

## 5. Application of SREP to cross-border groups and joint decisions

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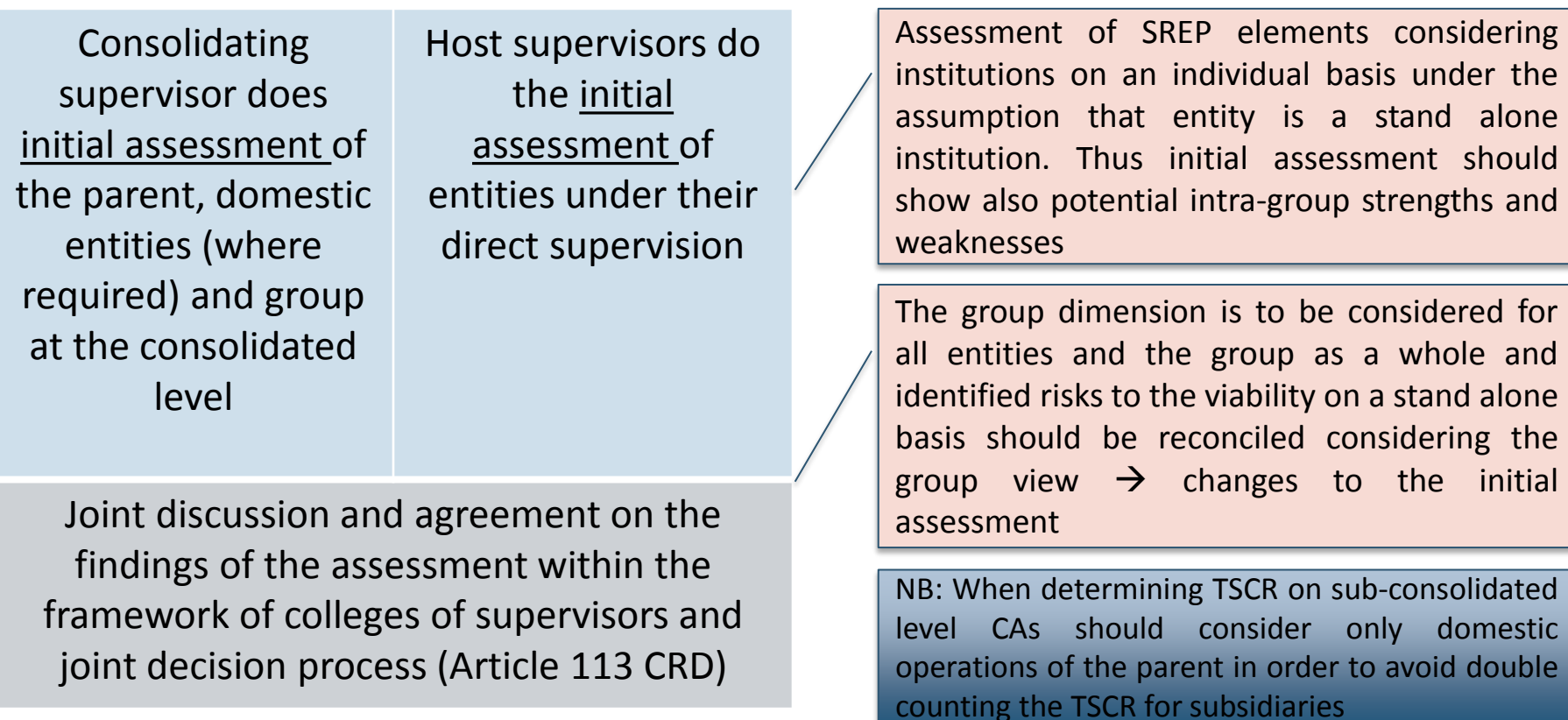
# Outline

1. Specificities of application of Guidelines to cross-border groups
2. Joint decisions on capital and liquidity
3. Joint decisions – Truths or Myths

