



22 December 2010

Feedback to the consultation on CEBS's Draft Guidelines for the Joint Assessment of the Elements Covered by the SREP and Joint Decision on the Capital Adequacy of Cross-Border Groups (CP 39)

1. On 7 April 2009, CEBS submitted for public consultation its **Joint Assessment of the Elements Covered by the SREP and Joint Decision on the Capital Adequacy of Cross-Border Groups (CP 39)**. The consultation period ended on 09 July 2010. Eleven written responses were received¹.
2. This paper presents a summary of the key points arising from the consultation and the changes made to address them.
3. For the purposes of assessing the comments received, CEBS has distinguished between;
 - general remarks on the content of CP 39 and
 - specific comments relating to single sections or guidelines in CP 39
4. In many cases, respondents made similar comments or the same respondent reiterated its comments in several places in its response. In such cases, the comments have been grouped and CEBS's responses are given in the section that CEBS considers most suitable.

General remarks

5. Respondents generally supported the principles and objectives pursued by the guidelines aiming at structuring the SREP process of cross-border

¹ The responses to CP39 are published on the CEBS's public website under: <http://www.c-ebs.org/Publications/Consultation-Papers/All-consultations/CP31-CP40/CP39/Responses-to-CP39.aspx>

banking groups in order to reach a shared understanding of the risk-based capital adequacy of such banking groups. Some participants went a little further and requested more standardisation of supervisory approaches to ICAAP and SREP, as they consider this would help in reaching a joint decision within an appropriate time frame.

6. Several respondents understood that these guidelines are to be regarded as another step towards a common approach to a clear decision-making process among EU supervisors as regards the capital adequacy of cross-border groups and would like them to clearly state this. According to them, a future decision-making process should be underpinned by common definitions, common templates, common assessment methodologies, common criteria, harmonised timelines and straightforward dispute settlement mechanisms for cases of disagreement between college members.
7. In particular, several respondents would like EU supervisors to adopt a common definition of diversification benefits and a common methodology for their assessment, as well as a common approach to treatment of intra-group assets and liabilities.
8. One respondent felt that the guidelines should stress that the outcome of the joint assessment and decision is binding on the members of the supervisory college and forms the basis for planning supervisory activities. Given the importance of the joint assessment and decision, this respondent highlights that participants in the joint assessment and decision should have sufficient expertise and seniority.
9. One respondent remarked that the work in the college will allow supervisors to learn from each other's methods and approaches, thus increasing trust and understanding among college members. This respondent would like this point to be made clearly in the guidelines.
10. Respondents were supportive of the common templates, scoring tables and assessment criteria, although they considered that CEBS and the future EBA should ensure that colleges use them consistently. One respondent even suggested that the templates should be used by the EBA as a tool for identifying divergent applications of the EU provisions. However, another respondent was concerned that supervisory authorities put form over substance and focus on filling out the boxes rather than focussing on the actual risks. Several respondents pointed out that before using the common templates, EU supervisors need to agree on common definitions.
11. Participants also stressed that materiality and proportionality should play an important role in determining the extent to which each host supervisor inputs to the process.
12. Respondents, however, would prefer that the guidelines contain a more explicit "top-down" approach to the joint assessment and decision, with a clearer leading role for the consolidating supervisor, in terms of planning – including the determination of what local issues are relevant at the group level, documentation to be provided and stress tests to be performed -, in determination of the approach to be followed towards the ICAAP and stress-

testing and in steering the assessment and decision. Similarly, some industry representatives advocate for the ICAAP and capital planning to be considered either at the consolidated level or, alternatively, only for relevant entities within the group. In their view this would allow to increase efficiency of management and to rationalise capital requirements by, for example, taking into account diversification and hedging effects achieved at group level.

