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Ladies and Gentlemen:

**Subject: The Application of the Supervisory Review Process Under Pillar 2**

This letter is MBNA Europe Bank Limited's initial response to Committee Of European Banking Supervisors (CEBS) Consultation Paper on the Application of the Supervisory Review Process Under Pillar 2.

MBNA Europe Bank Limited ("MBNA Europe") is a wholly owned subsidiary of MBNA America Bank, N.A., itself the principal subsidiary of MBNA Corporation (collectively herein referred to as "MBNA"). MBNA's primary business is retail lending, providing credit cards and other retail lending products to individual consumers. As at 31 December 2003, MBNA Europe had approximately £7.9 billion in receivables, which equated to a 14.54% share of the United Kingdom credit card market which totalled £54.2 billion. MBNA Europe has branches in Ireland and Spain and is reviewing opportunities in other European Union countries, hence our interest in achieving a consistent approach within Europe and with United States regulators.

MBNA has been an active participant in the consultative process in relation to the New Basel Capital Accord (the "New Accord") responding to consultation papers issued by the Basel Committee, US Regulatory Agencies, European Commission and the FSA. Our comments and observations regarding CP03 are presented below. For your reference paragraph numbers are provided if applicable.

***Introduction***

1. Throughout this process we have consistently supported the need for uniformity of application of the New Accord across supervisory boundaries. We would draw CEBS's attention to the fact that home/host supervisory responsibilities, relationships and jurisdiction concerns are shared by all "internationally active" U.S and U.K institutions, not just for the European boundaries but also for the wider U.S agency relationships.

We welcome your Consultation Paper CP03, and are pleased to agree in principle with your proposals contained therein, and fully support your view on supervisory co-operation. As stated above we believe that it extends not only to supervisory co-operation within member states but also to countries outside of the European Union, in particular those of our home regulator in the United States of America, the Office of Comptroller of the Currency (OCC). Unfortunately this does not appear to be consistent with a recent speech by Mr. Roldan on the 21<sup>st</sup> June to the European Banking Industry Committee (EBIC) Plenary, where a lack of support was expressed for the role of lead supervisor.

2. We would welcome further discussion on the relationship of home\host regulators. Whilst this paper addresses uniformity of application of the revised framework by supervisors, there is little detailed discussion on relationships of home\host supervisors.

### ***Supervisory Review Process***

3. (Para 7) We recognise the four principles of supervisory review agreed by the Basel committee and support their compliance.
4. (Para 12) We support the view on ensuring an appropriate level of dialogue and feedback between supervisors and firms, to ensure the success of the Supervisory Review Evaluation Process (SREP) and Internal Capital Adequacy Assessment Process (ICAAP) processes. However, we have a concern that unless further detailed understanding and agreement on the 'lead supervisor' role is developed, firms may be required to support two SREPs one for the home supervisor, another for the host supervisor.
5. (Para 13) We support the development of a level playing field in the EU for the new framework and would request CEBS to develop support/relationships with other agencies/groups on a global basis.

### ***Key Considerations***

6. (Para 16) We support the need for a comprehensive ICAAP assessment relative to risks posed by business activities and operating environment. However we again stress the need for consistency between home/host regulators to prevent the duplication of development and discussion on ICAAPs and performance of the SREP. Agreement will be required between home/host regulators on the acceptance of a firm's definition of economic cycle and stress test scenarios.

***ICAAP High Level Principles***

7. (V.a) For sophisticated institutions the high level principle suggests '*a complete integration into the day-to-day management is expected.*' We would seek further clarification on this point. Our objective is to ensure that the Basel II risk management measures and practices are a key component of day-to-day bank management. We do not believe the intention is for a resource intensive mechanical solution, but ask for confirmation on this point.
8. We recognise and accept the Risk and Control factors and their definitions.

***SREP High Level Principles***

9. We agree with and support the SREP high level principles.

We appreciate the opportunity to provide these comments to CEBS. If you have any questions regarding this submission or if we can provide further information, please do not hesitate to contact me on 01244 672251 or e-mail at [robin.russell@mbna.com](mailto:robin.russell@mbna.com).

Yours sincerely,



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