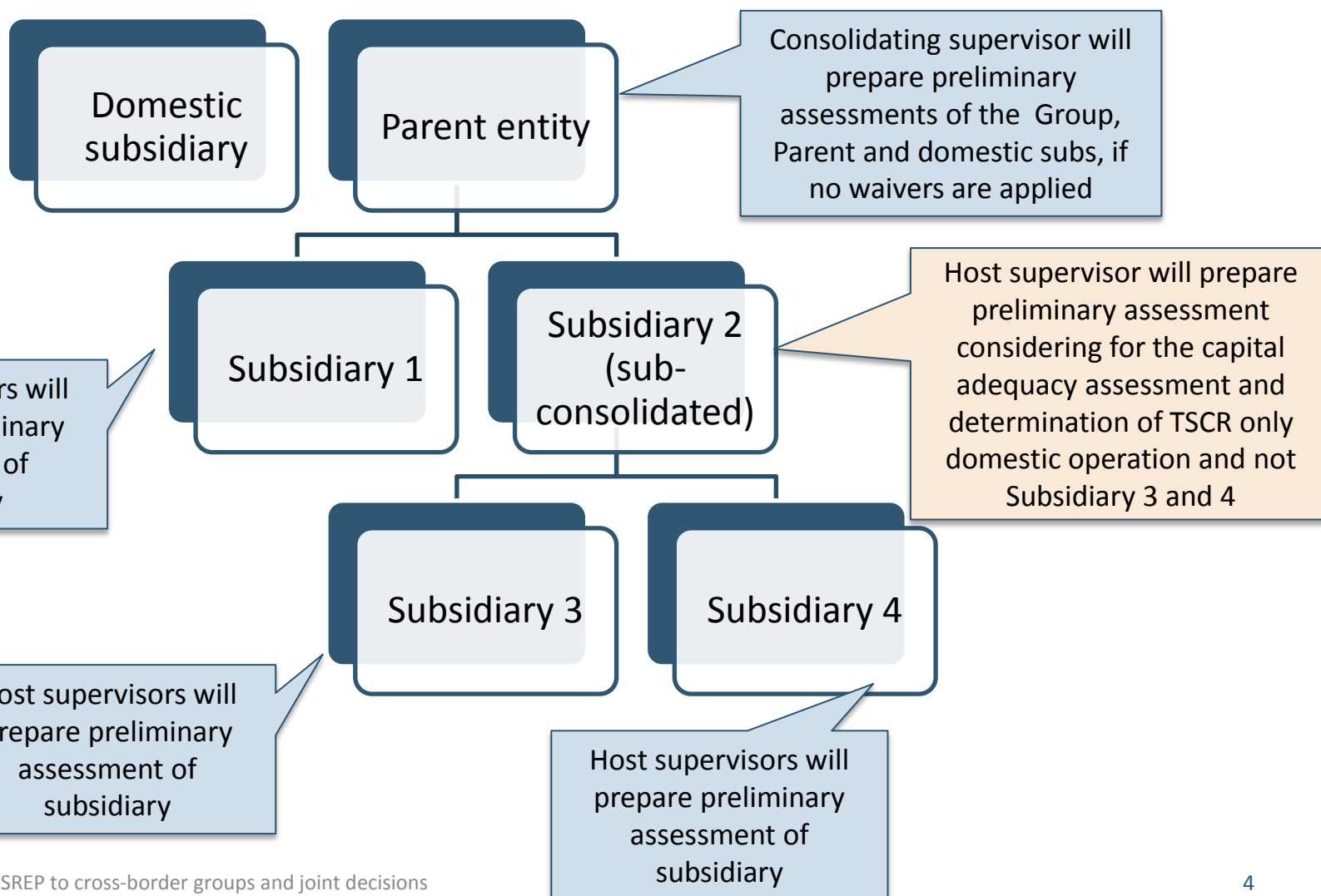
# SREP for cross-border group: process (1/2)

Competent authorities should assess the viability of the group as a whole, as well as its individual entities:

1. Initial assessment done by the respective CA
2. College discussion and finalisation of the assessments → joint decisions



## SREP for cross-border group: process (2/2)



# SREP for cross-border group: coordination

SREP for cross-border groups and entities requires planning and coordination within colleges:

- Planning, frequency and timelines for the assessment of various SREP → especially if the group and entities are assigned to different categories
- Details of the supervisory benchmarks, their application and outcomes
- Approach to assessing and scoring risk sub-categories, if material
- Inputs required from the institutions (e.g. ICAAP and ILAAP submissions) and the timing of their submission
- Outcomes of the assessment and scores → focus on material issues and deficiencies common across entities
- Planned supervisory and early intervention measures

