European Banking Industry Committee

European Banking Federation (EBF) • European Savings Banks Group (ESBG) • European Association of Cooperative Banks (EACB)
European Mortgage Federation (EMF) • European Federation of Building Societies (EFBS)
European Federation of Finance House Associations (Eurofinas)/European Federation of Leasing Company Associations (Leaseurope)
European Association of Public Banks (EAPB)

CEBS Secretariat
Committee of European Banking Supervisors
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To: cp39@c-ebs.org

Brussels, 09 July 2010

RE: Contribution to CEBS' consultation on guidelines for the joint assessment of the SREP and joint decision regarding the capital adequacy of cross-border groups (CP39)

Dear Madam/Sir,

EBIC, the European Banking Industry Committee, appreciates the opportunity to contribute in the CEBS consultation on guidelines for the joint assessment of the SREP and joint decision regarding the capital adequacy of cross-border groups. EBIC welcomes CEBS' initiative to provide tools for home and host supervisors to facilitate coordination in their assessment of the different entities of cross-border banking groups and to reach a shared understanding of cross-border groups' capital adequacy. We also believe that CEBS' approach will help supervisors reach a common decision within a reasonable timeframe.

This being said, EBIC would like to highlight the following important issues.

Firstly, on the chosen approach, we observe that the proposals for the SREP foresee a 'bottom-up' organization of the assessment process. However, in particular as regards information gathering, a 'top-down' approach would be more appropriate, with the consolidating supervisor leading the process, including clear statements on the documentation (ICAAP) and stress tests to be performed uniformly at the global level and the solo level. A top-down joint assessment of the group would greatly facilitate capital calculation and stress testing, as well as the determination of which local issues are relevant at the group level. A bottom-up approach, on the other hand, is likely to lead to redundancy of effort, documentation and reporting.

Secondly, EBIC stresses the importance of involving the banking group in the SREP process. The banking group should be closely integrated in the SREP process at all relevant stages, since the complexity of the issues at hand calls for a close and coordinated dialogue between supervisors and the appropriate part of the group (whether subsidiary or at group level) preceding any conclusions drawn within SREP. Also the results of the joint assessment and decisions should be communicated to the group; there should be room for discussion of results between the group, its entities and the relevant supervisors.

On overall we believe that the close involvement of the banking group will serve the quality of the decisions made in the supervisory college. In addition it may help alleviate the problems often arising from applying standardized tools to the supervisory assessment of different national markets with different specificities. Furthermore, a transparent evaluation process and dialogue will help banks address supervisors' criticism and improve on shortcomings identified; therefore EBIC also invites CEBS to directly include transparent evaluation in its recommendations.

Thirdly, with regard to the assessment, review and evaluation of institutions' ICAAP within SREP, the following points are important. SREP is, in part, a reaction to ICAAP, which is an institution driven process and we welcome that this is recognised by CEBS. Indeed, ICAAP should be oriented according to the individual ICAAP definitions. It is, of course, clear that a sensible dialogue between banking group and supervisors builds on the implementation of a coordinated and integrated process on both sides, on the best possible elimination of inconsistencies and hence on a significant amount of standardization. However, the standardized approach will depend on the banking group specific aspects of the ICAAP. Therefore SREP has to be flexible enough to accommodate for the individual standardization in the banking group.

EBIC finds that group-level ICAAP should clearly reflect the situation of all relevant individual entities within the group and the specificities of their risk management practices when applicable. If this process is performed correctly, the SREP of the group will reflect the overall situation but will also take into account existing differences between individual entities. Again, only at group level will the SREP clearly reflect the risks involved in the group and evaluate the adequacy of the capital base. Hence we appreciate the recommendation that "the quality of internal capital and its impact on the determination of capital adequacy at the group and entity levels should [ ] be discussed within the college" (Para 121).

Furthermore, we would welcome clearer guidance on the remittance dates and frequency for the ICAAP's submission. We understand that supervisors have to distribute the supervisory workload through the year and that therefore global coordination would be necessary to align the cycles and timetables of different supervisors and colleges of supervisors. This being said, EBIC finds that there should be a joint assessment once a year, aligned with the preparation of the ICAAP, where the remittance dates should be discussed and communicated in advance.

Fourthly, EBIC stresses that the SREP guidelines should not multiply stress test requirements. Indeed at present we are concerned that an overemphasis on supervisor mandated stress tests (whether at group or at entity level) may crowd out firms' own risk management, given the restricted resources. We also are concerned that a combination of stress testing at the solo level and a direct link between stress test results and capital requirements could lead to significant capital resources being locked up in individual subsidiaries, which may severely restrict a firm's ability to manage its capital effectively. This being said we understand and support that firms should be encouraged to maintain a holistic view of their risks and operations at the group level, and continue to manage their capital resources in an efficient manner reflective of the risks being assumed. Yet, for some institutions, decision making authorities are not aligned to solo entities, limiting the value of stress testing at that level.

Our remaining concerns include the absence of formal framework for feedback process for the delivery of information from supervisors to bank. EBIC would in particular welcome a recommendation that supervisors should announce to banks when feedback about the documentation and evaluations of the capital adequacy will be provided.

EBIC also is aware of the challenge to achieve the greatest possible consistency in the implementation of the templates. An implementation study could be helpful in this respect and should take place after one year of implementation.

Yours sincerely,

Gerhard HOFMANN | Peter KONESNY
Chair EBIC | Chair EBIC Working Group on Supervisory Practices