26 August 2010

Feedback document to CEBS's draft revised Guidelines on stress testing (CP32): analysis of the public responses and suggested amendments

Background and introduction

1. On 14 December 2009, CEBS published for consultation its draft revised Guidelines on stress testing[1], which replace the Guidelines on Technical Aspects of Stress Testing under the Supervisory Review Process published on 14 December 2006.

2. The public consultation lasted until 31 March and attracted much attention from the industry. The public hearing was held on 10 March and featured in a number of industry publications following the publication of the consultation paper and the public hearing.

Results of the public consultation

3. In general, the draft revised guidelines were welcomed by the industry representatives as a clarification of supervisory expectations of an institutions' stress testing framework. Altogether, the consultation attracted responses from 14 industry bodies and individual institutions. The majority of the responses, with the exception of 2 confidential ones, have been published on the CEBS website[2].

4. Industry representatives raised a number of important challenges, particularly in relation to the level of detail and prescription in the guidelines. Whilst attendees agreed that further explanatory detail and examples are useful, they requested that some of the more detailed points be clearly identified as being 'good practices', which banks and supervisors should consider, but not necessarily limit themselves to. In addition to this, there were requests for further clarification about the application of proportionality and concerns as to the level of prescription in the guidelines and the apparent focus placed on the quantitative aspects of stress testing.

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[1] See http://www.c-ebs.org/documents/Publications/Consultation-papers/2009/CP32/CP32.aspx

[2] See http://www.c-ebs.org/Publications/Consultation-Papers/All-consultations/CP31-CP40/CP32/Responses-to-CP32.aspx

5. One area of concern raised by industry relates to the lack of clarity about if and how the results of the stress tests may be interpreted as indicating that additional capital is required. In particular, it was commented that the results of stress testing should not necessarily lead to higher capital requirements (capital buffer) or liquidity buffer. There was also a request to introduce into the guidelines clarity in the approach of supervisors and cooperation between them in the case of cross-border institutions.

6. Industry representatives made a number of comments in relation to the cross-border aspects of the guidelines and argued that in the cross-border groups, comprehensive stress testing should only be carried out at the consolidated level as sophisticated scenario-based stress tests lose their relevance when applied at solo levels and/or to small to medium sized entities. A number of comments were made in relation to the possible infrastructure and resource requirements necessary to conduct comprehensive stress tests on the level of individual legal entities.

7. With respect to supervisory review and evaluation, comments were made that supervisors should refrain from imposing common scenarios on banks to accommodate peer comparison, as this would not take full account of firm specific issues. It was suggested that supervisors should refrain from becoming over-reliant on stress testing and focus on the observed trends and perceived weaknesses in portfolios or risk management practices.

8. Some industry representative questioned the usefulness of the reverse stress tests due to the practicalities of performing this type of exercise within entities, as there are potentially a large number of combinations that might end up threatening the institutions solvency. Comments were also made to the effect that since reverse stress testing is currently not a part of the regulatory/supervisory requirements in a number of Member States; the implementation of reverse stress testing will require more effort on the part of institutions.

9. In some responses, clarification was requested regarding the role of the guidelines in light of the proposed changes to the regulatory framework outlined in the recent BCBS publication[3] and EU Commission consultation paper on CRD IV[4], particularly in relation to the proposals for the new liquidity regulatory regime. In particular, with respect to the risk specific annexes (especially the liquidity risk annex) it was suggested that CEBS wait for the results of the outstanding consultations and impact assessments by the BCBS and EU Commission on the proposal for the CRD IV and new liquidity standards before finalising the guidelines.

10. The proposed implementation date of 30 June 2010 was cited as being too early, especially as it did not appear to make sufficient allowances for the

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[3] http://www.bis.org/press/p091217.htm

[4] http://ec.europa.eu/internal_market/consultations/docs/2010/crd4/consultation_paper_en.pdf

movement to the more complex approaches to stress testing, and there was an explicit request to postpone the implementation date to December 2010/January 2011. There was also an additional request to clarify the meaning of the implementation date (transposition of guidelines to national supervisory materials or implementation by institutions).

Major changes introduced to the guidelines

11. In reaction to the abovementioned general comments, CEBS has clarified that the guidelines describe both quantitative and qualitative aspects of stress testing, and in accordance with the principle of proportionality; that smaller simpler institutions may focus more on the qualitative aspects whilst larger more complex institutions will require more sophisticated stress testing techniques. However, even for larger firms, it is expected that there will be a key qualitative narrative running through the stress testing programme that will clearly identify the links between an institution's risk appetite, its business strategy and the potential impact of external and internal events on its business model. The management body will take a particular interest in ensuring this narrative is coherent and that it is in keeping with its stated risk appetite.

12. In response to concerns raised that the guidelines should more clearly take account of the nature, scale, and complexity of the activities of the institution concerned as well as their risk profiles, CEBS has expanded the text on proportionality, with the addition of examples as appropriate. The text makes clear that the principle of proportionality applies to all aspects of these guidelines, including the methodology, as well as the frequency and the degree of detail of the stress tests. However, it also warns that in developing their stress testing programmes all institutions should consider, as far as, possible interactions between risks, for example intra- or inter-risk concentrations[5], rather than simply focusing on the analysis of single risk factors in isolation.

13. On the link to capital, CEBS has made clear that there is a clear difference between the establishment of minimum regulatory capital, identified as capital against unexpected loss and the assessment of risk in a stress test. Minimum regulatory capital is held against unexpected tail events over one year to a specific confidence level,[6] which might be interpreted as a measure of regulatory solvency. Stress testing, particularly in reference to stress testing under Pillar 2 is about understanding, inter alia, what happens to an institution's ability to meet its regulatory solvency when external conditions change for the worse over a period of time.

[5] Stress testing is deemed as one of the methods for identifying interactions between risk factors and identification of inter-risk concentration as discussed in the CEBS revised Guidelines on concentration risk management under supervisory review process.

[6] For example, Internal Ratings Based models under Pillar 1 for credit risk nominally assess risk to a 99.9% confidence interval for a one in a thousand event.

14. CEBS also confirms that stress testing is more than just a simple capital assessment and is a key risk management tool, which allows for better understanding of an institution risk profile and its resilience to internal and external shocks. Given the natural limitations of the methodologies, parameters and the data used, as well as the overall uncertainty about forward looking assessment and the actual occurrence of assumed scenarios, stress testing cannot provide for absolute safety. Therefore, stress testing should be used by institutions in combination with other risk management and control tools to make informed business decisions. Supervisors should not rely solely on the results of stress tests to make a decision regarding risk profile and capital adequacy of an institutions, but use it in combination with other supervisory tools, also within the framework of colleges of supervisors, where applicable.

15. With respect to cross-border institutions, they are expected to implement these guidelines and set up stress testing programmes covering the consolidated level and, where applicable, material entities and/or business lines subject to the principle of proportionality and relevance. CEBS has also clarified that in the case of a cross-border banking group, any discussion on the institution specific capital buffers which might be required to mitigate the outcome of stress tests should take place in the course of the process of the joint decision regarding the consolidated and solo capital adequacy as required by the Article 129(3) of the CRD and conducted in the context of the college of supervisors.

16. As for concerns over the need to develop special infrastructures and data needs, CEBS points out in the revised text that infrastructure and/or data frameworks should be proportionate to the size, complexity, risk and business profile of an institution, and allow for the performance of stress tests covering all material risks the institution is exposed to. The stress testing infrastructure and/or data framework of a cross-border group, should allow for stress tests to be conducted at various levels of the organisation, including at the consolidating level, but also at the level of material entities. Alternatively, in cases where the institution applies a centralised approach to risk management and stress tests are being conducted predominantly at the consolidated level, the design of the stress testing programme should allow for articulation of the impact/results of the group (consolidated) level stress tests to material entities and/or business lines.

17. In the final text, CEBS has also clarified the language of the guidelines and introduced reverse stress testing as a scenario or combination of scenarios that threaten the viability of the institution's business model. The guidelines make it clear that it is of particular use as a risk management tool to help identify possible combinations of events and risk concentrations within an institution that might not be generally considered in regular stress testing. A key objective of such stress testing is to overcome disaster myopia and the possibility that a false sense of security might arise from regular stress testing in which institutions identify manageable impacts. Moreover, qualitative and quantitative approaches to reverse stress testing are in CEBS's view appropriate, depending on the size and complexity of the institution. For example, a reverse stress test for the simplest and smallest institutions could

be a qualitative discussion of key risk factors and their possible combination in relation to the institution's risk profile at a senior management level. Alternatively, a more sophisticated quantitative approach could be used to identify a specific loss level, or some other impact on the balance sheet (e.g. movements in capital ratios), and working backwards in a quantitative manner to identify the macro-economic risk drivers, and the required amplitude of movement, that would cause it.

18. With respect to the request not to prescribe stress test scenarios by supervisors, CEBS recognises the flexibility and relevance of the institutions' own stress testing, which ideally should better reflect the risk profile and specificities of an institution. However, institutions should be aware that as part of the supervisory review process, supervisors may consider, in addition to institutions' own stress testing, implementing recommended scenarios for institutions to use, as well as requiring institutions to undertake further stress tests. Such supervisory prescribed scenarios and stress testing exercises could be used for the purposes of the system-wide analysis, but also for the idiosyncratic micro-prudential assessment of risks and vulnerabilities of a particular institution.

19. CEBS has also clarified the nature of the risk specific annexes to the revised guidelines. The annexes illustrate some practices in relation to stress testing in individual risk areas with the aim of enhancing risk management and capital planning processes. These examples should not be considered as an exhaustive list of practices. They do not intend to duplicate or propose new regulatory requirements affecting capital or liquidity regimes, and they acknowledge that there is no one way to set up stress testing practices but rather different ways that fit in with each institution's approach to the management of risks. Some of the practices discussed in the annexes are applicable to all institutions, whereas others are related specifically to the institutions using advanced approaches for calculation of regulatory capital requirement (internal market risk models, IRBA and AMA).

20. With respect to the implementation date, CEBS has moved the implementation date to 31 December 2010, effectively meaning that by this date the guidelines should be transposed into national supervisory guidelines and be reflected in the national supervisory manuals/handbooks, where applicable, and implemented in supervisory practises. CEBS also expects institutions to make progress in implementing the guidelines following the transposition and recommendations/requirements of national supervisory authorities, and to put in place implementation programmes aimed at ensuring timely/ compliance with the new guidelines (e.g. gap analysis, implementation plans, etc.).

21. The following table provides the detailed analysis of the comments received and changes introduced in the final text of the guidelines.

Detailed analysis of the public responses and suggested amendments

	Topic, reference	Comments received	CEBS's response	Amendments to the text[7]
General comments				
1.	Qualitative vs quantitative approach to stress testing	The principles set out in the guidelines show a quantitative bias, to the detriment of expert (qualitative) judgement. The issue of stress tests is not just a question of a computational tool and process, even though that is necessary. It seems important to remind how essential the qualitative dimension of the stress test process is, including for the top-down exercises. This dimension also involves the association of business lines to the exercise which provides it all credibility. This quantitative bias automatically results in a very systematic approach, which should be at least counterbalanced by a stronger statement about a proportionality rule. In any event, the guidelines should aim at a balance between quantitative measures and qualitative and critical qualitative application. Stress testing is an evolving discipline. Developing approaches to scenario selection and embedding stress testing in internal	The guidelines describe both quantitative and qualitative aspects of stress testing and in accordance with the principle of proportionality; that small and simple institutions may focus more on the qualitative aspects whilst larger more complex institutions will require more sophisticated stress testing techniques. However, in all cases it is expected that there will be a key qualitative narrative running through the stress testing programme that will clearly identify the links between an institutions risk appetite, its business strategy and the potential impact of external and internal events on its business model. The management body will take a particular interest in ensuring this narrative is coherent and in keeping with its stated risk appetite.	See paragraph 7.

