2 September 2010

Feedback document to CEBS's draft revised Guidelines on the management of concentration risk under the supervisory review process (CP31): analysis of the public responses and suggested amendments

Background and introduction

1. On 11 December 2009 CEBS published for consultation its draft revised Guidelines on aspects of the management of concentration risk under the supervisory review process[1]. The draft revised Guidelines update the existing Guidelines on technical aspects of the management of concentration risk under the supervisory review process published on 14 December 2006 and complement the principles set out in the CEBS's Guidelines on the application of the supervisory review process (GL03)[2].

2. The public consultation lasted until 31 March and attracted a lot of attention from the industry throughout. The public hearing was held on 12 March and featured in a number of industry magazines following the publication of the consultation paper.

3. In general, the draft revised Guidelines were welcomed by the industry as they highlight the importance of an integrated approach to concentration risk both within and among risk categories. Altogether 12 responses from industry bodies and individual banks were received and aside for those marked confidential, these have been published on the CEBS's website[3].

Results of the public consultation

4. One of the key remarks from the industry was related to the actual concept of concentration risk, it was stressed that concentration is not a new risk type but a feature within other risks, therefore, it should not be treated separately and have specific requirements for management, measuring, reporting etc.

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[1] See http://www.c-ebs.org/documents/Publications/Consultation-papers/2009/CP31/CP31.aspx

[2] See http://www.c-ebs.org/getdoc/00ec6db3-bb41-467c-acb9-8e271f617675/GL03.aspx

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

5. As concentration risk is seen as a part of other risk types, CEBS was asked to clarify that institutions are not required to identify a certain amount of their capital to specifically cover concentration risk, but that capital requirements are calculated as a whole against the totality of risks banks face. It was also stressed that imposing higher capital requirements is only one possible treatment. Against this context it would be helpful if CEBS clarified that the goal is not to create additional capital coverage to address concentration risk, but that CEBS seeks to ensure that banks understand concentration risk and act accordingly.

6. Some respondents to the consultation suggested that concentration risk should be considered alongside diversification, as diversification should be recognised as a way of managing concentration risk. However, the final paper should clearly address all aspects of concentration risk management and should not point at diversification as an ultimate solution. Certain concentrations might be inherent to the business model of a particular institutions and "forcing" diversification is not always the best risk management alternative. In particular, there should not be any pressure for institutions to embark on activities or enter markets where they may lack the necessary expertise or for which their structure or their business model is not fitting.

7. It was also pointed out that a risk mitigation strategy can also lead to a preference for certain forms of concentration over others. An institution may, for example, express a preference for holding or receiving as collateral well-rated assets, compared to those of lesser quality. Even though concentration in such assets is not desirable per se, the benefits of diversification would not unambiguously outweigh the worsening of the portfolio's quality. Trying to reduce concentrations is only beneficial if it does not lead to higher overall portfolio risks (and this is not always possible in some concentrated markets such as financial institutions).

8. Some comments were made to the effect that the Guidelines seem to attach an increase importance to using a quantitative approach to measure concentration risk. Industry representatives, however, urged for the allowance of more qualitative approaches where appropriate, given the risk area and the bank's business model. This would mitigate the effect of the sensitivity of risk models to the underlying assumptions, and could yield more reliable results, depending on a bank's business model and credit portfolios.

9. A number of the comments made reference to the implications of the Guidelines for cross-border groups, where many have argued that concentration risk should normally be addressed at the consolidated level for large banking groups, as material concentrations only appear at group level. Concentrations at solo level are essentially driven by specific businesses and the locations of legal entities along with the intrinsic concentrations of local economies and are largely irrelevant as they diversify at group level.