ITS on capital and liquidity joint decision (Commission Implementing Regulation (EU) 710/2014) set the process and steps needed for the organisation of the group risk assessment and joint decision process (simplified):

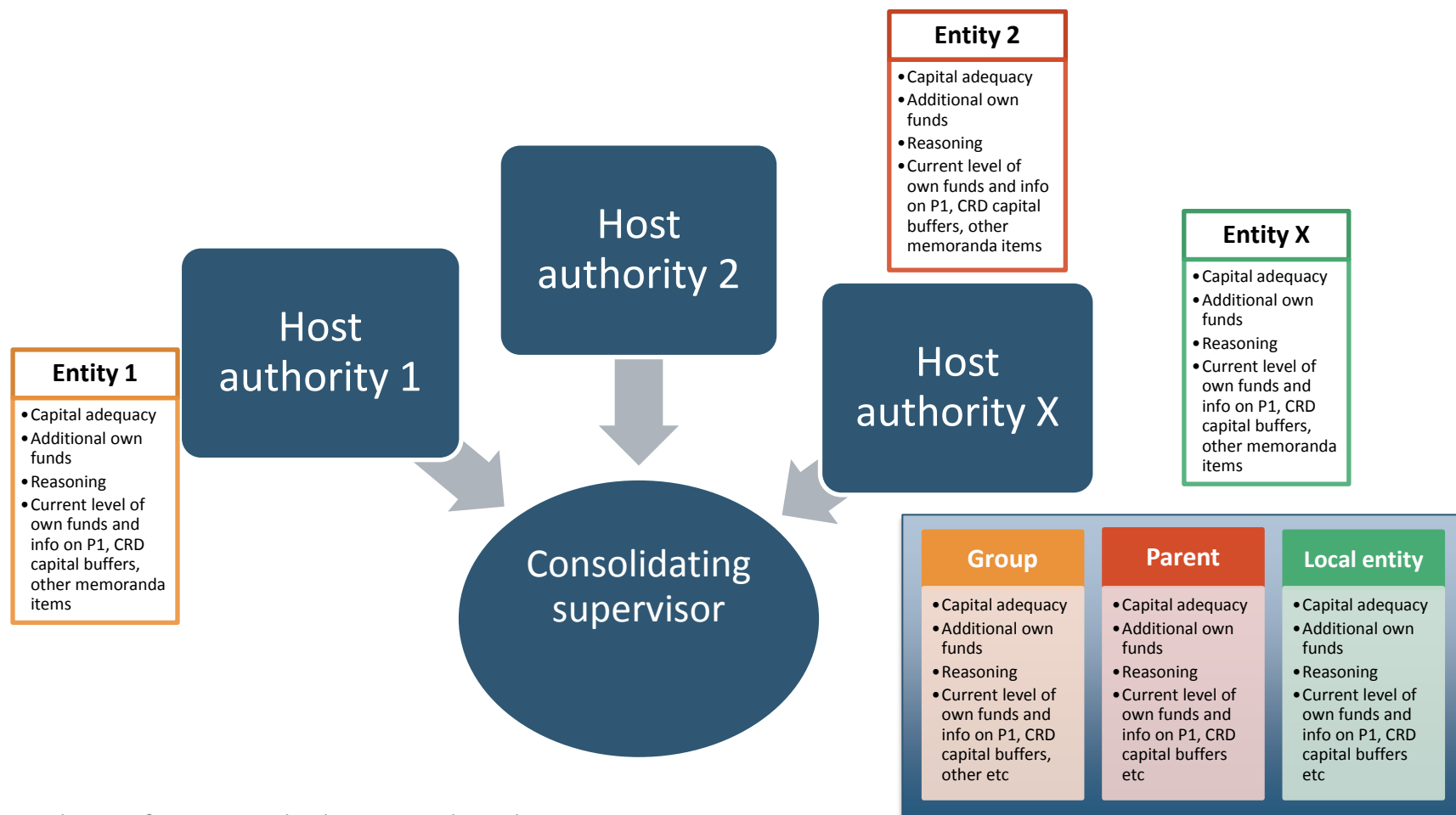
1. Submission of SREP reports/ liquidity risk assessment reports by hosts
2. Preparation of the draft group risk assessment report by consolidating supervisor
3. College dialogue on the draft group risk assessment report and its finalisation
4. Submission of contributions to joint decision document
5. College dialogue on the joint decision document and reach of joint decision
6. Communication of the joint decision document to the parent undertaking and relevant part of the joint decision to respective group entities