[7] References are made to paragraph numbers in the final text of the guidelines unless stated otherwise.

		governance processes will continue to be challenging for firms as this is a very complex area. A qualitative approach will be essential when assessing the robustness of stress tests and their impact.		
2.	Link to capital and integration of stress testing into risk measurement/management	The fundamental orientation of a bank in the context of the capital and liquidity planning process must as hitherto be based on the respective regular risk measurement procedure. This includes, in particular, the definition of the risk profile and the configuration of the limit system. Stress tests serve to assess from a different perspective the fundamental orientation of the bank formed on the basis of the traditional risk measurement procedure. Unfortunately, no substantial comments are made on the relationship between traditional risk measurement procedures and stress test analyses.	CEBS agrees that stress testing is one of the risk management tools that allows for better understanding of an institution risk profile and its resilience to internal and external shocks. In these guidelines, CEBS promotes stress testing with a view to its being better integrated into the an institution's internal risk management framework.	No changes needed.
3.	Link to capital	Number of industry representatives are of opinion that the results of stress testing should not necessarily lead to higher capital requirements (capital buffer) or liquidity buffer, but being an internal process should help in gaining a better understanding of the risk profile of the institution and enhancing the control of the governing body over the business. Only where other measures (e.g. portfolio restructuring) are no longer effective could the stress test results be used for the formation of capital buffers. An important aspect to keep in mind is that stress tests should be understood according to their expected probability of occurrence. Second, if stress tests were the basis for	In CEBS's view there is a clear difference between the establishment of minimum regulatory capital under Pillar 1, which is identified as capital against unexpected loss and the assessment of risk in a stress test. Pillar 1 sets capital against unexpected tail events to a specific confidence level, which might be interpreted as a measure of regulatory solvency. Stress testing, particularly in reference to stress testing under Pillar 2 is about understanding, inter alia, what happens to an institution's ability to meet its internal capital requirements when external conditions change for the worse over a period of time. CEBS recognises that stress testing is more than a simple capital assessment and is one of	See paragraphs 14-15

		assessing capital adequacy, there would be a perverse incentive to choose scenarios and risk drivers to avoid that potential capital impact. Therefore, it was suggested to delete in paragraph 11 any idea of a dependence of capital requirements from stress testing results. It should be clear that the results of stress tests should not be mandatorily used for determining the capital requirements under Pillar 1 and Pillar 2. This would avoid creating wrong incentives to conduct moderate stress tests.	the risk management tools, which allow for better understanding of an institution risk profile and its resilience to internal and external shocks. As for the providing wrong incentive to select less severe scenarios and run moderate stress tests, supervisors in the course of their supervisory review will be assessing methodologies, scenarios and assumptions as well as results of the stress tests, and should they be not satisfied, may consider various supervisory actions, including prescribing their own institution specific or general scenarios.	
4.	Supervisory prescribed scenarios	Stress testing is meant to be an internal process in the banks and a further step towards the improvement of risk and capital management. To the extent possible, supervisors should refrain from imposing common scenarios on banks which would accommodate peer comparison, but would not take full account of firm specific issues. Also, insisting too much on 2008 scenarios could blind institutions and supervisors alike to new market behaviours and future risk factors. A balance needs to be struck between testing undertaken by the firm to support the use test and the testing mandated by supervisors. Over emphasis on supervisor-mandated testing risks crowding institutions' own risk management and will potentially lead to double counting. However, should the supervisors go the route of prescribing scenarios, they may only recommend industry-wide scenarios, as	CEBS recognises the flexibility and relevance of the institutions' own stress testing, which ideally should better reflect the risk profile and specificities of an institution. However, institutions should be aware that as part of the supervisory review process, supervisors may consider, in addition to institutions' own stress testing, implementing recommended scenarios for institutions to use, as well as requiring institutions to undertake further stress tests. Such supervisory prescribed scenarios and stress testing exercises could be used for the purposes of the system-wide analysis, but also for the idiosyncratic micro-prudential assessment of risks and vulnerabilities of a particular institution.	No changes needed

		institutions-specific scenarios should reflect in-depth understanding of an institution's business mode, and a specific scenario provided by supervisors may produce misleading results.		
5.	Supervisory review and evaluation	Industry believes that the supervisors that they should review the stress testing exercises of banks following these steps and in this order: (i) understanding the bank's business and internal processes, (ii) promoting dialogue, (iii) challenging the internal views, trying to reach common ground and, only as last resort, taking corrective measures if need be. Whilst this approach is reflected in the paper, more emphasis should be placed on the part of understanding - all the more due to the wide range of types of businesses and circumstances that may affect different banks.	CEBS broadly agrees with the proposed interpretation of the supervisory review and evaluation process, which is broadly in line with the actual supervisory practices. In the current guidelines, CEBS appreciates the importance of the dialogue between institutions and supervisors and the importance of challenging actions.	See amendments to paragraph 96
	Supervisory review and evaluation	As regards the supervisory review of stress test in the most complex groups, supervisors might make use of the internal validation teams, to the extent these perform or validate stress tests and stress testing processes.	CEBS agrees with the suggestion. The guideline is amended to reflect the comment.	See amended GL18, paragraph 96.
6.	Supervisory review and evaluation	Industry representatives drew CEBS attention to the need for flexibility in the supervisory process. Supervisors should refrain from becoming over-reliant on stress testing, since each stress testing only represents one possible course of events. Both stress tests based on historic events and more forward looking stress tests can never be fully accurate and therefore more important than assessing, and drawing conclusions on, actual stress test results in absolute amounts are the observed trends and perceived weaknesses in portfolios or risk management practices.	CEBS agrees with the recommendation of the flexible application of the supervisory review process, and has introduced the clarifying introductory paragraph to the section on the supervisory review and assessment.	See paragraph 92
7.	Resource	There is a general concern about the available	CEBS agrees with the concern and has clarified	See amended paragraph 26 and

	availability and cross-border aspects	resources both human and available infrastructure, not only at the banks' side to perform such comprehensive stress test exercises, but also at the supervisors' side who will need to dedicate plenty of resources if one wants to make a sound review process in an atmosphere of common understanding. In large international banks with many legal entities in different jurisdictions and different activities, it will prove challenging to involve all risk managers and economists in the overall comprehensive stress testing exercise even though they already have responsibility for legal entity stress tests, in addition to run, or report on, multiple stress tests. Stress tests should be targeted and appropriate for the institution concerned.	that stress testing infrastructure and/or data frameworks should be proportionate to the size, complexity, risk and business profile of an institution, and allow for the performance of stress tests covering all material risks an institution is exposed to. With respect to cross-border implications, the stress testing infrastructure and/or data framework of a cross-border group, should allow stress tests to be conducted at various levels of the organisation, including not only at the consolidating level, but also at the level of material entities. Alternatively, allow to articulate the impact of the group (consolidated) level stress tests to material entities and/or business lines.	paragraph 27 explaining cross-border implications for the stress testing infrastructure.
8.	Resource availability and infrastructure requirements	The required calculations of bank-wide stress scenarios in general and the call for flexible platforms, as formulated in concrete terms in Guideline 2, lead to very substantial capital outlay and permanent high costs for IT systems, which in are not necessarily matched by any corresponding benefit. In addition, the requirements will greatly increase the complexity of the IT through a data warehouse covering the institution as a whole. Moreover, its realisation will presumably take several years. It is therefore suggested for these requirements to be abandoned and to build on existing IT systems.	CEBS does not call for the building of new IT infrastructures and/or data frameworks, including data warehouses solely for the purposes of stress testing. CEBS is of the view that subject to the principle of proportionality, institutions should have appropriate infrastructures and data frameworks to allow for the implementation of stress testing programmes as discussed in the current guidelines. If such programmes could be implemented on the level of existing internal systems or data used for other internal purposes (e.g. economic capital calculations), no new developments and calculations might be required.	No changes needed.
9.	Proportionality	The guidelines on stress testing are becoming ever more relevant also for smaller institutions, depending on the individual risk profile and the	CEBS agrees that the risk profile of an institution is an important aspect to consider in the design and application of the stress testing	See amended paragraph 10

		business model. In this sense, the principle of proportionality should not only apply by reference to the size and risk profile of institutions, but also to the relevant risk types. Furthermore, it should be clear that the proportionality principle applies as regards the methodology, as well as the frequency and the degree of detail of the stress tests: these should be adequately proportionate to the existing and possible future risks. Needless to add the application of the principle of proportionality in the supervisory review and evaluation. Consequently, under the proportionality principle, it should be possible for smaller institutions to comply with the requirements for stress tests by using simple methodological approaches – such as sensitivity analysis, which should be explicitly mentioned in the guidelines. In the same vain of the it is suggested to delete the additional proposed requirement that small banks should still consider interactions between individual risks, as this would be completely incommensurate. In addition, some respondents to the consultation requested to clarify the application of principle of proportionality and make references to it throughout the guidelines.	programmes, which should also be proportionate to the risk profile of an institution. To this end, the paragraph explaining the principle of proportionality has been clarified. CEBS confirms that the principle of proportionality applies to all aspects of these guidelines, including the methodology, as well as the frequency and the degree of detail of the stress tests. CEBS confirms that smaller and less complex institutions should address stress testing at least in a qualitative manner while quantitatively limiting themselves to more simple sensitivity analyses of the specific risk types to which they are most exposed. However, stress testing might be essential in the identification of interactions between various risk areas and in the identification of inter-risk concentrations; therefore, it is recommended that interactions between risk types be considered to the fullest extent possible by all institutions, irrespective of the principle of proportionality. As the principle of proportionality is of an overarching nature, CEBS believes that it is sufficient to elaborate this in the introduction and not to introduce references to the proportionality in every single principle of the guidelines. However, it has been considered and done, where it has been deemed appropriate.	

10.	Proportionality and cross-border aspects	Some respondents stressed that sophisticated scenario-based stress tests lose their relevance when applied at solo levels and/or small to medium sized entities: in these cases we advocate for sensitivity analysis along dimensions to risk parameters and factors actually managed at this local or intermediate level. Consistency is a major concern, especially in the case of cross-border groups, for which subsidiaries might be compelled to prepare different versions of the stress tests in order to meet the expectations of different supervisors. Several different stress tests performed at local levels could then hardly be aggregated in a rational way.	In CEBS's view, the principle of proportionality is also of relevance to cross-border groups, and the implementation of the stress testing programmes at the consolidated level and, where applicable, at the level of material entities and/or business lines. However, CEBS does not agree with the proposal to waive stress testing at the level of individual entities and to conduct exercises only at the consolidated level. Stress testing is one of the key tools for ensuring the forward looking aspect of the capital planning and for assessing the resilience of the entity, subject to the individual capital requirements to shocks. Therefore, CEBS sees stress testing playing a key role in institutions' ICAAP frameworks, which should fully cover all aspects of the institutions, both at the consolidated and solo levels. CEBS is of the view that institutions at the consolidated, sub-consolidated and solo levels, subject to the prudential supervision and capital requirements under the CRD, should satisfy their respective supervisors with the results of such forward-looking analysis of their capital adequacy and assessment of resilience to shocks. The current guidelines leave it open as to whether such assessment should be independently at the level of each legal entity or at the consolidated level with clearly showing contribution/impact of each entity. This will be clarified by each national supervisor in the course of the implementation of these guidelines and discussed by colleges of supervisors, which play an essential role in the coordination of supervisory activities for a	See paragraph 12 of the introduction.

			cross-border banking group.	
11.	Level of ambition	Some industry representatives believe that the principles set out in the guidelines are very ambitious and far exceed what is currently being carried out by banks. It is argued that the guidelines should maintain principles-based approach to stress testing. Too prescriptive rules would not bring any added value and risk standardising an area where this would be only detrimental. In fact, the variety of stress tests contemplated coupled with the different severity scenarios only serve to increase the calculations and cloud the results thereby preventing the management body from learning the useful lessons of these simulations. It is therefore important to remember that the use of stress tests must comply with the principle of proportionality. Similarly, assumptions and scenarios should be limited to exceptional but plausible events.	CEBS shares the concern and confirms that the guidelines do not suggest any definitive metrics or methodologies, but rather provide examples. In CEBS's view, it is essential that institutions do not limit themselves to only one set of scenarios and a particular degree of severity, but rather have a range of scenarios and severities. Although it might cause an additional burden in relation to calculations, nevertheless, in the end, it will provide better information to senior management about the risk profile of an institution and the institution's overall resilience to a variety of scenarios, given the degree of uncertainty over the actual developments.	CEBS has reviewed the level of prescription of the guidelines throughout the text.
12.	Level of ambition	Industry supports general approach to developing high level principles, which can be adapted to individual firms and business models, rather than prescriptive checklists. It is important to focus upon communicating regulatory expectations rather than defining best practice. However, some concerns are related to a number of areas the guidance could be regarded as prescriptive, for example the presentation and contents of Guideline 3. It is believed that there is no need for supervisors to issue definitive metrics. Any metrics mentioned should be kept as examples that firms may want to use.	CEBS agrees with the concern, and confirms that the guidelines do not suggest any definitive metrics or methodologies, but rather provide examples. The text of GL3 has been clarified.	The text of GL3 has been clarified, and paragraph 29 has been clarified. CEBS has reviewed the level of prescription of the guidelines throughout the text.
13.	Limitation of	It is suggested that in the final text of the	CEBS recognises that stress testing is just one	The limitations of the stress

	stress testing	guidelines it should be made clear from the outset that stress tests do not have the capacity to provide for absolute safety. Too much reliance on stress testing creates only the appearance of safety, as stress testing will never be able to completely anticipate discontinuities in the markets. Stress testing should be seen as one of many factors informing management decision-making.	of the risk management tools, which allows for a better understanding of an institution's risk profile and its resilience to internal and external shocks. Given the natural limitations of the methodologies, parameters, and the data used, as well as the overall uncertainty about forward looking assessment and the actual occurrence of assumed scenarios, stress testing cannot provide for absolute safety. Therefore, stress testing should be used by institutions in combination with other risk management and control tools to make informed business decisions. Supervisors should not rely solely on the results of stress tests to make a decision regarding the risk profile and capital adequacy of an institution, but rather use it in combination with other supervisory tools, including within the framework of colleges of supervisors, where applicable.	testing exercise has been clarified in paragraph 15 of the introduction.
14.	Cross-border aspects	Stress testing is resource intensive and we are concerned that considerable stress testing will be required at the legal entity level. Undertaking stress testing at this level is burdensome and risks conflicting with firms own risk management processes where portfolios are looked at on a group wide basis. Moreover, a combination of stress testing at the solo level and a direct link between stress test results and capital requirements could lead to significant	In CEBS's view, the principle of proportionality is also of relevance to cross-border groups, and the implementation of the stress testing programmes at the consolidated level and, where applicable, at the level of material entities and/or business lines. However, CEBS does not agree with the proposal to waive stress testing at the level of individual entities and to conduct exercises only at the consolidated level. Stress testing is one of the	See paragraph 12 of the introduction as well as clarification of the GL21 and GL22 as well as paragraph 108 of the supervisory review section.