13. As part of giving the consolidating supervisor a more prominent role, several respondents from the same country suggested that the consolidating supervisor should act as the single point for gathering the individual input of host supervisors and also lead and moderate the discussions and decisions within the college.
14. Some participants argued that requiring an ICAAP and performing a SREP at legal entity level consumes too many resources that could be better used elsewhere. For that reason, they advocated either “group only” ICAAP and SREP, or “group + relevant subsidiaries” ICAAP and SREP or, at the least, country level SREP. Because of their preference for group only or “group plus relevant entities” ICAAP and SREP, some respondents found the statements emphasising local methodologies and Risk Assessments Systems unfortunate. They also claimed that consolidating different parts of the group instead of focusing on the aggregate level increases the risk of losing perspective on the actual risks.
15. Several respondents pointed out that banking groups often manage their business across business lines and not across legal entities, demanding that, in those cases, the joint assessment and decision process should be adapted accordingly, in order to avoid duplication of controls. Similarly, some respondents made the point that the SREP should be initiated in response to the ICAAP and, therefore the SREP should be flexible in order for it to adapt to the institution’s ICAAP definitions.
16. Several respondents were concerned that the joint assessment and decision process could lead to a multiplication of stress tests under different criteria, and would like the text of the guidelines to help avoid that situation. In summary, they thought that the college could be a third source requiring stress test from the banks (in addition to the consolidating supervisor and the national or regional authorities) and that, as a result of the interaction of all these sources, too many stress tests may be required at legal entity level. Respondents were concerned that the results of these legal entity stress tests could result in increased capital requirements at that individual level.
17. Participants urged more coordination between local, regional and international authorities in order to avoid unnecessary duplication and reporting of stress testing.
18. Respondents requested more involvement from the supervised group in the joint assessment and decision process, since the complexity of the issues at hand calls for a close and coordinated dialogue between the supervisors and the appropriate part of the group which can provide valuable input into the assessment. In particular, respondents would like the guidelines to state

explicitly that the results of the evaluations made within the college can help banks improve on the shortcomings identified by college members.

19. Respondents would like a formal framework so that they are informed in advance of the dates in which information will be requested from them (such as ICAAP frequency and remittance dates) and on the date when supervisors will provide feedback from the joint assessment and decision process. Similarly, this framework should make clear the responsibilities and competencies of the home and host authorities in the communication process.
20. Several respondents welcomed the possibility, where appropriate, to adopt supervisory measures other than capital add-ons. In particular, one participant advocated that this statement should be given a more prominent place in the guidelines.
21. The possibility of the engagement of non-EEA supervisory authorities in colleges was well received, as it enhances the effectiveness of the college while minimising the risk of parallel running between European and international colleges. Respondents expected that, in practice, the participation of key non-EEA authorities should be encouraged and articulated in a way that avoids the duplication of college structures. In order to reach that goal, several respondents emphasised the importance of compatibility between the CEBS's Guidelines and global initiatives on the work of colleges of supervisors.
22. Some respondents felt that the future role of the European Banking Authority should be taking into account in these guidelines.

CEBS's response to the generic remarks

23. CEBS agrees that the current guidelines constitute an important step towards greater coordination between supervisors of cross-border banking groups and greater harmonization of Supervisory Review and Evaluation Processes. With the forthcoming changes in the European Supervisory Architecture and, in particular, with the creation of a European Banking Authority tasked with contributing to a single rulebook through the drafting of Binding Technical Standards, with promoting the proper functioning of colleges and with settling disputes among home and host authorities, further steps will be taken to ensure a consistent, effective and efficient joint assessment and decision process within and across colleges of supervisors.
24. CEBS is closely monitoring global developments regarding the work and functioning of supervisory colleges. In this context CEBS made sure that its guidelines are compatible with the Good Practice Principles on Supervisory Colleges published by the Basel Committee of Banking Supervisors², as CEBS

² Good practice principles on supervisory colleges (12 October 2010):
<http://www.bis.org/publ/bcbs177.pdf>

believes that there should be only one supervisory college for each cross-border banking group, albeit with several operational settings where appropriate. For the same reason, CEBS is committed to encouraging the participation of non-EEA supervisory authorities, subject to confidentiality requirements, in colleges of supervisors operating under the revised CRD requirements.

