REVIEW OF THE LARGE EXPOSURES REGIME

THE EBA'S RESPONSE TO THE EUROPEAN COMMISSION'S CALL FOR ADVICE

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EUROPEAN BANKING AUTHORITY

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Executive summary

This report sets out the European Banking Authority's (EBA's) response to a call for advice (CfA) from the European Commission (the Commission), dated 26 April 2016, on the review of the large exposures framework in Regulation (EU) No 575/2013 (CRR). The report is divided into three different sections: Section 1 analyses the impact of aligning certain aspects of the European Union (EU) large exposures regime with the Basel Committee on Banking Supervision (BCBS) standards on large exposures; Section 2 assesses the use and the potential impact of the removal of five exemptions from the large exposures regime; and, in Section 3, the EBA provides its views on other aspects of the large exposures framework that require further work.

Alignment with the BCBS large exposures framework

For the purposes of this section, the EBA has analysed available large exposures data reported on a consolidated basis by a sample of 198 institutions (not including investment firms or the smallest banks in the EU), with a reference date of 31 March 2016.

Considering the benefits of a stricter capital base, of achieving consistency with the BCBS standards, and the results of the impact assessment on this sample of institutions, the EBA considers that it would be appropriate to strengthen the large exposures capital base by considering only Tier 1 capital instead of including a proportion of Tier 2 capital (as currently allowed). The data analysis indicates that this change would have a bigger impact on the smaller institutions in the sample.

The data analysis also indicates that a reduction of the large exposures limit for exposures from Global Systematically Important Institutions (G-SIIs) to other G-SIIs to 15% of Tier 1 capital would not have any significant impact, while being a suitable approach to addressing systemic risks and containing contagion. The EBA stands ready to amend the Implementing Technical Standards (ITS) on supervisory reporting and to clarify for which counterparties this limit should apply and at what level of consolidation.

The EBA considers that the existing regulation adequately addresses institutions' exposures to funds, securitisations and other transactions with underlying assets, as well as being consistent with the BCBS standards on large exposures. Regarding the treatment of institutions' exposures to 'shadow banking entities', the EBA suggests that—after an appropriate observation period—the EBA submits a report to the Commission on the effectiveness of the existing guidelines, including proposals (if appropriate) on which aspects of the guidelines could be transformed into a regulation so that a higher degree of harmonisation could be achieved in the near future.

Finally, regarding the extension of the new standardised approach for measuring counterparty credit risk exposures (SA-CCR) to the large exposures framework and the consequent exclusion of the use of internal models to calculate the exposure value of over-the-counter (OTC) derivatives, the EBA advises a careful approach. These measures should be considered only after the full implementation of the SA-CCR in the CRR and the assessment of its impact on the large exposures framework.

Discretionary exemptions to the large exposures regime

Competent authorities have provided the EBA with data regarding the use (by institutions) of the five exemptions identified in the CfA—currently subject to competent authorities' or Member States' discretion—as well as their assessment of the potential impact of the removal of these exemptions. The EBA recommends keeping two of those exemptions and deleting three.

In detail, the EBA recommends that the exemption of exposures within cooperative networks should be kept. Its removal would jeopardise EU-specific bank structures that make the European sector more diverse.

The exemption of interbank exposures incurred to promote specific sectors of the economy under some form of government oversight should also be kept. Given that its removal would have a high impact for specific business models (i.e. credit institutions that operate on a non-competitive basis and provide promotional loans to specified sectors) and also that this exemption does not seem to impact the single market or the operations of cross-border banks, it could be kept. The EBA stands ready to undertake further work on the harmonisation of the application of this exemption.

The EBA recommends that the exemptions of overnight interbank exposures in minor trading currencies and of guarantees on mortgage loans financed by issuing mortgage bonds are deleted. This is justified because these exemptions have limited use across the EU. The EBA also recommends that the exemption of exposures to recognised exchanges is deleted, given that its use is very limited and its removal has almost no impact. The removal of these exemptions will contribute to the simplification and harmonisation of the large exposures regime.

More generally, the EBA highlights the importance of reducing, where appropriate, the exemptions (discretionary or otherwise) from the large exposures regime to simplify the regime, further align it to the BCBS standards, and also achieve consistency across jurisdictions. However, an impact assessment similar to the one conducted in Section 2 of this report is needed and the time available to produce this report did not allow for such an exercise. As such, the EBA recommends that a mandate for a report on the assessment of all the remaining exemptions in Article 400(1) and (2) of the CRR be included in the CRR.

Additional aspects

The EBA has identified other aspects of the EU large exposures regime that could be aligned with the BCBS standards, and has quantified their impact where possible. For example, it has analysed the impact of no longer allowing institutions to reduce the exposure values by the value of immovable property used as collateral and the impact of imposing the large exposures limit to exposures in the trading book without exceptions.

In addition, the EBA has identified other issues where there is a need for clarification in the CRR text or where it suggests that a mandate should be given to the EBA to conduct further analysis with the aim of enhancing clarity and harmonisation across jurisdictions. For example, the treatment of breaches to the large exposures limits could be further developed and harmonised; the legal basis for the requirement to report exposures with an exposure value above or equal to EUR 300 million (currently in FINREP) should be included in the CRR; and a mandate should be given to the EBA to develop technical standards in the area of connected clients to strengthen the existing guidance.

Finally, attention is drawn to the Q&As submitted by stakeholders, which have identified possible errors, inconsistencies and fundamental issues in the large exposures text in the CRR and should be considered in the current review of the large exposures regime.

Background

1. On 26 April 2016, the Commission sent a CfA to the EBA seeking its assistance on the review of the large exposures framework[1] laid down in Articles 387 to 403 and Article 493(3) of the CRR.[2] The deadline for the final report was 1 October 2016.

2. As part of the review of the CRR, the Commission is considering whether to implement the BCBS standards on large exposures[3] in the EU large exposures framework. In addition, the Commission is also reviewing the exemptions to the rules on large exposures set out in Article 400(2) and Article 493(3) of the CRR.

3. The Commission sought the EBA's advice regarding three aspects in particular:

   i. An assessment of the impact of the alignment of the EU large exposures framework with the new BCBS standards on large exposures (including a separate assessment of the impact on less complex or small institutions and the impact on the operational burden of compliance);

   ii. An assessment of the impact of the removal of the exemptions set out in Article 400(2) (d), (e), (f), (j) and (k) of the CRR, which are currently subject to the competent authorities' discretion (or similar exemptions in Article 493(3) of the CRR, subject to Member States' discretion);

   iii. Any additional quantitative analysis considered relevant for the review of the large exposures regime and any additional changes considered appropriate in the context of the alignment with the BCBS standards on large exposures and the review of the large exposures exemptions.

4. The EBA's assessment and advice regarding these three aspects is set out in Section 1 and Section 2 of this report. In addition, the EBA provides views on other aspects of the large exposures framework that could be investigated and for which the EBA stands ready to conduct further analysis (Section 3 of this report).

[1] The CfA to the EBA on the review of the large exposures framework is published at: https://www.eba.europa.eu/documents/10180/1466081/%28EBA-2016-E-675%29%20Call+for+Advice+Large+exposures.pdf/cf496c0d-4216-47c3-89c1-5443e388398a.

[2] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 321, 30.11.2013, p. 6).

[3] The standards on the 'Supervisory framework for measuring and controlling large exposures', issued by the BCBS in April 2014, are published at: http://www.bis.org/publ/bcbs283.pdf.

1. Alignment with the BCBS large exposures framework

1.1 Introduction

5. The CfA asks the EBA to assess the impact that the alignment with the BCBS standards on large exposures may have on EU banks as a whole, particularly in relation to the introduction of:

   a) *An enhanced quality of capital which that can be taken into account for limiting large exposures (only considering Tier 1 capital, not Tier 2 capital);*

   b) *A lower limit for globally important banks' (G-SIIs) exposures to other G-SIIs (15% of these banks' Tier 1 capital instead of the 25% of banks' Tier 1 capital required for other banks);*

   c) *A look-through approach for shadow banks (to determine the exposure to funds, securitisation structures and collective investment undertakings, banks have to assess possible risks related not only to that structure's underlying assets but also to specific features and links to any third party);*

   d) *An exclusion of the use of internal models for exposures to Over The Counter (OTC) derivative transactions (which have to be determined using the recently finalised "standardized approach for measuring exposure at default for counterparty credit risk" (SA-CCR), even for banks which have been authorised to use internal models – IMM – to estimate counterparty credit exposures for assessing risk-weighted assets – RWA).*

6. The EBA is also asked to separately assess the effect of alignment with the BCBS framework on less complex or small institutions and the impact on the operational burden of compliance.

1.2 Data analysis

7. To assess the impact of the changes mentioned in points a) and b) of paragraph 5, the EBA has used data regularly collected on the basis of the ITS on supervisory reporting.[4] The relevant data has been extracted from the 'Large exposures and capital adequacy' reports[5] with a reference date of 31 March 2016. The assessment of points c) and d) of paragraph 5 s mainly qualitative.

8. The sample of institutions used for the quantitative analysis presented in Section 1 of the report is composed of **198 institutions from 29 jurisdictions** (the EBA sample). [6] This sample of

[4] The ITS on supervisory reporting and its subsequent updates and amendments is published on the EBA's website: https://www.eba.europa.eu/regulation-and-policy/supervisory-reporting/implementing-technical-standard-on-supervisory-reporting.

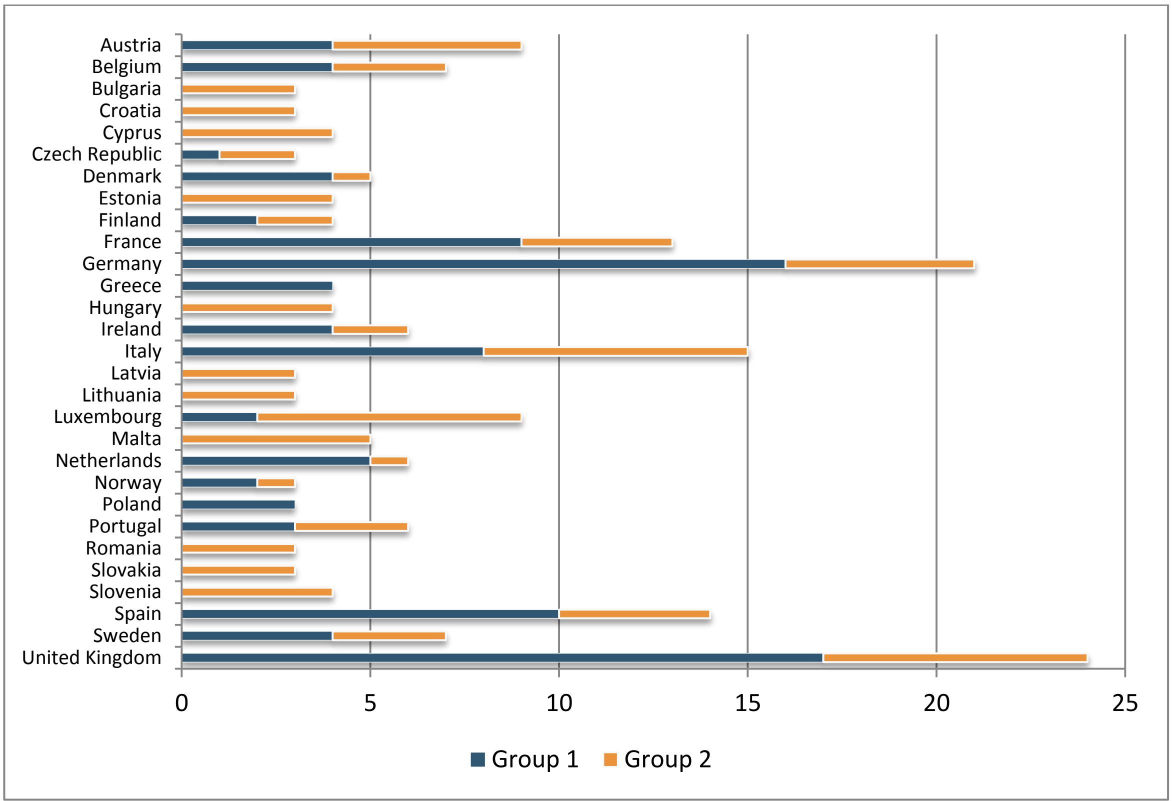
[5] The data has been extracted from the following templates of the ITS on supervisory reporting: C.01.00 (Capital adequacy – Own funds definition), C.04.00 (Capital adequacy – Memorandum items), C.27.00 (Large exposures – Identification of the counterparty), C.28.00 (Large exposures – Exposures in the non-trading and trading book).