[8] See: http://www.c-ebs.org/documents/Publications/Standards---Guidelines/2010/Colleges/CollegeGuidelines.aspx

[9] Currently available as a consultation paper, see http://www.c-ebs.org/documents/Publications/Consultation-papers/2010/CP39/CP39.aspx

		capital resources being locked up in individual subsidiaries severely restricting a institution's ability to manage its capital effectively. Some industry representatives suggested CEBS stating clearly that stress test in large groups should be conducted at group level and the assessment thereof coordinated by the home supervisor in the context of the college of supervisors. The experience of a number of large banks, suggests that there is little value in running stress tests on the level of material subsidiaries and/or at a sub-consolidated level, compared to using a severe common group-wide scenario. Institutions should have the flexibility to segregate and stress test individual subsidiaries based on their own judgement.	key tools r for ensuring the forward-looking aspect of the capital planning and for assessing the resilience of the entity, subject to the individual capital requirements to shocks. Therefore, CEBS sees stress testing playing a key role in institutions' ICAAP frameworks, which should fully cover all aspects of the institutions, both onat the consolidated and solo level. CEBS is of the view that an institution at the consolidated, sub-consolidated and solo levels, subject to the prudential supervision and capital requirements under the CRD, should satisfy its respective supervisor with the results of such a forward looking analysis of its capital adequacy and an assessment of resilience to shocks. The current guidelines leave it open as to, whether such assessment should be independently at the level of each legal entity or at the consolidated level with clearly showing contribution/impact of each entity. This will be clarified by each national supervisor in the course of the implementation of these guidelines and discussed by colleges of supervisors, which play an essential role in the coordination of supervisory activities for a cross-border banking group. Colleges of supervisors play an essential role in the coordination of the supervisory activities, including stress testing, as elaborated in the CEBS Guidelines for operational functioning of colleges[8] and draft Guidelines for the joint assessment of the elements covered by the supervisory review and evaluation process and the joint decision regarding the capital	

			adequacy of cross border groups[9].	
15.	Link to capital and cross border aspects	One of the industry's concerns relates to the lack of clarity about if and how the results of the stress tests may be interpreted as requiring additional capital. Needless to say, entities will deploy different scenarios and be more transparent with supervisors to the extent that a dialogue and understanding atmosphere is established. Clarity in the approach of supervisors and cooperation between them in the case of cross border institutions would build on that purpose.	In case of a cross-border banking group, any discussion on the institution specific capital buffers which might be required to mitigate the outcome of stress tests should take place in the course of the process of the joint decision regarding the consolidated and solo capital adequacy as required by Article 129(3) of the CRD and conducted in the context of the college of supervisors[10].	See paragraph 108 of the supervisory review and evaluation section
16.	Implementation	Many respondents to the consultation deemed that the implementation of these guidelines by 30 June 2010 to be too soon, although it's not clear whether this deadline applies to supervisors or the industry. In case of latter, banks will need time to conduct gap analyses, adopt the principles and build the requisite IT environments. Therefore it is proposed to postpone the implementation of these guidelines for end of 2010 or January 2011 at the earliest. This is especially important given that many banks are still in the process of improving their internal risk management practices post-crisis and that most banks have to turn their existing group, risk type and portfolio stress testing into one all encompassing stress testing framework, and the time required to construct, validate and	CEBS acknowledges that the implementation deadline of 30 June 2010 might be difficult for institutions, given the fact that some aspects of the guidelines will require modifications to institutions' current procedures. Therefore, CEBS clarifies that the implementation date reflects the deadline by which the guidelines should be transposed into national supervisory guidelines and reflected in the national supervisory manuals/handbooks, where applicable, and implemented in supervisory practices. However, CEBS also expects institutions to make progress in implementing the guidelines following the transposition and recommendations/requirements of national supervisory authorities, and to put in place	The section on implementation has been clarified to reflect the supervisory focus of the implementation deadline and implementation study. The implementation date has been changed to 31 December 2010.

[10] CEBS has elaborated on the process of the join t decision of the adequacy of own fund in the draft Guidelines for the joint assessment of the elements covered by the supervisory review and evaluation process and the joint decision regarding the capital adequacy of cross border groups (CP39) , currently available as a consultation paper, see http://www.c-ebs.org/documents/Publications/Consultation-papers/2010/CP39/CP39.aspx.

		control this process is estimated to be rather long. Alternatively, should the implementation timeline to be maintained, such deadline should not to be mandatory for institutions, but merely an indicative timeline for the transposition of CEBS guidelines in national regulatory frameworks.	implementation programmes aimed at ensuring timely/ compliance with the new guidelines (e.g. gap analysis, implementation plans, etc.).	
17.	Risk specific annexes	With respect to risk specific annexes, especially liquidity risk annex, it was suggested for CEBS to wait for the results of the outstanding consultations and impact assessments by the BCBS and EU Commission on proposal for the CRD IV and new liquidity standards before proposing independent views. In addition, as annexes appear to be targeted at IRB, IMM and AMA institutions, rather than the generality of institutions, given the introductory commentary and the level of detail it is proposed to exclude them from the final guideline. Principles spelled out in the annexes are rather prescriptive in nature and potentially double count risks, which are covered, or are in the process of being addressed, in other regulatory initiatives.	The aim of these guidelines is to enhance the risk management and stress testing practices of institutions across Europe. It is not the intention of the guidelines to propose new regulatory requirements affecting capital or liquidity regimes. The objective of strengthening risk management and stress testing practices is also fully embedded in the way the risk specific annexes, including the annex on liquidity stress testing, is currently drafted. The annexes illustrate some practices in relation to stress testing in individual risk areas with the aim of enhancing risk management and capital planning processes. These examples should not be considered as an exhaustive list of practices. It is not the intention that they duplicate or propose new regulatory requirements affecting capital or liquidity regimes, and it is acknowledged that there is no one way of setting up stress testing practices, but rather different ways that fit in with each institution's approach to the management of risks. Some of the practices discussed in the annexes are applicable to all institutions, whereas others are related	The provisional nature and potential need to amend the annex on liquidity risk stress testing to reflect the final text of the CRD IV is reflected in the disclaimer footnote preceding the Annex 5. As regard the nature of annexes, paragraphs 1-2 of the introduction have been clarified.

			specifically to the institutions using advanced approaches for the calculation of regulatory capital requirement (internal market risk models, IRBA and AMA). CEBS is closely monitoring the developments in the regulatory field and has participated by providing its comments to the consultation on the CRD IV. Should the regulatory proposals, once finalised, require changes in and clarification of the current guidelines and/or their risk specific annexes, CEBS will amend the guidelines in the future.	
18.	Reverse stress testing	Some industry representative questions the usefulness of the reverse stress tests, since it should be remarked that, in practical terms, it is not a usual practice to perform this type of exercises within the entities as there will normally be a very large number of potential combinations that might end up threatening the institutions solvency. In fact, mathematically, it could be considered as a problem with infinite solutions. This implies that simplifications must be made to adequately inform the senior management. As a result of this simplifying exercise it can be understood that only those selected combinations could lead to insolvency, while other possible combinations could as well prompt the same outcome. This can lead in turn to a false sense of safety, contrary therefore to what it is aimed at. In addition it was pointed out that the since the reverse stress testing is not a part of current	Reverse stress testing consists of identifying a significant negative outcome and then identifying the causes and consequences that could lead to such an outcome. In particular, a scenario or combination of scenarios that threaten the viability of the institution's business model is of particular use as a risk management tool for identifying possible combinations of events and risk concentrations within an institution that might not generally be considered in regular stress testing. A key objective of such stress testing is to overcome disaster myopia and the possibility that a false sense of security might arise from regular stress testing in which institutions identify manageable impacts. The scenario considered should remain relevant to the institution. With respect to the implementation, reverse stress testing is a clear subject of the phased implementation to be agreed with the respective national supervisors.	The section on the reverse stress testing has been amended.

		regulatory/supervisory requirements in a number of Member States, therefore the implementation of reverse stress testing will require more efforts.		
19.	Relation to CRD IV	In view of the industry number of issues raised in the guidelines is related to the ongoing discussions on the proposals for the regulatory developments (BCBS consultation and EU Commission consultation on CRD IV), which if being endorsed, will require alignment of the requirements presented in the guidelines with the final legislation.	The aim of these guidelines is to enhance the risk management and stress testing practices of institutions across Europe. It is not the intention of the guidelines to propose new regulatory requirements affecting capital or liquidity regimes. The objective of strengthening risk management and stress testing practices is also fully embedded in the way the risk specific annexes, including the annex on liquidity stress testing, is currently drafted. CEBS is closely monitoring the developments in the regulatory field and has participated by providing its comments to the consultation on the CRD IV. Should the regulatory proposals, once finalised, require changes in and clarification of the current guidelines and/or its risk specific annexes, CEBS will amend the guidelines in the future.	The provisional nature and potential need to amend the annex on liquidity risk stress testing to reflect the final text of the CRD IV is reflected in the disclaimer footnote preceding the Annex 5.
20.	International coordination	The EU is home to a significant number of internationally active financial services institutions. A globally consistent and coordinated regulatory approach is important to support the strengthening of global risk management practices. Coordination between local, regional and international authorities will help the sequencing of multiple supervisory stress tests as well as avoid unnecessary	CEBS agrees with the concern over the need for an increased dialogue between supervisors and the need for better coordination of supervisory activities. To this end, CEBS has been promoting the concept of colleges of supervisors, which should play an essential role in coordination of the supervisory activities, including stress	See amended GL 21, which has been elaborated to reinforce the role of colleges in the supervisory review and evaluation of stress testing in cross-border banking groups.

		duplicate testing and reporting. International cooperation is also particularly important in the context of reverse stress testing where regulators should seek to align the definition of business failure, and to have institutions apply these tests at the consolidated level so as to fully consider cross-border outcomes. The college of supervisors, or core college (as appropriate), led by the consolidating supervisor, and with full firm engagement, will be key to this process. Stress testing methodologies and processes should be an important aspect of the college's discussions. Stress testing is an issue that extends beyond the EU boundary for many firms and coordination is essential to avoid duplication/ unnecessary tests. Some industry representatives would urge CEBS to seek ways to enhance cooperation with third country supervisors.	testing, as elaborated in the CEBS guidelines for the operational functioning of colleges[11] and the draft Guidelines for the joint assessment of the elements covered by the supervisory review and evaluation process and the joint decision regarding the capital adequacy of cross border groups[12]. As a relatively new concept and one of the major novelties of these guidelines the reverse stress testing will be a focus of the implementation plan for supervisors, and CEBS will support and foster the exchange of experience between its members regarding the supervision of reverse stress testing.	
21.	EU supervisory architecture	CEBS will become the European Banking Authority (EBA) by the end of 2010. However, the legal status of CEBS guidance under the EBA is uncertain and there is a concern that these guidelines will become binding technical standards. Therefore the clarification of what the new supervisory arrangements will mean for CEBS proposed guidelines on stress testing and any other guidelines issued by CEBS before it	The changes to the EU supervisory framework are currently being discussed by the EU institutions and the final text is not known at the moment. Areas of the legislation, where the European Banking Authority (EBA) will be tasked with the development of the binding technical standards, are outlined in the so-called "omnibus directives", which is currently being discussed by the EU Parliament.	No changes needed

[11] See: http://www.c-ebs.org/documents/Publications/Standards---Guidelines/2010/Colleges/CollegeGuidelines.aspx

[12] Currently available as a consultation paper, see http://www.c-ebs.org/documents/Publications/Consultation-papers/2010/CP39/CP39.aspx

		becomes the EBA are much appreciated.	According to the available information, at the current stage of the process, stress testing is not mentioned explicitly as one of the areas for the binding technical standards; meaning that the current guidelines will continue to exist as legally non-binding guidelines (will maintain their current status). Should the situation change, and EBA be mandated to develop binding technical standards for stress testing, the current guidelines will be fundamentally reviewed and transformed into such standards according to the EBA procedures for development of binding technical standards.	
22.	Form of presentation	It is recommended that the final version of the guidelines is presented in much shorter and concise way.	CEBS appreciates the comment and strives to produce guidelines which are fit for purpose and presented in the most concise way possible.	CEBS reviewed the possibilities to streamline and shorten the final text of the guidelines.
Detailed comments				
23.	Introduction	It was highlighted that a too strong emphasis on the financial crisis of 2008-2009 (as apparent in § 48, 67) should be avoided as it is likely to bias unnecessarily the final guidelines.	The guidelines do not directly refer to the financial crisis of 2008-2009, however, they do take into account weaknesses identified in the institutions' stress testing practices as a result of the crisis. In CEBS's view, it is important that both institutions and supervisors take lessons learnt from the crisis into account in the stress testing programmes and in supervisory practices.	No changes needed.
24.	Introduction	Paragraph 8 provides a statement that these CEBS Guidelines do not introduce new Pillar I or Pillar 2 guidance, which needs to be clarified.	The aim of the guidelines is to enhance institutions' risk management practices and not to introduce any Pillar 1 or Pillar 2 regulatory requirements.	See paragraphs 13-15
25.	GL1	It is not clear how deep the management intervention should be. There has to be room for delegation. It also depends on the stress test to be conducted. Clearly, the principle of	In CEBS's view practical aspects of stress testing, such as the identification of risk drivers, implementation, management, etc., may be delegated to senior management.	See paragraph 21.