10. With respect to the implementation of the Guidelines, industry representatives urged CEBS to recognise that certain concentrations of risk, especially those that arise across risk types (i.e. inter-risk) are difficult to

evaluate in a quantitative manner (in particular if it has to be separated from the diversification effects) and consequently recognise the validity of a large array of approaches such as stress tests, scenario analysis backed by experts' judgement, qualitative analysis and when possible, modelling. Industry was very supportive of the possibility of a phased implementation of the Guidelines, advocating that, as a first step, banks should start managing concentration risk within each silo (credit, market and operational). Secondly, the scope should be extended to a firm-wide view. Moving to one holistic framework should be done when the institution is able to manage the concentration risks that occur in each of the risk types separately. Therefore, the process of managing and measuring concentration risk should be introduced through a number of consecutive stages.

11. Industry representatives also requested clarification regarding the role of the Guidelines in light of the proposed changes to the regulatory framework outlined in the recent BCBS publication[4] and the EU Commission consultation paper on CRD IV[5], particularly in relation to the proposals for the new liquidity regulatory regime. CEBS is continually monitoring developments in the regulatory framework and will review, if necessary, relevant aspects of the Guidelines in order to make them consistent with any new regulatory regime, once proposals are finalised.

12. With respect to the targeting of the Guidelines on various institutions, an appreciation for the principle of proportionality is much welcomed. Nevertheless, comments were raised to the effect that the current Guidelines may be overly concerned with the unmitigated exposure to concentration risk in the credit portfolios of smaller, regionally active lenders. Here, industry representatives stressed the importance of a bank's local knowledge, where geographic concentration directly translates into expertise regarding the market concerned. This is especially the case for retail banks with a focus on lending to the local economy, as credit risk tends to be spread across various industry sectors, which, in turn, leads to a diversified portfolio in real economic terms. As a result, the mitigation effect of such banks' business models for the 'real' exposure to risk concentrations should be taken into account.

13. Respondents to the consultation recognised that the draft Guidelines address the issue of proportionality, and suggested that in their supervisory review and evaluation, supervisors should have a balanced view of the business models and activities of specialised institutions.

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

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

Major changes introduced to the Guidelines

14. CEBS agrees with industry concerns that intra-risk concentrations should be addressed in the risk management of specific underlying risk areas (e.g. liquidity concentrations are addressed in liquidity risk management). Therefore, it might not be necessary to set up a parallel risk management framework, including stress testing, reporting, etc. However, institutions should clearly demonstrate to their supervisors that concentration risk is adequately captured in the risk management framework and that the tools are set up for specific risk areas, e.g. credit concentrations are adequately addressed in the credit risk management, including risk measurement models, economic capital models, where appropriate, internal reporting, stress testing, etc. As for interactions between various risk factors and inter-risk concentrations, in CEBS's view they might not be sufficiently captured in the existing "silo" risk management models, therefore, special attention is required both from institutions and supervisors, and, accordingly, the principles set forward in the Guidelines apply in full.

15. In the final text of the Guidelines, CEBS acknowledges that concentration risk covers both intra and inter-risk concentrations. Given the two-fold nature of concentration risk (intra and inter-risk), CEBS recognises that in many instances, some or all aspects of intra-risk concentrations may be captured by the existing risk management models and practices. In such a case, the principles of these Guidelines should be followed to the extent that the institution is able to demonstrate how effectively and adequately intra-risk concentrations are captured in the existing risk management framework set up for a particular risk area ("silo"). However, CEBS draws the attention of the reader to interactions between various risk factors and inter-risk concentrations, which might not be sufficiently captured by the existing approaches to risk (and concentration risk) management.

16. With respect to the link to capital, in CEBS's view an institution should take concentration risk into account in its assessment of capital adequacy under ICAAP and be prepared to demonstrate that its internal capital assessment is comprehensive and adequate to the nature of its concentration risk. If an institution is able to demonstrate to its supervisors that concentration risk (both intra and inter-risk) is captured in the capital planning framework, it might not be necessary and, given the models employed by institutions, not always be possible to explicitly allocate capital to concentration risk (by showing the capital estimate attributed to concentration risk as a single line). However, the exact allocation of capital for both intra and inter-risk concentration explicitly or implicitly will depend on the approach of an institution.