[6] The list of reporting institutions (banks and banking groups) is published on the EBA's website: http://www.eba.europa.eu/documents/10180/15926/List+of+Reporting+Institutions.pdf/065d0833-31de-4b71-9808-ee83821c9251.

institutions reports data at the highest level of consolidation in a Member State.[7] **Therefore, the analysis done for this sample only reflects impacts at the consolidated (or sub-consolidated) level and not at the individual level, although the large exposures regime applies to all levels of consolidation.[8] In addition, the EBA sample does not include investment firms or the smallest banks in the EU. Given these limitations, the quantitative results of the analysis need to be considered carefully, as they might not fully reflect the impact of the proposed changes for the whole EU banking system.** In addition, the EBA had to process the data in a limited time period.

9. For the purposes of the analysis, the EBA sample has been divided between Group 1 and Group 2 institutions[9] to enable assessment of whether the impacts would be different for smaller and larger institutions. As such, the EBA sample includes **102 Group 1 institutions** from 18 countries (of which 13 institutions are G-SIIs) and **96 Group 2 institutions** from 27 countries (See Figure 1).

Figure 1: Composition of the EBA sample (number of Group 1 and Group 2 institutions by Member State)



[7] The EBA's decision on reporting by competent authorities (which includes information on the criteria used to select the EBA sample of institutions, the type of reported data, etc.) is published on the EBA's website: http://www.eba.europa.eu/documents/10180/16082/EBA+DC+090+%28Decision+on+Reporting+by+Competent+Authorities+to+the+EBA%29.pdf/9beaf5be-2624-4e36-a75b-b77aa3164f3f.

[8] The level of application of the large exposures regime is aligned with the BCBS standards and is not under review at this stage.

[9] For the purposes of this analysis, Group 1 institutions are institutions with Tier 1 capital in excess of EUR 3 billion. All other institutions are categorised as Group 2 institutions.

1.3 Main findings

Enhanced quality of capital

10. The large exposures of an institution are measured by the value of the total exposures to a single client or a group of connected clients as a percentage of the institution's eligible capital.[10] The limit on large exposures is also defined as a percentage of the institution's eligible capital (in general, 25%).[11]

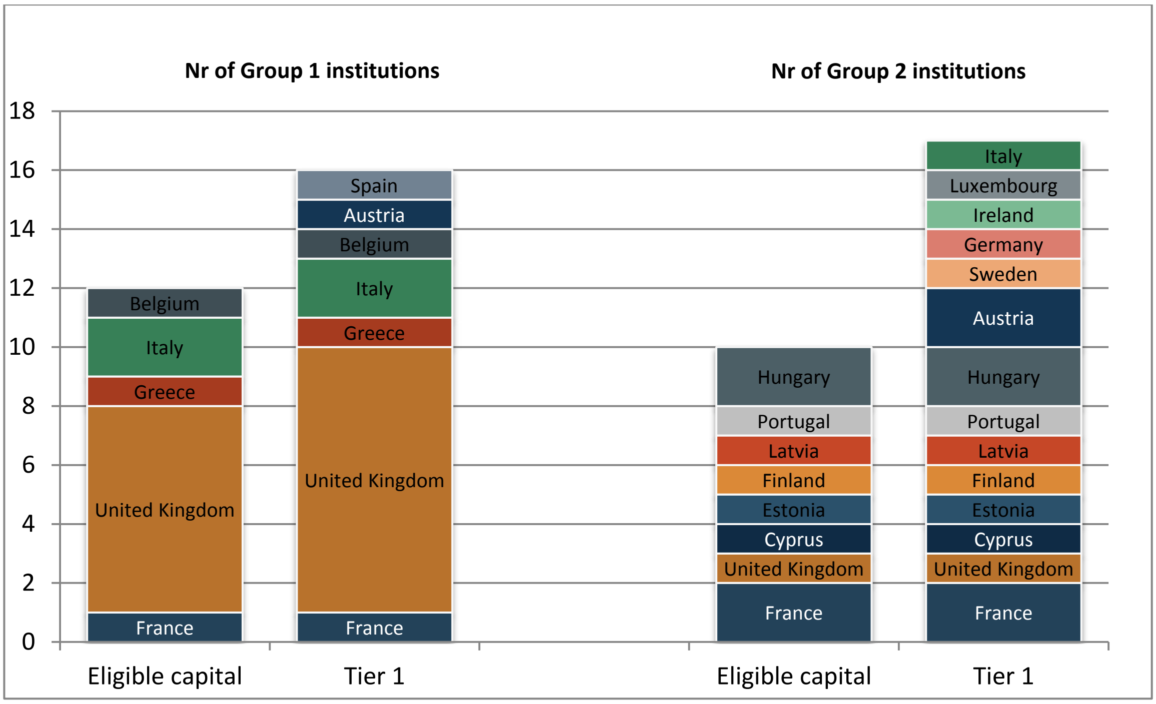
$$Sum\ of\ all\ exposures\ to\ one\ client\ (or\ group\ of\ connected\ clients)/Capital\ base \leq 25\%$$

11. The current EU large exposures regime defines 'eligible capital' as the sum of the full amount of Tier 1 capital and a part of Tier 2 capital (this part should not exceed the amount equivalent to one third of Tier 1 capital).[12] However, a transitional provision set out in Article 494 of the CRR states that 'eligible capital' includes Tier 2 capital up to 50% of Tier 1 capital until December 2016, in addition to the full amount of Tier 1 capital. The quantitative assessments presented in this section consider the current level of eligible capital reported by the institutions in the sample, which might therefore include Tier 2 up to 50% of Tier 1 capital in addition to the full amount of Tier 1 capital.

12. In the new BCBS standards on large exposures, the capital base for measuring and limiting large exposures is reduced to the effective amount of Tier 1 capital. The reasoning for this is that the appropriate capital base for the large exposures regime should be going-concern capital. Only Tier 1 capital is considered going-concern capital;[13] this ensures that the instruments used to calculate the capital base are more loss absorbing and thus exhibit a higher quality. All else being equal, defining the capital base as Tier 1 capital increases (or maintains at the same level) the exposures to an individual client or connected clients in terms of a percentage of the capital base. For the purposes of the analysis, the exposure values considered always take into account the effect of exemptions and credit risk mitigation (CRM) techniques.[14]

[10] Article 392 of the CRR defines large exposures as an institution's exposure to a client or group of connected clients with a value equal or superior to 10% of the institution's eligible capital.
[11] See Article 395 of the CRR on limits to large exposures.
[12] Article 4(71) of the CRR defines 'eligible capital' as the sum of (i) Tier 1 capital as referred to in Article 25 of the CRR and (ii) Tier 2 capital as referred to in Article 71 of the CRR that is equal to or less than one third of Tier 1 capital. It should be recalled that, in February 2015, the EBA issued an Opinion on the appropriateness of the definition of eligible capital, which is published here: https://www.eba.europa.eu/documents/10180/983359/EBA+Op+2015+01+%28Opinion+on+the+review+of+the+definition+of+eligible+capital%29.pdf
[13] See BCBS 189, 'Basel III: A global regulatory framework for more resilient banks and banking system', paragraph 49, which is available here: http://www.bis.org/publ/bcbs189.pdf
[14] It should be remembered that the exposure value subject to large exposures limits is calculated after taking into account the effect of the exemptions (set out in Article 400 of the CRR) and the CRM (in accordance with Articles 399 to 403 of the CRR).

Figure 2: Number of Group 1 and Group 2 institutions with exposures exceeding 25% of the capital base (eligible capital vs Tier 1) by Member State



13. Figure 2 shows the number of Group 1 and Group 2 institutions (in each Member State) that reported exposures—after exemptions and CRM techniques—in excess of 25% of the capital base (eligible capital vs Tier 1 capital). The results show that there are 11 institutions, in addition to another 22 institutions, that would have reported exposures in excess of 25% when the capital base changes from eligible capital to Tier 1 (of which four are Group 1 and seven are Group 2 institutions). It should be noted that a large number of these exposures are in the institution's trading book, for which the large exposures limit of 25% of eligible capital can be exceeded provided certain conditions are met; therefore, these exposures do not constitute a breach of the large exposures limit under the current CRR framework.[15]

14. Institutions in 11 of the 29 Member States under study have reported exposures above 25% of their eligible capital. In comparison, institutions in 17 Member States would have reported exposures above 25% of their Tier 1 capital. Under both scenarios, around one third of these institutions are from the United Kingdom and the majority of the reported exposures above 25% of the capital base are in the trading book and are covered by own funds.

[15] See Article 395(5) of the CRR, which sets out the conditions under which the large exposures limit can be exceeded for exposures in the institution's trading book.

Figure 3: Number of exposures distributed by exposure bucket per capital base (eligible capital vs Tier 1 capital) by Group 1 and Group 2 institutions

	Eligible capital				Tier 1 capital			
Exposure bucket	**Total**	**%**	**Group 1**	**Group 2**	**Total**	**%**	**Group 1**	**Group 2**
≤ 10%	14 096	95.7%	10 885	3 211	13 953	94.7%	10 800	3 153
> 10% ≤ 15%	384	2.6%	130	254	417	2.8%	183	234
> 15% ≤ 20%	167	1.1%	56	111	210	1.4%	63	147
> 20% ≤ 25%	62	0.4%	13	49	91	0.6%	32	59
> 25%	25	0.2%	13	12	63	0.4%	19	44
Total	14 734	100%	11 097	3 637	14 734	100%	11 097	3 637

15. Figure 3 presents the distribution of the total number of exposures to a single counterparty or a group of connected clients (as reported by the EBA sample) as a percentage of the capital base (eligible capital vs Tier 1 capital). The reported exposures have been assigned to different exposure buckets that have been created for the purposes of the analysis in this report. As expected, the results show that a number of the exposures move into the higher buckets when the capital base changes from eligible capital to Tier 1 capital. This holds true for Group 1 and Group 2 institutions.

16. The total number of exposures in breach of the 25% limit of the capital base increases from 25 (considering eligible capital) to 63 (considering Tier 1 capital). Group 2 institutions are substantially more affected, with an increase from 12 to 44 exposures, in comparison to an increase of 13 to 19 exposures for Group 1 institutions.

17. The analysis shows that, for the EBA sample of institutions, the enhancement of the large exposures capital base from eligible capital to Tier 1 capital does not have a strong effect on the distribution of the number of exposures in different buckets. 0.2% of the total number of reported exposures—which are above 25% of institutions' eligible capital—increases to 0.4% with the change in capital base to Tier 1 capital. In absolute amounts, this represents an increase in the total exposure value (after taking into account exemptions and the effects of CRM techniques) from EUR 154 725 million to EUR 201 230 million. This increase is due to the rise in the amount of existing exposures, but is also due to the new exposures reported by an increasing number of institutions in the sample.

