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	AUTHOR, ROLE	JOHN FITZGERALD	BASEL 2 PROJECT MANAGER	
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## 1 Introduction

In common with other financial services institutions in Europe, EBS has been asked to provide feedback to CEBS on each of the series of consultation papers issued by CEBS throughout 2004 and 2005.

EBS is pleased to be given the opportunity to respond and places great importance on extending the interaction with regulators and industry bodies during this period of change.

EBS finds the CEBS papers generally very informative and is making full use of the guidance provided as it moves towards achieving its Basel 2 aims and CRD compliance.

This document forms the EBS response to CP10, Consultation Paper on the Guidelines on the implementation, validation and assessment of Advanced Measurement (AMA) and Internal Ratings Based (IRB) Approaches.

## 2 Response Detail

Paragraph 58 binds the institution to a rollout plan submitted as part of the application. We cannot see that a plan can in its detail be binding. Certainly the intent and aims of the plan can be, but business pressures mean that re-focus and re-prioritisation is part of normal life. Again paragraph 59 is too prescriptive. All these can form part of an initial project plan but it is in the nature of projects to change, if only in order to make best use of available resources.

In paragraph 64 an 'independent risk assessment function' may not be the most appropriate function to sign off on an assessment process. We may see this as part of the remit of Internal Audit.

Paragraph 105 seems to negate the possibility of ever extending the scope of the IRB approach to asset types that may grow in importance in the future. Paragraph 122 on the other hand seems to imply that for permanently exempted assets, a breach on materiality can only be remedied by a 'remedial action plan', which then becomes a 'roll out plan' a couple of lines later. This seems to say that once materiality has been breached then the appropriate response is to apply for IRB use on these assets.

Paragraph 135 seems to require that an ICAAP be in place and functioning before an IRB application can be made. This is not our understanding of how an approval process should function. In particular, ICAAP would look very different in the event that we would not receive approval to use the IRB approach for Pillar 1.

The use of the phrase 'strictly in line' in paragraph 140 does not seem to align with the sentiment in other paragraphs, where 'some flexibility' is envisaged in use of data inputs and parameters.

Paragraph 155 does not specify what a 'connected exposure' should be. The connection could be as tenuous as a family relationship, or as specific as a declared interest as first named obligor on more than one exposure. Paragraph 156 seems to favour the latter, more rigid definition.

Paragraph 195 mentions a 'materiality' criterion for assessing past-due. We are not aware that any such materiality threshold has been defined. We also are assuming that there is to be no distinction between arrears and technical arrears. If there is to be, we would appreciate a definition of what constitutes a technical arrears case.

Paragraph 205: it may not be possible to assign a cost to the cost of running the collections department, beyond a simple allocation based on headcount. Going into more detail may well prove to be arbitrary.

Paragraph 217 would appear to refer to losses, and as such would be captured as part of our Loss Event database.

Paragraph 245: 'Potential future drawdowns' are not CF's, surely. The definition is given in paragraph 246.

Paragraph 271 describes an enormous task for the competent authority, namely, reproducing the institution's validation steps. This amounts in practical terms to rebuilding the entirety of the rating system, and is surely beyond what any authority would hope to do and what would be practically sufficient to assess an institution's systems and processes.

Paragraph 277 refers to models and to ratings. Does it apply to all models or only to ratings?

Paragraph 302 seems to say nothing more than an institution should have a competent, efficient IT department. This should not be a requirement for any specific assessment.

Internal Audit has duties to audit all parts of the organisation, and in practical terms, has to assign personnel to areas considered to be in greatest need of inspection. This means that, with a set amount of resource, decisions have to be made as to priority. The requirement for annual audit in paragraph 303 may be excessive, and should be revised to 'at regular intervals'.

Paragraph 348 requires institutions using Low Default Portfolio techniques to 'demonstrate that the methods and techniques applied to estimate and validate PD, LGD and CF constitute a sound and effective risk management process and are employed in a consistent way.' We will be using such techniques, and hope that the required demonstration is covered by our use of published mathematical research.

As a small institution, EBS welcomes the flexibility allowed for in paragraph 363 and 364 and again in the section on 'Proportionality', paragraph 378 – 381.

We would not be comfortable with the requirement in paragraph 389. Internal Audit may not possess such skills and it is in general beyond their remit.

Paragraph 390 raises the same problem as mentioned in connection with paragraph 303. 'Regular intervals' would be preferable to 'annual'.

Paragraph 407 again suffers from the deficiency raised in connection with paragraph 302. IT audits are conducted at regular intervals by Internal Audit, using a co-source partner. This is a general inspection, not done as part of any particular agenda. There should not be a specific requirement here that goes beyond the proper administration of an internal IT department.