25. CEBS has always believed that the consolidating supervisor should be given a pivotal role in the planning and conduct of the joint assessment and decision process. Therefore, the guidelines have been amended where necessary to highlight the coordinating role of the consolidating supervisor during the process.
26. Similarly, the guidelines have been reworded where necessary to make it clear that the process is not merely a bottom-up one but that there is also a top-down component to it. In particular, CEBS has tried to make it clearer that each supervisor contributes its preliminary assessment for the level at which it oversees capital requirements and performs the Supervisory Review and Evaluation Process, which can be the consolidated or sub-consolidated level, and not only the legal entity level.
27. Many of the respondents' remarks showed that stakeholders expect supervisory authorities to fully implement the guidelines in practice and that CEBS should take a strong role in ensuring their implementation and consistent application across colleges. As CEBS believes that properly functioning colleges can contribute to more effective and efficient supervision of cross-border banking groups and to convergence of supervisory practices, CEBS is committed to facilitating swift and consistent implementation of the guidelines. The EBA will continue to perform this task, albeit with enhanced powers to ensure the smooth and convergent functioning of the joint assessment and decision process.
28. CEBS does not intend that the existence of a joint assessment and decision process should create additional stress-testing requirements. On the other hand, CEBS believes that the existence of a college will lead to better coordination of stress-testing requirements.
29. On the recognition of diversification benefits, CEBS has recently spelled out its position in its Position Paper on the Recognition of Diversification Benefits under Pillar 2³. Participants are referred to that paper on this point.
30. CEBS acknowledges that the process of the joint assessment and decision should involve close interaction with the banking group in question. Such

³ CEBS's position paper on the recognition of diversification benefits under Pillar 2 (2 September 2010): <http://www.c-eps.org/documents/Publications/Other-Publications/Others/2010/Diversification.aspx>

institution/supervisory interaction could take place at least at the following stages:

- submission of ICAAP reports, if and when requested, by all entities of the group subject to the ICAAP reporting requirements;
- dialogue between individual entities and their respective supervisors, which may be needed in the course of preparing the supervisory assessment of an individual entity;
- coordinated dialogue between the college members and group functions, which may be needed in order to assess the centralised functions of the group rendering services to individual entities (e.g. risk management function, risk measurement, economic capital modelling, capital planning, governance issues and stress testing);
- communication of the results of the joint assessment and decision to the group and, where relevant, to the other entities subject to the joint assessment and decision process; and
- dialogue between the group, its entities, and the relevant supervisors to discuss the results of the assessment, which may be done both at the consolidated level, and, where appropriate, at the level of the individual entities.

31. The Guidelines for the Operational functioning of Colleges⁴ (GL 34) which should be read in conjunction with these guidelines, spell out the details of the communication with the group, including in relation to the joint assessment and decision. However, remarks underlining the importance of engaging the group in the process will be made in the introduction to these guidelines to underline the importance that supervisors attach to this dialogue.

32. However, it should be made clear that, given that host supervisors have legal responsibilities regarding the solvency of the legal entities they supervise, they are likely to favour continuing their dialogue with their supervised institutions rather than the consolidating supervisor and parent company acting as single entry points. The consolidating supervisor may act as a single entry point only on those issues where there has been previous agreement on this coordination with the host supervisors.

33. In due course these guidelines are likely to be revised by the EBA in order to better fulfil its specific duties to promoting effective, efficient and consistent

⁴ CEBS Guidelines for the Operational Functioning of Colleges, GL 34 (15 June 2009) <http://www.c-eps.org/documents/Publications/Standards---Guidelines/2010/Colleges/CollegeGuidelines.aspx>

functioning of colleges. They may serve as the basis for a possible Binding technical standard on joint decisions on capital adequacy of cross-border banking groups.

Specific remarks

34. The table below provides a description of the specific comments received from respondents and how the guidelines have been revised, where appropriate, on the basis of the comments received.

Feedback table on CEBS’s draft Guidelines for the joint assessment of the elements covered by the SREP and joint decision on the capital adequacy of cross-border groups (CP 39): analysis of the specific comments and suggested amendments