Figure 4: Number of institutions distributed by exposure bucket per capital base (eligible capital vs Tier 1 capital) for Group 1 and Group 2 institutions

	Eligible capital				**Tier 1 capital**			
Exposure bucket	**Total**	**%**	**Group 1**	**Group 2**	**Total**	**%**	**Group 1**	**Group 2**
≤ 10%	198	100%	102	96	198	100%	102	96
> 10% ≤ 15%	124	62.6%	52	72	134	67.7%	63	71
> 15% ≤ 20%	69	34.8%	28	41	81	40.9%	36	45
> 20% ≤ 25%	27	13.6%	10	17	48	24.2%	21	27
> 25%	22	11.1%	12	10	33	16.7%	16	17

18. Figure 4 presents the distribution of the EBA sample of institutions by exposure bucket, by allocating the reported exposures (calculated as a percentage of eligible capital and Tier 1 capital) to each of the exposure buckets. The result shows that, when using Tier 1 capital, the number of institutions that have exposures lower than 10% of their capital base stays the same. As expected, the total number of institutions with exposures above 10% of their capital base increases with the change from eligible capital to Tier 1 capital.

19. For Group 2 institutions, the strongest effect of reducing the capital base to Tier 1 occurs in the 20%-25% exposure bucket, with 10 additional institutions affected. For Group 1 institutions, the strongest effect is in the 10%-15% and 20%-25% exposure buckets, with the allocation of 11 additional institutions to each of these buckets.

20. The total number of institutions that reported exposures above 25% of their capital base increases from 22 to 33 (an increase of 4 Group 1 institutions and 7 Group 2 institutions) with the change in capital base.

21. Given its limitations (the analysis was performed at the consolidated or sub-consolidated level and not at the individual level, and did not include investment firms and the smallest banks), the quantitative results of the analysis need to be considered carefully, as they might not fully reflect the impact of the proposed changes for the whole EU banking system. Considering those caveats, the analysis shows that—for the EBA sample of institutions—the enhancement of the large exposures capital base from eligible capital to Tier 1 capital does not have a strong effect on the distribution of the number of institutions in different exposure buckets. Group 2 institutions in the EBA sample are slightly more affected by the change of the capital base than Group 1 institutions when it comes to the higher buckets.

22. **Considering the benefits of a stricter capital base, achieving consistency with international standards, and the results of the impact assessments, the EBA considers that it would be appropriate to strengthen the large exposures capital base by considering only Tier 1 capital.** Taking into account the proportionality principle and the fact that the EBA sample does not

include the smallest institutions in the EU, a transitional period could be considered for these institutions for which the impact could be stronger.

23. The change of the capital base should not result in an increase of the operational burden of compliance after its implementation, nor should it result in a significant increase of the reported exposures by EU institutions. Rather, it should incentivise diversification and promote financial stability. However, there would be a need to make this change in the ITS on supervisory reporting (templates, instructions, data point model, etc.), which will need to be implemented by institutions in their systems.

Lower limit for G-SIIs exposures to other G-SIIs

24. Events during the financial crisis raised the problem that material losses in one G-SII [16] can trigger concerns about solvency and liquidity in other G-SIIs, with potentially serious consequences for the stability of the entire financial system.

25. The large exposures framework is an important tool to mitigate the risk of contagion between G-SIIs, thus supporting global financial stability. Consequently, a tighter limit on exposures between G-SIIs is included in the BCBS standards on large exposures. More precisely, under the new Basel framework, the large exposures limit for exposures between G-SIIs equals 15% of the institution's capital base (Tier 1 capital) instead of the usual 25%.

26. The analysis conducted by the EBA considers the exposures reported by each of the 13 EU G-SIIs to the 30 (EU and non-EU) G-SIIs.[17] It should be noted that the data considered in the analysis has been reported at the highest level of consolidation in a Member State. These 13 EU G-SIIs are distributed among 7 Member States: 4 are in France, 4 in the United Kingdom and 1 in each of the other 5 countries (Germany, Italy, Netherlands, Spain and Sweden). To conduct the analysis, the EBA has identified the reporting EU G-SIIs and their G-SIIs counterparties by their Legal Entity Identifier code (LEI codes). Given that an official list of G-SIIs and their respective LEI codes is not currently available, the EBA has gathered information from different sources and considered (as counterparties) both the group of the G-SII and the parent company (as long as they had a LEI code) to ensure all the relevant exposures were captured in the analysis. The list of the G-SIIs and the LEI codes used in this analysis is presented in Annex I.

[16] See also BCBS: Global systemically important banks – updated assessment methodology and the higher loss absorbency requirement (2013): http://www.bis.org/publ/bcbs255.pdf; EBA technical standards on the methodology and disclosure for the identification of G-SIIs (2014 and update in 2016): https://www.eba.europa.eu/regulation-and-policy/own-funds/global-systemically-important-institutions-g-sii-; and the Financial Stability Board's (FSB's) 2015 update of the list of G-SIBs (November 2015): http://www.fsb.org/wp-content/uploads/2015-update-of-list-of-global-systemically-important-banks-G-SIBs.pdf.

[17] The list of G-SIIs, as of November 2015, has been published by the FSB at: http://www.fsb.org/wp-content/uploads/2015-update-of-list-of-global-systemically-important-banks-G-SIBs.pdf.

Figure 5: Number of reporting G-SIIs and number of exposures from reporting G-SIIs to other G-SIIs distributed by exposure bucket, per capital base (eligible vs Tier 1 capital) [18]

	Eligible capital		Tier 1 capital	
Exposure bucket	**Number of institutions**	**Number of exposures**	**Number of institutions**	**Number of exposures**
> 0% ≤ 5%	13	193	13	186
> 5% ≤ 10%	4	5	8	12

27. Figure 5 shows that there is a relatively small number of exposures (198 in total) from EU G-SIIs to other EU and non-EU G-SIIs. For all 13 EU G-SIIs, there are 193 exposures in total to other EU and non-EU G-SIIs equal to or below 5% of the G-SII's eligible capital. This number decreases to 186 exposures when considering Tier 1 capital (as 7 exposures move into the bucket above). For exposures between 5% and 10% of the G-SIIs capital base, the exposures increase from 5 to 12 if calculated as a percentage of Tier 1 capital. This affects four additional G-SIIs.

28. The results also show that the exposures reported at the consolidated level between G-SIIs never exceed 10% of the capital base (either for eligible capital or for Tier 1 capital). This indicates that **the reduction of the large exposures limit for exposures from G-SIIs to other G-SIIs to 15% of Tier 1 capital would not have an impact, while being more prudent and a suitable approach to addressing systemic risks and containing contagion.**

29. As indicated above, the analysis has been carried out only at the highest level of consolidation in a Member State. In case this change is taken on board in the CRR review, the EBA stands ready to amend the ITS on supervisory reporting and to clarify for which counterparties within a G-SII banking group this limit should apply, how they would be treated/aggregated, at what level of consolidation it should apply, and how the total exposures should be reflected in the regular large exposures reports.

[18] For data quality reasons, only data collected in the template C.28.00 of the ITS on supervisory reporting (Large exposures – Exposures in the non-trading and trading book to groups of connected clients and individual clients not belonging to groups of connected clients) is used in this impact assessment.

Look-through approach to shadow banks

30. Regarding the treatment of shadow banks, the EBA recalls that it has issued the EBA Guidelines on limits on exposures to shadow banking entities that carry out banking activities outside a regulated framework under Article 395(2) of Regulation (EU) No 575/2013 in December 2015.[19] These Guidelines, which will apply as of 1 January 2017, propose a definition for 'shadow banking entity' and specify criteria that institutions should consider when setting up (and monitoring) appropriate limits on their individual and aggregate exposures to shadow banking entities. These Guidelines were informed by a report on the exposures of a sample of EU institutions to shadow banking entities and the impact of setting limits.[20]

31. Regarding the use of the look-through approach, the EBA recalls that it has issued technical standards on the determination of the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets in December 2013.[21] These technical standards have been adopted by the Commission and have been published in the Official Journal. They set out: (i) the methodology for the calculation of the value of exposures to transactions with underlying assets; (ii) the procedure used to determine the contribution of underlying exposures to overall exposures to clients and groups of connected clients; and (iii) the conditions under which the structure of the transaction does not constitute an additional exposure. The treatment of collective investment undertakings, securitisation vehicles and other structures set out in the BCBS standards on large exposures is broadly aligned with the EBA technical standards.

32. At this stage, the EBA considers that **the existing regulation adequately addresses institutions' exposures to funds, securitisations and other transactions with underlying assets. Regarding the treatment of institutions' exposures to shadow banking entities, the EBA suggests that, after an appropriate observation period, it submits a report to the Commission on the effectiveness of the existing guidelines, including proposals (if appropriate) on which aspects of the guidelines could be transformed into a regulation.** This would lead to greater harmonisation in the treatment of these exposures and would go some way towards addressing the concerns expressed by the co-legislators regarding institutions' exposures to shadow banking entities.

[19] The EBA Guidelines are published on the EBA website: https://www.eba.europa.eu/regulation-and-policy/large-exposures/guidelines-on-limits-on-exposures-to-shadow-banking.

[20] The report on institutions' exposures to shadow banking entities is also published on the EBA website: https://www.eba.europa.eu/documents/10180/950548/Report+on+institutions+exposures+to+shadow+banking+entities.pdf/9cec3aa1-9205-4b97-8ec1-f0f26bf991b4.

[21] The technical standards (and the link to the Official Journal where they are published) are also available on the EBA website: https://www.eba.europa.eu/regulation-and-policy/large-exposures/draft-regulatory-technical-standards-on-the-determination-of-the-overall-exposure.

Exclusion of the use of internal models for exposures to OTC derivatives

33. The data available to the EBA does not allow for the assessment of the impact of excluding the use of internal models for exposures to OTC derivatives. The calculation of the exposure value for these instruments would have to be determined using the new SA-CCR even for institutions that have been authorised to use internal models to estimate counterparty credit risk.

34. However, given that the SA-CCR is not yet implemented in the CRR, data collection on simulated data would need to be conducted.[22] In any case, the EBA advises that the **extension of the SA-CCR to the large exposures framework and the consequent exclusion of the use of internal models for exposures to OTC derivatives should be considered only after the full implementation of the SA-CCR (and other approaches applied for proportionality reasons) in the CRR, as well as an assessment of its impact on the large exposures framework.**

[22] A new standardised approach for the calculation of the exposure values of derivative contracts (SA-CCR) was adopted by the BCBS in March 2014. The BCBS proposes to replace the existing methods for derivative exposures (the standardised method and the current exposure method known as the mark-to-market method in the EU) in the counterparty credit risk capital requirements framework. In addition, the BCBS has decided that the SA-CCR will apply to other areas of the prudential framework for banks (e.g. the revised capital requirements for banks' exposures to central counterparties, the final large exposures framework) and is currently considering its application in the leverage ratio framework.

2. Exemptions to the large exposures regime

2.1 Introduction

35. As requested in the CfA, the EBA has assessed the impact of the removal of the following exemptions from the large exposures limits: [23]

- Exposures within cooperative networks (Article 400(2)(d) or Article 493(3)(d) of the CRR); [24]
- Interbank exposures in specific sectors (Article 400(2)(e) or Article 493(3)(e) of the CRR); [25]
- Overnight interbank exposures in minor trading currencies (Article 400(2)(f) or Article 493(3)(f) of the CRR); [26]
- Guarantees on mortgage loans financed by issuing mortgage bonds (Article 400(2)(j) or Article 493(3)(j) of the CRR); [27] and
- Exposures to recognised exchanges (Article 400(2)(k) or Article 493(3)(k) of the CRR). [28]

2.2 Data collection

36. The regular supervisory reporting of large exposures[29] includes data on exposures that are exempt from the large exposures limits in accordance with Article 400(2) or Article 493(3) of the CRR. This data is, however, reported in an aggregated manner, which makes it impossible to sort out the exempted amounts by different legal bases. Therefore, the EBA has asked competent authorities to complete a questionnaire on the use of the above-mentioned five discretionary exemptions and the potential impacts of their removal.[30]

[23] Competent authorities or Member States have the discretion to exempt the exposures, respectively, listed in Article 400(2) or Article 493(3) of the CRR from the application of Article 395(1) of the CRR (limits to large exposures).

