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PARIS EUROPLACE

Rt Hon George Osborne MP - Chancellor of the Exchequer
HM Treasury
Horse Guards Road
London
SW1A 2HQ

M. Pierre Moscovici- Ministre de l'Economie et des Finances
Ministère de l'Économie et des Finances
139, rue de Bercy
75572 Paris Cedex 12

(by email)

29 January 2013

Dear Chancellor, Monsieur le Ministre,

We understand that agreement on the Capital Requirement Regulation (CRR) is likely in the coming weeks.

We are very grateful for the consideration that has been given to the issue of the Credit Value Adjustment ("CVA") risk capital charge, in particular for corporate counterparties, in the context of the CRR negotiations. We understand that, in line with the concerns expressed by the industry and by several policy makers, the reasons for exempting such counterparties from the CVA risk capital charge, under certain conditions, are now more broadly understood and supported.

We have examined the latest draft compromise under discussion in Council and we are very pleased that an exemption to the CVA risk capital charge for transactions with non-systemic non-financial counterparties ("NFCs"), defined as counterparties which will not be subject to mandatory clearing and collateralisation for their derivative transactions under EMIR, has been included (article 372 CRR).

The issue is that the current drafting relies on the definition of NFCs as provided in EMIR, i.e. an "undertaking established in the Union" and therefore has the unintended consequence of excluding non-EU corporates and asset finance (e.g. project finance, aircraft finance, etc.)[1].

[1] Although EMIR applies only to corporate counterparties settled in the EU, it also aims at imposing mandatory clearing of eligible derivative contracts to non-EU corporate counterparties. See Article 4(1)(iv) of the Regulation (EU) No 648/2012 of 4 July 2012 on OTC derivative transactions, central counterparties and trade repositories.

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This point is problematic for three main reasons:

1. There is a risk of deterring foreign companies that contribute to economic growth and jobs from European financial markets: by exempting solely European non-financial counterparties, we would make it less attractive for non-EU companies to invest in Europe and reduce their propensity to grow, and hire, in the EU.

2. It creates an unintended distortion of competition with non-EU banks.

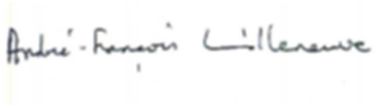
3. This divergent regime does not serve any risk management goals as non-EU companies are not riskier than European firms.

The Council has fully understood the serious consequences of the Basel III CVA Risk for EU sovereign issuers and rightfully decided to exempt them from the CVA risk capital charge.

For the sake of the attractiveness of the European Union, the Anglo-French Committee of the International Regulatory Strategy Group and Paris Europlace, which represent financial services in the City of London and Paris, respectfully urge you to consider exempting all non-financial counterparties (corporates and asset financings) from the additional capital charge introduced within CRR to address CVA risk, whether they are based within or outside the EU.

We are copying this letter to Commissioner Michel Barnier, the Irish Presidency, Sharon Bowles MEP and Othmar Karas MEP.

Yours sincerely,



André Villeneuve
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Attachments: Letter to Commissioner Barnier regarding the CVA Exemption, November 2012

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Appendix A - Proposed Amendment

Capital Requirements Regulation (Article 372)

3a. The following transactions are excluded from the own funds requirements for CVA risk:

a) Transactions with non-financial counterparties as defined in Regulation (EU) 648/2012 (EMIR) Article 2 (9), where those transactions do not exceed the clearing threshold as specified in Article 10(3) and 10 (4) of that Regulation, or with non-financial counterparties established in a third country that would not be subject to the clearing obligations under Article 4(1)(iv) of that regulation if they were established in the Union;

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