

POSITION PAPER
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Committee of European Banking Supervisors
By email to:
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CEBS consultation paper on Draft guidelines for the joint assessment of the elements covered by the supervisory review and evaluation process (SREP) and the joint decision regarding the capital adequacy of cross border groups (CP39)

- The Danish Bankers' Association, Federation of Finnish Financial Services, Finance Norway and the Swedish Bankers' Association welcome the opportunity to comment on the proposed guidelines for the joint assessment and joint decision regarding the capital adequacy of cross border groups. We fully support the EBF position paper but would also like to make the following comments based on the banks' experience of the work in the Nordic colleges.
- Based on experience from the Nordic banks, we believe that it is necessary to create a more structured cross-border process for the SREP and we agree with certain aspects of CP39. In particular we hope that the combination of issues and determination of key issues relevant for the entire group would be a step forward from the current process in which local regulators ring-fence the banks within their own jurisdiction.
- It is our opinion that it is also important to focus on convergence in the ICAAP/SREP processes across supervisory colleges. Now the focus is only within colleges, but we think it is essential to also look at convergence issues across supervisory colleges to ensure level playing field - both in the process and the outcome of the process (i.e. the capital estimate). Home supervisors might have different strength and different approaches to SREP and therefore this is an important issue.
- We are also of the opinion that the draft guidelines are too detailed and that the paper puts "form over substance". With so many details on form, there is a risk that the guidelines will make the work of the colleges a "tick-box exercise". It could be that the supervisory authorities focus on filling out the boxes rather than focusing on the actual risks.
- We are of the opinion that it would be better to have a top-down joint assessment of the group in terms of capital calculation, stress testing, risk management and control, as well

as the general concept of having the college of supervisors work together to determine which local issues are relevant at the group level (i.e. local concentrations, principle of proportionality within the group structure, internal capital flexibility, etc). Concentration risks and risk diversification in the group have to be assessed from a top-down perspective.

- The top-down perspective allows management to handle internal capital allocation and to manage the banking group across borders in a more efficient manner. A bottom-up approach leads to redundancy of effort, documentation and reporting which would be better spent developing risk models, stress testing and analyzing the Group-wide risk profile.
- The starting point in the fifth paragraph in the first chapter is unfortunate since it emphasises the national methodologies and the national Risk Assessment Systems (RAS). In our view an ICAAP-process is useful on an aggregate level. The suggested bottom-up approach would require much more work, for both banks and supervisors, without adding any value. To consolidate the different parts of the organisation instead of focusing on the aggregate level increases the risk to lose focus on the actual risks. Also it makes it more difficult to deal with the different aspects of concentration and diversification. As for the decision on the capital requirement, we see a risk that it will be the sum of the capital for each and every subsidiary, instead of being the actual demand of capital for the group.
- The consultation paper puts a lot of focus on what the host supervisors are supposed to do in order to reach the joint understanding and decision, while the consolidating supervisor gets the role of being the secretary.
- It is, as explained above, our opinion that this process should be made top-down instead of bottom-up. However, if CEBS insist on the bottom-up approach it is recommended that it is based on country level SREPs, not SREPs for each legal entity of a group. This would mean a huge amount of work without adding any value.

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