17. The Guidelines do not prescribe any specific methodology for computing capital to address intra and inter-risk concentration explicitly or implicitly. However, it is expected that institutions cover all material risks in their capital planning, including addressing concentration risk.

18. As for the link to diversification, CEBS understands the potential for diversification benefits in institutions and the relationship with concentration

risk on both an intra- and inter-risk basis. The quantification of concentration risk, along with diversification benefits, may be generated from the same or similar framework(s) or methodology(ies). The focus of the current Guidelines remains solely on concentration risk, whereas CEBS has addressed the issue of diversification in the separate report on the supervisory approaches to diversification benefits arising from economic capital models published together with the Guidelines.

19. From a practical perspective CEBS believes that improvements introduced to the institutions' risk management and measurement frameworks aimed at better identification and mitigation of concentration risk as a result of the implementation of these Guidelines will also contribute to the evolution of measurement and modelling of the effects of diversification.

20. In the final text CEBS has clarified that in these Guidelines CEBS discusses both the qualitative and quantitative aspects of concentration risk management, while noting the principle of proportionality. As a result, smaller and simpler institutions may focus more on the qualitative aspects, especially when dealing with inter-risk concentrations, whilst more complex institutions will be expected to adequately capture both intra- and inter-risk concentrations in their internal measurement models.

21. It should be noted that inter-risk concentration has been largely neglected in the past, therefore, institutions should start addressing concentration risk in its entirety, adequately capturing both intra-risk concentration in key material risk areas as well as inter-risk concentrations. CEBS fully recognises the difficulties in modelling and measuring inter-risk concentrations and understands that, in some instances, it may take time to develop modelling techniques, which should be reflected in the flexible approach to the implementation of the Guidelines by institutions.

22. CEBS acknowledges that in the assessment of the concentration risk of an institution (both in the context of a cross-border or domestic banking group) supervisors will pay attention to the institutions business model and strategy, including strategy, which could result in certain entities being concentrated in certain areas, products or markets as a result of the group-wide strategy. Such cases will be closely examined by the respective supervisors and addressed in the context of ICAAP-SREP dialogue between institutions and their supervisors, also taking place in the college framework, where applicable. CEBS also concurs with the comments that the cross-border group perspective has not been properly explored in the version of the Guidelines published for the consultation. To this end a new set of guidelines and explanatory text has been introduced to the final text of the Guidelines promoting the role of colleges of supervisors in the supervision of a cross-border group, including concentration risk.

23. In the case of cross-border banking groups and from 2011, consolidating and host supervisors of EEA entities of the group will be expected to decide on the level of own funds held by the institution on the consolidated and individual entity level. This joint decision process as required by Article 129(3) of the CRD and elaborated in the CEBS 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[6] requests that supervisors conduct a joint assessment of risk and control factors, including concentration risk, and explain in the respective college of supervisors how the assessment of the risk profile results in the supervisory view on the level of capital. CEBS believes that the practice of joint assessments and joint decisions by the colleges of supervisors will significantly contribute to the convergence of supervisory practice in the EEA.

24. As for the relationship of the Guidelines with the currently discussed regulatory changes (CRD IV), CEBS has clarified in the text that the aim of these Guidelines is to enhance risk management 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 practices is also fully embedded in the way the risk specific sections, including the section on liquidity concentration, have been 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 and clarifications of the current Guidelines and/or its risk specific sections, CEBS will amend the Guidelines in the future.

25. With respect to the implementation date, it remains to be set to 31 December 2010, effectively meaning that by this date the Guidelines should be transposed into national supervisory guidelines and 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.).

26. The following table provides a detailed analysis of the comments received and changes introduced in the final text of the Guidelines.

