

INTESA SANPAOLO RESPONSE TO

CEBS CONSULTATION PAPER ON 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 (CP 39)

9 JULY 2010

The Intesa Sanpaolo Group, one of the largest European banking groups, and a leader bank in the Italian market with a strong international presence focused in Central and Eastern Europe and in the Mediterranean basin, welcomes the opportunity to comment on CEBS' consultation paper on 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 (CP 39).

Intesa Sanpaolo warmly welcomes that CEBS tackles the topic of joint assessment under Pillar 2 and trusts that these guidelines will contribute to improving the cooperation on Pillar 2 aspects between the supervisors of an EU banking group.

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General comments

The proposed guidelines for a common process of joint assessment are in our view a further step on the way to **achieving a common approach and clear decision-making processes as regards the SREP evaluation and the capital adequacy of groups**. It is indeed critical that such common approach be underpinned by common templates, common assessment methodologies, common criteria, harmonized timelines and straightforward dispute settlement mechanisms for the cases of disagreements between national authorities.

As our key concern, we believe it is crucial to stress the **pivotal role of the consolidating supervisor both for the coordination of the process and when deriving a joint assessment of the capital adequacy of the Group and of the individual entities**. Warranting the leadership of the consolidating supervisor is an efficient way to ensure that the **proportionality principle** is applied throughout the process and reflected into the final evaluation.

We believe that the current wording of CP39 implies a bottom-up view of the joint assessment in which the group evaluation is the result of the summing-up of the individual sub-entities' assessments. However the **Group's ICAAP is a consolidated process and, in our view, should be evaluated as such**. For example one of the inconsistencies between the consolidated evaluation and the sum of the individual foreign assessments is

that the consolidated perimeter of analysis is likely to differ from the sum of the perimeters of the individual assessments.

Furthermore, the **dialogue and constant communication with the supervised institution**, particularly the parent company is key to an accurate assessment of the state of play. It is essential that the parent company be involved also as regards the processes concerning local entities' ICAAPs.

Another important aspect that we would like to highlight concerns the temporal dimension attached to the joint assessment of ICAAP processes and methodologies. For efficiency considerations and in order to avoid unnecessary administrative burden and duplication, it would be much welcomed **to harmonize the timeline for ICAAP submissions by aligning the deadlines of national processes related to the ICAAP and reconciling them, as much as possible with the timelines attached to the business process** (e.g. budget,...).

We welcome the **spelling out of the key principles** that would guide the determination of the **adequate levels of capital adequacy** and the encouragement that the college may agree to adopt a joint decision also as regards **measures other than capital add-ons**.

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Concrete proposals:

Chapter 1: Introduction and executive summary

- It would be welcomed if the introduction would state that these guidelines are an intermediate step and that the **ultimate objective is to achieve a harmonized framework** that ensures the substantial convergence of supervisory review and evaluation processes in the EU.
- An explicit reference to the CEBS Guidelines for the operational functioning of supervisory colleges (GL 34) published on 15 June 2010 would be helpful, in particular a clarification on **how the provisions in guidelines 41-51 of GL 34 interact with the currently proposed guidelines**.

Chapter 2: Joint assessment of risk factors and risk management and control factors

- The Intesa Sanpaolo Group strongly supports the creation of a **common language** for the assessment of risk factors and risk management and control factors. In this sense, the proposed tables and scoring scales appear to us helpful for translating national assessments with a view to developing a common understanding. This should be **underpinned by clear definitions** that ensure that the meanings given to the various concepts used in the common templates and tables are indeed equivalent and allow for a genuine comparison.
- The guidelines should make explicit the **central role of the consolidating supervisor** at all stages of the joint assessment process. This would assure, as highlighted by CEBS in the public hearing, that both a top-down and a bottom-up

view are combined to make certain that a holistic approach is taken and not simply a sum-up of the assessments of the individual institutions.

Chapter 3: Assessment of the ICAAP processes and methodologies for cross-border groups at the group and solo levels

- As the purpose of the guidelines under Chapter 3 is to achieve through structured dialogue a joint assessment of the ICAAP framework at the group and individual entity levels, we would welcome if the **word “joint” would be inserted in the title.**
- The **lead role of the consolidating supervisor** should be explicitly emphasized.
- The methodology and the structured dialogue on the evaluation of the ICAAP process should include a requirement for a **coherent and coordinated local/consolidated ICAAP time-plan** with a view to reducing duplications of reports.
- It would be welcomed if the interaction between the college of supervisors and the supervised institution would be made more explicit. Especially, it is essential that the **dialogue with the parent undertaking** is warranted in order to adequately assess the centralized functions of the group (e.g. risk management, risk measurement, economic capital modeling, capital planning, stress testing and governance issues).

Chapter 4: The joint assessment of compliance with the various minimum requirements set out in the CRD

- The **lead role of the consolidated supervisor** should be underlined.

Chapter 5: Determination of the adequate levels of own funds at the group and entities levels

- The **lead role of the consolidated supervisor** should be explicitly underlined.
- CEBS rightly emphasizes in §102 the importance of the dialogue between the supervisors and the institutions during the reconciliation of risk and ICAAP assessments. We would welcome if this interaction would be made more precise by explicitly providing for the **sharing of the joint assessment by the supervisors with the supervised institutions** and by recognizing the need for **involving the parent undertaking at both consolidated and individual level.**
- The Intesa Sanpaolo Group welcomes the request that supervisors consider economic capital models and the herewith related diversification benefits within a group. The adequate consideration of diversification benefits presupposes a strong coordination between the consolidated supervisor and the supervisors of the individual entities. For this to be effective, we would very much support the **development of a common definition of diversification benefits.** A common approach should also be defined with reference to the treatment of the intercompany assets and liabilities computing the Bank’s capital adequacy.
- The requirement in §122 that the level of additional capital above Pillar 1 requirements should preferably be formulated in terms of original own funds (Tier 1

capital) is in our view confusing. We understand that this is merely a preference and refers to all forms of Tier 1 capital. However, the expressed preference risks restricting the application of article 136.2 in the CRD on capital add-ons. Article 136.2 of the CRD provides that “a specific own funds requirement in excess of the minimum level” could be imposed; leaving it at the discretion of the supervisor to determine the exact type of own funds. It would be unacceptable to limit - without a legislative amendment, but merely through CEBS guidelines - the scope of this legal provision by requiring only Tier 1 capital. We would suggest that the reference to “original own funds (Tier 1 capital)” be replaced with “**regulatory capital**”.

- We would welcome if the precise wording of Guideline 23 would be aligned to the general tone of the consultation paper, which purports to promote joint assessment and **joint decisions at both consolidated - group and at solo - individual entity levels**. Therefore we would invite CEBS to reword the guideline accordingly by mentioning besides the joint decision at consolidated level, also the joint decision with regard to the individual entities level.

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