# Outline

1. Specificities of application of Guidelines to cross-border groups
2. Joint decisions on capital and liquidity
3. Joint decisions – Truths or Myths

## Joint decision on capital: parties and contributions

- Each contribution should meet the elements of the joint decision document (Art. 10 of ITS)
- Conclusions shall be clearly identifiable for the parent, its subsidiaries and at consolidated level





# Joint decision on capital: scope (1/2)

ITS on joint decision (Commission Implementing regulation (EU) 710/2014) set the requirements for scope and content of the joint decision on capital:

- Conclusions on the ICAAP assessment and SREP outcomes
- Conclusions on the adequacy of own funds held by the group at consolidated level and by each institution of the group at individual level
- Conclusions on the additional own funds requirements at the consolidated level and at the level of each institution of the group
- Information on minimum own funds requirements, combined buffer requirements and any other relevant macro-prudential requirements, guidelines or warnings

Although the scope of formal joint decisions under Article 113 CRD is rather limited, all findings and measures should be coordinated within the college framework

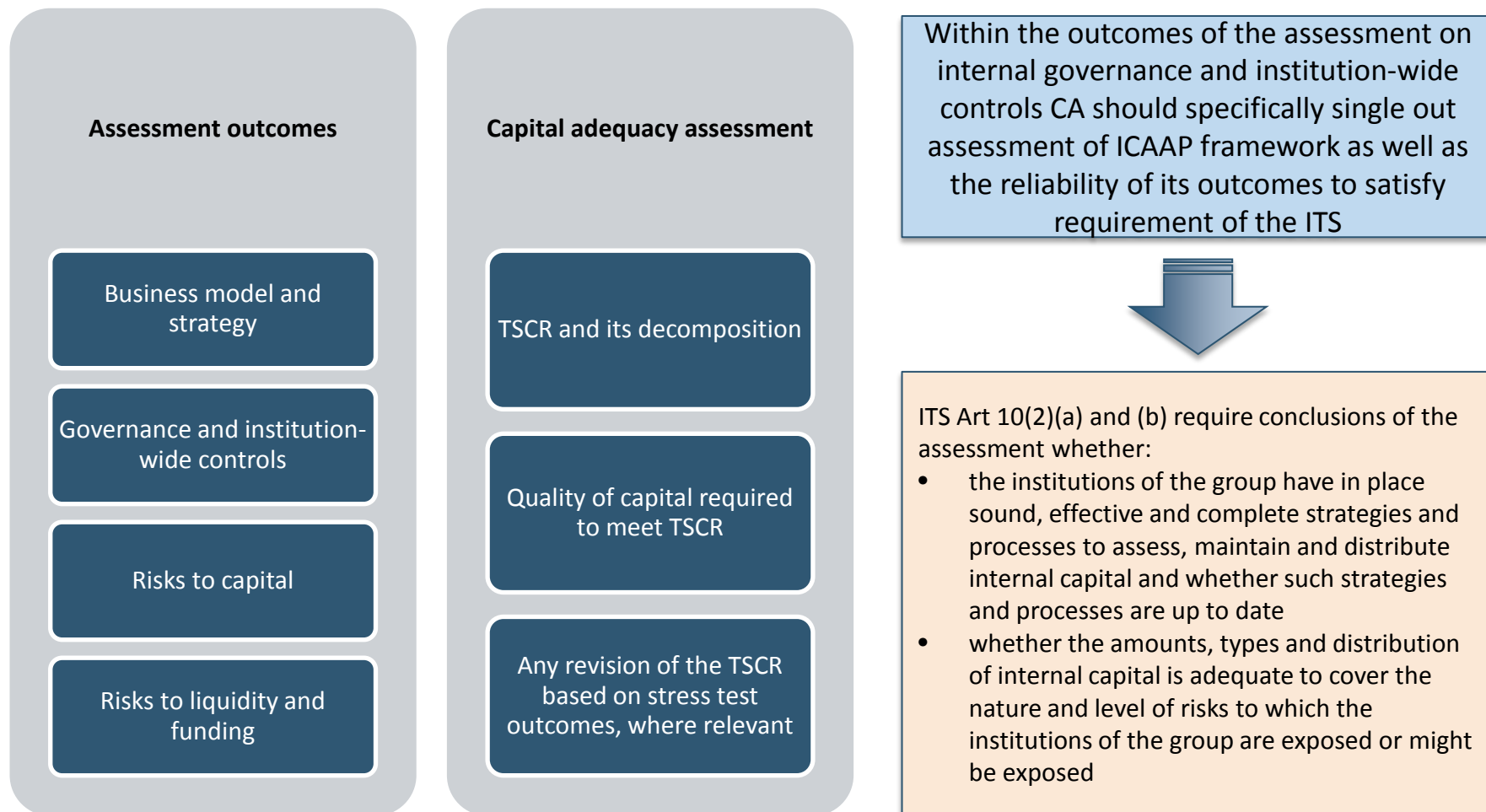


Macro-prudential use of Pillar 2 measures: In case based on Art. 103 CRD CA decides to apply additional own funds requirements (Art. 104(1)(a) measure), this needs to be formally agreed within the joint decision process and reflected in the document



## Joint decision on capital: scope (2/2)

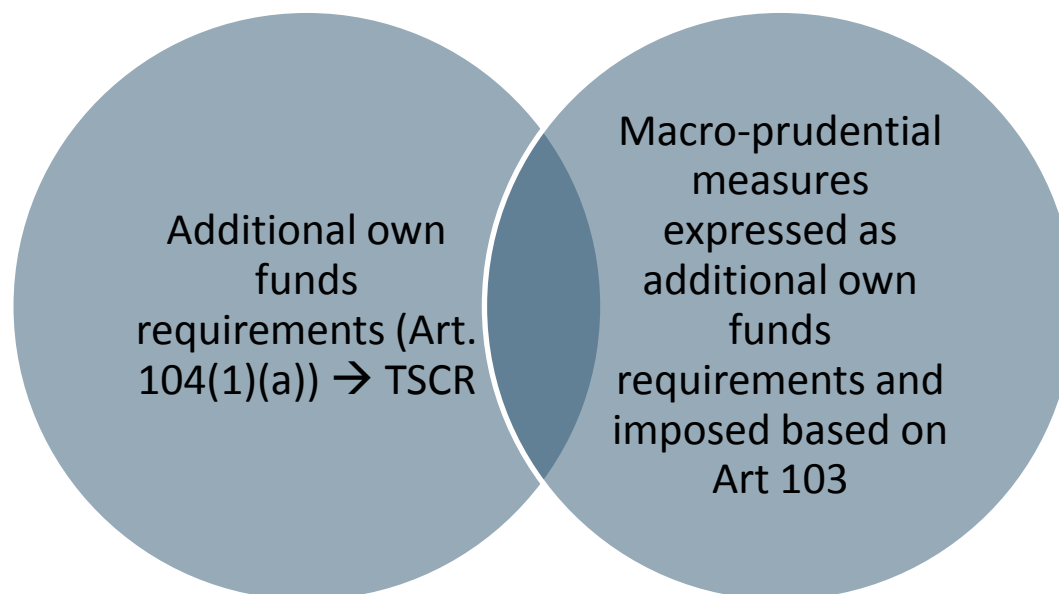
In the language of SREP Guidelines the joint decision on capital is about decision on:



# Joint decision on capital: process (simplified)



# Capital joint decision: macro-prudential aspects



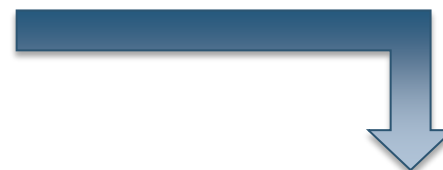
In addition, the joint decision document should provide information on own funds requirements and measures that are not subject to the joint decision:

- CRD capital buffers, including capital conservation buffers, countercyclical buffers, systemic risk buffer, G-SII/O-SII capital buffer
- Measures imposed by macro-prudential authorities that are relevant to own funds requirements (e.g. own funds requirements, buffers, distribution restrictions, risk weight treatment etc.)
- Other supervisory measures to address identified deficiencies