	Topic, reference	Comments received	CEBS’s response	Amendments to the text
1.	Chapter 1	Make an explicit reference to GL34 and explain how they interact.	CEBS agrees with the suggestion and has amended the text accordingly.	In addition to the existing references to GL34, paragraph 4 has been expanded as follows “(...) <i>these guidelines, which should be read in conjunction with CEBS’s GL 34 and, in particular, with Chapter 5 thereof, set out a common process(...)</i> ”
2.	Guideline 1, Table 1.4	Finance functions should also be included in the governance analysis	CEBS does not agree with this remark.	No changes required.
3.	Guideline 1, Table 1.5	Highlight the weight of each risk in the entity’s risk profile.	CEBS agrees that letting other college members know the importance given by each supervisor to each type of risk can result in a better understanding of the assessments. CEBS considers that, for the time being, this information can be provided in the narrative information explaining the scores.	The following sentence has been added to former paragraph 19 (current paragraph 22): “ <i>The narrative information should highlight the key strengths and weaknesses as well as explain the main drivers behind the assessments, expanding on the materiality of each risk</i> ” (...)
4.	Guideline 1, Table 1.5	Report the materiality of each risk, the effectiveness of the risk	CEBS agrees that the assessments would provide more valuable information if they included this information.	The following sentence has been added to former paragraph 19 (current paragraph 22): “ <i>The narrative information should highlight the key strengths and weaknesses as well as explain the main drivers behind</i>

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		mitigation and the consequent residual risk		<i>the assessments, expanding on the materiality of each risk".</i>
5.	Guideline 1, table 2	Introduce quantitative thresholds and qualitative criteria objectively set	CEBS agrees that further work could be conducted in order to develop, over time, common definitions, methodologies and criteria.	No changes required.
6.	Guideline 3, element 1	The overall assessment would benefit from pointing out of the strengths and weaknesses identified.	CEBS agrees that a strength and weakness analysis could be useful to illustrate the overall assessment.	Table 1.1 has been modified to include the analysis of the main strengths and weaknesses. The following sentence has been added to former paragraph 20 (current paragraph 22: <i>"The narrative information should highlight the key strengths and weaknesses as well as explain the main drivers behind the assessments, expanding on the materiality of each risk."</i>
7.	Guideline 3, element 1	More guidance to illustrate how materiality is considered would be welcomed	CEBS considers that the materiality of changes in business lines, areas and range of products would be better addressed in specific Pillar 2 guidelines. This level of detail is outside the scope of these guidelines.	No changes required.
8.	Guideline 3, element 1, paragraphs 31 and 32	If the intention, when mentioning legal and functional structure, is to	These guidelines focus on the ongoing supervision of cross-border groups. Therefore, the analysis of recovery and resolution plans is outside their scope, and was not intended by this	No changes required.

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		make reference to "living wills", one has to bear in mind that local "living wills" together with a group "living will" would be unmanageable.	paragraph, which focuses on the implications of the legal and functional structure for effective supervision of the group.	
9.	Guideline 3, element 2	It is necessary to identify a proper time horizon for evaluating the capital adequacy.	CEBS agrees that a forward looking assessment should be performed for a given time horizon. Pending further harmonisation, each college member should make the time horizon used known to the other members of the college. In general, forward looking assessments of capital should reflect the time horizon of the institution's ICAAP but be not less than one year.	Table 1.2 has been modified to specify that the assessment should be made for a given time horizon. Former paragraph 35 (current paragraph 28) has been reworded as follows: <i>"Given that the assessment of risks is made at a certain point in time, supervisors should make efforts to include, in the narrative information explaining the scores, their view on the outlook for these risks during the period until the next annual joint assessment and decision.."</i> Paragraph 35 has been reworded as follows: <i>"Based on the consolidating and the host supervisors' views on the financial condition of each significant entity, the college members should develop a shared view of the current financial conditions of the group and its entities and their possible development, specifying the time horizon considered for the outlook"</i>

	Topic, reference	Comments received	CEBS's response	Amendments to the text
10.	Guideline 3, element 2	There appears to be a conflation of issues, as income covers expected losses but capital covers credit, market and operational risks.	CEBS understands the concern and has amended the text accordingly.	Paragraph 36 has been reworded as follows: <i>"When discussing the financial position of the group and its entities, college members should focus on the sources, levels, and composition of income generated as well as the composition of costs. The focus of the assessment should be on whether the institution's income is sufficient to cover losses stemming from its operations, whether it offers a sustainable level of profitability and how great the level of uncertainty is regarding the main sources of income and main expense items that may influence expected future net profit."</i>
11.	Guideline 3, element 2, paragraph 36	The term "remuneration of the institutions return on capital" is unclear.	CEBS agrees that referring to profitability would be clearer.	In paragraph 36 (reference to the "remuneration of the institutions' return on capital" has been replaced by "profitability".
12.	Guideline 3, element 2, paragraph 38	This is a sensitive confidential topic that should be handled with care.	Competent authorities involved in the college are bound by confidentiality provisions. Industry experts should rest assured that any information shared within the college will be handled with care.	No changes required.
13.	Guideline 3, element 4, paragraph 46	Supervisors should not interfere with the freedom of an	CEBS understands the concern of the industry and agrees that choosing and implementing a business model is the institution's own responsibility.	Former paragraph 46 (current paragraph 40) has been reworded as follows: <i>"While understanding that it is the institution's responsibility to choose and implement a</i>