[24] *(d) asset items constituting claims on and other exposures, including participations or other kinds of holdings, to regional or central credit institutions with which the credit institution is associated in a network in accordance with legal or statutory provisions and which are responsible, under those provisions, for cash-clearing operations within the network.*

[25] *(e) asset items constituting claims on and other exposures to credit institutions incurred by credit institutions, one of which operates on a non-competitive basis and provides or guarantees loans under legislative programmes or its statutes, to promote specified sectors of the economy under some form of government oversight and restrictions on the use of the loans, provided that the respective exposures arise from such loans that are passed on to the beneficiaries via credit institutions or from the guarantees of these loans.*

[26] *(f) asset items constituting claims on and other exposures to institutions, provided that those exposures do not constitute such institutions' own funds, do not last longer than the following business day and are not denominated in a major trading currency.*

[27] *(j) legally required guarantees used when a mortgage loan financed by issuing mortgage bonds is paid to the mortgage borrower before the final registration of the mortgage in the land register, provided that the guarantee is not used as reducing the risk in calculating the risk -weighted exposure amounts.*

[28] *(k) assets items constituting claims on and other exposures to recognised exchanges.*

[29] See Annexes VIII and IX of the ITS on supervisory reporting: https://www.eba.europa.eu/regulation-and-policy/supervisory-reporting/implementing-technical-standard-on-supervisory-reporting.

[30] The EBA has restricted its assessment to the five exemptions mentioned in the Commission's CfA given the limited time available to collect the necessary data and conduct the analysis for the remaining discretionary exemptions.

37. Twenty-seven national competent authorities from Austria (AT), Belgium (BE), Bulgaria (BG), Czech Republic (CZ), Germany (DE), Denmark (DK), Estonia (EE), Greece (EL), Spain (ES), Finland (FI), France (FR), Croatia (HR), Hungary (HU), Ireland (IE), Italy (IT), Lithuania (LT), Luxembourg (LU), Latvia (LV), Netherlands (NL), Norway (NO), Poland (PL), Portugal (PT), Romania (RO), Sweden (SE), Slovenia (SI), Slovakia (SK), and the United Kingdom (UK), as well as the European Central Bank (ECB-SSM),[31] responded to this questionnaire using a reference date of 31 March 2016.[32] Cyprus (CY) and Malta (MT) did not respond to the questionnaire.

38. For the completion of the questionnaire, the EBA has asked competent authorities to consider either all institutions (i.e. credit institutions and investment firms) in their jurisdiction to which the large exposures regime applies on an individual basis, or a representative sample of institutions covering at least 60% of the financial sector formed by credit institutions and investment firms in their jurisdiction (expressed in terms of the aggregated total assets of institutions as of 31 March 2016).[33]

2.3 Main findings

39. Using the information provided by the competent authorities in their responses to the questionnaire, the EBA has assessed the following aspects for each of the identified exemptions:

- Whether the exemption is exercised or not, and how (full or partial exemption based on the discretion of competent authorities or Member States);
- The number of exempted large exposures as of 31 March 2016 that would be affected by the removal of the exemption;
- The number of institutions in each Member State as of 31 March 2016 that would be affected by the removal of the exemption, and the importance of those institutions as percentage of the aggregated total assets of credit institutions and investment firms in that Member State as of 31 March 2016;

[31] In its capacity as prudential supervisor of credit institutions in the EU, the ECB-SSM has exercised the five discretions under analysis in this report. For more details, see: https://www.bankingsupervision.europa.eu/ecb/legal/pdf/oj_jol_2016_078_r_0011_en_txt.pdf
[32] Except for **Portugal**, which submitted data with a reference date of 31 December 2015.
[33] Please note the following particularities regarding the sample in different jurisdictions. **Austria** has gathered the relevant information from reporting and via the Austrian Chamber of Commerce. **Denmark** did not collect quantitative information regarding the exemptions applicable in their jurisdiction, but have provided qualitative information regarding their importance for the functioning of the Danish financial system. **Germany** has collected data from a representative sample of credit institutions. **Spain** has collected data from a representative sample of credit institutions representing more than 84% of the total assets of the Spanish financial sector and additional qualitative information regarding investment firms. **France** has collected data from a representative sample covering 80.5% of the total assets of the French financial sector, and it has provided additional information for a number of institutions within cooperative networks on a stand-alone basis. For the exemptions under Article 400(2)(e) and (f), **Hungary** has collected data from a sample of credit institutions representing 91% of the total assets of credit institutions in Hungary. **Italy** has collected data from a representative sample covering 61% of the total assets of the Italian financial sector. **Luxembourg** has collected data from a sample of institutions covering 42% of the total assets of the financial sector in Luxembourg and extrapolated these results in order to cover around 57% of the total assets of the financial sector (the remaining institutions are not likely to be concerned by any of the five exemptions under review). **Norway** has collected data from a sample of institutions covering 55% of the total assets of the financial sector in Norway. **Poland** has collected data from a representative sample covering 83% of the total assets of the Polish financial sector**. Sweden** has collected data from a sample of 16 banks that represents approximately 95% of the total aggregated assets in Sweden.

- The EUR amount of the exposure value after CRM that is in excess of the applicable large exposures limit (i.e. 25% of an institution's eligible capital or, where applicable, 100% of an institution's eligible capital up to a maximum of EUR 150 million) as of 31 March 2016;
- The competent authorities' assessment of the overall qualitative impact of the removal of each of the identified exemptions (classified as low, medium or high) and whether this impact would be higher for specific types of institutions. This qualitative assessment is particularly important as the collected data refers to a specific point in time (31 March 2016) and, as such, does not necessarily reflect the fact that the exemptions have been/are being/will be used on several occasions. For this reason, such qualitative analysis is also an important element for assessing the impact of the removal of an exemption.

40. The main findings for each exemption are presented in the subsections below.

Exposures within cooperative networks (Article 400(2)(d) or Article 493(3)(d) of the CRR)

41. Competent authorities (or Member States) may exempt from the large exposures limit exposures of credit institutions to regional or central credit institutions that belong to the same network and are responsible for cash-clearing operations within the network (on the basis of legal or statutory agreements).

42. This exemption applies specifically to networks of cooperative banks and other similar structures. The exemption under point (d) of Article 400(2) or Article 493(3) allows these networks to benefit from the same treatment as other banking groups.[34]

43. As shown by the responses to the EBA's questionnaire, this exemption is fully applied in: AT, ES, FI, FR, HU, LU, NL, and PT. The exemption is partially applied in: DE (i.e. only 50% of participations and other kinds of holdings are exempted) and PL (exemption applicable only to banks and not to investment firms).

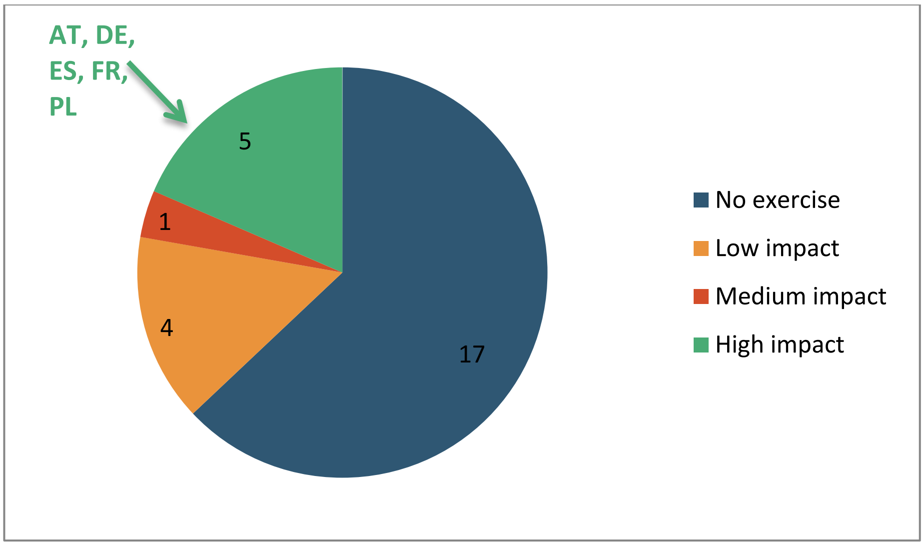
[34] Local cooperative banks are strongly focused on their central institution as a central service provider, ensuring liquidity of the network/group. Therefore, there are two types of exposures that might become significant in size: the equity holdings in the central institution, and the deposits in the central institution or similar financial instruments of the central institution. While Article 400(1)(f) of the CRR provides an exemption for exposures in consolidating groups and institutional protection schemes (IPS), Article 400(2)(d) provides a discretionary exemption for cooperative network models.

Figure 6: Potential impact of the removal of the exemption of exposures within cooperative networks by Member State where the exemption is allowed

	Number of exempted large exposures	Number of affected institutions	Affected institutions in % of the national financial system	Exposure values in excess of the large exposures limit (in EUR million)
AT	112	110	3.8%	3 183
DE	2 135	1 334	28.9%	206
ES	1	39	2.9%	-
FI[35]	-	-	-	-
FR[36]	297	42	36.3%	2 919
HU	2	2	0.0%	0
LU	2	2	0.4%	0
NL	0	0	0.0%	0
PL	544	475	6.0%	4 105
PT	68	1	1.5%	0
Total	**3 161**	**2 005**	**-**	**10 413**

44. Figure 6 shows that a substantial number of cooperative and saving banks would be affected by the removal of this exemption. Naturally, the impact is restricted to the Member States where these networks currently exist (particularly Austria, Germany, Spain, France, Poland and Portugal).

Figure 7: Competent authorities' qualitative assessment of the overall impact of the removal of the exemption of exposures within cooperative networks



[35] **Finland** applies this exemption, but did not provide quantitative data because there are no longer such networks operating in Finland.
[36] **France** provided additional qualitative data for institutions within the cooperative networks.

45. The majority of the competent authorities (or Member States) do not exercise this discretion. Half of the competent authorities (or Member States) that apply this exemption perceive the impact of its removal as being high, particularly for small institutions with specific business models (i.e. networks of cooperative and saving banks). In addition, the importance of this exemption has been highlighted by the ECB-SSM in its response to the EBA's questionnaire.

46. **This exemption should be kept.** It has a high structural impact with regard to the EU banking landscape but a reduced impact on prudential policy and a level playing field, given that it is subject to competent authorities' approval and additional requirements under Article 400(3) of the CRR (which mitigates concentration risk) contrary to the automatic exemption for institutional protection schemes (IPS). Its removal would jeopardise EU-specific bank structures (cooperative networks) that make up the diversity of the European sector, which was acknowledged by the legislators in granting this possibility subject to strict criteria. Considering that some institutions have only provided qualitative data, the quantitative results presented above might underestimate the impact of the removal of this exemption.

Interbank exposures in specific sectors (Article 400(2)(e) or Article 493(3)(e) of the CRR)

47. This discretion allows for an exemption of specific interbank exposures that are normally subject to large exposures limits. It relates to interbank exposures under legislative programmes or those incurred to promote specified sectors of the economy under some form of government oversight and restrictions on the use of the loans.

48. This exemption is fully applied in: AT, ES, FR, HU, LU, and SI. The exemption is partially applied in: BE (exemption of 80% of the exposure value), BG (exemption only applied to credit institutions), DE (the exemption restricted to a situation where the credit institution that operates on a non-competitive basis provides a loan (no guarantees) to another credit institution), PL (exemption only applied to banks), PT (exemption of 50% of the exposure value) and RO (exemption of 80% of the exposure value).

