rules.

As a member of the European Banking Federation (EBF) we support the conclusions in the EBF response to the consultation paper. Especially we want to emphasize the following:

- The large exposure framework must be aligned with the CRD rules as much as possible. Otherwise the framework will be very costly and burdensome for the banks to apply.
- The large exposure framework must apply only at group level.
- The aggregated effect of the different rules discussed in the consultation paper could seriously affect centralised funding activities for many large banking groups.

As we understand CEBS consultative paper it contains several new and important proposals. A number of these proposals will, most probably, have major impact on many banks and on how they operate their business. Below we have chosen to focus on three central issues for the Swedish banks. These issues are connectedness of clients, limits on intra-group exposures and limits on interbank exposures.

#### **Connectedness of clients**

When clarifying the definition of "group of connected clients" CEBS proposes to use control criteria and economic dependency criteria. We support the approach to use control criteria but strongly oppose that economic dependency between clients be a criterion for connectedness, e.g. because of an unavoidable arbitrariness in the definition. Instead we consider it part of the more general concentration risk category, thus to be reviewed under Pillar 2, and to fall outside the scope of the Large Exposure regime.

As we see it the details of how to interpret connectedness is an aspect of "sound principles for credit risk management", as represented in each bank's credit risk policy and thus subject to supervisory comments. Therefore we would strongly oppose any requirement to use another

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definition of connected clients for large exposure reporting than that used for internal credit risk management.

### **Limits on intra-group exposures**

For intra-group exposures the CEBS proposal is divided into three different categories. These categories are exposures; *i*) to entities within the same Member State; *ii*) to group entities in different Member States and *iii*) to group entities in non-EEA jurisdictions. CEBS propose to exempt exposures to entities within the same Member State from limits. Further CEBS propose a range of options for exposures to group entities in different Member States. In one end CEBS propose that all cross-border intra-group exposures in EEA should be included in large exposures limits. In the other end of the options for cross-border exposures CEBS propose not to apply limits at all. For exposures to group entities in non-EEA jurisdictions CEBS propose three different options ranging from limits on all intra-group exposures to entities in non-EEA jurisdictions too limits but with a range of national discretions to allow national authorities to impose looser (or stricter) conditions on these exposures.

In Sweden many large banking groups have organised their operations outside our jurisdiction via subsidiaries. The Swedish legislation exempts exposures between entities within the same group from the large exposures regime, under the condition that the entities are subject to consolidated supervision and that competent authorities supervise the entities. Normally banks centralise their funding activities for the entire group. This approach is from a capital allocation perspective and from a cost perspective very efficient.

We fully support CEBS analysis and proposal that intra-group exposures to entities within the same Member State should be exempted from the limits on the ground that they do not contain credit risk.

Concerning intra-group exposures between Member States we are of the opinion that they should be exempted from limits. Limits would without doubt affect capital markets nationally and internationally. In a scenario with limits for these kinds of exposures we would have a situation where the centralised functions of liquidity management most probably have to be reorganised. A serious effect of this is that the parent company and its subsidiaries must compete on the international capital markets for the funding of the same banking group. A consequence of this is that we will have smaller units surging for capital leading to higher cost of capital for these units but also involving more personnel from a group perspective resulting in higher costs. Most probably this would lead to implications on how banks' organise their business. One scenario might be that we will have an increase of branches within the EEA and globally (with the same reduction of subsidiaries) leading to consequences for the supervisory community, but also from a transparency point of view for the host supervisors of branches.

Our firm standpoint is therefore that limits for intra-group exposures between Members States will lead to inefficiency in capital allocations and also to higher costs for the management of liquidity within banking groups.

### **Limits on interbank exposures**

Many Member States today exempt unsecured interbank exposures of less than one year's maturity. CEBS concludes in the proposal that there is evidence that a market failure could exist with respect to large exposures as such exposures give rise to systemic risk and are

associated with moral hazard problems. In some Member States, the cost/benefit analysis suggest that the benefits of correcting this market failure outweigh the cost of any regulatory failure that intervention might introduce, although in other Member States this is not the case.

In the proposal CEBS state that it has yet to conclude what the most appropriate treatment for interbank large exposures.

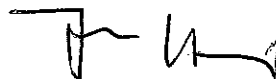
Following CEBS "unforeseen event" train of thought we see good reason to keep some kind of preferential treatment (not necessarily the currently used scheme) for interbank exposures. Not only because of the high credit quality of banks but because they are supervised. Aware of the caveats discussed in CEBS proposal, we still trust supervision to have the effect that any bank failure will be much less "unforeseen" than failure for borrowers in general.

Limiting interbank gross exposures at 25 per cent of funds would increase liquidity management costs for large and small banks alike, and could aggravate situations where overall liquidity is scarce. This scenario is particularly problematic for countries outside the euro-zone and where the counterparties are few. Therefore we truly believe that the dilemma would be diminished if shorter maturities would be exempted from the regime of large exposures limits.

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