		proportionality should work both ways, i.e. the management body of large international banks, even though playing an important role in the overall process, cannot be expected to deal with all details of scenario setting and checking of assumptions. This role should be delegated to senior managers in the business unit or legal entity involved.	However, the management body (or relevant designated committee) should actively engage in the discussion, and where necessary challenge, the key modelling assumptions and scenario selection and is expected to question assumptions underlying the stress tests from a common/business sense perspective	
26.	GL1	As a statement, the guideline is fine. With regard to interpretation, there is a need for pragmatism. Stress testing as a means of informing management is fine in theory. In practice, it is a basis for discussions at management level and only one driver of strategy and forward planning. Management by stress testing is not always a sensible means of identifying what the future holds. Stress testing should be seen as a pressure test of strategy.	In CEBS's view the management body should take responsibility for agreeing on and where necessary challenge the credibility of management intervention and mitigating actions based on stress test results (as one of a range of risk management tools).	See paragraph 21.
27.	GL1	In paragraph 16, CEBS mentions that:'*...However, the management body (or relevant designated committee) should actively participate in the design of the programme in particular scenario selection...*' We welcome the remark that the management body may delegate the responsibility to senior management, as this is in line with common business practices and the required level of expertise.	CEBS agrees with the comment. The guideline is amended to reflect the comment.	See paragraph 21.
28.	GL1	We suggest banks be permitted flexibility to delegate tasks and responsibilities to relevant senior management, or a designated committee, based on impact and materiality.	CEBS agrees with the comment. The guideline is amended to reflect the comment.	See paragraph 21.
29.	GL1	We agree to guideline 1 in principle, but find the	CEBS agrees with the comment. The guideline	See paragraph 21.

		supporting text to be contradictory to the spirit of the guideline. The management body needs to be sufficiently independent from the process to challenge the tests, the assumptions and data underlying the tests and the reported outcomes. Of particular concern is paragraph 16 which states ‘the management body (or relevant designated committee) should actively participate in the design of the programme in particular scenario selection, business assumptions and the discussion of the results of firm-wide stress testing.’ We suggest this is a role for senior management not the management body. The management body needs to be sufficiently detached from the testing process to independently challenge the results and decide on the appropriate mitigating action.	is amended to reflect the comment.	
30.	Paragraph 17	Paragraph 17 suggests the engagement of stress testing committees, , but the scope for delegation appears to be limited. Firms risk management frameworks can take a number of forms and it should be left to firms to determine how they organise themselves.	The management body has the ultimate responsibility for the stress testing programme and this should be delegated to a stress testing committee. However, a stress test committee might be very useful and allow for more in depth analysis and discussion etc., and help prepare decisions of the Management Body. The comment is not recognized.	No changes needed
	Paragraph 16	According to point 16, the management body is to be included in the discussion of modelling assumptions and scenario selection. Moreover, it is to be involved in the assessment of the assumptions about correlations in a	Active involvement of the management body is important for ensuring the effectiveness and usefulness of the stress testing programme. The guideline is amended to partly reflect the	See paragraph 21.

		stressed environment. We consider that these specifications clearly go too far, especially as suitable benchmark assumptions are currently still controversial	comment.	
31.	GL2	This should be up to firms to interpret.	The stress testing programme should be an integral part of an institution's risk management framework. However, the risk management framework will be very different across institutions in the EU. The extent of the implementation of the guideline can thus be interpreted by the institution with due respect for the underlying intention.	No changes needed
32.		The terms used in paragraph 18 c require definition. With regard to timetable, it is not clear whether firms need to conduct tests from bottom-up, top-down or both.	CEBS agrees with the comment. The guideline is amended to reflect the comment.	See footnote in paragraph 23
33.	Paragraph 20	Paragraph 20 focuses on firm-wide testing and challenge. This will involve many supervisors and require building an infrastructure. It should be determined by the firm as to how it achieves this.	Challenge from across the organisation is important in gaining an in-depth understanding of the stress testing programme. The exact framing can be interpreted by the institution with due respect for the underlying intention. See feedback to comment 8.	
34.	GL2	Stress testing is both an art and a science. Judgment has to be applied. A balance has to be struck between the qualitative and quantitative aspects.	CEBS agrees with the comment. The guideline is amended to reflect the comment.	See paragraph 36
35.	GL2	Firms are struggling to build a system to cope with the requirements. The stress testing teams and management have limited time to conduct tests. Supervisors need to have more direct discussions with senior management and issue clear guidance on regulatory expectations, and	See feedback to comment 8.	See feedback to comment 8.

		be aware that the new requirements will lead to an increase in expenditure and resources which are scarce. Paragraph 29 emphasises benchmarking, both internal and external. As per the above paragraph, this will take time and consume resources.		
36.	Paragraph 24	§ 24: In ESBG's view it is reasonable that capital and liquidity requirements are reviewed internally, upon the bank's decision. Yet, as already indicated, we don't think it is reasonable to derive capital requirements from stress tests, as suggested in § 24. Each institution should be capable of deciding for itself to what extent it will integrate the results of stress tests into its risk architecture. As already highlighted, imposing a mandatory link between capital requirements and stress tests would create wrong incentives as regards the choice and translation of stress scenarios.	See general comment regarding link to capital.	
37.	GL2	Guideline 2 asks firms to build an effective infrastructure and embed it into its risk management processes. The guideline and paragraph 22 appear to demand that firms build a specific stress testing infrastructure. This ignores the fact that, in effect, what firms do is to build unified datasets on which they run stress tests. Financial services firms are not static entities. Business, accounting and risk systems change with new business lines being developed and new products being offered, so what is fundamental, from a risk management perspective, is the ability to draw relevant data from these systems in a timely manner so they can be meaningful deployed in any number of stress tests. Firms' infrastructure needs to be appropriate to their business needs and be	CEBS agrees with the comment. The guideline is amended to reflect the comment.	See paragraphs 26-27

		capable of producing the datasets required to develop meaningful risk management information, including stress testing results.		
38.	Paragraph 20	Paragraph 20 suggests that stress tests be subject to comprehensive discussion across the entire organisation. While our members agree that challenge is essential, stress tests can quickly become complex in particular if several parties in a number of departments are involved. In order to react quickly to requests and market circumstances and to remain actionable (as per Guideline 3), it might be appropriate for firms to curtail the number of internal feedback loops.	The intention is not that *every* result and stress test calculation should be challenged by views from across the organisation. Challenge is very useful in order to gain insights and a deeper understanding of the strength and weaknesses of the stress testing programme. The paragraph is moved to guideline 5 to reflect this.	The paragraph is moved to GL5 (see paragraph 36)
39.	GL2	This does not involve building *ex nihilo* a dedicated infrastructure. Rather, insofar as possible, it means creating linkages between existing systems in the business lines as well as in the "finance" and "risk" management departments, and to have the means for these systems to work in sync within the framework of stress exercises. With this perspective, dedicated teams are needed more than dedicated infrastructures.	Appropriate infrastructure and/or datasets are important for supporting an effective stress testing programme. Dedicated stress testing teams will benefit from such infrastructures/datasets and as a result, they will be able to focus more on analysis, models, results, etc. The comment is not recognized.	No changes needed
40.	GL3	With regard to paragraph 24, the programme is not actionable in isolation. Other issues have to be taken into account. Clarification as to how far action should be taken would be appreciated.	The appropriate action should be assessed by the management body. The actions should depend on the specific circumstance. Generalisation is not suitable in connection with this. The guideline is amended to reflect the comment.	See paragraph 29.
41.	GL3	Our first comment concerns the drafting of the guideline. Currently, it states: 'stress testing programmes should be actionable and impact	The guideline is amended to reflect the comment.	See changes to the text of the GL3

		decision making....' We suggest that it should be rephrased to say 'inform decision making'.		
42.	Paragraph 24	Paragraph 24 states that '[t]he management body and senior management have responsibility for taking appropriate actions based on the entire stress testing programme.' This language is confusing and duplicative. Moreover the notion that board and senior management action be based on the 'entire' programme appears impractical. We suggest this text be deleted. The next line could then be amended as follows: 'Measures and actions by the management board and senior management may vary depending on the circumstances, and examples of such actions, although not exhaustive are: ...'	The guideline is amended to reflect the comment.	See paragraph 29.
43.	Paragraph 24	Furthermore, the actions identified in paragraph 24 are too prescriptive. We suggest that in the case of (c) 'reducing exposures or business in specific sectors, countries, regions or portfolios', 'reducing' be replaced with 'revaluate'. This would help to avoid prescribing a specific action. Similarly in the case of (h) 'implementing contingency plans' be replaced by 'review of contingency framework or the development of a framework where one does not exist'	The list contains examples of possible actions, the guideline is amended to partly reflect the comment.	See paragraph 29.
44.	Paragraph 25	Finally, in regard to guideline 3, paragraph 25 indicates that stress tests results should be used as one input in establishing an institution's risk appetite and its exposure limits'. We agree that it is only one of many inputs informing a firm's risk appetite and stress limits and ask that the paragraph be rephrased to emphasis this point.	Stress testing is regarded as an important input in establishing an institution's risk appetite, but should be complemented by other relevant analyses/information. Inclusion of other relevant analyses/information is not prohibited by the guideline.	See paragraph 30.

45.	Paragraph 24	We consider the responsibility of the management body/senior management for taking all decisions for the entire stress testing programme to be unrealistic. First and foremost, decisions of the corresponding level of management must be influenced by stress tests. An escalation to higher levels of management should …	The guideline is amended to reflect the comment. See also general comment on link to capital	See paragraph 29.
46.	GL4	We agree with the guideline, but are concerned that element (d) of paragraph 27, in connection with a stress testing programme's policies and procedures, suggests that envisaged remedial actions be included in policies and procedures. Management needs to act on the results of the stress tests in a changing business environment. Such lists could potentially preclude actions that might not get considered because they are not on the list.	A list of possible actions could potentially preclude relevant actions in a given unforeseen situation. However, the work and analysis ex ante of realistic possible remedial actions in different future situations will provide valuable insights and ease manoeuvrability when a given situation materialises. The guideline is amended to partly reflect the comment.	See paragraph 32.
47.	GL5	It should be left to firms to determine the frequency of review. It depends on the stress tests that the firm is conducting and the global policy governing the firm's approach.	The guideline is amended to reflect the comment.	See paragraph 34.
48.	Paragraph 29	We wonder how effectiveness of stress testing should be defined and measured. One can only really test the effectiveness when the next crisis emerges.	CEBS recognises the difficulty of a review/validation especially from quantitative approaches; however, CEBS believes that such review is important and must be performed regularly.	No changes needed.
49.	Paragraph 29	Paragraph 29 mentions that institutions should, where possible, benchmark their stress tests outside the institution. Contrary to operational risk, there are no external loss databases. As a result, we wonder how this can take shape if it	The guideline is amended to reflect the comment.	See paragraph 34.

		is currently not possible.		
50.	Paragraph 29	§ 29: CEBS requires that the quantitative review of the stress testing programme should include benchmarking with other stress tests within and, if possible, outside the institution. However, stress tests are effective especially if they are tailored to a specific portfolio. An external benchmarking would be of no use. Therefore, we suggest that this requirement be deleted.	The guideline is amended to reflect the comment.	See paragraph 34.
51.	GL5	With regard to Guideline 5: '*The institution should regularly review its stress testing programme and assess its effectiveness and fitness for purpose.*' we are unsure how effectiveness is defined, as this can only really be tested when the next crisis emerges. How should the effectiveness be monitored? Does this mean that the beginning of 2008 will become a new stress testing scenario, like 'black Monday'?	CEBS recognises the difficulty of a review/validation especially from quantitative approaches; however, CEBS believes that such review is important and must be performed regularly.	No changes needed.
52.	Paragraph 29	Paragraph 29 '*The effectiveness and robustness of stress tests should be assessed regularly, qualitatively as well as quantitatively, in the light of changing external conditions to ensure that they are up-to-date. An independent control function such as internal audit should play a key role in the process. The quantitative processes should include benchmarking with other stress tests* ***within and, if possible, outside the institution****.*' mentions that institutions should, if possible, benchmark their stress tests outside the institution. Contrary to operational risk, there are no external databases for stress testing. Although we see the added value of an external benchmark, we wonder how this requirement can be satisfied in	The guideline is amended to reflect the comment.	See paragraph 34.

		practice.		
53.	Paragraph 29	We believe that there is some confusion in the text regarding the role of Internal Audit, which, to our understanding, is to focus on the assessment of the process vis-à-vis existing policies/guidelines/best practices, not to evaluate the robustness of stress-tests. Internal Audit should not be part of a recurring process. To our understanding, this should be the role of a validation team in risk management.	The guideline is amended to reflect the comment	See paragraph 34.
54.	Paragraph 29	We support the guideline but question aspects of the explanatory text. First, the final line of paragraph 29 refers to benchmarking within and, if possible, outside the institution. In regard to external benchmarking, it is not clear what benchmarks CEBS envisages. If the expectation is that firms should benchmark their stress tests against their peers, this is an aspect of stress testing we would expect supervisors to consider. We would remind CEBS that even when firms use the same or similar inputs in the broadly similar stress tests, the results will vary and this variance a normal aspect of stress testing. Moreover, external benchmarking gives rise to confidentiality and market sensitivity issues. Even internal benchmarking has its challenges. Consider that a firm's subsidiaries are dissimilar – markets and product offering vary – so even if the metrics produced by the stress tests are accurate, they will be reflective of different business environments. So we suggest that final line of paragraph be deleted.	The guideline is amended to reflect the comment.	See paragraph 34.
55.	Paragraph 30	Second, to avoid paragraph 30 being read by supervisors as a checklist, we ask that "should" be replaced with "suggest".	A proper validation would include all elements of the list.	No changes needed.