Figure 8: Potential impact of the removal of the exemption of interbank exposures in specific sectors by Member State where the exemption is allowed

	Number of exempted large exposures	Number of affected institutions	Affected institutions in % of the national financial system	Exposure values in excess of the large exposures limit (in EUR million)
AT	0	0	0.0%	0
BE[37]	-	-	-	-
BG	1	1	0.4%	41
DE	165	11	10.5%	123 152
ES	10	-	-	-
FR[38]	9	3	0.5%	41 808
HU	17	14	45.0%	109
LU	19	5	8.6%	1 509
PL	0	0	0.0%	0
PT	0	0	0.0%	0
RO	0	0	0.0%	0
SI[39]	5	1	8.0%	342
Total	**226**	**35**	**-**	**166 961**

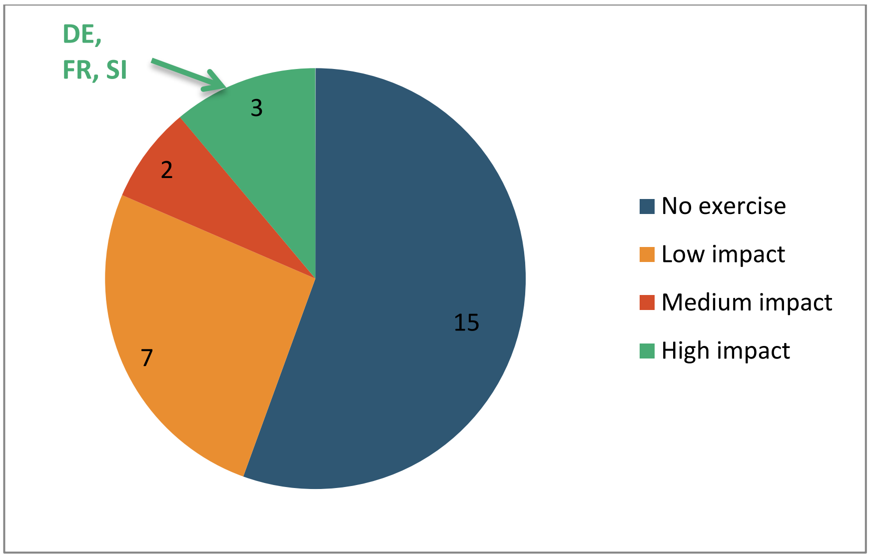
49. Figure 8 shows that a relatively small number of institutions would be impacted by the removal of this exemption. However, the aggregated value of the exposures that would be in excess of the large exposures limits if the exemption did not exist tends to be quite significant (when compared to the other exemptions analysed in this report), particularly for institutions in Germany and France.

[37] **Belgium** applies this exemption, but did not provide quantitative data because this exemption has limited or no use for institutions in Belgium.

[38] **France** also provided qualitative data on two credit institutions that work closely together in order to promote a specific sector of the economy. One of them was created by the French Government.

[39] According to the **Slovenian** competent authority, the large exposures limit would not be exceeded if the institution would apply the 'alternative approach' for exposures to central governments as per the last sub-paragraph of Article 4(1)(39) of the CRR. It would form separate groups of connected clients, instead of one group of connected clients formed by the central government and other clients interconnected with the central government (including state-owned credit institutions exposures that benefit from the exemption in accordance with Article 400(2)(e) of the CRR).

Figure 9: Competent authorities' qualitative assessment of the overall impact of the removal of the exemption of interbank exposures in specific sectors



50.The majority of the competent authorities (or Member States) do not exercise this discretion and the majority of the competent authorities (or Member States) that apply this exemption perceive the impact of its removal as being low.

51.However, the removal of this exemption would have a high impact for specific business models (i.e. credit institutions that operate on a non-competitive basis and provide promotional loans to specified sectors), particularly in France and Germany. Without this exemption, a large part of the targeted sector would probably not be able to pursue its business. Given that this exemption is used by specific national institutions and that it does not seem to complicate the operations of cross-border institutions, **it should be kept.**

Overnight interbank exposures in minor trading currencies (Article 400(2)(f) or Article 493(3)(f) of the CRR)

52.Competent authorities (or Member States) may exempt interbank exposures denominated in a minor trading currency provided that those exposures do not last longer than the following business day. The existence of this exemption is justified by the fact that institutions may face difficulties in reducing such interbank exposures at the end of the business day, given the insufficient diversification, non-convertibility and insufficient use of minor currencies in the principal exchange markets.

53.This exemption is fully applied in: AT, DE, DK, EL, FI, FR, HU, IT, LT, LU, LV, and NO. The exemption is partially applied in: BG (exemption only applied to credit institutions), ES (exemption of 50% of the exposure value for credit institutions and full exemption for investment firms), PL (exemption only applied to banks), RO (exemption of 80% of the exposure value), and SE (exposures to institutions within the European Economic Area (EEA) are exempted under certain conditions).

Figure 10: Potential impact of the removal of the exemption of overnight interbank exposures in minor trading currencies by Member State where the exemption is allowed

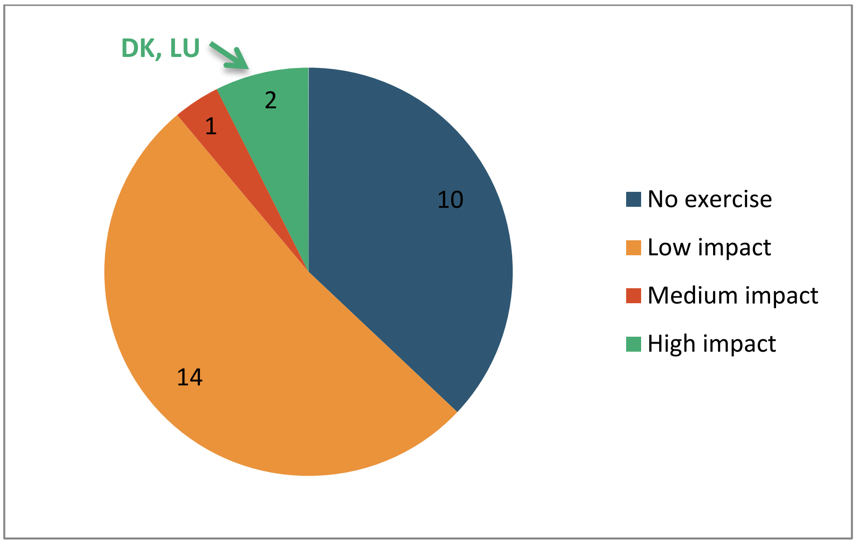
	Number of exempted large exposures	Number of affected institutions	Affected institutions in % of the national financial system	Exposure values in excess of the large exposures limit (in EUR million)
AT[40]	-	-	-	-
BG	15	6	23.0%	0
DE	4	2	5.6%	0
DK[41]	-	-	-	-
EL	0	0	0.0%	0
ES	33	-	-	-
FI[42]	-	-	-	-
FR	15	2	14.0%	0
HU	0	0	0.0%	0
IT	27	1	30.0%	0
LT	0	0	0.0%	0
LU[43]	0	0	0.0%	0
LV[44]	5	1	1.0%	0
NO[45]	0	1	6.0%	0
PL[46]	6	5	14.0%	3
RO	0	0	0.0%	0
SE[47]	5	4	17%	78
Total	**110**	**20**	**-**	**81**

54. Although this exemption is widely allowed across jurisdictions, it seems that it is not generally used by institutions. Only Poland and Sweden have reported aggregated exposure amounts in

[40] **Austria** applies this exemption, but did not provide quantitative data because this exemption has limited or no use for institutions in its jurisdiction.
[41] **Denmark** did not provide quantitative data in the context of the EBA questionnaire, but has subsequently provided some quantitative data to demonstrate that mortgage credit institutions would be severely affected by the removal of this exemption.
[42] **Finland** applies this exemption, but did not provide quantitative data because this exemption has limited or no use for institutions in its jurisdiction.
[43] **Luxembourg** notes that, to the extent that the data collected refers to a specific point in time (31 March 2016), the data does not necessarily reflect the fact that the exemptions have been/are being/will be used on several occasions. This appears to be especially the case for the exemption of overnight interbank exposures in minor trading currencies.
[44] **Latvia** notes that it is very possible that if such exercise would be done at different points in time the impact would be considerably higher.
[45] The data reported for the reference date of 31 March 2016 is not representative of the use of this exemption, which is highly relevant for one institution in **Norway**.
[46] It should be noted that **Poland** intends to remove this exemption in the near future.
[47] **Sweden** notes that this sample only reflect a specific point in time, and it does not necessarily reflect the use or need for the exemption for overnight exposures at a different time of the month or the year.

excess of the large exposures limits, and Poland intends to remove this exemption in the near future.

Figure 11: Competent authorities' qualitative assessment of the overall impact of the removal of the exemption of overnight interbank exposures in minor trading currencies



55.A slight majority of the competent authorities (or Member States) allow the use of this exemption. However, most of these competent authorities (or Member States) estimate the impact of the removal of this exemption as being low.

56.The removal of this exemption is considered to have a high impact in Luxembourg and Denmark, although the quantitative data provided by Luxembourg (as of 31 March 2016) did not reflect the use of this exemption by the institutions in the sample. Denmark highlighted that this exemption is vital for short-term exposures for the strictly regulated Danish mortgage credit institutions, for the Danish capital markets and to allow the Danish banking sector to meet the Liquidity Coverage Ratio (LCR). Luxembourg highlighted that this exemption is useful to cope with situations where a large exposure is driven by the behaviour of the institution's clients (typically, a receipt of cash in a minor currency late in the day that prevents an institution from settling a transaction and, instead, forces it to deposit such cash with a cash correspondent on an overnight basis). Accordingly, a zero value for the exposures amounts in excess of the large exposures limit should not be interpreted as meaning that this exemption is irrelevant or not being used.

57.Considering the quantitative results of the questionnaire (see Figure 10) and that all but three competent authorities assess the impact of deletion as being low (see Figure 11), **the EBA recommends that this exemption is deleted.** This would contribute to the simplification of the regime and also allow for an alignment with the BCBS standards, which do not provide an exemption for overnight interbank exposures.

Guarantees on mortgage loans financed by issuing mortgage bonds (Article 400(2)(j) or Article 493(3)(j) of the CRR)

58. In order for a mortgage loan to be valid, it has to be registered in the land register. To the extent that a mortgage loan is granted on the basis of mortgage securities (whether mortgage-backed securities or covered bonds), the disbursement of the mortgage loan may be made before the final registration of the mortgage in the land register. Such disbursement may be subject to the provision of guarantees. These guarantees may be exempted from the large exposures limit where they are not used for reducing the risk in calculating the risk-weighted exposure amounts.

59. This exemption is fully applied in: AT, DE, DK, LT, LU, and LV. The exemption is partially applied in: ES (exemption of 50% of the exposure value for credit institutions and full exemption for investment firms) and PL (exemption only applied to banks).

Figure 12: Potential impact of the removal of the exemption of guarantees on mortgage loans financed by issuing mortgage bonds by Member State where the exemption is allowed

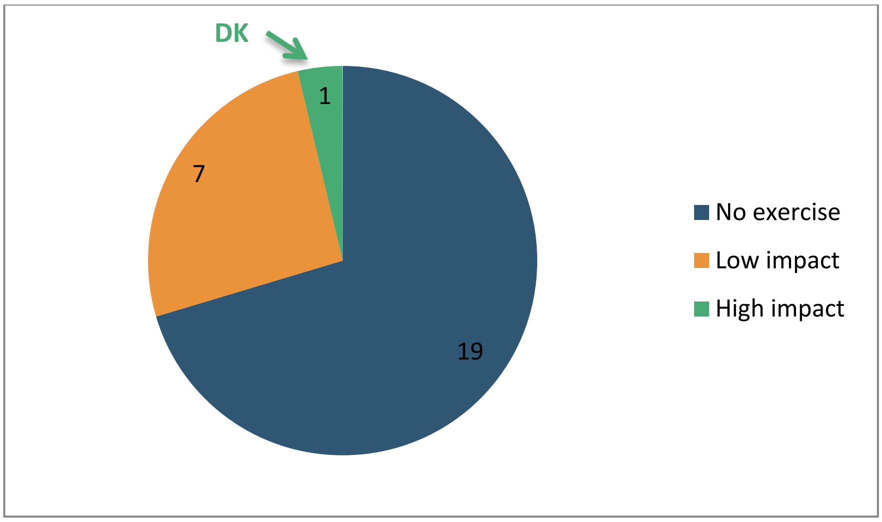
	Number of exempted large exposures	Number of affected institutions	Affected institutions in % of the national financial system	Exposure values in excess of the large exposures limit (in EUR million)
AT[48]	-	-	-	-
DE	0	0	0.0%	0
DK[49]	-	-	-	-
ES	0	0	0.0%	0
LT	0	0	0.0%	0
LU	0	0	0.0%	0
LV	0	0	0.0%	0
PL	0	0	0.0%	0
Total	**0**	**0**	**-**	**0**

60. Figure 12 shows that this exemption is not generally used by institutions in the few jurisdictions that allow its use.

