

CEBS

per E-Mail: CP12@c-eps.org

Bundessparte Bank und Versicherung
Wiedner Hauptstraße 63 | Postfach 320
1045 Wien
T +43 (0)5 90 900-DW | F +43 (0)5 90 900-272
E bsbv@wko.at
W <http://wko.at/bsbv>

Ihr Zeichen, Ihre Nachricht vom

Unser Zeichen, Sachbearbeiter
BSBV 115/Dr.Rudorfer/Br

Durchwahl
3137

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Re: Comment on CEBS Paper - CP 12 Stress testing under SRP

The Bank and Insurance Department of the Austrian Federal Economic Chamber, representing all Austrian Credit Institutions, welcomes the opportunity to comment on CP 12. The Austrian credit industry furthermore is in favour to define a common understanding among European supervisory authorities on this topic

In detail we would like to comment on the consultation paper (CP 12) from the operational risk point of view as follows:

Sections I - III of CP 12 “Stress testing under the Supervisory Review Process”

Sections I - III of the paper deal with stress tests in general. However, there is no clear assignment to a single risk category. Some concepts presented (e.g. economic cycles) seem to be suitable only for specific risk categories and not for the others. An explanation on this topic could be helpful for clear interpretation.

Furthermore we are in favour that size, sophistication and diversification of credit institutions are taken into account (principle of proportionality).

II. 3. Uses of stress testing

The recommendation that earnings are part of an institution’s overall capital planning and they should assess how their earnings are affected by stress situations seems to be too general. The new capital framework does not tackle the aspect if and how earnings are affected. So it could be specified on special effects like interest rate risk in the bank book.

We are in favour that P 18 permits smaller institutions to tackle ICAAP through very simple stress tests.

III.3. Stress testing calibration

ST 3 - 26 Based on the identification of material risks, institutions should derive material risk factors that should be subject to stress testing.

CP 12 proposes to take historical scenarios into account (III 3-26) because they might recur.

In our opinion, historical scenarios are already contained in the time series used for risk modelling. Repeating them would not bring any new insight, but overbalance past losses. In our opinion, it would be more beneficial to review results of the qualitative analysis (risk assessments) and incorporate those. This might be a good management check done by the experts of the institution who have an overall insight of their units and can make assumptions according future potential hazards. Additionally, the advantage of this approach is to obtain realistic but plausible scenarios.

ST 5 - 30. Stress testing should be based on exceptional but plausible events.

“Institution should run stress tests of different degrees of severity and likelihood... it may be useful to consider different economic cycle.”

ST 7 - 34

We consider it better to leave it up to the institutions to determine the frequency of stress tests.

Best regards

Dr. Herbert Pichler
Managing Director
Division Bank & Insurance of the
Austrian Federal Economic Chamber