# Joint decision on liquidity

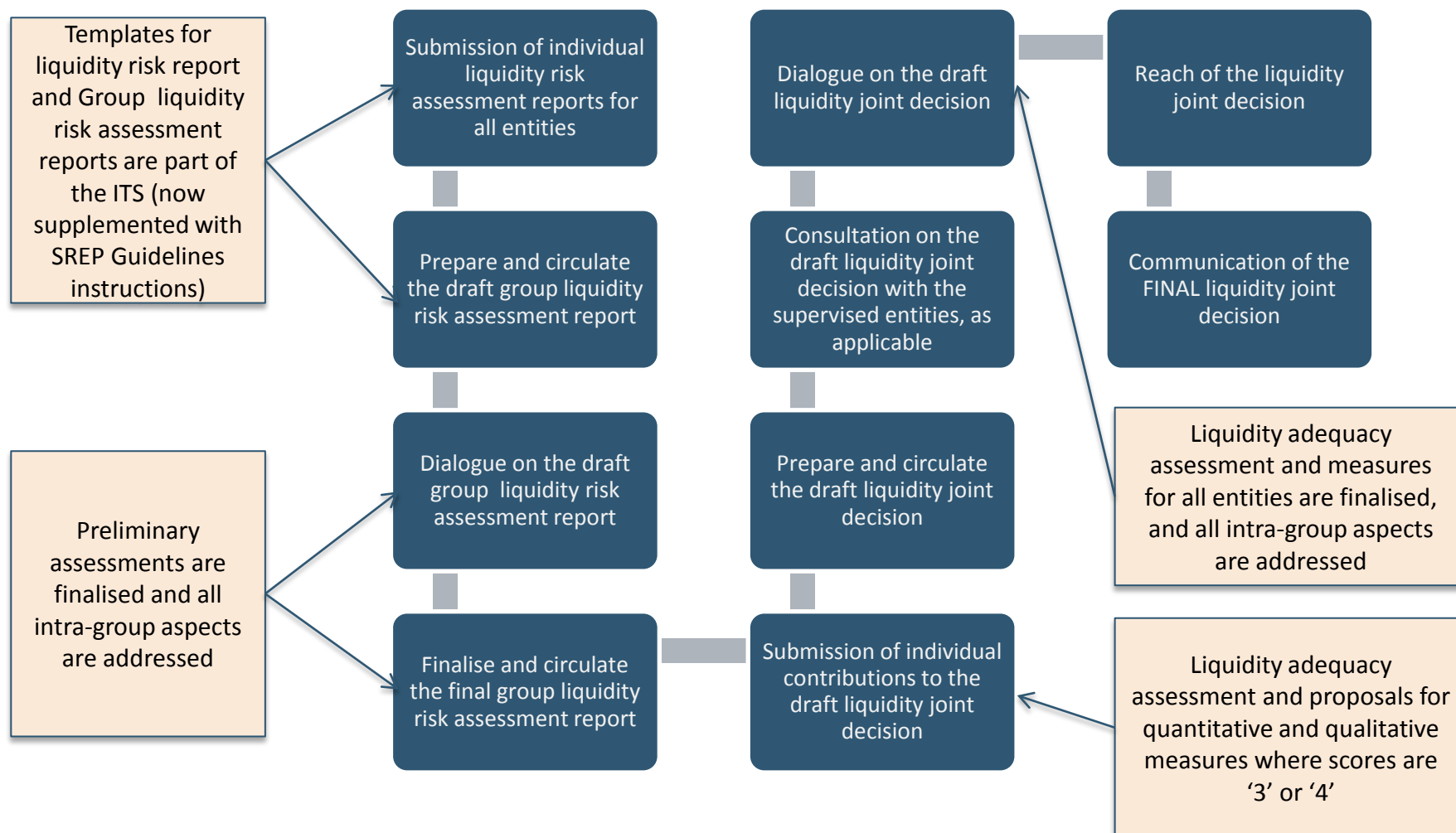
ITS on joint decision (Commission Implementing regulation (EU) 710/2014) set the requirements for scope and content of the joint decision on liquidity:

- Conclusions on the liquidity adequacy for the group on the consolidated level and for each institution within the group
- Conclusions on the measures taken to address any significant matters or material findings relating to liquidity supervision at the consolidated and individual entity level
- Information on any other relevant prudential or macro-prudential requirements, guidelines, recommendations or warnings