56.	GL6	In essence, capital requirement calculated for Pillar 1 represent a potential loss in an extreme scenario. As such, stressing capital requirement may seem irrelevant. It is the case for operational risk, for which the internal model (AMA) is based on potential incidents which impacts are measured on extreme frequency and severity. More specifically speaking on operational risk stress testing, the impact of potential losses consequently to processes or infrastructures' failures does not change whatever the economic situation is normal or stressed. Operational risk stress-testing are not relevant	Regarding the stress of capital requirements, the crisis has shown that there might be substantial upward drift in capital requirements. Although the assessment of the magnitude of this effect depends on the institution's characteristics, this effect should not be left unconsidered. Regarding operational risk and its dependence on economic conditions, we argue that OP risk does change with economic conditions and goes, therefore, (stochastically) in line with CR or MR.	No changes needed.
57.	Paragraph 34	§ 34: ESBG questions the added value of introducing (too many) stress tests with different degrees of severity. Sensitivity analyses, which concern only one or a few risk drivers, are by definition easier to conduct and to conceive. What really matters is to deepen the analysis undertaken through the basic stress tests and to concentrate on the interpretation of results. The absence of such in-depth analysis could not be compensated by increasing the number of stress tests. For example, institutions should be able – depending on the specific risk situation and the concrete portfolio – to decide themselves, whether there is need for additional sensitivity analysis, once all 4 scenario analysis have been undertaken. This is particularly important for determining the necessity of analysis at portfolio level. § 39: Similar to the case of sensitivity analysis, ESBG questions the added value of a multitude	The reason for this requirement is to deepen the understanding of non-linear effects and to get a feeling for when the borderline of solvency would be reached.	See paragraphs 45 and 58.

		of scenarios. The additional costs would be justified only if such multiple stress scenarios could demonstrate a clear usefulness in the risk management framework. Contrary to sensitivity analysis, scenario analysis is much more complex and would involve significantly higher technical and personal resources. Therefore, ESBG calls for the listed scenarios to be seen only as examples. It should be left to the institutions to determine which scenarios are the most relevant and necessary for them.		
58.	GL6	In our view a multifactor sensitivity analysis, while not being different from a scenario analysis, from a technical standpoint, does not add any relevant information both compared to a single factor Sensitivity Analysis both compared to a full-fledged scenario analysis. This because both single-factor and multi-factor sensitivity analysis are a first-order approximation of the overall multivariate non linear function mapping macro factor changes to PD's and, this considered, only a thorough scenario analysis does describe the full impact of macroeconomic factors on PD's.	As a multifactor sensitivity analysis is only a „can“ in the current guidelines, we consider a change of the guidelines unnecessary.	No changes needed.
59.	GL6	The additional benefits of the introduction of (too many) stress tests with varying degrees Of severity are questionable. Sensitivity analyses which relate to only one or a small number of risk drivers are by definition simpler to carry out and present. But here too it seems far more important for basic stress tests to deepen the analysis and to concentrate on the interpretation of the results than to tie up resources by increasing the number of stress tests.	The reason for this requirement is to deepen the understanding of non-linear effects (see paragraph 47) and to get a feeling for when the borderline of solvency would be reached. Indeed, we think that the interpretation of the outcome will be easier with more values, and give a feeling as to the vulnerability and the relative changes induced. As sensitivity analysis captures the sensitivity towards one or a few risk factors and scenario analysis looks at the simultaneous occurrence	No changes needed.

		Depending on the specific risk situation and the concrete portfolio, the institutions should for example be able to decide themselves whether additional sensitivity analyses are necessary, if scenario analyses are already carried out. This is particularly applicable regarding the need for analyses at portfolio level.	of events across the institution, one cannot substitute one for the other.	
60.	GL7	The preparation of complex – and specific – scenarios by banking institutions limits the ability of regulators to consolidate the results from different institutions. It should also be noted that regulators are in the best position to specify the effects of systemic risk.	Systemic risk is a topic that many supervisory assess with great effort. Nevertheless it would be wrong to ignore this risk in stress testing at the level of the institution.	No changes needed.
61.	GL7	With regard to paragraph 39, a range of scenarios can mean from severe to mild. As for paragraph 40, time horizons are to do with the underlying portfolio and the capital planning stress test.	Paragraph 39 states that the scenarios considered should encompass different degrees of severity and events. We clarified the issue raised in paragraph 39. Paragraph 40 states that the time horizon of stress testing should be determined in accordance with the characteristics of the portfolio.	See paragraph 45.
62.	GL7	Concerning stress testing methodologies (section 3 of the CP 32), the French banks argue that undertaking stress scenarios combining all risk drivers (credit, market, interest rate, liquidity) and all perimeters (including sophisticated products) is very difficult to performed, because of constraints of coherence between stress factors on credit and market perimeters. Aggregation of stress scenarios' results via identical confidence interval and time horizon is a first step but is not fully satisfying.	CEBS is aware of methodological issues concerning these topics but would argue that progress in this area is key to a sound stress testing framework.	No changes needed.

	GL7	In Guideline 7, paragraph 39a, CEBS mentions that '*a. Address all the material risk types of an institution (e.g. credit risk, market risk, operational risk, interest rate risk and liquidity risk). No material risk type should be left unstressed or unconsidered.*' With regard to the material risk types we feel that these should be identified by the sensitivity analysis. After this identification step, the stress test should follow, uncovering the losses that would occur in a stress scenario that affects the banks' weakest points.	CEBS agrees with the comment, but refrained from explicitly defining the set of material risks to be the ones identified in the sensitivity analysis. However, we amended the guidelines slightly to fit in this regard.	See paragraph 45.
63.	GL7	Forward-looking stress tests require some component of expert judgement. Further research must be done to find formal ways how expert opinion can be embedded in a reliable and accurate way. With this respect, we would appreciate supervisors would welcome financial institutions' attempts and efforts to set up approaches that try to deal with expert judgement. This is an ongoing process that is unlikely to be concluded by year end 2010.	CEBS acknowledges the issue raised in the comment and amended paragraph 46 to better fit this concern.	See paragraph 45.
64.	GL7	In particular, point 38 acknowledges that "historical scenarios are purely backward-looking, they tend to neglect recent developments and current vulnerabilities. Therefore, scenario design should take into account systematic and institution-specific changes". As a general principle it is very desirable, still how to perform such a design in a systematic way remains an open question.	CEBS is aware of methodological issues concerning these topics, but would argue that progress in this area is key to a sound stress testing framework.	No changes needed.
65.	Paragraph 39	Point 39 As in the case of sensitivity analyses, the additional benefit from multiple scenarios is questionable. The additional expenditure is justifiable only if there is a clear benefit in the risk management context. In contrast to	CEBS argues that scenario stress testing forms an essential part of modern risk management.	See paragraph 45.

		sensitivity analyses, scenario analyses are complex and involve considerably higher expenditure on technology and human resources (also see comments on point 34). In this respect, the scenarios mentioned should be interpreted only as examples. Besides, it should be left to the institution which scenarios it considers to be appropriate and necessary.		
66.	Paragraph 39	Point 39(c) In our opinion, depending on the complexity of the internal capital model, concentration risks are already considered by corresponding risk allocation procedures within the individual risk types. We consider inter-risk-types concentration measurement to be hard to implement, since no standard has been established so far in practice. The implementation will in many cases relate to individual cases.	The fact that inter-risk concentration is already accounted for by allocation procedures, does not exclude it from being stressed. The identification of vulnerabilities is a core part in each stress testing exercise.	No changes needed.
67.	Paragraph 39	Point 39(d) We request an explanation of the concept “narrative scenario”.	Narrative in this regard means that the co-movement of risk factors and the corresponding reaction of market participants are not implausible or paradoxical, but yield a consistent picture of a possible overall future state. We changed the paragraph to clarify this.	See paragraph 45.
68.	Paragraph 39	Point 39(f) According to point 39(f), it is a task of the stress testing to identify valuation interactions between newly developed and established products. We consider this not to be a task of stress testing, but a task which must be carried out in the context of the new product process and not on the basis of stress test analysis. Point 39(f) should therefore be deleted.	Although CEBS sees the difficulties in this regard, we argue that a deep understanding of new products under stressed conditions is important for sound risk management.	No changes needed.

69.	GL8	Greater transparency is required if credit risk is to be brought into the process. Paragraphs 42 and 46 are fine as statements and objectives, but are not necessarily doable. It looks quite difficult to translate economic scenario's to risk drivers. Some more guidance on how to do it would be welcome.	CEBS agrees with the comment and amended the guidelines in this regard.	See paragraph 52.
70.	Paragraph 44	It's not clear from paragraph 44 (b) what is the aim pursued by excluding for example the diversification effects. Management should be allowed to exercise judgment.	CEBS agrees with the comment and amended the guidelines in this regard.	See paragraph 50.
	Paragraph 47	We welcome paragraph 47's emphasis on streamlining and simplicity, but we think that this is more difficult in large and complex organisations.	CEBS agrees with the comment and amended the guidelines in this regard.	Paragraph 47 has been deleted.
71.	GL8	Guideline 8: '*An institution should identify appropriate and meaningful mechanisms for translating scenarios into relevant internal risk parameters that provide a firm-wide view of risks:*' Although we agree with this guideline, it will be very hard in practice to implement this guideline, as it requires an institution to translate economic scenario's into risk drivers.	CEBS is aware of methodological issues concerning these topics, but would argue that progress in this area is key to a sound stress testing framework. We amended the guidelines to give more detailed guidance on this transformation.	See paragraph 52.
72.	Paragraph 47	Point 47 According to point 47, the stress tests should be "streamlined" in the case of complex institutions too. We consider this specification to be unrealistic. The complexity of larger institutions must be reflected appropriately in the stress tests. Complex institutions generally speaking also need complex stress testing programmes. This point should be deleted.	CEBS agrees with the comment and amended the guidelines in this regard.	Paragraph 47 has been deleted.
73.	Paragraph 41	Guideline 8 §41 We would suggest to add the word "relevant" in the following sentence: "The chosen scenario should be applied to all	CEBS agrees with the comment and amended the guidelines in this regard.	See paragraph 47.

		relevant (on and off-balance sheet) positions of the institution". It may be overly burdensome to take all exposures into account, while the additional effort - and the associated delay - may not contribute to improving the quality of the stress-test result.		
74.	GL9	We agree that firms should aim to achieve a more holistic risk assessment across their operations and key risk types, with a fuller examination of correlations between risks firms, their linkage to economic sectors, the wider macro economy and second order effects. However, this is an area of stress testing that is still evolving and firms continue to development of scenarios that are most relevant to them.	CEBS agrees with the comment, but sees no need for a change in the guidelines.	No changes needed.
75.	GL9	Finally, past experience shows that developing an operational stress test plan leads to limiting the number of scenarios used in the analyses. This number is a management decision, and is also a condition of the use test.	CEBS agrees with the comment and amended the guidelines in this regard.	See paragraph 45.
76.	GL9	We would welcome an explanation of what feedback effects mean in this context. Are they second order effects or a counter-balancing strategy (ie limits on lending, which have an impact on the real economy)? This is linked to macro-prudential regulation. In any event, it should be clear that feedback effects have to do with behaviour of market participants which is not always easy to estimate before a particular event actually takes place. In this respect, stress testing is not science but merely art.	As outlined in the examples in paragraphs 48 and 49, feedback effects incorporate second order effects and the results of potential counter-balancing strategies. Concerning the second statement, we agree with the comment and amended the guidelines in this regard.	See paragraph 54.
77.	GL9	It is difficult to work out what action to take from simultaneous stress tests. Taking the recent crisis as an example, where interbank markets dried up and interbank interest rates	As stated in the guidelines (under Guideline 7), historical scenarios are regarded critically and relying solely on them has proven to be insufficient.	No changes needed.

		increased around the start of the crisis, later crossing over to the real economy. Such a scenario would have been very hard to predict. As a result, one may be tempted to use the recent crisis as the basis for a scenario, but extending the period where interbank markets dry up. The question that this raises is whether the next crisis will have the same characteristics as the previous one. The analogy to operational risk where a lot of emphasis is placed on managing low probability high impact events comes to mind in this area. An example of the adverse feedback dynamics could be the lowering of interbank limits that was seen during the crisis.	Concerning the actions taken out of a stress testing exercise, see section 5.	
78.	GL9	The requirements set around the second order effects are hard to meet in practice.	CEBS agrees with the comment and further emphasizes the difficulties in this area.	See paragraph 54.
79.	GL9	Guideline 9 '*System-wide interactions and feedback effects should be incorporated within scenario stress testing.* ': this is tough to estimate in practice, as this guideline refers to second order effects. Second order effects are usually hard to estimate. Taking the recent crisis as an example, it was observed at the start of the crisis that interbank markets dried up and interbank interest rates increased. At a later stage, there was a cross over to the real economy, from what started out as a financial markets crisis. Such a scenario is very hard to predict. As a result, people may be tempted to use the recent crisis as the basis for a scenario, extending the period where interbank markets dry up. This raises the question whether the next crisis will have the same characteristics as the previous one. Observed examples of adverse feedback dynamics are the lowering of	CEBS agrees with the comment and further emphasizses the difficulties in this area.	See paragraph 54.