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[6] Available as consultation paper, see http://www.c-ebs.org/documents/Publications/Consultation-papers/2010/CP39/CP39.aspx

Detailed analysis of the public responses and suggested amendments

	Topic, reference	Comments received	CEBS's response	Amendments to the text[7]
General comments				
1.	Nature of concentration risk	Concentration is not a new risk type but a feature within other risks, therefore it should not be treated separately and have specific requirements for management, measuring, reporting etc. It is important to stress that concentration risk is not introduced as a new risk category per se, but defines the risk that one particular risk driver leads to increased and (more or less) simultaneous shortfalls, write-downs or losses within one risk area or across risk areas. Moreover, the way concentrations are dealt with in economic capital models is through correlations and by estimating the sensitivity of portfolios and counterparties to a set of risk factors, whereby it is identified how much they relate to the same common factors. Against this background, the clarifications are	CEBS agrees that intra-risk concentrations should be addressed in the risk management of the specific underlying risk areas (e.g. liquidity concentrations are addressed in the liquidity risk management). Therefore, it might not be necessary to set up parallel risk management frameworks, including stress testing, reporting, etc. However, institutions should clearly demonstrate to their supervisors that concentration risk is adequately captured in the risk management framework and tools set up for the specific risk areas, e.g. credit concentrations are adequately addressed in the credit risk management, including risk measurement models, economic capital models, where appropriate, internal reporting, stress testing, etc. As for interactions between various risk factors and inter-risk concentrations, in CEBS's view they might not be sufficiently captured in the	CEBS has clarified the interpretation of the guidelines in relation to intra-risk concentration and capture of such concentrations in the risk specific risk management tools in the introduction (see new paragraph 7) and throughout the text of the guidelines.

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

		requested regarding how far CEBS recommends an extra stress testing process with a focus on concentration risk. The same applies to the reporting process and the limit structure. The industry is of view that it will be more appropriate not to introduce an extra stress test for concentration risk, but rather to (further) integrate the assessment of occurrences of concentration risk due to shared risk drivers into existing stress testing and reporting. Where separate reporting of single name concentrations, and sector and product concentrations in absolute amounts is feasible, reporting of general intra-risk and inter-risk concentrations is challenging when these are incorporated in economic capital models because they are calculated together with diversification.	existing "silo" risk management models, therefore, special attention is required both from institutions and supervisors, and accordingly, the principles set forward in the guidelines apply in full.	
2.	Nature of concentration risk	As intra-risk concentration risk in not seen as a risk on its own, but rather a feature within the other risk types, except for inter-risk concentrations, it should be dealt in other guidelines dealing with particular risk areas. This would avoid the problem that parts of the guidelines on concentration risk are more or less the same as the guidelines under each specific risk type. Over time there is a risk that the guidelines will develop in slightly different way, which might lead to problems with implementation. This is particularly obvious in the areas of liquidity and operational risk.	CEBS agrees that intra-risk concentrations should be addressed in the risk management of the specific underlying risk areas (e.g. liquidity concentrations are addressed in the liquidity risk management). Therefore, it might not be necessary to set up parallel risk management frameworks, including stress testing, reporting, etc. However, institutions should clearly demonstrate to their supervisors that concentration risk is adequately captured in the risk management framework and tools set up for the specific risk areas, e.g. credit concentrations are adequately addressed in the credit risk management, including risk	CEBS has clarified the interpretation of the guidelines in relation to intra-risk concentration and capture of such concentrations in the risk specific risk management tools in the introduction (see new paragraph 7) and throughout the text of the guidelines.

