

# POSITION PAPER



## **ESBG common response to the EBA Discussion Paper on the future of IRB**

ESBG (European Savings and Retail Banking Group)

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The ESBG (European Savings and Retail Banking Group) would like to welcome this opportunity to share our opinion on this Discussion Paper (DP) on the future of IRB. We support EBA's initiatives aiming at enhancing the trust in IRB models as a valid tool to measure capital requirements. We also welcome EBA's intention to actively participate in the work undertaken by the Basel Committee and, in this context, specifically promote the solutions that will further contribute to the improvement of the IRB framework and the reliability of internal models.

Generally speaking, we consider that the proposed reform agenda is, in principle, the right way forward with respect to the identified shortcomings of the IRB system and a far better approach than the one from Basel with new permanent capital floors based on revised standardized approaches. Indeed, the potential application of the capital floors on the standard approach could discourage the use of IRB approaches for the calculation of capital requirements in certain portfolios. Nevertheless, we would like to bring some observations and comments into this debate.

- In our opinion, it seems appropriate and necessary to establish common methodologies for IRB models, which would guarantee a "level playing field".
- The margin of conservatism must not be considered as a separate measure to achieve a general increase of own funds. The margin of conservatism should be related to weaknesses in the models. The design of the models must be respected, and must not be subject to additions based on unquantifiable supervisory judgments. Single-rule book must be respected in order to avoid regulatory driven discrepancies.
- The DP suggests a future calendar for Regulatory Technical standards (RTS) and Guidelines that shall be published in the coming years. The timetable for publication and implementation seems ambitious (EBA has delayed it already in its recently updated 2015 work programme).
- We would like also to draw your attention to the likely increase in terms of administrative burden for institutions. The adaptation of all IRB models to the new criteria would imply a great effort for banks, especially in terms of Risk Models, Systems, Validation, etc. The DP itself suggests certain "risks" of more fundamental changes to future capital calculations. EBA is currently developing several concepts related to IRB in addition to the recently published consultation from BIS (which introduces capital floors). ESBG is therefore concerned of possible divergent approaches appearing from those different regulations/standards and also from different calendars for implementation. This potential lack of synchronisation concerning the publication of different regulations/criteria/standards - currently either in-force or in-study - will impact financial institutions which will have to recalculate the same position under different standards. Finally, we understand that since no concrete proposal has been presented yet, the quantitative impact in terms of capital requirements is quite uncertain and impossible to quantify.



## **About ESBG (European Savings and Retail Banking Group)**

ESBG brings together savings and retail banks of the European Union and European Economic Area that believe in a common identity for European policies. ESBG members support the development of a single market for Europe that adheres to the principle of subsidiarity, whereby the European Union only acts when individual Member States cannot sufficiently do so. They believe that pluralism and diversity in the European banking sector safeguard the market against shocks that arise from time to time, whether caused by internal or external forces. Members seek to defend the European social and economic model that combines economic growth with high living standards and good working conditions. To these ends, ESBG members come together to agree on and promote common positions on relevant matters of a regulatory or supervisory nature.

ESBG members represent one of the largest European retail banking networks, comprising of approximately one-third of the retail banking market in Europe, with total assets of €6,749 billion, non-bank deposits of €3,415 billion and non-bank loans of €3,685 billion (31 December 2013).



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