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		institution to determine its business model or organisational model.	However, it is the responsibility of the supervisors to assess whether the governance and control framework are appropriate for the chosen business model.	<i>particular business model, college members should also assess the organisational structure (both legal and functional), governance and risk management procedures with regard to the business model and operations of the group throughout the markets and geographies it operates in, and discuss whether risk control frameworks and internal control procedures are appropriate for the chosen business model and organisational structure."</i>
14.	Guideline 3, element 4, paragraph 50	This is a sensitive confidential topic that should be handled with care. The subject should be given the right of reply.	Competent authorities involved in the college are bound by confidentiality provisions. Industry experts should rest assured that any information shared within the college will be handled with care. However, as fit and proper considerations will not always be of relevance for the joint assessment and decision on capital adequacy, this paragraph has been deleted.	Former paragraph 50 has been deleted.
15.	Guideline 3, element 5	For credit risk, a distinction should be made between retail and non-retail activities.	The Guidelines leave room for supervisors within the college to expand on the list of risks to be considered in order to make the assessment better suited to the specifics of each group.	No changes required.

	Topic, reference	Comments received	CEBS's response	Amendments to the text
			CEBS considers that this degree of flexibility is preferable to making a general distinction between retail and non-retail activities for all banking groups.	
16.	Guideline 3, element 5	The list of risks should be agreed by the college of supervisors based on a proposal put forward by the group.	This part of the Guidelines focuses on the supervisory risk assessment. Therefore, CEBS considers it more appropriate that the supervisors are the ones who agree on the list of risks to be covered by the joint assessment, regardless of the fact that they can consult with the group if they consider it appropriate.	No changes required.
17.	Guideline 3, element 5, paragraph 53	Discussion of large exposures should include the national differences in approach.	Although CEBS expects that the forthcoming supervisory framework and, in particular, the single rulebook, will minimise differences in national regulatory and supervisory approaches, CEBS agrees that it is important for members of the college to have an understanding of national specificities.	The following sentence has been added as paragraph 9 <i>"In order for the process to function smoothly, supervisors should understand the main differences in regulatory and supervisory approaches, including key specificities of RAS, in each jurisdiction."</i>
18.	Guideline 3, element 5, paragraph 54	Explicit reference should be made to the Liquidity ID card. Colleges	CEBS agrees that pending a harmonised liquidity reporting framework college members should select a set of liquidity indicators, monitor them and share	Former paragraph 54 (current paragraph 50) has been modified as follows: <i>"In addition to the assessment of the overall level of liquidity risk and associated control</i>

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		should select one set of relevant liquidity indicators and jointly monitor and share these with other college members.	them with other college members.	<i>factors -for which college members should select, monitor and share a set of indicators drawn from the CEBS's Liquidity ID card⁵-supervisors should discuss(...)"</i>
19.	Guideline 3, element 5, paragraph 54	Discussion of liquidity should include the national differences in approach.	Although CEBS expects that the forthcoming supervisory framework and, in particular, the single rulebook, will minimise differences in national approaches, CEBS agrees that it is important that members of the college have an understanding of national regulatory specificities.	The following sentence has been added as paragraph 9: <i>"In order for the process to function smoothly, supervisors should understand the main differences in regulatory and supervisory approaches, including key specificities of RAS, in each jurisdiction."</i>
20.	Chapter 3	Insert the word "joint" in the title.	CEBS agrees with this proposal.	The title of chapter 3 has been modified as follows: <i>"Joint assessment of the ICAAP processes and methodologies for cross-border groups at the group and solo levels"</i>
21.	Guidelines 4, 5, 11, 12 and 18	The scoring should be accompanied by	CEBS agrees with this suggestion and that is why the current guidelines provide for narrative information to	No changes required in Guideline 4. Guidelines 1 and 5 have been reworded to introduce the requirement to accompany

