Repealed by Circular CSSF 14/593

COMMISSION de SURVEILLANCE du SECTEUR FINANCIER

In case of discrepancies between the French and the English text, the French text shall prevail

To all Luxembourg credit institutions and branches of non-EU credit institutions

CIRCULAR CSSF 08/381

Re: Amendment of the instructions relating to tables B 2.3 "Information on large exposures" and B 6.3 "Information on large exposures on a consolidated basis"

Ladies and Gentlemen,

This circular briefly presents the main amendments to tables B 2.3 "Information on large exposures" and B 6.3 "Information on large exposures on a consolidated basis" and of the relating instructions.

Indeed, as stated in Circular CSSF 07/316, the CSSF revised the instructions relating to table B 2.3/6.3 in order to adapt them to the new capital adequacy framework (Circular CSSF 06/273: parts IV, V and XVI) and to the new IFRS accounting standards (applicable since 01.01.2008). Most amendments are simple technical adaptations of the references and terminology to the provisions of the above-mentioned circular and to the IFRS framework. This circular covers only the main amendments made in this matter.

Table B 2.3/6.3 is a prudential report which purpose is to provide information on large exposures in the bank's portfolios. The instructions relating to table B 2.3/6.3 complete the provisions of Circular CSSF 06/273 (parts IV (point 44), V (points 13 and 16), VI (chapters 2 and 4) and XVI) on the monitoring and control of large exposures of credit institutions.

Luxembourg credit institutions having foreign branches must provide two different versions of table B 2.3: an "L" version for the sole head office in Luxembourg and an "N" version for the global institution (including their branches); moreover, the head office in Luxembourg shall provide an "S" version (separate figures of the branch) of table B 2.3 for each branch. Luxembourg banks having no foreign branches, as well as branches of non-EU credit institutions shall provide the "L" version of table B 2.3 (figures of the entity established in Luxembourg).

Luxembourg branches of non-EU credit institutions remain subject to the obligation to communicate the large exposures they incur to the CSSF (on the basis of the "L" version of table B 2.3), even when they are exempted from the observance of large exposure control by a prior authorisation of the CSSF.

Luxembourg credit institutions, that have or have no foreign branches, subject to the supervision of the CSSF on a consolidated basis, shall provide the "C" version of table B 6.3 (figures of the entity established in Luxembourg, consolidated with those of the participating interests and/or subsidiaries, including those of the branches where applicable).

The format of table B 2.3/6.3 remains unchanged; it shall continue to be submitted in EDIFACT format. The potential setting-up of an XBRL taxonomy relating to table B2.3/6.3 will take place at the earliest after the finalisation of the recast of the European law regarding large exposures in the context of the reviewed CRD Directive. The publication of the new directive being expected in 2009, the application in Luxembourg (including the transposition deadline) will be in 2010.

Table B 2.3/6.3 and the relating instructions may be downloaded on the CSSF website, at http://www.cssf.lu/index.php?id=238&L=1.

A. Amendments introduced by the new capital adequacy framework (Circular CSSF 06/273: parts IV, V, VI et XVI)

The following parts of table B 2.3/6.3 are concerned:

Part I - The bank's own funds

- The own funds used to calculate the limits regarding large exposures are those included in line 740 of the new table B 1.4/6.4-CA/SRO.

Part III - Statistical analysis of large exposures (except in other credit institutions ≤ 1 year)

- For table B 2.3, the minimum threshold for the notification on an individual basis is set at 10% of own funds or EUR 12.5 million (instead of 6.25 million) and the four size categories were adapted accordingly:
    - Category 1: risks ≥ 50 million (instead of ≥ 25 million);

- Category 2: risks ≥ 25 million and < 50 million (instead of ≥ 12.5 million and < 25 million);
- Category 3: risks ≥ minimum threshold and < 25 million (instead of ≥ minimum threshold and < 12.5 million);
- Category 4: risks < minimum threshold.

- For table B 6.3, the minimum threshold for the notification on a consolidated basis is set at 10% of own funds or EUR 25 million (instead of 6.25 million) and the four size categories were reduced to three and adapted accordingly:
  - Category 1: risks ≥ 50 million (instead of ≥ 25 million);
  - Category 2: risks ≥ minimum threshold and < 50 million (instead of ≥ minimum threshold and < 12.5 million / ≥ 12.5 million and < 25 million);
  - Category 3: risks < minimum threshold.