[48] **Austria** applies this exemption, but did not provide quantitative data because this exemption has limited or no use for institutions in its jurisdiction.

[49] **Denmark** did not provide quantitative data in the context of the EBA questionnaire, but has subsequently provided some quantitative data to demonstrate that mortgage credit institutions and a number of small- and medium-sized banks and savings banks would be severely affected by the removal of this exemption.

Figure 13: Competent authorities' qualitative assessment of the overall impact of the removal of the exemption of guarantees on mortgage loans financed by issuing mortgage bonds



61. This exemption is only allowed in eight countries, and the impact of its removal is assessed as high by only Denmark. Denmark has highlighted that this exemption is vital for short-term exposures for the strictly regulated Danish mortgage credit institutions, for the Danish capital markets and to allow the Danish banking sector to meet the LCR. Furthermore, it is vital for small- and medium-sized banks' ability to service clients using lending from mortgage credit institutions and the refinancing of such loans.

62. Considering the quantitative results of the questionnaire (see Figure 12) and that all but one of the competent authorities assess the impact of deletion as being low (see Figure 13), **the EBA recommends that this exemption be deleted.** This would contribute to the simplification of the regime and also allow for an alignment with the BCBS standards.

Exposures to recognised exchanges (Article 400(2)(k) or Article 493(3)(k) of the CRR)

63. Exposures to recognised exchanges—which are defined in Article 4(1)(72) of the CRR as a regulated market with a clearing mechanism meeting certain conditions[50]—may be exempted from the large exposures limit. This exemption was recently introduced into the CRR with a view to apply the same treatment to clearing houses and clearing mechanisms.

64. This exemption is fully applied in: AT, CZ, DE, EL, ES, FR, HU, LU, LV, and PT. The exemption is partially applied in RO (exemption of 50% of the exposure value).

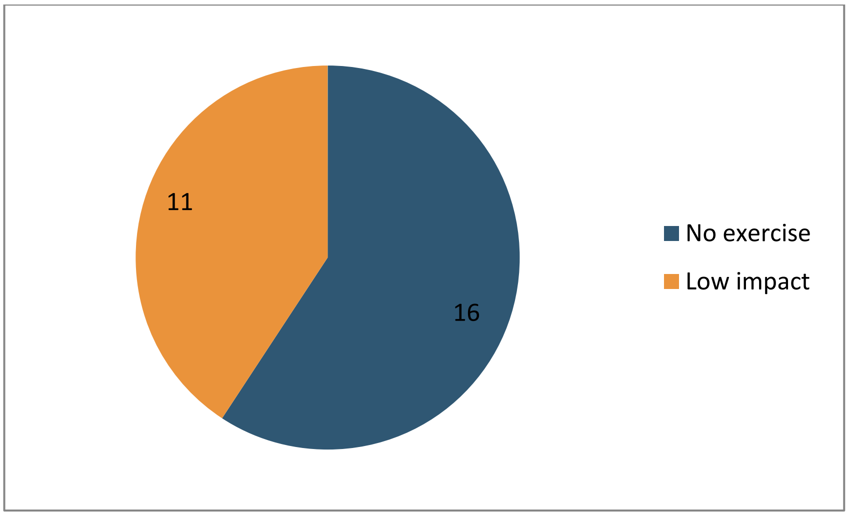
[50] The list of recognised exchanges can be found in the Opinion issued by the European Securities and Markets Authority (ESMA) on 29 January 2016 ('2016-163 Opinion on CRR ITS final', Annex II, pages 21-23). This can be found here: https://www.esma.europa.eu/press-news/esma-news/esma-updates-crr-standard-main-indices-and-recognised-exchanges.

Figure 14: Potential impact of the removal of the exemption of exposures to recognised exchanges by Member State where the exemption is allowed

	Number of exempted large exposures	Number of affected institutions	Affected institutions in % of the national financial system	Exposure values in excess of the large exposures limit (in EUR million)
AT	0	0	0.0%	0
CZ	0	0	0.0%	0
DE	5	5	9.1%	0
EL	0	0	0.0%	0
ES	0	0	0.0%	0
FR	1	1	0.0%	2
HU	0	0	0.0%	0
LU	2	2	3.2%	0
LV	0	0	0.0%	0
PT	0	0	0.0%	0
RO	0	0	0.0%	0
Total	**8**	**8**	**-**	**2**

65. Figure 14 shows that the use of this exemption by institutions is very limited. Feedback from some institutions indicates that it is difficult to distinguish between exposures to recognised exchanges and trade exposures to central counterparties (CCPs)—which are exempted from the large exposures limits in accordance with Article 400(1)(j) of the CRR—given that most entities operate both a recognised exchange and a CCP.[51]

Figure 15: Competent authorities' qualitative assessment of the overall impact of the removal of the exemption of exposures to recognised exchanges



[51] In Section 3 of this report, it is suggested that a mandate is given to the EBA to review the large exposures exemptions and discretionary exemptions under Article 400 of the CRR.

66.The majority of the competent authorities (or Member States) do not exercise this discretion. All of the competent authorities (or Member States) that apply this exemption perceive the impact of its removal as being low.

67.**This exemption should be deleted**, given that its use is very limited and its removal has almost no impact.

Summary table

68.The following table provides an overview of the aggregated results of the data collection for each of the exemptions, as well as the EBA's recommendations.

Figure 16: Aggregated results of the data collection for each exemption

Discretionary exemption	Exposure values in excess of the large exposures limit (in EUR million)	Number of affected institutions	Number of Member States that exercise the discretions	The EBA's recommendation
Point (d): Exposures within cooperative networks	10 413	2 005	10	Keep
Point (e) Interbank exposures in specific sectors	166 961	35	12	Keep
Point (f): Overnight interbank exposures in minor trading currencies	81	22	17	Delete
Point (j): Guarantees on mortgage loans financed by issuing mortgage bonds	0	0	8	Delete
Point (k): Exposures to recognised exchanges	2	8	11	Delete

3. Additional issues

3.1 Introduction

69. In addition to the issues addressed in the previous sections of this report, the EBA provides its views on the possible alignment with other features of the BCBS standards on large exposures, as well as other aspects of the large exposures regime that could be considered in the CRR review.

3.2 Alignment with other features of the BCBS framework

70. There are other differences between the Basel standards on large exposures and the EU large exposures regime. On the basis of an analysis conducted by the Commission Services, the EBA has further identified the differences between the two frameworks (see Annex II) and has also made a comparison of the treatment of exposures classes in the two frameworks (see Annex III). The following paragraphs highlight some of these issues.

Treatment of CRM techniques

71. There are several differences in the way in which CRM techniques are recognised in the two frameworks. The data currently available to the EBA does not allow for the quantification of the impact of most of these changes, as they would potentially affect the calculation of the exposure value of each exposure reported by institutions.

72. There is, however, a particular change where the EBA could estimate the impact. Under the BCBS framework, institutions are no longer allowed to reduce the amount of exposures by the value of immovable property used as collateral. It should be noted that the BCBS standards also acknowledge that, for banks that fall outside the scope of application of the Basel framework (i.e. non-internationally active banks), there may be a case for recognising physical collateral in the context of the large exposures framework. [52]

73. Using the same sample of institutions[53] and the same source of information as described in Section 1 of this report, the reducing effect of 'real estate' used as collateral has been removed from the exposure value subject to the large exposures limit. [54]

[52] See footnote 6 of the BCBS standards: '…for these banks that fall outside the scope of application of the Basel Framework, there may be a case for recognising physical collateral which is not recognised in the large exposures framework set out in this document.'
[53] See paragraphs 8 and 9 of this report.
[54] This is achieved by adding the amount of 'real estate' used as collateral (see Article 402 of the CRR) as reported in Column 310 of template C.28.00 of the ITS on supervisory reporting to the amount of 'total exposure value after exemptions and CRM' reported in Column 330 of the same template.

Figure 17: Number of exposures, without considering the effect of 'real estate' as CRM, distributed by exposure bucket per capital base (eligible capital vs Tier 1 capital) by Group 1 and Group 2 institutions

	Eligible capital			Tier 1 capital		
Exposure bucket	**Total**	**Group 1**	**Group 2**	**Total**	**Group 1**	**Group 2**
≤ 10%	14 065	10 877	3 188	13 893	10 775	3 118
> 10% ≤ 15%	400	131	269	452	201	251
> 15% ≤ 20%	174	59	115	223	65	158
> 20% ≤ 25%	68	17	51	98	35	63
> 25%	27	13	14	68	21	47
Total	14 734	11 097	3 637	14 734	11 097	3 637

74. Figure 17 shows that the effect of disallowing 'real estate' as an eligible CRM technique in the distribution of the number of exposures by exposure bucket is negligible (the results presented in Figure 17 compare to the results in Figure 3). The exposures above the 25% limit represent only 0.18% of the total exposures in terms of eligible capital and 0.46% of the total of exposures in terms of Tier 1 capital. Group 2 institutions are slightly more affected by this change than Group 1 institutions.

75. **The present results show that, for the EBA sample, the non-recognition of 'real estate' as an eligible CRM technique would have a small impact in terms of the compliance with the large exposures limits.** It is noted, however, that this analysis does not consider the impact of the non-recognition of 'real estate' on smaller EU institutions, which could be material. EBA stands ready to further investigate this aspect. Alternatively, a limited recognition of immovable property could be allowed as collateral (i.e. only for specific portfolios, such as retail, or when immovable property is recognised in the standardised approach for credit risk).

Treatment of different exposure classes

76. Regarding the treatment of exposure classes under the two regimes, while the list of exemptions mentioned in the CfA is not an exhaustive one, the **EBA supports an effort to further reduce—where appropriate—the exemptions (discretionary or otherwise) from the large exposures regime in order to further align with the BCBS standards**. **However, an impact assessment similar to the one conducted in Section 2 of this report would be needed before an informed discussion can take place.** The time available to produce this report did not allow for such an exercise, but the EBA stands ready to conduct an analysis in the short term. The review of the Q&As in the area of large exposures indicate that the way in which exemptions and discretionary exemptions are applied across jurisdictions is not always well

understood and this divergent application causes difficulties particularly for cross-border institutions.[55] All considered, **it is recommended that a mandate for an EBA report on the large exposures exemptions and discretionary exemptions under Article 400(1) and (2) of the CRR is included in the review of the CRR**.

77. There is, however, a particular change where the EBA was able to estimate the impact. Under the BCBS framework, exposures in the trading book are subject to the normal large exposures limit of 25% of the capital base, with no exceptions. Using the same sample of institutions[56] and the same source of information as described in Section 1 of this report, the EBA was able to discover that around half of the exposures currently reported by institutions in the EBA sample are classified as belonging to the trading book.[57] More than 90% of those trading book exposures are reported by Group 1 institutions. Only around 0.14% of these trading book exposures are above the 25% limit of eligible capital (note that this refers to the number of reported exposures; the EBA has not assessed the impact on the size of exposures that institutions might have in their trading books).

78. **These results show that, for the EBA sample, the application of the 25% limit for large exposures in the trading book would have a small impact in terms of the compliance with the limits.** It should be noted that this analysis only considers consolidated data for one reference date (31 March 2016). It does not consider the potential impact on investment firms or on institutions at the individual level or sub-consolidated level (which, in some cases, may be more relevant for trading activities, especially if such activities are exercised by specific subsidiaries). Finally, it does not consider a market stress scenario.