			measurement models, economic capital models, where appropriate, internal reporting, stress testing, etc. As for interactions between various risk factors and inter-risk concentrations, in CEBS's view they might not be sufficiently captured in the existing "silo" risk management models, therefore, special attention is required both from institutions and supervisors, and accordingly, the principles set forward in the guidelines apply in full.	
3.	Nature of concentration risk and definition	Ambiguity on 'concentration risk' terminology exists in the CEBS consultative paper. Therefore it is suggested to clarifying the wording for concentration risk in the consultation paper. It is suggested to highlight that concentration should not be viewed as a distinct risk category but rather acknowledged it as a part of a institution's overall risk management framework. A clear guideline on concentration risk definition is the cornerstone for implementing well-targeted, feasible and appropriate requirements for concentration risk management It is important that the fact that intra-risk concentration is embedded into underlying risk types is borne in mind when supervisors review firms' processes in light of the guidelines to ensure that the high level principles are applied intelligently. CEBS is asked to acknowledge that it	CEBS agrees that intra-risk concentrations should be addressed in the risk management of the specific underlying risk areas (e.g. liquidity concentrations are addressed in the liquidity risk management). Therefore, it might not be necessary to set up parallel risk management frameworks, including stress testing, reporting, etc. However, institutions should clearly demonstrate to their supervisors that concentration risk is adequately captured in the risk management framework and tools set up for the specific risk areas, e.g. credit concentrations are adequately addressed in the credit risk management, including risk measurement models, economic capital models, where appropriate, internal reporting, stress testing, etc. As for interactions between various risk factors	CEBS has clarified the interpretation of the guidelines in relation to intra-risk concentration and capture of such concentrations in the risk specific risk management tools in the introduction (see new paragraph 7) and throughout the text of the guidelines.

		is not necessary to develop new policies and processes for concentration risk management where these are already embedded into the risk management procedures for particular risk types.	and inter-risk concentrations, in CEBS's view they might not be sufficiently captured in the existing "silo" risk management models, therefore, special attention is required both from institutions and supervisors, and accordingly, the principles set forward in the guidelines apply in full.	
4.	Concentration and systemic risk	Concentration risk, as described in the CEBS draft principles, includes several distinct topics that need to be addressed in different ways, including notably: Elements of systemic risk that are the remit of macro-prudential supervision rather than risk management at each bank level, and Complex chain-reaction type of events that involve the successive occurrence of contingent risks (e.g. liquidity risk) that can essentially be addressed through scenario analysis and stress-testing. Systemic crises arise from the fact, among others, that all the financial institutions have comparable behaviours when managing their risks. Some concentrations are intrinsically linked / consubstantial to usual banking activities and that become a threat only in case of systemic	Although systemic risk is not a focus of these guidelines, CEBS believes that an institution in its risk management should take account of system-wide interactions and feedback effects and how these effects may impact an institution. Institutions should also understand the systemic risk and wider impact of macro-prudential risks. The guidelines require institutions to step up their management of concentration risks, which, if done on an individual institution basis, will contribute to the improvements of the concentration risk management within the system, as institutions will be better prepared to understand how their actions, including risk mitigation actions, could impact the system as a whole.	See paragraph 35.

[8] See also CEBS Guidelines for operational functioning of colleges (GL34) http://www.c-ebs.org/documents/Publications/Standards---Guidelines/2010/Colleges/CollegeGuidelines.aspx

		crisis. As systemic risk refers to macro-prudential concerns, we consider that it cannot be addressed via micro-prudential measures. Therefore we consider that it is neither realistic nor relevant to require financial institutions to manage systemic risk. Therefore it is suggested that the systemic risk be explicitly excluded from the concentration risk scope.	Supervisors in their review would look at the concentration risk not only at the level of an individual institution, but also at the level of the system as a whole. At the same time, supervisors, in assessing the risk profile of an institution, should assess macro-economic or financial developments as well as sectoral vulnerabilities that may impact the financial situation of the institution. This macro-prudential assessment should also identify risks specific to the institution that may have a systemic impact on the financial system[8].	
5.	Link to capital	As concentration risk is seen as part of other risk types, it should be clarified that institutions are not required to identify a certain amount of their capital specifically meant to cover concentration risk, but that capital requirements are calculated as a whole against the totality of risks banks face. It is also stressed that imposing higher capital requirements is only one possible treatment. In this context it would be helpful if CEBS clarified that its goal is not to create additional capital coverage labelled as addressing concentration risk, but that it seeks to ensure that banks understand concentration risk and act accordingly. Furthermore, we would invite CEBS to underline	An institution should take concentration risk into account in its assessment of capital adequacy under ICAAP and be prepared to demonstrate that its internal capital assessment is comprehensive and adequate to the nature of its concentration risk. In CEBS's view if an institution is able to demonstrate to its supervisors that concentration risk (both intra- and inter-risk) is captured in the capital planning framework, it might not be necessary and, given the models employed by institutions, not always be possible to explicitly allocate capital to concentration risk (show capital estimate attribute to concentration risk as a single line).	See paragraphs 52 and 57.