Part IV - List of risks greater than 10% of own funds or EUR 12.500.000 / 25.000.000 (except those to other credit institutions ≤ 1 year)

- The minimum threshold for the notification is set at 10% of own funds or EUR 12.5 million (instead of 6.25 million) on an individual basis and EUR 25 million (instead of 6.25 million) on a consolidated basis.
- The risks taken in multilateral development banks shall now be included in part IV (instead of part V).
- The risks with a 0% weight in accordance with point 22(a), (b), (c), (d), (g), (h), (i) in part XVI of Circular CSSF 06/273 shall be exmpted from the notification, unless the institution applies point 30 of said part.

  Note: Upon the CSSF's request, the institution must be able to communicate the relevant risks to the CSSF on an *ad hoc* basis. It should be borne in mind that in order to ensure an appropriate prudential supervision, the above-mentioned exemption will, in principle, not be retained for the revision of the instructions relating to large exposures in the context of the implementation of the reviewed CRD Directive in 2010.
- The elements entirely covered by own funds may, subject to prior consent of the CSSF, be excluded from the definition of risks provided that these own funds are not used to cover capital requirements as defined in Circular CSSF 06/273.
- As regards the amounts to be taken into account for the limitation of large exposures (column 12 of part IV), the following elements should particularly be pointed out:
  - The risks secured by a collateral in the form of debt securities issued by multilateral development banks or by public sector entities of Member States may henceforth be exempted up to 100% of the value of said securities if these issuers are assigned a 0% risk weight under the standardised approach for credit risk.

- The existing provisions for the holdings in insurance companies now include holdings in reinsurance companies. These provisions (franchise agreement to the extent up to 40% of own funds/risk weight of the excess up to 100%) will however be repealed with effect on 31 December 2012, date from which the deduction of such holdings from the prudential own funds, constituting the basis for the application of the large exposure limits, becomes mandatory.
- There is no specific regime for the reverse repurchase / repurchase agreement and securities lending / borrowing transactions because these transactions are subject to the general regime applicable to exposures secured by financial collateral. The obligation to report twice the securities lending transactions (on behalf of the securities borrower and on behalf of the securities issuer) is nevertheless maintained.
- The provisions authorising the application of the transparency principle for the risks in the form of UCI's units were maintained, even if such a possibility is not explicitly provided in part XVI of Circular CSSF 06/273. *Note:* These provisions will eventually not be maintained during the revision of the instructions relating to large exposures in the context of the implementation of the reviewed CRD Directive in 2010.
- A new provision allows the institutions, which use either the general method for the financial collateral or the advanced internal ratings-based approach for credit risk, to extensively use the credit risk mitigation techniques which are similar to the methods used for the calculation of the solvency ratio.

Part V - List of risks to other credit institutions with a remaining maturity ≤ 1 year in other credit institutions (minimum reporting threshold: 10% of own funds)

- The risks taken in multilateral development banks are not included in part V anymore, but in part IV.

B. Amendments introduced by the new IFRS accounting standards (applicable since 01.01.2008)

The following parts of table B 2.3/6.3 are concerned:

Part II - List of the ten largest risks (except those to other credit institutions ≤ 1 year)

- Column 2 - Credits Granted / Column 5 - Credits Used

The financial assets shall be indicated in columns 2 and 5 of part II of table B 2.3/6.3 at cost/amortised cost before the deduction of possible impairment or at fair value, depending on the IFRS valuation method applicable to them (c.f. details provided below for columns 4 and 5 of parts IV and V).

Part III - Statistical analysis of large exposures (except those to other credit institutions ≤ 1 year)

- Column 3 - Credits Granted / Column 6 - Credits Used

The financial assets shall be indicated in columns 3 and 6 of part III of table B 2.3/6.3 at cost/amortised cost before the deduction of possible impairment or at fair value, depending on the IFRS valuation method applicable to them (c.f. details provided below for columns 4 and 5 of parts IV and V).

Part IV - List of risks greater than 10% of own funds or EUR 12.500.000 / 25.000.000 (except those to other credit institutions ≤ 1 year)

Part V - List of risks to other credit institutions with a remaining maturity ≤ 1 year in other credit institutions (minimum reporting threshold: 10% of own funds)

- Column 4 - Credits Granted / Column 5 - Credits Used / Column 6 - Impairment/Provisions of parts IV and V

1. The financial assets shall be indicated in columns 4 and 5 of parts IV and V of table B 2.3/6.3 at cost/amortised cost before the deduction of possible impairment or at fair value, depending the IFRS valuation method applicable to them.