Main source of funding for the treatment of connected clients

79. Recital 54 of the CRR states that, in determining the existence of a group of connected clients, it is also important to take into account risks arising from a common source of significant funding provided by the institution itself. However, it can be argued that the reporting institution should never be considered a common source of significant funding that connects clients that are, by no other means, related or economically dependent on each other. In extreme, the reporting institution should consider all its customers that are totally or basically financially dependent on the institution as a single group of connected clients. There is no such provision in the Basel framework. An alignment with the Basel framework for this particular issue would be advisable.

[55] The Q&As on large exposures indicate that there is a need to further elaborate on the use of the exemptions and discretionary exemptions (see, for example, Q&A 2013 365 and Q&A 2015 2506).
[56] See paragraphs 8 and 9 of this report.
[57] The amount of exposures after exemptions and CRM in the trading book is not included in the large exposures reports. However, it can be computed by subtracting the 'exposure value after application of exemptions and CRM of the non-trading book' (template C.28.00, Column 340) to the amount of 'total exposure value after exemptions and CRM' (template C.28.00, Column 330).

3.3 Other aspects

Treatment of breaches to the large exposures limits

80. The CRR does not specify the treatment of breaches to large exposures limits other than what Article 396(1) states: '*if, in an exceptional case, exposures exceed the limit, the institution shall report without delay to the competent authorities which may allow a limited period of time in which to comply with the limit*'.

81. As a result, there are divergent practices among competent authorities. **Article 396(1) should usefully incorporate a mandate for technical standards or EBA Guidelines to specify the key aspects of the treatment of breaches to large exposures limits**. Examples include whether the amount of the exposure in excess of the limit needs to be deducted from own funds, whether there should be an additional own funds requirement on the basis of the amount of the breach, whether the institution needs to present a plan to reduce the exposure (under a limited time period specified by the competent authority to return to compliance with the limit), or what the institution may be required to report during the period of the ongoing breach.[58] [59]

Reporting requirements

82. Currently, institutions that report FINREP are also requested to report the information specified in the large exposures templates of the ITS on supervisory reporting for exposures with a value above or equal to EUR 300 million.[60] This is in addition to the regular large exposures reports that capture exposures above 10% of the institution's eligible capital. **The Commission should consider amending Article 394 of the CRR to include a requirement for all institutions to report exposures that are above or equal to EUR 300 million** in COREP (using the same templates and with the same frequency as the regular large exposures reports).

83. In practice, this change would affect institutions that currently do not report FINREP and that have an eligible capital above EUR 3 billion. This absolute reporting threshold has been agreed upon by the EBA and is seen as necessary to obtain a comprehensive view on the risk profile of an institution, as well as on interconnectedness and the potential contagion effects of systemic risks. Given the clear advantages of having a single, integrated large exposures reporting template, the introduction of the absolute threshold in the COREP templates for large exposures would make sense. This change in the reporting framework cannot be done without an amendment to Article 394 of the CRR.

[58] For instance, Article 414 of the CRR facilitates competent authorities in their requirement for more frequent reporting of certain matters during a period of a liquidity requirements breach.

[59] It is also recognised that Article 102 (when read in conjunction with Article 104) of Directive 2013/36/EU ('CRD IV') contains general overarching powers for addressing actual or anticipated breaches, including with respect to compliance plans.

[60] See Article 9(2)(g) and Article 11(2)(g) of the ITS on supervisory reporting: https://www.eba.europa.eu/documents/10180/1028653/ITS+on+Supervisory+reporting.pdf/9212b4e7-37a1-4bbf-8409-2cc450d8513e.

Guidance on groups of connected clients

84. Via the EBA Guidelines,[61] the EU framework for large exposures includes detailed criteria to assess control relationships and economic dependencies for the identification of groups of connected clients[62] and further guidance on how to form the groups of connected clients. That said, a reference to these Guidelines in the CRR or a mandate to the EBA to produce corresponding regulatory technical standards (RTS) in this regard would be desirable in order to give more prominence to this matter, which is of crucial importance for the calculation of the exposure values and for addressing interconnectedness.

85. In general, the experience of the EBA in various prudential fields advocates both for (i) broader parts of international standards to be implemented via delegated legislation instead of Level 1, be it through Commission Delegated Acts or EBA technical standards, and (ii) more broadly formulated technical standards mandates, when delegation is conferred to the EBA.

Q&As on large exposures

86. As part of the review of the Q&As submitted by stakeholders, the EBA has analysed the **Q&As on the topic of large exposures and identified possible errors, inconsistencies and fundamental issues that should lead to an amendment of the CRR.** For example, the CRR does not allow the exclusion of exposures voluntarily deducted from own funds from the large exposures regime; the definition of 'unregulated financial sector entity' in Article 142(1)(5) of the CRR is understood in different ways by institutions—which leads to unclear reporting—and, as such, would benefit from better formulation for large exposures purposes; and the application of the exemption under Article 400(1)(j) of the CRR has also raised some questions, particularly with regard to the definition of trade exposures and the difference between clearing members' trade exposures and clients' trade exposures.

87. The results of the Q&As analysis have been published and also delivered to the Commission for further consideration in the CRR review, particularly for the review of the large exposures regime.[63]

[61] The EBA Guidelines on the implementation of the revised large exposures regime of December 2009 provide detailed guidance on connected clients. These Guidelines are currently under review and have been published for consultation until 26 October 2016: https://www.eba.europa.eu/regulation-and-policy/large-exposures/guidelines-on-connected-clients.

[62] See Article 4(1)(39) of CRR.

[63] See **Annex 8** of the 'EBA's reply to the European Commission's request for an overview of possible errors and inconsistencies in Regulation (EU) No 575/2013 (CRR) and Directive 2013/36/EU (CRD) observed via the Single Rulebook Q&A tool' of 5 August 2016, which is published on the EBA's website: https://www.eba.europa.eu/about-us/missions-and-tasks/calls-for-advice.

Annex I: List of G-SIIs

LEI code[64]	Country code	Entity name
ANGGYXNX0JLX3X63JN86	CH	Credit Suisse
BFM8T61CT2L1QCEMIK50	CH	UBS
549300E7TSGLCOVSY746	CN	Agricultural Bank of China
54930053HGCFWVHYZX42	CN	Bank of China
5493001KQW6DM7KEDR62	CN	China Construction Bank
5493002ERZU2K9PZDL40	CN	Industrial and Commercial Bank of China Limited
7LTWFZYICNSX8D621K86	DE	Deutsche Bank AG
5493006QMFDDMYWIAM13	ES	Banco Santander SA
R0MUWSFPU8MPRO8K5P83	FR	BNP Paribas SA
969500TJ5KRTCJQWXH05	FR	Crédit Agricole Group
FR969500TJ5KRTCJQWXH	FR	Groupe Crédit Agricole
9695005MSX1OYEMGDF46	FR	Groupe BPCE
FR9695005MSX1OYEMGDF	FR	Groupe BPCE
O2RNE8IBXP4R0TD8PU41	FR	Société Générale SA
G5GSEF7VJP5I7OUK5573	GB	Barclays PLC
213800LBQA1Y9L22JB70	GB	Barclays (Barclays PLC)
2138005O9XJIJN4JPN90	GB	The Royal Bank of Scotland Group Public Limited Company
RR3QWICWWIPCS8A4S074	GB	Royal Bank of Scotland (The Royal Bank of Scotland Public Limited Company)
MLU0ZO3ML4LN2LL2TL39	GB	HSBC Holdings PLC
U4LOSYZ7YG4W3S5F2G91	GB	Standard Chartered PLC
549300TRUWO2CD2G5692	IT	UniCredit SpA
C3GTMMZIHMY46P4OIX74	JP	Mitsubishi UFJ Financial Group (The Bank of Tokyo-Mitsubishi UFJ, Ltd)
RB0PEZSDGCO3JS6CEU02	JP	Mizuho Financial Group (Mizuho Bank, Ltd)
5U0XI89JRFVHWIBS4F54	JP	Sumitomo Mitsui Financial Group (Sumitomo Mitsui Banking Corporation)
3TK20IVIUJ8J3ZU0QE75	NL	ING Bank NV
549300NYKK9MWM7GGW15	NL	ING Group NV
6SCPQ280AIY8EP3XFW53	SE	Nordea Bank - group
784F5XWPLTWKTBV3E584	US	Goldman Sachs (The Goldman Sachs Group, Inc.)
FOR8UP27PHTHYVLBNG30	US	Goldman Sachs (The Goldman Sachs Group, Inc.)
9DJT3UXIJIZJI4WXO774	US	Bank of America (Bank of America Corporation)
B4TYDEB6GKMZO031MB27	US	Bank of America (Bank of America Corporation)
549300ZFEEJ2IP5VME73	US	State Street (State Street Corporation)
571474TGEMMWANRLN572	US	State Street (State Street Corporation)
WFLLPEPC7FZXENRZV188	US	The Bank of New York Mellon (The Bank of New York Mellon Corporation)
HPFHU0OQ28E4N0NFVK49	US	The Bank of New York Mellon (The Bank of New York Mellon Corporation)
6SHGI4ZSSLCXXQSBB395	US	Citigroup

[64] The information on the LEI codes has been gathered by the EBA on the basis of information provided by the FSB. It should be noted that, in some cases, the same entity appears in the list with different LEI codes, which were used to cross-check the database for the reporting entities and their counterparties. This was to ensure that all relevant exposures were captured in the analysis.

LEI code[64]	Country code	Entity name
8I5DZWZKVSZI1NUHU748	US	JPMorgan Chase (JPMorgan Chase & Co.)
IGJSJL3JD5P30I6NJZ34	US	Morgan Stanley
PBLD0EJDB5FWOLXP3B76	US	Wells Fargo (Wells Fargo & Company)

Annex II: Main differences between the BCBS framework[65] and the current EU large exposures regime[66]

Items	Current EU regime	New BCBS framework	Comments
Level and capital base of the large exposures limit	25% of the institution's eligible capital. The eligible capital includes CET1, additional Tier 1 and Tier 2 capital (within the limit of a quarter of the eligible capital).	25% of the bank's Tier 1 capital.	In Basel, the capital base of the large exposures limit is reduced, as Tier 2 capital is no longer included in the capital base. This is on the basis that the appropriate capital base for the large exposures regime should be going-concern capital. Only Tier 1 capital is considered as going-concern capital (see BCBS 189, paragraph 49).
Scope of application	All credit institutions and investment firms except for specific investment firms.	Internationally active banks, but there is the option for BCBS members to extend the scope of application to a wider range of banks.	As with all other BCBS standards, the scope of application is limited to internationally active banks. However, the EU still has the option of extending the scope of application to all institutions irrespective of their size.
Reporting requirements to the supervisor	Requirement to report the following at least twice a year according to the CRR (modified to quarterly by the ITS on reporting):	Requirement to report the largest 20 exposures and all exposures whose value exceeds 10% of the bank's Tier 1 capital.	In Basel, institutions are required to report more exposures to their competent authorities (given the reduction of the capital base). Reporting requirements themselves

[65] The Standards on the 'Supervisory framework for measuring and controlling large exposures' issued by the BCBS in April 2014 are published on: http://www.bis.org/publ/bcbs283.pdf

[66] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 321, 30.11.2013, p. 6).

