

26 March 2010

**UniCredit Group's reply  
to the CEBS CP 34 on the operational functioning of colleges  
of supervisors**

**GENERAL REMARKS**

UniCredit Group appreciates the coordination role that has been attributed to the consolidating supervisor. It also fully supports steps towards increasing the capability of CEBS to promote level playing field among the colleges' practices, scopes and tools, under normal and stress conditions.

For cross-border banking groups, promoting an efficient and effective consolidated supervision, with a strong European Banking Authority (EBA), is of the utmost importance. It is important to stress that the role of the EBA and of the parent company, as single entry point of the CoS decisions or inputs, should be clearly enhanced.

Furthermore, in emergency situations, a stronger EBA in coordination with the European Systemic Risk Board, a well functioning College as well as a properly empowered and governed parent company can be fundamental tools to manage the crisis in the most effective manner. The parent company is the primary tool to access and manage a crisis in a banking group. It has the power, the information, the knowledge and the data. It understands best the group's business model and systemically important business activities.

Moreover, the College should also be enabled to address the overlapping levels of legislation, e.g. a subsidiary should be compliant with the legislation at level of its country, of the country of the parent company and, if applicable, of the country of the sub-holding, with a particular attention to non-EU third countries. With this regard a key issue is sharing the definition of the boundaries of the supervised institutions for instance agreeing if include other financial companies such as leasing and asset management ones. The College should also be entrusted with the task to review the performance of delegated tasks, and make sure that local supervisory activities on topics of relevance for the group (e.g. capital adequacy) are coordinated by the consolidated supervisor.

**SPECIFIC REMARKS**

UniCredit Group (UCG) has undertaken a review of the CEBS guidelines.

**Setting-up and format of the Cos (guidelines 1-10)**

The consolidating supervisor is tasked to:

- 1) set-up a mapping of the group's entities;
- 2) establish a core and a general CoS; decide on the membership (CEBS provides general guidance);
- 3) decide whether include non-EEA supervisors or consult them to reach an agreement;
- 4) draft a written arrangement laying out the basis for CoS cooperation;
- 5) decide whether to include non banking supervisors.

Comment: We would have expected to have a clear mentioning of the important role of CEBS/EBA and the supervised entity.

[Guideline 1]: The mapping of a group's entities by the consolidating supervisor is a very useful exercise with the support of the supervised Group. With this regard UCG deems of the utmost relevance supervisors agree on the boundaries supervised institutions for instance agreeing if include other financial companies such as leasing and asset management ones.

[Guideline 3]: The division in core and general is useful, especially to adress EEA and non-EEA arrangements.

[Guideline 5]: Non-EEA authorities can bring valuable contributions to the supervisory college, therefore agreements between EEA countries should not be unnecessarily strict, impeding the active participation of non-EEA supervisors.

[Guideline 8]: Smooth cooperation is crucial especially in emergency situation, for which specific guidelnes may be considered.

[Guideline 9]: it is expected that the consolidating supervisor encourage the participation of non-EEA supervisors.

**Governance of the CoS (g. 11-15)**

The consolidating supervisor is tasked to:

- 1) chair, set the agenda and action plans;
- 2) arrange at least one annual meeting for the general CoS and the core as frequently as needed.

Comment: We would have expected to have a clear mentioning of the important role of CEBS/EBA and of the participation of the supervised entity.

[Guideline 11]: It is sensible that the chair of the college is allocated to the consolidating supervisor that should take the lead in its activities with the objective of enhancing consolidated supervision.

[Guideline 13]: the expected structured dialogue between the college and the supervised entity seems minimal.

[Guideline 14]: in order to foster convergence and allow joint decisions, the expectation is that colleges meet much more frequently then on an annual basis,

[Guideline 15]: The establishment of supervisory teams is welcome. It would be productive to foresee the participation of experts by the supervised entity.

**Information to CEBS (g. 16)**

CEBS will participate as observer and will be informed on the activities on the supervisory convergence (or divergence). The agenda and the general outcome of the CoS work will be made available to CEBS

Comment: CEBS/EBA's role is presented as a marginal one. We have concerns over its capability to promote joint decisions and enforce level playing field.

Generally, the status of observer is legally related to the right of vote. The relevant legislation and in particular Article 131 bis of the CRD II states that Colleges of Supervisors only have the task of facilitating and preparing joint decision taking by the competent authorities of more than one Member State while it is for the competent authorities to actually take those decisions. As long as the relevant

legislation (CRD) contains no provision on decision making process and on the voting system applicable in the Colleges of Supervisors, the specification that the CEBS/EBA has a status of “observer” is pointless.

**Exchange of info among supervisors (g. 17-21)**

The memo suggests detailed guidelines under the coordination of the consolidating supervisor.

No comments

**Communication with the supervised institutions (g. 22-25)**

- 1) requests to the group should be coordinated, to the greatest extent possible, by the CoS;
- 2) in general, the consolidating supervisor should communicate with the parent company, host sup. with locally licensed entities;
- 3) the consolidating supervisor should organise meetings between the CoS and the senior management or representatives of the supervised group.

Comment: the role of the supervised entity seem to be relatively limited.