		interbank limits that was seen during the crisis and the increase of interbank rates. It is not clear to us whether this guideline would include management actions as well. We request CEBS to clarify this point.		
80.	GL9	It is understandable that stress testing programmes should contain future-oriented scenarios including the effects of a recession. Nevertheless, the requirement to consider systemwide interactions and feedback effects is unrealistic. Even if only qualitative assessments are required for these interactions, this requirement far exceeds the possibilities of stress tests.	In CEBS's view a fully fledged scenario should not ignore these topics.	No changes needed.
81.	GL9	The difference between "adverse feedback dynamics" (must be analysed quantitatively) and "second order effects" (qualitative analysis is sufficient) is not sufficiently clear. On account of the different specifications for the two types of effects, clarification based on an example would be desirable.	As the distinction does not matter here, we changed the guidelines in this regard.	See paragraph 54.
82.	GL10	We agree that it would be desirable to operate a range of scenarios of different types and severities, including the reverse stress test. Although it is difficult to identify an optimal number of scenarios, it is clear that the appropriate number will vary by firm. Given that an infinite number of scenarios that could be run, the total number should be limited. Firms need to balance: maximising the coverage of the scenarios; managing the costs of running the scenarios; and filtering results into a form that can be challenged by boards and be actionable. We would suggest that a sensible approach would be to allow firms to develop the scope of their	CEBS agrees with the comment, but wants to stress that bottom up supervisory stress tests have a different perspective and cannot be substituted for institutions' own programmes. .	No changes needed.

		programme of scenario testing over some years so that they can arrive naturally at the optimum level. Initially a small number of holistic group-wide scenarios should be acceptable to regulators in addition to the reverse stress tests. Care should be taken to avoid duplication of stress testing requirements, including firms' own stress testing, tests prescribed by local regulators, colleges of supervisors and international bodies. We would encourage the authorities to strike the right balance between prescription and guidance when setting any industry wide common scenarios. It is important for scenarios to be appropriate and firm specific to ensure effective deployment of resources and efficient use of senior management time in their examination.		
83.	GL10	The CEBS specified that the economic scenarios should be severe. It is important to point out, however, that the gravity of economic scenarios is not per se the most important factor. What is essential is the way an economic scenario impacts the portfolio. In the end, the pertinence of a scenario is evaluated in light of the results of the analysis.	CEBS agrees with the comment and amended the guidelines in this regard.	See paragraph 57.
84.	Gl10	With respect to evaluating the more or less plausible nature of a scenario ex ante, recent history shows that this is questionable.	CEBS agrees with the comment and amended the guidelines in this regard.	See paragraph 64.
85.	Gl10	There is a need for more guidance on the types of scenarios referred to. The question is what a plausible event should be. The actual observations during the crisis showed stress situations that were deemed impossible prior to the crisis. Is the idea to set up scenarios that	As the exact level of severity is impossible to pin down, paragraph 51 states that various degrees of severity should be considered.	See paragraphs 57 and 62.

		nobody believes in? Should the scenario maybe look like '2008+'? What kind of scenarios would meet the requirements?		
86.	Paragraph 51	In paragraph 51 it is mentioned that stress tests and sensitivity analysis should have multiple degrees of severity. Therefore the expectation is to analyse various scenarios with differing severity of the stress values, ranging from moderate to extreme parameter values. Sensitivity analysis uses multiple degrees of severity while for firm wide stress tests it is of more importance to test different stress scenarios. Combining the two - multiple scenarios at multiple degrees of severity - makes stress testing a calculation exercise instead of an important risk management tool.	CEBS agrees with the comment and amended the guidelines in this regard.	See paragraph 45.
87.	Paragraph 52	It would be helpful to expand on paragraph 52, non-linear interactions, and give examples.	CEBS agrees with the comment and amended the guidelines in this regard.	See paragraph 58.
88.	Paragraphs 51-54	§ 51 and 54: CEBS explicitly requires institutions to consider “a more severe stress scenario” for their capital requirements and resources over a plausible macro-economic base case. However, in practice, whether the determination of the capital needs of an institution depend or not on a scenario analysis, is established essentially in the internal procedures of the institutions. Internal decisions of an institution (e.g. portfolio structuring) do not entail, as a rule, the consideration of stress situations.	CEBS believes that an institution which does not consider stress scenarios in their internal decisions is at a high risk of failing.	No changes needed.
89.	GL10	With regard to Guideline 10: ‘*Stress testing should be based on exceptional but plausible events. The stress testing programme should cover a range of scenarios with different severities including scenarios which reflect a severe economic downturn*’: we wonder what is	As the exact level of severity is impossible to pin down, paragraph 51 states that various degrees of severity should be considered.	See paragraphs 57 and 62.

		considered a plausible event. Looking at the actual events that were observed during the crisis, stress situations occurred that were previously deemed impossible. What kind of scenarios should institutions set up? What kind of scenarios would meet the requirements? In our view, it should be avoided to require scenarios that nobody believes, as this does not add credibility to stress testing.		
90.	Paragraph 51	In paragraph 51 it is mentioned that stress tests and sensitivity analysis should have multiple degrees of severity. Our expectation is that this means that there will be different scenarios that are performed on a Group-wide basis. Sensitivity analysis uses multiple degrees of severity, while for firm wide stress tests it is more important to test different stress scenarios. With regard to the sensitivities, a range of severities can be applied. It is not the intention to perform group-wide scenarios at multiple levels of severities; the power lies in performing many different scenarios. Combining the two - multiple scenarios at multiple degrees of severity – would make stress testing a calculation exercise instead of an important risk management tool.	CESB agrees with the comment and amended the guidelines in this regard.	See paragraph 45.
91.	Gl10	Comments**:** the development of severe downturn scenarios requires a high degree of discretion. It is not necessarily straightforward how to incorporate it in order to be conservative enough, in any case it will always be subject to top management and regulator's approval.	CEBS generally agrees with the comment and amended the guidelines in this regard.	See paragraphs 57 and 62.
92.	Paragraphs 51-54	Points 51 and 54 The explicit demand is made for the capital requirement to be based on a "more severe stress scenario". Whether establishing a capital	CEBS is generally in agreement with the comment, but sees no need to amend the guidelines in this regard.	No changes needed.

		requirement is to be based on a scenario analysis essentially depends on the institution's internal procedures. Decisions within the institution (e.g. portfolio restructuring) as a rule result in the stress case not occurring in the first place. Should these measures no longer be effective, the effects of a severe scenario can be cushioned by a capital buffer.		
93.	GL11	We would like to question the usefulness of the reverse stress tests, since it should be remarked that, in practical terms, it is not a usual practice to perform this type of exercises within the entities as there will normally be a very large number of potential combinations that might end up threatening the institutions solvency. In fact, mathematically, it could be considered as a problem with infinite solutions. This implies that simplifications must be made to adequately inform the senior management. As a result of this simplifying exercise it can be understood that only those selected combinations could lead to insolvency, while other possible combinations could as well prompt the same outcome. This can lead in turn to a false sense of safety, contrary therefore to what it is aimed at."	CEBS agrees with the comments and changed the respective paragraphs.	See paragraphs 63-67.
94.	GL11	Reverse stress testing: We agree with CEBS' broad description of reverse stress testing. We also agree that there is a place for extreme scenarios that explore the potential failure of a firm's business model. However, it should be up to the firm to decide on the extent to which reverse stress test results will influence strategic and business planning. Likewise, the emphasis of any reverse stress test requirement should be on a qualitative assessment of	As there is no prescription with regard to the extent to which reverse stress testing should influence strategic and business planning, we see no necessity for a change.	See paragraphs 63-67.

		potential vulnerabilities in the firm's business model and for this reason reverse stress tests should be conducted at the consolidated group level.		
95.	GL11	We agree with the broad description of reverse stress testing outlined in Section 3.4 of the guidelines. This is an evolving area of risk management and a view of what is good practice, let alone best practice, is still being developed. Nevertheless, a consensus has emerged that, in the first instance, reverse stress testing should rely more on qualitative than quantitative approaches, concentrating on the key vulnerabilities of the business model (i.e. the factors that might give rise to a loss of market confidence in the firm). For most firms, it is impractical to run a number of specific disaster scenarios. Instead they approach reverse stress testing by focusing on key vulnerabilities, identify risk drivers common to these vulnerabilities and work backwards by deriving a scenario, based on smaller number of examples of events, which might give rise to their failure. The likelihood of these events is then assessed mainly by qualitatively means and by allocating to broad ranges of probability (akin to a 'Low', 'Medium' and 'High' classification). We welcome guidelines that allow firms to adopt this approach.	The guidelines are clearly follow the spirit of the comment.	No changes needed.
96.	GL11	We agree there is a place for examining extreme scenarios that explore the potential failure of a firm's business model. However, it should be left up to each institution to decide the extent to which these influence strategic and business planning. As reverse stress testing evolves, we expect further debate on the use of	As there is no prescription with regard to the extent to which reverse stress testing should influence strategic and business planning, we see no necessity for a change	No changes needed.

		reverse stress testing in business planning.		
97.	GL11	The emphasis of any reverse stress test requirement should be on a qualitative assessment of potential vulnerabilities of firms' business models and how these can be appropriately managed. Stress testing should help to inform the development of robust contingency plans. We believe that attempting to identify the point at which insolvency would begin in a reverse stress test scenario and any capital and liquidity implications depend heavily on qualitative assessments and careful judgements.	The guidelines are clearly in this spirit.	No changes needed.
98.	GL11	In our view, reverse stress testing makes most sense if conducted at the consolidated group level. The costs involved of conducting additional reverse stress testing at a more granular level (business unit or solo regulated entity level) would be considerably higher. Moreover, the benefits of doing so are unclear and will depend upon the firm's organisational and legal structure. For firms operating internationally there are home/host issues around the interaction with non-EU parents. Our preference is for firms to take responsibility for deciding how much reverse stress testing is undertaken at the solo level, business level or group level.	As there is no prescription with regard to the extent to which reverse stress testing should influence strategic and business planning, we see no necessity for a change	See paragraphs 63-67.
99.	GL11	It seems to us that reverse stress tests, the purpose of which is not clearly defined in the document, can be seen as a way of questioning the hypotheses of the business models of the business lines, in order to understand the strengths and weaknesses. The fundamentally qualitative (expert judgement) nature of the exercise must therefore be kept in mind, and	CEBS agrees with the comment, but would argue that this statement is currently well reflected in the guidelines (see Chapter 3.4).	No changes needed. See paragraphs 63-67.

		the extremely complicated nature of the technical methods of implementing it needs to be taken into account.		
100.	GL11	It is also requested that the results of these reverse stress tests not be reused for other purposes, and in particular, it should be stipulated that these results should not then be used again by a regulator as a basic scenario for the institution concerned. In particular, this means that the reverse stress tests should not be viewed as a means of challenging the hypotheses used in constructing scenarios utilized for capital planning stress tests (which would automatically lead to incorporating them into these exercises).	CEBS does not agree with the content of the comment. To fulfil the purposes of reverse stress testing, it should be used to challenge the integrity of the institution and the assumptions made for the stress testing scenario. As pointed out in paragraph 59, reverse stress testing is not expected to result in capital planning and capital add-ons.	No changes needed. See paragraphs 63-67.
101.	GL11	§ 57-61: ESBG takes the view that reverse stress tests are very hard to apply in practice, especially for smaller and less complex institutions. Because such reverse tests are particularly sophisticated they entail an additional burden and costs that should not be underestimated, and may not be justified through the marginal additional findings they might produce. Therefore, ESBG calls for the deletion of the relevant paragraphs.	CEBS does not share the opinion of the comment, and would argue that reverse stress testing is highly beneficial.	No changes needed. See paragraphs 63-67.
102.	GL11	From a practical point of view, institutions note that reverse stress testing could be difficult to perform. In fact it can be extremely difficult to develop a global scenario whereas the institution or group's default would rather result from the combination of a large number of different scenarios relating to specific portfolios on one hand and on specific types of risk on the other hand. It would be quite difficult to maintain consistency between these different	CEBS acknowledges the conceptual difficulties in relation to such an exercise and thinks that this issue is already reflected in the current guidelines.	No changes needed. See paragraphs 63-67.

		scenarios. In addition, to combine probability of occurrence with these scenarios can be extremely sensitive. In such a context, it should be envisaged to perform reverse stress tests by activity in order to appreciate the sustainability of a business line or an entity.		
103.	Paragraph 57	Paragraph 57: '*Reverse stress testing consists of identifying a scenario or combination of scenarios that lead to an outcome in which the institution's business plan becomes unviable and the institution insolvent, i.e. stress events which threaten the viability of the whole institution, as well as assessing the probability of realisation of such scenarios*': in our view, performing this exercise will create interesting opportunities to learn about your company. However, the requirement also creates a problem, as one can think of a lot of scenarios. Should an institution shock its risk drivers by such an amount that your company can no longer sustain the losses, for instance? Using extreme values for each risk driver based on the sensitivity analysis may not result in insolvency of the institution as a result of diversification benefits. The same issue applies to paragraph 58, where no concrete guidance is given. We therefore ask CEBS to provide additional guidance on these two paragraphs.	CEBS agrees with the comments with regard to the infinite number of possible scenarios or combination of events that might lead to insolvency.	See paragraphs 63-67.
104.	GL11	With regard to the second order effects that are mentioned in paragraph 61: '*......Even in a qualitative sense, the impact of macro-economic shocks on an institution's solvency should consider first and second round effects*', we note that these effects are very hard to assess in practice.	CEBS agrees with the comment, but thinks that the issue raised is already well reflected in the current guidelines.	No changes needed. See paragraphs 63-67.
105.	GL11	Nevertheless it is not straightforward to figure	Clearly, the reverse stress test should not be a	See paragraphs 63-67.