		that it does not urge for diversification of business activities (or similar interventions in banks' business models) as a mitigation measure for identified concentration risk exposures. In particular, there should not be any pressure for financial institutions to embark on activities or enter markets where they may lack the necessary expertise or for which their structure or their business model is not fitting. Whilst concentration risk should be a part of ICAAP, regulatory response should not be limited to imposing additional capital requirements.	Exact allocation of capital for both intra- and inter-risk concentration explicitly or implicitly will depend on the institutions' approaches, however. The guidelines do not prescribe any specific methodology to compute capital to address intra- and inter-risk concentration explicitly or implicitly, however, it is expected that the institutions cover all material risks in their capital planning, including addressing concentration risk.	
6.	Link to capital	According to Pillar 2/ICAAP principles, financial institutions should have an adequate capital buffer to absorb potential losses arising from all material risks, including concentration risk. CEBS guideline on this topic is seen as a high level principle, not providing any specific guidance in terms of how the risk quantification should be converted into allocated capital.	See comment 5 above	See comment 5 above
7.	Link to diversification	Concentration risk and diversification should always be assessed jointly (they are heads and tails). Diversification might have been overestimated in certain asset classes in the recent past, but it is also true that a well-diversified structure makes an institution more resilient and should be incentivized as a good risk management practice. Thus we would suggest including in guideline 7 a mention to the combined assessment of both concentration risk	CEBS acknowledges the existence of diversification and the close interrelation between concentration risk and diversification, as quantification of both diversification benefits and concentration risk is often generated from the same (or at least from comparable) framework(s). Similarities between the approaches to concentration risk and diversification could also be found in their underlying factors (inter- and intra-risk). The	See paragraph 10-11.

		and diversification of the bank under the ICAAP.	focus of the current guidelines remain solely on concentration risk, whereas CEBS has addressed the issue of diversification in the separate report on the supervisory approaches to diversification benefits arising from economic capital models. From a practical perspective CEBS believes that improvements introduced to the institutions' risk management and measurement frameworks aimed at better identification and mitigation of concentration risk as a result of the implementation of these guidelines will also contribute to the evolution of measurement and modelling of the effects of diversification, which is considered to be one of the mitigants for concentration risk.	
8.	Link to diversification	The risk mitigation strategy can lead to a preference for some forms of concentration over diversification. This can be the case, for example, when funding is concentrated in long-term stable sources; or when the predominant business lines offer relatively stable revenue-generating capabilities (as is the case, among others, with clearing and settlement services for clients). In these circumstances, diversification is not always desirable and may not be in line with the institution's risk appetite.	CEBS agrees with the comments	See paragraph 53.

		Along the same lines, a risk mitigation strategy can also lead to a preference for certain forms of concentration over others. An institution may, for example, express preference for holding or receiving as collateral well-rated assets, compared to lesser quality ones. Even though concentration in such assets is not desirable per se, the benefits of diversification would not unambiguously outweigh the worsening of the portfolio's quality. Trying to reduce concentrations is only beneficial if it does not lead to higher overall portfolio risks (and this is not always possible in some concentrated markets such as financial institutions).		
9.	Level of ambition	Industry representative would favour that the guidelines remain of a principle based nature which can be applied across institutions but then Suitably adjusted to the specific institution business model. With this in mind, it is strongly supported the principles based approach proposed rather than prescriptive 'check-lists' that focus on regulatory expectations regarding good practice rather than defining best practice. In particular, some called for the flexibility offered to institutions in the design of its own reporting	CEBS agrees with the concern, and confirms that the guidelines do not suggest any definitive metrics, but rather provide examples.	The text of the guidelines has been clarified throughout the document.