[Guideline 22]

For efficiency and effectiveness reasons, the expectation is that the parent company can act as a single entry point for any deliberation and request of the CoS.

[Guideline 23]

Coordination within the college of information requests is an area where there is ample room for improvement and the expectation on the college’s capability to perform this task are high.

[Guideline 24]

For the benefit of the quality of supervision and its effectiveness, in general, the host supervisors should jointly inform the local licensed entities as well as the parent company.

[Guideline 25]

We fully support the intention to organise regular meetings between the CoS and representatives of the supervised group. A structured group-wide dialogue should become the norm rather than the exception.

**Voluntary sharing and delegation of tasks (g. 26-35)**

The CP suggests detailed guidelines under the coordination of the consolidating supervisor.

Comments: it is acknowledge that there are no mechanisms to incentive the delegation of tasks.

[Guideline 25]

Specialisation is seen as a positive development towards a more efficient supervision, consistent with the necessity to adapt supervision to the different business models, and not viceversa. The College should also be entrusted with the task to review the performance of delegated tasks, and make sure that local supervisory activities on topics of relevance for the group (e.g. capital adequacy) are coordinated by the consolidated supervisor. Nevertheless it would strongly enhance the CoS effectiveness should host supervisors promptly inform the consolidating supervisors about the undergoing supervising activities.

[Guideline 28]

The sharing and delegation of tasks should be incentivised.

[Guideline 35]

The supervised entity could also be informed about the sharing and delegation of tasks.

**Joint decision on model validation (g. 36-40)**

The consolidating supervisor leads the review and validation plan. Non-EEA may be involved.

Comments: We welcome the involvement of non-EEA may be involved and of the senior management of the supervised group.

**Joint decision on risk-based capital adequacy (g. 41-49)**

The report details the process to achieve consensus at appropriate senior level, with the consolidating supervisor that coordinates the annual joint assessment of the risk profile. The fully reasoned joint decision will be communicated to the management of the group and, where appropriate, of its subsidiaries.

Comments: there seem to be no real mechanism to ensure a joint decision without voluntary application of other prudential measures.

[Guideline 41]

The more integrated a group is, the better should be the cooperation of the supervisors or the delegation of responsibilities.

[Guideline 42]

- I. We are concerned about the fact that different supervisors will use different types of evaluation processes. In this regard, a key issue is to agree on the consolidated supervision, from a group perspective. This implies, amongst the others, the acknowledgement of the diversification benefits, an intragroup financing framework (e.g. liquidity and capital support).

[Guideline 44]:

When assessing the group risk profile, it is crucial that all college members use the same templates. In this way supervisors can compare assessments and share information in the easiest way. That holds also for reporting dates to avoid useless duplication of processes at parent company and subsidiary level. This applies above all for ICAAP purposes where many supervisors ask for a regular reporting and therefore different template could improve the consistency and effectiveness of the process at Group level.

**Macro-prudential risks (g 50)**

Under the coordination of the consolidating supervisor, the college members should assess macro-economic or financial developments as well as sectoral vulnerabilities that may impact the financial situation of the group. This macroprudential assessment should also identify risks specific to the group that may have a systemic impact on the financial system.

Comments: there seems to be the need to further elaborate this part and clarify the cooperation with the ESRB.

**Planning and coordination of supervisory activities in going concern situations (g. 51-57)**

Under the leadership of the consolidating supervisor, a detailed action plan has to be prepared, agreed by the CoS and possibly communicated to the group.

Comment: this part is particularly appreciated to enhanced the usefulness of the CoS in supervisory convergence, possibly with the active role of the supervised group, and the parent company in particular.

[Guideline 51]:

It is not clear whether the supervised group will have any role in the preparation of the supervisory action plan.

[Guideline 52]:

We fully support the aim at presenting a consolidated view.

[Guideline 57]:

The expectation is that the relevant communication to the supervised group should be the general rule rather than the exception.

**Planning and coordination of supervisory activities in emergency situations (g 58-64)**

Core college members are tasked to:

- 1) prepare a contingency plan in cooperation with central banks and finance ministers;
- 2) assess the potential impact of the emergency situation on the group but also on the market liquidity and stability of the financial system of the Member States where the bank is present.

The consolidating supervisor is tasked to:

- 3) collect information from host supervisors and disseminate as appropriate;
- 4) draw-up a coordinated supervisory response and coordinate external communication.

Comments: We would have expected to have a clear mentioning of the important role of CEBS/EBA. This part is crucial but unfortunately left to voluntary arrangements. We see ample scope for improving CoS cooperation during crisis.

[Guideline 63]:

It is not clear whether there are the incentives and conditions for a coordinated supervisory response, which would be particularly detrimental for the supervised entity.

[Guideline 64]:

It is not clear whether there are the incentives and conditions for a coordinated supervisory communication, which would be particularly detrimental for the supervised entity.

**In conclusion:** On the positive side there is the increased focus in consolidated supervision. However the CoS mainly remains a platform to exchange information and facilitate supervisory convergence (with increased efficiency). During emergency situation, it seems questionable that the CoS can play an effective role in crisis management. It is regrettable that CEBS/EBA remains practically irrelevant.

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