- specific quantitative liquidity requirements are proposed by competent authorities; and/or
- any other measures proposed by CAs and the score assigned to liquidity risk and/or funding risk is '3' or '4'

# Joint decision on liquidity: process (simplified)



# Outline

1. Specificities of application of Guidelines to cross-border groups
2. Joint decisions on capital and liquidity adequacy
3. Joint decisions – Truths or Myths

## Truths and myths – *risk assessment*

- If the consolidating supervisor and relevant competent authorities agree on the draft risk assessment for capital/liquidity, there is no need to distribute a final version of the risk assessment.
- The consolidating supervisor needs to include the individual SREP reports and liquidity risk assessment reports from relevant competent authorities in the group risk assessment report as annexes.
- Non-EU competent authorities are not expected to be involved in the risk assessment process.
- Non-EU competent authorities can contribute to the joint risk assessment process, but their contributions cannot be included in the draft and final group risk assessment and group liquidity risk assessment reports.

<b>True</b>	<b>False</b>
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<b>True</b>	<b>False</b>
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## Truths and myths – *capital joint decision*

- |   |   |      |       |                                     |                                     |
|---|---|------|-------|-------------------------------------|-------------------------------------|
| <ul style="list-style-type: none"> <li>Clear statements on the conclusion of application of ICAAP, SREP, adequacy of own funds and required level of own funds shall be included in the joint decision document.</li> </ul>             | <table border="0"> <tr> <td>True</td> <td>False</td> </tr> <tr> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table> | True | False | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| True  | False   |      |       |                                     |                                     |
| <input checked="" type="checkbox"/>   | <input type="checkbox"/>  |      |       |                                     |                                     |
| <ul style="list-style-type: none"> <li>References to macro-prudential measures applied to specific member states can replace statements on adequacy and required level of own funds.</li> </ul>   | <table border="0"> <tr> <td>True</td> <td>False</td> </tr> <tr> <td><input type="checkbox"/></td> <td><input checked="" type="checkbox"/></td> </tr> </table> | True | False | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| True  | False   |      |       |                                     |                                     |
| <input type="checkbox"/>  | <input checked="" type="checkbox"/>   |      |       |                                     |                                     |
| <ul style="list-style-type: none"> <li>There is no need to include statements in the joint decision document on the application of Article 104(1)(a), as long as no own funds above the minimum P1 requirements are imposed.</li> </ul> | <table border="0"> <tr> <td>True</td> <td>False</td> </tr> <tr> <td><input type="checkbox"/></td> <td><input checked="" type="checkbox"/></td> </tr> </table> | True | False | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| True  | False   |      |       |                                     |                                     |
| <input type="checkbox"/>  | <input checked="" type="checkbox"/>   |      |       |                                     |                                     |
| <ul style="list-style-type: none"> <li>Some small subsidiaries for which supervisors do not want to contribute, might be excluded from the joint decision.</li> </ul>   | <table border="0"> <tr> <td>True</td> <td>False</td> </tr> <tr> <td><input type="checkbox"/></td> <td><input checked="" type="checkbox"/></td> </tr> </table> | True | False | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| True  | False   |      |       |                                     |                                     |
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## Truths and myths – *liquidity joint decision (1)*

- The consolidating supervisor and relevant competent authorities need to reach a liquidity joint decision only when significant matters and material findings have been identified.
- Quantitative liquidity measures taken to address matters that are assessed as significant can be taken outside the joint decision process, as long as they are clearly communicated to the other competent authorities.
- If significant matters and material findings are identified in the liquidity risk assessment, proposed liquidity measures need to be included in the liquidity joint decision.

True	False
<input type="checkbox"/>	<input checked="" type="checkbox"/>

True	False
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True	False
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## Truths and myths – *liquidity joint decision* (2)

- A possible outcome of the liquidity joint decision is that no liquidity measures are needed for an entity or for the Group.
- A liquidity joint decision reached in e.g. February, shall be updated earlier than the usual yearly cycle, if there are material issues identified throughout the year.

True ☒ False ☐

True ☒ False ☐

## Truths and myths - *joint decision document*

- Signing the joint decision is not a requirement of the Level 1 text or of the respective ITS.

True



False



- One joint decision can be taken for capital and liquidity and reflected jointly in a single joint decision document.

True



False





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