



## *The Minister of the Treasury*

Having regard to Legislative Decree 481 of 14 December 1992, transposing Council Directive 89/646/EEC of 15 December 1989, and in particular to Article 22, paragraph 1, subparagraphs *b)* and *d)* pursuant to which the Bank of Italy, in compliance with the directives of the Interministerial Committee for Credit and Savings (the Credit Committee), shall issue general instructions to banks regarding the limitation of risk in its various forms as well as administrative and accounting procedures and internal control mechanisms;

Having regard to Legislative Decree 356 of 20 November 1990 concerning banking groups, and in particular to Article 30, which in compliance the directives of the Credit Committee, grants the Bank of Italy the power to issue instructions to the parent undertaking regarding the limitation of risk in its various forms;

Having regard to Legislative Decree 528 of 30 December 1992 implementing Council Directive 92/30/EEC of 6 April 1992 on the supervision of credit institutions on a consolidated basis, and in particular Articles 4 and 5 concerning prudential supervision and the duties of the credit authorities;

Having regard to the resolutions of the Credit Committee of 30 March 1973 and 4 June 1976 concerning lending limits;

Having regard to the resolution of the Credit Committee of 20 March 1987 concerning, *inter alia*, the regulation of lending to connected persons;

Whereas on 21 December 1992 the Council of the European Community adopted Directive 92/121/EEC (the "Directive") on the monitoring and control of large exposures of credit institutions;

Having consulted the Credit Committee in the meetings of 10 and 11 June 1993;

### ISSUES

the following Decree

#### 1. *Large exposures*

This decree establishes the criteria that the Bank of Italy shall adopt in issuing regulations governing the large exposures of the Italian banks referred to in Article 1, paragraph 2, subparagraph *a)* of Legislative Decree 481/92, and the banking groups entered in the register referred to in Article 28 of Legislative Decree 356/90.

In regulating large exposures, the Bank of Italy shall have regard to the provisions of Article 4 of Legislative Decree 528/92.

## 2. Borrowers

For the purposes of these regulations, borrowers shall refer to individual obligors and groups of obligors connected by legal or economic relationships.

As regards the possible forms of economic relationship, account shall be taken of the provisions of the Directive, which defines such a relationship as one where two or more persons are interconnected to such an extent that if one of them experiences financial problems it is likely that the others will encounter repayment difficulties.

The Bank of Italy shall specify the procedures for identifying a group of obligors connected by relationships in accordance with the above criteria.

In any case, the exercise of control or the holding of shares by the State shall not in and of itself constitute the existence of a group of connected obligors.

## 3. Connected persons: significant shareholders and investee companies

For the purposes of these regulations, connected persons – significant shareholders and investee companies – shall be identified on the basis of the following criteria:

- significant shareholder shall mean the person who directly or indirectly controls or has a significant holding of the capital of a parent undertaking or of an individual bank that does not belong to a banking group;
- investee company shall mean the person in which a banking group or an individual bank directly or indirectly has a significant holding.

Companies and entities belonging to banking groups are not connected to the other members of the group.

For the purposes of identifying the persons referred to in this section, the Bank of Italy shall establish the size of significant shareholdings, which shall be no less than 15% of the capital of the investee company.

## 4. Lending limits

In specifying “large exposures” the Bank of Italy shall have regard, in accordance with the criteria established by the Directive, to all forms of exposure in respect of borrowers as referred to in section 2.

In determining the limits, the Bank of Italy shall take account of the most favourable options envisaged until 31 December 1998 by the Directive. Such criterion shall not apply to the limit concerning exposures to connected persons, for whom, in line with the existing supervisory regulations, the more stringent limit established by the Directive shall be adopted.

Accordingly, the following limits shall apply:

- a limit of 40% of the supervisory capital of the lender to an individual customers or group of connected customers until 31 December 1998; subsequently, such limit shall be lowered to 25%. For the connected persons referred to in section 3, a limit of 20% shall apply immediately;
- an aggregate limit of 800% of supervisory capital for all exposures equal to or greater than 15% of the own funds of the lender; after 31 December 1998, the 15% threshold shall be lowered to 10%.

The Bank of Italy may establish more favourable limits for individual banks belonging to a banking group.

The Bank of Italy may elect not to apply the above limits to the banking, financial and instrumental components of banking groups for exposures within the group. The Bank of Italy may establish more stringent limits for group companies established in non-member states where their home countries do not have an adequate system of supervision.

The Bank of Italy may establish specific regulations for significant shareholders of a bank belonging to a banking group, which shall not be more favourable than the general regulations governing the borrowers referred to in section 2.

#### *5. Weighting of exposures*

In establishing the procedures for calculating exposures, the Bank of Italy shall adopt a system of weights that is consistent with the provisions of the Directive and takes account of the regulations governing the solvency ratio.

For exposures to banks, the Bank of Italy shall adopt a system of weights that takes account of the maturity of the exposures; for exposures to banks established in non-member states that do not have an adequate system of supervision, the Bank of Italy may adopt more restrictive criteria.

#### *6. Procedures for the reduction of exposures in excess of the limits*

The Bank of Italy shall establish procedures and deadlines for the gradual reduction of exposures that exceed the limits laid down in section 4, in compliance with the provisions of the Directive.

#### *7. Reporting*

The Bank of Italy shall require the persons specified in section 1 to submit reports on at least a quarterly basis.

#### *8. Italian branches of non-EC banks*

The Bank of Italy shall regulate the application of the provisions of this decree to the Italian branches of non-EC banks referred to in Article 1, paragraph 2, subparagraph c) of Legislative Decree 481/92.

#### *9. Final provisions*

This Decree replaces the resolutions of the Credit Committee of 30 March 1973, 4 June 1976 and 20 March 1987.

Rome, 22 June 1993

THE MINISTER: BARUCCI