⁵ [CEBS Liquidity Identity Card \(22 June 2009\) http://www.c-eps.org/getdoc/9d01b79a-04ea-44e3-85d2-3f8e7a9d4e20/Liquidity-Identity-Card.aspx](http://www.c-eps.org/getdoc/9d01b79a-04ea-44e3-85d2-3f8e7a9d4e20/Liquidity-Identity-Card.aspx)

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		a qualitative commentary.	accompany the scores. Compliance with the CRD is not based on scoring but on narrative information only.	the templates with narrative information.
22.	Guideline 5, Table 6	Risks not included in the ECM should be evaluated with a zero score.	While acknowledging that the ICAAP is an institution driven process, CEBS believes that one of the main purposes of the supervisory assessment of the ICAAP framework is to determine the reliance that can be put on it. Therefore, it is the responsibility of the supervisors to determine if the omission of any risk type in the ECM is or is not significant. It should also be kept in mind that Chapter 3 focuses on the assessment of the overall ICAAP framework rather than on the assessment of individual risk areas, which are addressed in Chapter 2.	No changes required.
23.	Guideline 5, Table 6	The scoring should be accompanied by a qualitative commentary.	CEBS agrees with this suggestion and that is why paragraph 62 provides for narrative information accompanying the scores.	No changes required.
24.	Guideline 6, Guideline 14, Guideline 21, Guideline 23	In the event that consolidating and host supervisors are unable to reach an	CRD II, as amended by the so-called Omnibus Directive, and the EBA regulation spell out the mechanisms that will be put in place where the consolidating and the host supervisors	No changes required.

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		agreement, the consolidating supervisor should have the final word	are unable to reach agreement.	
25.	Guideline 8	It should also be noted that internal capital is allocated along business rather than jurisdictional lines.	CEBS is aware that the ICAAP can allocate capital along business lines rather than by legal entities. However, as the main purpose of these guidelines is to arrive at a joint decision on the capital adequacy at the levels at which it is required (consolidated, sub-consolidated and/or individual), it is natural that they pay more attention to the allocation of capital to each of these levels. Institutions should bear in mind that requirements for the ICAAP at the consolidated, sub-consolidated and legal entity level as spelled out by Articles 68 to 71 of the CRD.	The following sentence has been added to former paragraph 75 (current paragraph 63): <i>"The college members, while acknowledging that economic capital can be allocated along business lines, should consider the existence of a risk sensitive allocation of internal capital at the level they are responsible for."</i>
26.	Guideline 9	Capital planning stress tests should not be used to assess capital buffers, so Guideline 9 should be rephrased without particular	The text of the current guideline has been revised to align it with the final text of the Revised Guidelines on Stress Testing (GL 32)	Guideline 9 has been reworded to align with GL 32.

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		reference to capital planning.		
27.	Guideline 10	Mention the involvement of governing bodies that involve shareholder representatives (e.g. Board of Directors) alongside the senior management	The term "management body" as defined in Article 11 of the CRD should be understood to embrace different structures - such as unitary and dual board structures- and not any particular structure.	Footnote 32 has been added to clarify the use of the term "management body".
28.	Guideline 10, paragraph 78(b)	The expression "long term capital goal" is unclear.	CEBS understands the concern and has clarified the text referring to the capital planning and capital targets (expressed as an absolute number or as a ratio) of the institution.	In paragraph 78 (b) (current paragraph 66 (a)) the term " <i>long term capital goal</i> " has been replaced by " <i>capital planning and capital targets</i> ".
29.	Guideline 11	The scoring should be accompanied by a qualitative commentary.	The table summarising the joint assessment of the ICAAP framework should be included in the consolidated report where narrative information supporting the joint assessment is expected.	No changes required.
30.	Guideline 12, Table 8 and Guideline 14, Table 9	Compliance with the advanced approaches could be better assessed if it was	The Guidelines leave room for supervisors within the college to expand on the elements to be considered in order to make the assessment better suited to the specifics of each group.	No changes required.