		out the scenario that implies the aforementioned loss: a solution is choosing a key factor, such as GDP, and the change consistent with the maximum loss is assessed. That approach actually would mean performing a kind of sensitivity analysis that falls short of providing the joint effect of all variables. On the other hand simply proportionally scaling the values of variables in a scenario to match the maximum loss struggles to deal with the non linear and second order effects. Therefore a better understanding of the reverse stress test output is warmly welcomed.	simple sensitivity analysis falling short of providing the joint effect of all variables. CEBS agrees with the comment.	
106.	GL11	Any of these pairs (Loss(Corporate), Loss(Retail)) corresponds to a different macroeconomic scenario, however, it is not assured that the resulting set of scenarios distributes unimodally or even bimodally, in a way, that is, that would allow identifying a clear polarization of macroeconomic hypotheses. Provided that the actual structure of the Stress Test model is more complex than that, reflecting the complexity of UCG portfolio, it is hard to figure out how a Reverse Stress Testing could bring meaningful results. The same holds also regarding Stress Testing and, with this respect, it may be worth to point out that, while a qualitative assessment may seem to allow overcoming the objective hurdles of quantitatively perform a reverse Stress Testing, the level of subjectivity involved may further affect the significance of the outcome, in terms of macroeconomic scenarios which may stem specific loss levels. Direct feedback to CEBS: Based on the methodological issues here described which	CEBS agrees with the comment and amended the guidelines in this regard.	See paragraphs 63-67.

		may undermine the significance of the outcome we suggest to amend this point from the guidelines.		
107.	GL11	Points 57-61 In our opinion, the use of reverse stress testing is impossible in practice. In view of the high complexity and cost of implementation which should not be underestimated, the additional findings from this stress testing are marginal. We therefore advocate the deletion of these points.	CEBS does not share the opinion of the commentator, and would argue that reverse stress testing is highly beneficial and less cumbersome than depicted.	No changes needed.
108.	GL11	Irrespective of this position of principle, it should be examined to what extent risks which in general are not to be underpinned with capital (such as the liquidity risk, for example) are to be considered. We expressly welcome the explicit mention that no capital add-ons are to result from reverse stress testing. Regularly should be interpreted to mean a maximum of once a year.	As the aims of stress testing go much further than the assessment of capital needs, we would argue that the relevant risks as to the possible inadvisability of holding capital should be reflected in the stress testing exercise. Hence, CEBS sees no need for an amendment of the guidelines.	No changes needed.
109.	GL12	We support the guideline, but suggest that it be modified so that the second sentence refers to 'changes in correlation between risks' rather than just 'correlations between risks'. Similarly in paragraph 65, the text should be modified to state 'taking into account changing correlations' rather than 'taking into account correlations'. This modification in the text would help to capture how changes in correlations can lead to significant losses.	The guideline is amended to reflect the comment	See GL12.
110.	GL13	Does firm-wide refer to a legal entity? It would make more sense for banks to group business according to their own internal structure and strategic organisation? We urge supervisors to coordinate through the college of supervisors in order to ensure that there are no additional local requirements to	Firm-wide refers to all the legal entities composing the banking group. We could consider the broader banking group perimeter.	See paragraph 74.

		repeat an exercise in the same bank with different assumptions.		
111.	GL13	The CEBS proposal leads to distinguishing different levels of analysis based on blending the following key concepts: - Business unit (from the individual portfolio to the firm-wide portfolio) - Type of risk (from a unique type of risk to all types of risk combined) - Type of approach (from sensitivity analysis to the forward looking scenario approach). From this point of view, it is requested that the distinction between “business unit” and “legal entity” be clearly specified, and that the primacy of stress tests at the business unit level be posed, so as not to open the door to different legal approaches which do not provide much added value. In this connection, it will be noted that all of the analyses cannot be done at the level of a legal entity (particularly for operational risk).	Paragraph 68 devolves to the institutions the choice to perform stress test exercises at solo or sub-consolidate level. CEBS does not make a distinction between business unit and legal entities. In order to consider different types of organisations the guidelines do not differentiate between business unit and legal entity as in many cases they may be overlapping.	No changes needed.
112.	GL13	The reference (par. 68) to a stress test of insurance activities that would be in addition to the stress test conducted on the banking business, in order to cover the full scope of consolidation of an institution involved in both activities, raises the question of the degree of coherence expected from these two exercises and of the possibility of aggregating the results from them. Consequently it is requested that the CEBS document make exclusive reference at this stage to the prudential banking business knowing that similar exercises may also be prescribed by the regulation specific to insurance.	CEBS agrees with the comment regarding the difficulty considering together the risk stemming from the banking and the insurance business.	See paragraph 74.
113.	GL13	Concerning the scope of application of stress-	The guideline is amended to reflect the	See amended text of GL13

		tests (GL 13), the notion of "firm-wide basis" needs to be clarified to establish whether it relates to a legal entity. Clearly, specific stress tests or sensitivity analyses on, for example, a portfolio can be carried out at entity level. However, stress tests based on scenarios including numerous assumptions must be performed at a consolidated level.	comment	
114.	GL13	The definition of “firm-wide” cannot be inferred from the statements of the consultation paper. In its broadest definition, it could refer to legal entities, which means that no distinction is made between a banking group or its parent company and the subsidiaries of foreign banks. It is expected that requirements for a parent company of a group generally differ from those for subsidiaries. In particular, the requirements for group subsidiaries should be considered to be satisfied by corresponding processes at the level of the parent company. For complexity reasons, general application of a full stress testing programme at group subsidiary level is feasible only if uniform stress tests are carried out for all entities of the group. However, this yields no additional benefit compared to the stress test at consolidated level. Generally speaking, compulsory carrying out of stress tests at different levels is to be rejected and left to the choice of the institutions in relation to their business model.	The guideline is amended to reflect the comment	See amended text of GL13
115.	GL13	CEBS proposes running stress tests for material subsidiaries and/or at a sub-consolidated level. Our experience shows that there is little value added in this approach, compared to using a severe common group-wide scenario. Firms should have the flexibility to segregate and	Paragraph 68 has been amended to reflect the comment	See paragraph 74.

		stress test individual subsidiaries based on their own judgement		
116.	GL13	We support the guideline but suggest that it be explicitly stated that firm-wide stress tests should be determined by the firm and guided by the principle of proportionality.	CEBS agrees with the comment and confirms that the principle of proportionality is overarching and applies to all aspects of the guidelines.	No changes needed.
117.	GL14	An expected loss estimated under the various scenarios is to be an essential output from the stress testing. It remains unclear why the main focus should be on the expected loss at this point. As we understand it, the expected loss acts at most as a reference value, but is not an essential output from stress testing. We request clarification.	CEBS agrees with the comment.	See paragraph 13.
118.	GL14	While our members support this guideline, their attention was drawn to paragraph 71 which refers to 'a specific configuration of macro-economic variables'. If this configuration is provided to firms by supervisors as a baseline or 'anchor scenario' firms should be able to adjust the scenario so that it properly aligns to its business model. Baseline scenarios, by their nature are very generic, so it is difficult to construct a scenario that affects firms operating in different sectors (e.g. retail versus investment banking) equally.	Section 3 provides banks with all the requisite information as to the manner in which an hypothetical scenario suited to the organization can be constructed. In addition, banks should also be able to get an estimation of the potential losses for a specific configuration of macro-economic variables provided, for instance, by supervisors.	See paragraph 77.
119.	GL15	CEBS requires that supervisors assess the feasibility of proposed management actions in stressed conditions. ESBG considers that such assessment is hardly possible, as there is no automatism between a certain stress test result and the derived corrective measure. The concrete management measure that will be taken under real stress conditions ultimately depends on a multitude of factors that cannot be	CEBS agrees with the suggestion.	See paragraphs 80-81.

		caught in stress tests and often cannot be established in advance.		
120.	GL15	According to Guideline 15, the institution is to ensure its ongoing solvency through a stress scenario. We consider this to be a dangerous requirement which should be deleted as in this case only moderate tests will still be carried out that with the current capital endowment do not lead to insolvency. Cases are quite conceivable in which stress events may occur which do not necessarily have to be underpinned by capital (e.g. high costs for hedging the event, unlikelihood of the occurrence of the event). In addition, the effectiveness of management actions and risk mitigation techniques can never be represented in full. Also having to consider the management actions of other institutions in the stressed environment likewise cannot be modelled. This means that there is not much point in considering stress test results on both gross and net bases.	CEBS recognises the concern.	See paragraphs 80-81.
121.	GL16	It is not sufficiently clear what the severity, range and time are. More clarity would be welcome also about how the capital planning stress tests under ICAAP are different from other stress tests. A capital planning exercise is complex in a global bank, especially the development of the base case up to board level and running more than two downturn scenarios. It consumes plenty of resources.	GL16 shouldn't interpreted as a request to conduct additional exercises for capital planning purposes. The aim of GL16 is to stimulate banks to use stress test outputs to challengecapital planning. CEBS agrees with the concern and will amend GL16 and the explanatory text.	Text of the GL16 and explanatory paragraphs has been clarified (see new paragraphs 85-87).
122.	GL16	A few scenarios such as "severe economic downturn" and "system-wide shock to liquidity" are explicitly mentioned and are to be considered in the capital planning. Irrespective of these scenario examples, we reject this	CEBS agrees with the concern and will amend GL16 and the explanatory text.	Text of the GL16 and explanatory paragraphs has been clarified (see new paragraphs 85-87).

		requirement because it postulates automatism between stress testing results and the capital cover for these results. Moreover, in complex organisations, capital planning is already a major challenge and is usually not based on stressed situations. A scenario analysis based on capital planning would further increase the complexity of the analysis. We therefore consider these regulatory requirements to be inappropriate. With regard to the stress test results, risk management measures to be strived for should be active rather than passive like capital cover. Considering the stress tests in the context of capital adequacy (ICAAP) may not lead to additional capital requirements being derived from stress test results. Moreover, extreme stress scenarios cannot be underpinned with capital because otherwise a strong curb would be placed on further business activity of the institutions, the credit supply would be made unduly scarce and achieving appropriate profitability in the credit industry would be systematically impeded. However, even in the case of somewhat less extreme scenarios, it must be possible, as a management decision, not to hedge against the occurrence of the scenario and not to insure the associated probability of insolvency, but to accept it. According to point 25 (last sentence), this should also be possible. The primary management vision based on going-concern considerations must have priority here over the supervision point of view. According to point 40, institutions should determine the time horizon of the stress testing		

		in accordance with the characteristics of the portfolio, such as the maturity and liquidity of the stressed positions, where applicable, as well as the risk profile and purposes of the particular exercise. In contrast to this qualitative specification, a period of at least two years is now demanded for all capital planning stress tests. Detailed planning with a time horizon of two years, depending on the business field, must be strongly based on assumptions. The validity of stress tests of these plans consequently remains very limited. This provision should be deleted.		
123.	GL16	We support guideline 16, however, we would like to remind CEBS that a capital planning exercise is complex exercise for firms, and in particular, global banks. Members note that paragraph 81 indicates that all capital planning should cover a period of at least two years. While some supervisors require a 3 to 5 year forward ICAAP, firms are of the view that stress tests forecasts beyond two years are not valuable. We suggest that 'at least' be removed for the last line of paragraph 81.	The guideline is amended to reflect the comment	See paragraph 86.
124.	GL18 and 19	Supervisors should be aware that each institution is different and recognise the diversity of firms and their business models.	The guideline is amended to reflect the comment.	See paragraph 97.
125.	GL18	We support the guideline, but note that the explanatory text makes no reference to how frequently supervisors should assess a firm's compliance with the guidelines. To take account of an environment where firms might be dealing with a number of supervisors, we suggest that the guideline be modified to state that such assessments be meaningfully sequenced and/or	See general comment on home/host	See paragraph 96.

		coordinated with other supervisors.		
126.	GL18	The "regular basis" for the information on firm-wide stress tests should be specified as annually at most. Regular meetings with the supervisors to discuss the stress testing should take place outside official examinations to promote open dialogue.	The guideline has to cover all types of institutions across EU; and must for this reason be kept at a general level. Even the suggested frequency is in line with the annual ICAAP.	No changes needed.
127.	GL19	It must be ensured that stress testing does not lead to higher capital requirements under either pillar I or pillar II. Any automatic link between possible stress test results and a potential capital buffer is counterproductive.	See general comment regarding link to capital.	
128.	GL20	We are concerned about the interpretation of point 100 in the CP32 and would suggest that it should be clarified that point 100 - and capital buffers - is concerning each individual bank's capital planning framework/capital targets, i.e. not concerning regulatory capital.	See general comment regarding link to capital.	
129.	Paragraph 100	However, we do not believe stress tests should automatically be linked to capital or liquidity buffers suggested in § 100.	See general comment regarding link to capital	
130.	GL20	The guideline is reasonable. We are of the view that stress testing results should foster a fruitful dialogue between supervisors and firms. As part of this dialogue, however, firms need to have the right to both informally and formally challenge conclusions drawn by supervisors. Provision for these channels need to be included in this guideline.	The guideline has to cover all types of institutions across EU; and must for this reason be kept at a general level. However, we encourage dialogue regarding stress testing and the evaluation thereof; both by institutions and supervisors.	No changes needed.
131.	Paragraph 100	Again, we reiterate that stress testing should not automatically result in increases in capital. Although paragraph 100 indicates that capital and/or liquidity buffers are part of a range of actions, the current drafting of this text appears to suggest that capital and /or liquidity buffers are inevitable. Capital buffers are usually	See general comment on link to capital.	