	- All exposures whose value exceeds 10% of the institution's eligible capital; - The largest 10 exposures to institutions; - The largest 10 exposures to unregulated financial sector entities; - For IRB institutions, the largest 20 exposures.		remain the same. The EU requirement to report the 10 largest exposures to institutions or unregulated financial sector entities is driven by macroprudential motivation and is, in substance, different from large exposures reporting. Therefore, it is not in the scope of the Basel large exposures reporting framework. The Basel requirement to report the 20 largest exposures is equivalent to the EU requirement for IRB institutions to report their 20 largest exposures.
Treatment of connected counterparties	Group of connected counterparties where there are control relationships or economic interdependence between two or more counterparties; main source of funding mentioned in the CRR as part of economic interdependence. Recital 54 of the CRR explicitly mentions that it is also important to take into account risks arising from a common source of significant funding provided by the institution itself. There are no criteria specified in the CRR to assess economic interdependence; however, the criteria are mentioned in the CEBS 2009 Guidelines and are listed in the EBA consultation paper on connected clients. There is no threshold in the CRR below which the identification of the economic interdependence is not required. The CEBS	Group of connected counterparties where there are control relationships or economic interdependence between two or more counterparties. Assessment of the economic interdependence on the basis of qualitative criteria. Banks are required to thoroughly assess economic interdependence where exposures exceed 5% of Tier 1.	Clear criteria are introduced in the Basel framework to assess economic interdependence for the identification of a group of connected counterparties. No explicit mention is made of the main source of funding in the Basel large exposures framework. In the EU, these aspects are covered in the EBA Guidelines. In Basel, institutions are not required to thoroughly assess economic interdependence where the size of exposures does not exceed 5% of Tier 1. It should be noted that the BCBS consulted on a 2% materiality threshold for the identification of economic connections and on a 5% threshold for the reporting of large exposures. After consultation, the proposed 5% reporting threshold was raised to 10% and

	Guidelines set a threshold of 2% of eligible capital (the EBA consultation paper on connected clients maintains the threshold of 2% of eligible capital).		the materiality threshold for identification of economic dependencies was also raised to 5% accordingly. This argument is not valid for the European situation, because the large exposures reporting threshold, according to the CRR, already is at 10%.
Treatment of CRM techniques	a) Permission/discretion to reduce the value of large exposures by the amount of CRM techniques, provided that these techniques meet the conditions set out in the solvency regime, Articles 401-403 ‘an institution may’; b) Permission to reduce the value of large exposures by the amount of immovable property used as collaterals eligible under the IRB approach in the solvency regime; c) Permission to use own estimates for calculating the effect of CRM techniques, Article 401(2), subparagraph 2-4; d) Application of the Financial Collateral Comprehensive Method (FCCM) with the result that the exposure value is reduced and there is no recognition of exposure to the issuer of collateral; e) Application of the substitution approach to exposures guaranteed by a third party or secured by collateral issued by a third party; f) Maturity mismatches are accepted under the same conditions in the risk-based capital framework, Article 403(2)(b) in connection with Articles 237-239 of the CRR.	a) Compulsory reduction of the value of large exposures by the amount of CRM techniques, provided that these techniques meet the conditions set out in the solvency regime under the standardised approach (see paragraphs 38 and 42 of the Basel large exposures framework); b) No recognition of the other forms of collaterals eligible under the IRB approach in the solvency regime (immovable property, receivables and other physical collaterals). Observations considered in Basel for not accepting physical collateral for large exposures purposes. The assumption is that physical collateral cannot be liquidated easily and rapidly enough across jurisdictions. Comparison with the standardised approach for credit risk is twofold: on the one hand, the catalogue of eligible collaterals does not include physical collateral; on the other hand, the standardised approach does recognise physical collateral by means of preferential risk weighting for exposures secured by immovable property. Basel	a) In Basel, the use of CRM techniques is not discretionary anymore. The argument is that there should be no cherry picking across different frameworks. It is necessary to ensure that a bank reducing its credit risk exposures through CRM techniques for risk-based capital purposes is forced to consider potential concentration on protection providers; b) In Basel, institutions are no longer allowed to reduce the amount of large exposures by the value of immovable property used as collaterals. However, footnote 6 of the Basel large exposures framework explicitly says that, for banks that fall outside the Basel scope, ‘(…) there may be a case for recognizing physical collateral (…)’. In addition, ‘other forms of collateral that are only eligible under the IRB approach in accordance with paragraph 289 …are not eligible’; c) In Basel, institutions are no longer allowed to use their own estimates for calculating the effect of CRM techniques; d) This is the main point for which the Basel large exposures framework is stricter than

		seems to be 'inconsistent': it recognises the risk mitigating effect of physical collaterals for purposes of the risk-based capital framework but not for large exposures purposes; c) No permission to use own estimates for calculating the effect of CRM techniques; d) Full substitution approach—i.e. institutions must always recognise an exposure to the CRM provider (the Basel large exposures framework, paragraph 43). This is also true in the case of FCCM; e) Application of the substitution approach to exposures guaranteed by a third party or secured by collateral issued by a third party. In the case of trading book positions guaranteed by ('non-financial') credit default swaps (CDS), there is no full risk shifting but only a smaller CCR amount. In 'financial-to-financial' situations, full risk shifting remains (the Basel large exposures framework, paragraph 57); f) Alignment with risk-based capital framework (Basel, paragraph 39-40).	current large exposures framework. The argument is that it is more prudent. Exposures to the credit protection provider do not disappear with the use of the comprehensive method. It should be ensured that the concentration to a credit protection provider is captured; e) In Basel, the application of the substitution approach is made less severe for positions in the trading book guaranteed by certain CDS on the grounds that these positions would be severely impacted by the new large exposures rules. The reason for keeping full risk shifting where reference entity in a CDS contract and the CDS seller are financials is the macro-prudential aspect of trying to reduce excessive financial interconnectedness; f) No change necessary.
Measurement of exposures	Permission to use the IMM for calculating the exposure value of instruments with counterparty credit risk.	Exposure values of instruments with counterparty credit risk calculated pursuant to the SA-CRR (adopted by the BCBS in March 2014).	In Basel, institutions are no longer allowed to use internal model approach for calculating the exposure value of instruments with counterparty credit risk.

Annex III: Comparison of the BCBS framework[67] and the current EU large exposures regime[68] for each exposure class

Exposure classes		Current EU regime	New BCBS framework
Exposures to governments and public agencies	Exposures to sovereigns and to public sector entities (PSEs) treated as sovereigns according to risk-based capital requirements, paragraph 61, the second sentence of the Basel large exposures framework. These PSEs include regional governments and local authorities/administrative bodies and other non-commercial undertakings owned by governments with specific revenue raising powers (BCBS 128, paragraph 58, footnote 23).	Exempted	Exempted
	Exposures to regional governments or local authorities that are assigned a 20% risk weight under the solvency regime.	Possibility for competent authorities/Member States to exempt fully or partially.	Not exempted[69]
	Exposures to central banks.	Exempted	Exempted
	Exposures to deposit guarantee schemes.	Exempted	Not exempted[70]

[67] The technical standards on the 'Supervisory framework for measuring and controlling large exposures' issued by the BCBS in April 2014 are published at: http://www.bis.org/publ/bcbs283.pdf.

[68] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 321, 30.11.2013, p. 6).

[69] The Basel large exposures framework, paragraph 61, second sentence: only those regional governments/local authorities are exempted that are treated as sovereigns. As at least EU Member States generally receive a 0% risk weight (via Article 114(1) or (4) of the CRR), exposures to regional governments with a 20% risk weight would generally not fall under the scope of the Basel exemption.

[70] The Basel large exposures framework, paragraph 13: *'A bank must consider exposures to any counterparty. The only counterparties that are exempted from the framework are sovereigns as defined in paragraph 61. Section IV sets out the types of counterparties that are exempted from the large exposure limit…'* This means that all other exposures that do not fall under the scope of sentences 2 and 3 of paragraph 13 are included in the scope of the Basel framework.

Exposures to institutions	Intraday exposures.	Generally not exempted, i.e. 25% limit. Exception: Article 390(6)(a) to (d) of the CRR.	Exempted
	Non-intraday exposures (general case).	25% with possibility for competent authorities/Member States to exempt specific exposures.[71]	25% with review clause regarding monetary policy implementation.
	Exposures for institutions with eligible capital below EUR 600 million (specific case).	25 to 100%	Outside the scope of the BCBS framework.[72]
	Non-intraday exposures between G-SIBs (specific case).	25%	15%
Exposures arising from settlement and payment processes	Exposures arising from the settlement of foreign-exchange transactions during the 2 working days following payment.	Exempted	25%
	Exposures arising from the settlement of transactions for the purchase or sale of securities during the 5 working days following payment or delivery of securities.	Exempted	25%
	Exposures arising from client activity for the provision of money transmission and which do not last longer than the following business day.	Exempted	25%
Exposures to CCPs	Exposures to CCPs relating to clearing activities.	Exempted	Exempted
	Exposures to CCPs that are not directly related to clearing activities.	25%	25%
Exposures to recognised exchanges	Exposures to recognised exchanges.	Possibility for competent authority/Member States to fully or partially exempt.	Not specified, i.e. 25%

[71] These include exposures denominated in a minor trading currency without lasting longer that the following business day and exposures to credit institutions arising from loans granted to promote specific sectors of the economy pursuant to legislative programmes.

[72] It is worth mentioning that paragraph 11 of the Basel large exposures framework explicitly states: 'They [Member States] also have the option (…) to develop a different approach for banks that usually fall outside the scope of the Basel framework.'

Intragroup exposures	Intragroup exposures between group entities established in the same Member State and which are assigned a 0% risk weight under the solvency regime.	Exempted	Outside the scope of the BCBS framework.[73]
	Intragroup exposures between group entities established in the same Member State and without a 0% risk weight under the solvency regime.	25%	Outside the scope of the BCBS framework.
	Intragroup exposures between group entities covered by the same supervision on a consolidated basis wherever their location in the world (in the same Member State, another Member State or a third country).	Possibility for competent authorities/Member States to fully or partially exempt.	Outside the scope of the BCBS framework.
	Exposures to regional or central credit institutions responsible for cash-clearing operations within a network with which the credit institution is associated.[74]	Possibility for competent authorities/Member States to fully or partially exempt.	Outside the scope of the BCBS framework.
	Intragroup exposures between deposit takers and entities carrying out trading activities in accordance with structural measures.	Possibility for national authorities to apply a [10%-25%] large exposures limit.	Outside the scope of the BCBS framework.
Other exposures	Exposures to corporates.	25%	25%
	Retail exposures.	25%	25%
	Positions in the trading book.	Possibility to exceed the 25% large exposures limit (up to 600%) under certain conditions. Application of additional capital requirements in such cases.	25%
	Offsetting long and short positions in different issues in the trading book. Reason for the Basel treatment: Disregarding seniority may lead to underestimating the exposure to a certain client. Offsetting of long and short positions in all instruments of the	Article 390(3): No bucketing approach, i.e. offsetting of long and short positions in different instruments issued by the client regardless of seniority.	The Basel framework, paragraph 52: Offsetting in different instruments only when the short

[73] See paragraph 9 of the Basel large exposures framework.
[74] Please note that, strictly speaking, this exemption does not relate to intragroup cases, but rather to intra-IPS cases.

	client would allow offsetting a net long position in a share with a net short position in a covered bond of the same client. In the case of default of the client, the institution loses in the share 'everything' and gains 'nothing' on the covered bond.		position is junior to the long position, or if the positions are of the same seniority. Paragraph 54: Banks must follow the bucketing approach.
	Exposures in the form of covered bonds satisfying certain conditions.	Possibility for national authorities to fully or partially exempt.	20% to 125%
	Exposures in the form of covered bonds that do not satisfy conditions.	25%	25%
	Exposures in the form of transactions with underlying assets.	Application of a similar look-through approach.	Application of a similar look-through approach.
	Other balance sheet items.	25%	25%
	Banking book 'traditional' off-balance-sheet items.	General rule: Full recognition, see Article 389 of the CRR ('without applying degrees of risk' meaning the ones mentioned in Article 111(1)(a) to (d) of the CRR). Exception: Low risk items are fully exempted (Article 400(1)(i) of the CRR); medium/low risk items have the possibility of being exempted by national authorities (Article 400(2)(i) of the CRR).	Application of conversion credit factors (CCFs) set out for the standardised approach for credit risk with a floor of 10%.

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