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		broken down into credit, market and operational risks.		
31.	Guideline 12	The scoring should be accompanied by qualitative commentary. The assessment should take into account compliance in areas where there is scope for national discretion.	This table is already designed to be filled with narrative information and not with scores.	No changes required.
32.	Guideline 13	Suggestion to include in the supervisory focus the usage of internal models as a use test.	CEBS agrees with this suggestion which is already reflected in paragraph 88 (current paragraph 78).	No changes required.
33.	Guideline 13, paragraph 85	The coordinated dialogue between the group, its entities and the relevant supervisors	CEBS agrees that further work could be done in the area of model validation for cross-border banking groups. However, this work is outside the scope of these guidelines and should be carried out in the context of a revision of CEBS's GL	No changes required.

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		regarding internal models might benefit from further development. Host supervisors of new subsidiaries in which a model in use is to be implemented should rely on the work previously done by the relevant college members to grant permission for its use.	10 or of the potential development of a Binding Technical Standard for joint decisions on model validation.	
34.	Guideline 15	The scoring should be accompanied by a qualitative commentary.	As these scores will be imported from the previous templates, where the guidelines provide for narrative information explaining the rationale behind the scores, CEBS does not believe that it is necessary to repeat this information again in Table 10.	No changes required.
35.	Guideline 15, Table 10A	Include the partial scores for the risks and the	The Guidelines leave room for supervisors within the college to expand on the elements to be considered in	No changes required.

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		risk management for each risk.	order to make the assessment better suited to the specifics of each group. As not all the colleges are required to give separate scores to risks and risk controls, CEBS does not consider it appropriate to modify the table which is applicable to all colleges, because of the possibility for colleges to agree on expanded templates.	
36.	Guideline 15, Table 10B	Include the ratio of overall financial resources for ICAAP purposes and internal capital, as an indicator of risk taking capacity.	The Guidelines leave room for supervisors within the college to expand on the elements to be considered in order to make the assessment better suited to the specifics of each group.	No changes required.
37.	Guideline 16	Supervisors should consider corporate governance and risk management alongside capital adequacy	Supervisors will have already addressed corporate governance and risk management in the joint risk assessment as described in Chapter 2 and this assessment will be taken into account in the evaluation of capital adequacy.	No changes required.
38.	Guideline 18	It should also be noted that internal capital is allocated along	CEBS is aware that the ICAAP can allocate capital along business lines rather than by legal entities. However, as the main purpose of these guidelines	Paragraph 113 (current paragraph 94) has been modified as follows: <i>"While recognising the specificities of institutions' economic capital models and acknowledging</i>

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		business rather than jurisdictional lines.	is to arrive at a joint decision on capital adequacy at the levels at which it is required (consolidated, sub-consolidated and/or solo), it is natural that they pay more attention to the allocation of capital to each of these levels. Institutions should bear in mind that requirements for the ICAAP at the consolidated, sub-consolidated and solo levels as spelled out by Articles 68 to 71 of the CRD.	<i>that the internal (economic) capital could be allocated along business lines instead of to legal entities, the college members should discuss the allocation mechanism of the internal capital to the subsidiaries which are subject to capital requirements and supervision under the CRD,.. (...)”</i>
39.	Guideline 18, paragraph 113 c	The paragraph refers to the allocated capital, net of group diversification benefits. The separation of internal capital from group diversification benefits would require local stand alone Economic Capital Models, which could be burdensome and, possibly,	CEBS's Position Paper on the Recognition of Diversification Benefits under Pillar 2, acknowledges that the recognition of intra-group diversification benefits at the consolidated level and their subsequent allocation to subsidiaries is an outstanding issue. The consolidating supervisor may be keen to allow approaches based on a top-down view where the economic capital models, based on consolidated data, are then broken down to an entity level in proportion to their marginal contribution to the risks. Host supervisors, on the other hand, tend to favour a bottom-up approach, where the capital buffer is held at the subsidiary level and captures the risks borne at the solo	Paragraph 113 (c) (current paragraph 94 (c)) will be reworded as follows to make it aligned with CEBS's Position Paper on the Recognition of Diversification Benefits under Pillar 2.: <i>“c. how the allocation approach addresses the actual stand-alone risk profile of an entity which receives allocated capital (see also discussion on the recognition of diversification benefits in Section 5.5.2);”</i> .