For the different categories of non-derivative financial assets, the value to be reported in columns 4, 5 and 6 of parts IV and V of the table B 2.3/6.3 is specified below:

1.1 Non-derivative financial assets held for trading (line 1.2.2/1.2.3/1.2.4 of table B 1.1/6.1) and financial assets designated at fair value through profit or loss (line 1.3 of table B 1.1/6.1), for which positive and negative fair value changes are registered in the profit or loss account, shall be indicated in columns 4 and 5 of parts IV and V of table B 2.3/6.3 at fair value (higher or lower than the cost); column 6 of parts IV and V of table B 2.3/6.3 does not need to be filled in.

1.2 Available-for-sale financial assets (line 1.4 of table B 1.1/6.1) shall be allocated to columns 4, 5 and 6 of parts IV and V of table B 2.3/6.3 in the following manner:

a. Not impaired available-for-sale financial assets, for which positive and negative fair value changes are registered in a revaluation reserve in equity, shall be indicated in columns 4 and 5 of parts IV and V of table B 2.3/6.3 at fair value (higher or lower than the cost/amortised cost).

b. Impaired available-for-sale financial assets, for which decreases at fair value are registered in profit or loss, shall be indicated in columns 4 and 5 of parts IV and V of table B 2.3/6.3 at cost/amortised cost before deduction of any impairment; the impairment corresponding to the difference between the cost/amortised cost and the lower fair value shall be indicated in column 6 of parts IV and V of table B 2.3/6.3.

Note: During a transitional phase, which is the period up until the revision of the instructions on large exposures in the context of the implementation of the CRD Directive reviewed in 2010, it is permitted, provided the CSSF gives prior approval, to indicate as follows the available-for-sale financial assets in table B 2.3/6.3:

Impaired and not impaired available-for-sale financial assets shall be indicated in columns 4 and 5 of parts IV and V of table B 2.3/6.3 at fair value (higher or lower than the cost/amortised cost); column 6 of parts IV and V of table B 2.3/6.3 does not need to be filled in.

1.3 Loans and receivables (line 1.5 of table B 1.1/6.1) and the held-to-maturity investments (line 1.6 of table B 1.1/6.1), valued at amortised cost, shall be indicated in columns 4 and 5 of parts IV and V of table B 2.3/6.3 at their gross accounting value before deduction of any impairment; any possible impairment in order to handle counterparty risk, corresponding to the difference between the gross accounting value and the recoverable amount (current value of future cash flows considered as recoverable, determined by using the effective original interest rate) shall be indicated in column 6 of parts IV and V of table B 2.3/6.3 (similarly to the former Lux GAAP reporting).

2. The value to be reported in columns 4 and 5 of parts IV and V of table B 2.3/6.3 includes the unpaid accrued interests ("dirty pricing") (as opposed to the former Lux GAAP reporting), unless the institution is not capable of doing it due to technical reasons, in which case it shall request an exemption from the CSSF.

C. New instructions released by the CSSF

The following parts of table B 2.3/6.3 are concerned:

Part I - The bank's own funds

Branches of Luxembourg credit institutions established abroad, whether they have an endowment capital or not, determine the notification threshold for reporting the risks in parts IV and V of table B 2.3 ("S" version) (separate figures of the branch) as compared to the amount of own funds of the head office in Luxembourg; in part I of table B 2.3 ("S" version), they indicate the amount of own funds, as reported in part I of table B 2.3 ("L" version) (figures of the sole head office in Luxembourg).

Part IV - List of risks greater than 10% of own funds or EUR 12.500.000 / 25.000.000 (except those to other credit institutions ≤ 1 year)

- Column 2 - Client's name

Clients being banks shall be identified by the code *B * placed behind their name.

- Column 8 - Type of Guarantee

The risks without any guarantees shall be designated with "N" (Not guaranteed).

Part V - List of risks to other credit institutions with a remaining maturity ≤ 1 year in other credit institutions (minimum reporting threshold: 10% of own funds)

- Column 8 - Type of Guarantee / Column 9 - Risk Coverage

The different types of guarantees received and the risk coverage must be indicated, although the risks in part V have to be reported with a 0% weight have to be reported; the risks without any guarantees shall be designated with "N" (Not guaranteed).

For further information concerning this circular, please contact Mrs Marguy Mehling (tel: 26251-214; e-mail: sge.marguy.mehling@cssf.lu) and Mrs Joëlle Martiny (tél: 26251-352; e-mail: sge.joelle.martiny@cssf.lu).

Yours faithfully,

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