		determined by the management body and based on sources of information management relating to the capital plan, current and future risk appetite, and overall market and regulatory expectations. In setting capital buffers, stress tests and scenario analysis are only one consideration that might be taken into account by the management body.		
132.	GL20	In addition to the general remarks made at the beginning of this document, it seems important to us to emphasize that creating a direct link between the capital planning stress tests and the determination of possible capital cushions could lead to calling into question the future of stress exercises. It should also be noted that the creation of a capital cushion is not the only response to the results of a stress test (see the preceding comment on the corrective actions expected of General Management).	See general comment on link to capital	
133.	GL20	The supervisors are to assess the feasibility of the proposed management actions in stressed conditions (in connection with Principle 15). In our view, an assessment is possible only with difficulty, since there is no automatism between a specific stress test result and a corrective action to be inferred from it. Which management action is in fact taken in the end in real stressed conditions depends on a number of factors not ascertainable by stress tests and can often not be determined ex ante.	We recognize the difficulty of assessing the credibility of management actions; however, the analysis ex ante will provide valuable insight and ease manoeuvrability when a given situation materialises.	No changes needed.
134.	GL20	Point 100 provides supervisors with the possibility to impose institution-specific capital and/or liquidity buffers on the basis of their own models. We consider it not to be the task of supervisors to set the results of their own models as standards for capital requirements.	See general comment on link to capital.	

		Implementation and results analysis should be for the institutions to carry out (bank driven process) as part of the pillar II processes. The specification of buffers based on own models, on the other hand, changes this approach and is therefore totally unacceptable.		
135.	GL21	It would be useful to refer such matters to the firm's college of supervisors. The home state supervisor should lead its peers towards common stress tests and fora for discussions. Supervisory coordination sounds good in theory, but in practice regulators have followed national interests for the time being. We would encourage CEBS to place more emphasis in the need for coordination and common understanding between supervisors.	See general comment on cross-border aspects.	See paragraph 96.
136.	GL21	We propose that the detailed results are shared only with core college and that a qualitative discussion (sharing aggregated figures) could be held at the general college... There are already clear rules regarding the calculation of own funds, and the outcome of the stress testing is not of itself a proper basis for deciding upon the adequacy of capital requirements.	See general comment on cross-border aspects. See general comment regarding link to capital.	See paragraph 96.
137.	GL21	We support the spirit of this guideline. We see the consolidated supervisor as taking the lead and working with the firm in determining the appropriate group wide stress tests to be run. The tests, and the results, would then be discussed and reviewed with the individual firm's college of supervisors, or core college, as appropriate. We suggest that paragraphs 101 and 102 should be clarified to reflect this. Currently paragraph 101 simply refers to home and host supervisors, and is silent on the need	See general comment on cross-border aspects.	

		for host supervisors to coordinate with consolidating supervisors. This guideline needs to be clear on the importance for host supervisors to coordinate with consolidating supervisors so that multiple application of testing is avoided.		
138.	GL21	Our concerns in regard to paragraph 103 are similar to paragraph 100. Paragraph 103 suggests that capital buffers are inevitable but we believe that they should not be the primary or sole focus.	See general comment on link to capital.	
139.	GL21	For data confidentiality reasons, the stress test results should be disclosed only in the core college and not in the general college. This restriction applies at least for the quantitative part. Qualitative aspects can also be discussed by the general college.	See general comment cross-border aspects.	
140.	GL22	Common scenarios affect banks in different ways. Firms have different sensitivities. They are not appropriate to inform capital planning decisions in isolation. Supervisors should take a measured view when developing a programme of tests. Banks are being approached to conduct more and more tests, both for internal and external consumption. It is difficult to obtain consistency between mandated stress tests and testing for the ICAAP. Regulators should avoid prescribing scenarios. If they do wish to prescribe scenarios, then account should be taken of business processes.	Supervisors may prescribe scenarios as part of the supervisory process. Supervisory prescribed scenarios should complement institutions own scenarios.	No changes needed.
141.	Paragraphs 104-160	§ 104-106 (Guideline 22): The indication of general scenarios for the conduct of stress tests by the supervisors can, from our point of view, constitute a good basis for deriving institution-specific stress tests. It would be particularly helpful especially for smaller institutions to build	Supervisors may prescribe scenarios as part of the supervisory process. Supervisory prescribed scenarios should complement institutions own scenarios.	No changes needed.

		on the scenarios proposed by the supervisory authorities, provided that – following individual reviews – these are considering comprehensively the material risks of the institution. In addition, further institution-specific scenarios should be admissible.		
142.	GL22	We ask that CEBS clarify that supervisors may only recommend industry-wide scenarios... Regarding liquidity risk, we suggest awaiting the results of the outstanding consultations by the Basel Committee and the European Commission rather than providing independent views.	Supervisors may prescribe scenarios as part of the supervisory process. Supervisory prescribed scenarios should complement institutions own scenarios.	No changes needed.
143.	Securitisation 1	Stress tests in relation to securitisation positions should consider all relevant information regarding the asset pool, contractual arrangements and structural elements. In this connection, we interpret the requirement to focus on the properties of the securitised loans portfolio to mean that it is not required to focus exclusively and in all cases on loan-by-loan data. This is not necessary especially in the case of granular and homogeneous portfolios and not possible especially in the case of loan portfolios with high transfer frequency. There is no discernable additional insight to be obtained from carrying out stress scenarios on the basis of individual loans in these cases on account of their low share in the portfolio and their homogeneity. Accordingly, it must be possible for the purposes of stress tests and on the lines of a look-through, to have recourse to top-down parameters/statistics of the securitised loans portfolios and to analyse their dependence on macroeconomic changes/stresses.	The GL reads as follows: Therefore, institutions should include in their stress tests all relevant information related to the underlying asset pools - their dependence on market conditions - dependence of the securitisation positions on market conditions, complicated contractual arrangements and effects related to the subordination level of the specific tranches.	No changes needed.

144.	Securitisation 2	(...) concerning warehousing operations, their inclusion in securitisations 'stress tests is questionable for two reasons : (i) these exposures are already included in general stress IRB with capital add-on, and (ii) as long as the securitisations' structure is not fully completed, calculations are subject to numerous uncertainties. (...) (...) the inclusion of pipeline risks seems not necessary as far as (i) the probability of completing the closing of the transaction is not taken into account and (ii) in period of stress the number of transactions arranged for third parties which are financed is quite limited (...)	CEBS agrees that a securitisation that has not yet been securitised needs to be treated as a "normal" exposure in the stress test. Once it has been securitised, it can be treated as a securitisation exposure in the stress test. Thus, there is no need to stress the exposure twice.	Securitisation 2 and supporting text has been deleted.
145.	Credit risk 1	With regard to §5; For the sake of clarity, it should be stated that this does not refer to implementation of a migration mode in a simulation model (e.g. multi-State mode in CreditMetrics)	CEBS agrees with the comment	See paragraph 5.
146.	Operational risk 1	With regard to §2 The requirement that stress tests must be based on external events is very far-reaching. The causal link that a stock exchange crash causes an increase in litigation cannot be considered to be universally valid. We request deletion or replacement by more plausible reasons With regard to §3	CEBS agrees with the comment	See paragraph 2.

		The actual stress test is to account for material changes within the institution, such as new products, systems, areas of business und outsourced activities, and especially in areas with a lack of loss data history be based on scenario analyses. We assume that considering point 3, it is still possible to categorise stress tests according to events and request corresponding clarification.		
147.	Operational risk 2	The section on requirements for institutions should make clear reference to the proportionality principle set out in the main document. Currently only paragraph 6 contains a specific reference to proportionality which can lead to the interpretation that the paragraphs 5 and 7 do not allow the application of the proportionality principle leading to the outcome that an institutions which under i.e. basic approach status may not have developed the operational risk function to the extent that the above requirements can be me under current legislation. The proportionality principle may also be referenced in paragraph 1 to 4 of the Annex as the requirements extend the current sope of operational risk requirements coming from local law.	CEBS shares the concerns over proportionality and had made a reference to the principle of proportionality in the beginning of risk specific annexes, meaning that it is applicable to all the topics discussed in the annexes.	See new introductory section preceding the risk specific annexes
148.	Operational risk 2	With regard to §5-7 The requirements described in our view in fact refer to the implementation of AMA components (in particular scenario analyses) in	CEBS is of the opinion that irrespective of the approach chosen for the calculation of capital charge for the operational risk, institutions should fully understand their risk profile, major risk drivers and threats to viability. Therefore,	No changes needed

		non-AMA institutions. We consider the requirement to be problematic in this respect, as the systematic expenditure would increase considerably for these institutions. This is inconsistent with the idea of using a simplified approach according to pillar I. We recommend a reduction in the requirements in respect of stress tests for non-AMA institutions. The direct correlation between macroeconomic factors and the increase in operational risks is not obvious. We doubt whether a statistically demonstrable correlation exists between an economic downturn and the increase in cases of fraud, and request deletion.	TSA and BIA institutions are expected to conduct stress tests (subject to the principle of proportionality, these may be simpler sensitivity analyses). Whereas institutions with advanced models, will also be expected to use them in stress testing.	
149.	Operational risk 3	With regard to §8. Depending on the methodology used, these four factors (internal and external data, scenario analysis, and business environment and internal control factors) can be combined in a way which do not rely on weights, so no assumption of any weights should be included into the current document. The last part of the prior sentence should be then discarded (i.e. *(…) or what weights should be assigned to the different elements (…))*	CEBS agrees with the comment	See paragraph 8.
150.	Operational risk 3	With regard to §9 This example is questionable, (i.e *(…)e.g.large losses which are partly considered to be credit risk within the AMA model, could be considered to be pure operational risk losses(…))* as	CEBS agrees with the comment	See paragraph 10.

		regulation already requires that operational risk losses which are part of market risk nevertheless have to be fully included into AMA capital		
151.	Operational risk 3	With regard to §12 This paragraph should be merely suppressed. It refers to an economic capital issue which does not belong to this appendix and, moreover, that is not specific to operational risk.	CEBS agrees with the comment	The paragraph has been deleted.
152.	Operational risk 3	With regard to §8-12 Stress tests are to be applied to all four AMA elements (internal and external data, scenario analysis, and business environment and internal control factors), which correspond to their specific model. Sometimes the influence of individual components in the supervision model is limited however, such as, for example, the influence of the business environment and internal control factors (BEICF) on the adjustment of the AMA capital. Consequently, the AMA capital cannot be stressed with the business environment and internal control factors. In the United States, the banks are in turn advised not to use the scenarios directly in the model, which likewise leads to problems. Concrete examples to carry out stress tests are cited especially on loss data and scenario analysis. The listing of concrete examples valid for all institutions is problematic, since not every example can be used in the models of each institution. The recommended actions are	CEBS disagrees with the comment. CRD Annex X states in par. 21-24 that a credit institution's firm-wide risk assessment methodology must capture key business environment and internal control factors that can change its operational risk profile.	No changes needed

		too specific, since models used sector-wide react with varying sensitivity to this. “Real” stress assumptions are therefore to be defined specific to the model. Otherwise the requirement is not practicable and should be deleted. The institution should stress their BEICF taking account of the macroeconomic trends. The validity of the macroeconomic stress tests of the BEICF seems questionable, since there is no perceivable causal link between the two. The requirement should therefore be deleted.		
153.	Annex 5	With regard to §3-7 The full loss of funding facilities on the interbank or capital market as an institution specific scenario is too conservative and not risk-based. The business model in combination with the credit standing of the respective bank should be taken into account.	CEBS agrees with the comment	Text has been amended
154.	Liquidity risk 3	With regard to 7-12 There is no perceivable added value from calculating additional indicators on the basis of a stress test. Most of the statutory indicators already include certain rollover assumptions (i.e. they already consider a certain level of stress). This means that the superimposition of the additional stress assumptions do not lead to a valid result. The effects of stress on the liquidity buffer of a bank are already an integral component of the detailed stress test analysis as described in the CEBS framework	The aim of these guidelines is to enhance the risk management and stress testing practices of institutions across the Europe. It is not the intention of the guidelines to propose new regulatory requirements affecting capital or liquidity regimes. The objective of strengthening risk management and stress testing practices is also fully embedded in the way the risk specific annexes, including the annex on liquidity stress testing, is currently drafted. CEBS is closely monitoring the developments in	Text has been amended

		recommendations on liquidity buffers and the survival period.	the regulatory field and has participated by providing its comments to the consultation on the CRD IV. Should the regulatory proposals, once finalised, require changes in and clarifications of the current guidelines and/or its risk specific annexes, CEBS will amend the guidelines in the future.	