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		ineffective, as the calibration of local models to a satisfactory level would be practically impossible. Non-recognition of hedges for local entities by host supervisors may lead to conflicting risk management actions taken on a consolidated and solo basis.	level.	
40.	Guideline 19	The outcome of stress testing on its own is not meaningful when deciding on capital adequacy.	CEBS believes that the outcome of stress-testing should be one of the tools available to determine capital adequacy. CEBS believes that stress tests are the tool for determining capital targets or buffers to withstand stressed conditions.	Guideline 19 and subsequent paragraphs have been revised to reflect the final text of GL 32.
41.	Guideline 19, paragraph 116	Additional macroeconomic stress tests should be the exception rather	CEBS's position on this matter has been spelled out in GL 32.	Guideline 19 and subsequent paragraphs have been revised to reflect the final text of GL 32.

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		than the rule. The increasing stress testing requirements put pressure on resources and will affect the quality of the output.		
42.	Guideline 19, paragraph 117	The paragraph should be deleted, given that it is covered in CP 32. A generic reference to CP 32 would be sufficient, so any change to CP 32 does not lead to the need to change CP 39.	CEBS considers it more appropriate to include a short mention of this topic in CP 39. CEBS will make sure that any changes made in GL 32 are adequately reflected in CP 39.	Guideline 19 and subsequent paragraphs have been revised to reflect the final text of GL 32.
43.	Guideline 22	Hybrids and contingent capital should be included as loss absorbing Tier 1 instruments.	The definition of Tier 1 capital is outside the scope of these guidelines. It will be determined by the legislation in force at a given time and the relevant international and European guidance issued in this respect.	No changes required.
44.	Guideline 22	Consideration should be given	The definition of capital is outside the scope of these guidelines. At each point	No changes required.

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		to Basel's new definition of capital.	of time, what is to be considered as capital will be determined by the legislation in force complemented by Guidance provided by the relevant international and European bodies.	
45.	Guideline 22, paragraph 122	Replace "original own funds" by "own funds" or "regulatory capital" as a CEBS's Guideline cannot be more restrictive than Article 136.2 of the CRD	CEBS agrees that the guidelines cannot be more restrictive than the Directive. The guidelines will be reworded to make them consistent with the wording of Article 136.2.	In paragraph 122 (current paragraph 104), " <i>original own funds</i> " has been replaced by " <i>own funds</i> ".
46.	Chapter 5, paragraph 97e	Management, and not the supervisors, should determine the types of capital considered adequate to cover additional requirements. Supervisors just need to validate the management's	CEBS does not agree with this remark.	No changes required.

	Topic, reference	Comments received	CEBS's response	Amendments to the text
		plan.		
47.	Chapter 5, paragraph 101h	An additional level of stress testing should not be created. Instead, stress tests should be included in the capital planning.	It is not the intention of CEBS that the existence of a joint assessment and decision process creates additional stress- testing requirements. On the other hand, CEBS believes that the existence of a college will lead to a better coordination of stress-testing requirements.	No changes required.
48.	Guideline 23	This guideline should also mention the joint decision with regard to the individual entities.	CEBS agrees with this proposal	Guideline 23 (current Guideline 22) has been modified as follows: <i>"The discussion among college members -coordinated by the consolidating supervisor- on the topics described in these Guidelines should lead to a joint decision on the adequacy of the own funds held by the group and its entities with respect to their financial situation and risk profile, as well as the required level of own funds, above the regulatory minimum, that may be applied at the individual, sub-consolidated and consolidated level. Where appropriate, other prudential measures under Article 136(1) can be adopted on a voluntary basis"</i>
49.	Guideline 23, Table 11	A final evaluation could facilitate the discussion	CEBS agrees that an overall score, accompanied by a narrative description of the main issues identified and the main strengths and weaknesses of the entity, sub-group or group under	Guideline 1, element 1 and Table 1.1 have been reworded accordingly.

	Topic, reference	Comments received	CEBS's response	Amendments to the text
			<p>assessment, could be illuminating for college members.</p> <p>In the same vein, the final consolidating report is expected to include a narrative description of the overall final discussion.</p> <p>As Guideline 23 (current Guideline 22) is about the determination of the level of own funds and the adoption of other potential prudential measures, CEBS considers it more appropriate to make reference to the overall evaluation at some other points in the guidelines.</p>	