		methods. The guidance of CEBS on reporting of concentration risk is welcome as long as it is principle-based and allows for banks to define their own reporting methods. This line should be followed by national supervisors when it comes to implement and review specific reports.		
10.	Level of ambition	In certain areas, the consultative document is very descriptive. However, the guidance should be regarded as examples of how the implementation of the guidelines could look, but that it should be based on the individual characteristics of each bank.	In the guidelines CEBS tried to strike a balance between being prescriptive and too high-level. The guidelines do not prescribe any modelling techniques or concrete ways of identifying, measuring, mitigating and monitoring concentration risk, but rather provide examples of what could be considered in these areas.	No changes needed.
11.	Qualitative vs quantitative approach	The present guidelines seem to put great weight on a quantitative approach to measuring concentration risk. Industry representatives, however, urge to also allow for more qualitative approaches – where appropriate given the risk area and the bank's business model. This would mitigate the effect of the sensitivity of risk models to the underlying assumptions, and could yield more reliable results, depending on a bank's business model and credit portfolios. Supervisors should recognise that certain concentrations of risk, especially those that arise across risk types (i.e. inter-risk) are difficult to evaluate in quantitative manner (in particular if it has to be separated from the diversification effects) and consequently recognise the validity of a large array of approaches such as stress tests, scenario analysis backed by experts'	In these guidelines CEBS discusses both qualitative and quantitative aspects of concentration risk management while noting the principle of proportionality, meaning that smaller and simpler institutions may focus more on the qualitative aspects, especially when dealing with inter-risk concentrations, whilst more complex institutions will be expected to adequately capture both intra- and inter-risk concentrations in their internal measurement models. CEBS fully recognises the difficulties in modelling and measuring inter-risk concentrations and understands that, in some instances, it may take time to develop modelling techniques.	See paragraphs 15.

		judgement, qualitative analysis and when possible, modelling.		
12.	Inter-risk concentration	The distinction made in point 6 between intra-risk and inter-risk is in no way artificial, but results from the actual evolution in the financial sector. Industry representative supported the distinction between concentration risk within risk areas (intra-risk) and concentration risk across risk areas (inter-risk). Regarding inter-risk concentration, it was generally agreed that the interaction between positions of different risk types should be examined. However, it was stressed that modelling inter-risk concentration appears an arduous task not least an extremely sophisticated work. At least for the next years, 'inter-risk' may therefore be modelled and assessed with a lower degree of sophistication. The models available for this purpose are not of a comparable standard and banks would need more time and experience to develop inter-risk models. For this reason, many banks will have to analyse concentration	In these guidelines CEBS discusses both qualitative and quantitative aspects of concentration risk management while noting the principle of proportionality, meaning that smaller and simpler institutions may focus more on the qualitative aspects, especially when dealing with inter-risk concentrations, whilst more complex institutions will be expected to adequately capture both intra- and inter-risk concentration in their internal measurement models. Inter-risk concentration was largely neglected in the past, therefore, institutions should start addressing concentration risk in its entirety, adequately capturing both intra-risk concentration in key material risk areas as well as inter-risk concentrations. CEBS fully recognises the difficulties in modelling and measuring inter-risk concentrations and understands that in some	See paragraphs 15.

		risk across risk types primarily by means of stress testing and scenario analysis as well as qualitative analysis.	instances it may take time to develop modelling techniques.	
13.	Inter-risk concentration	For many institutions, the analysis of concentration risk across risk types must primarily take place in the context of the stress testing or scenario analyses. The requirement concerning a fully integrated approach to the measurement and control of concentration risks – as implicitly called for in CP 31 – leads to considerable expenditure without any corresponding benefit. Moreover, we point out the model risk inherent in the inter-risk integration approaches.	See comment 12.	See comment 12.
14.	Supervisory review and evaluation	With view on national supervisors' assessment of banks' measure and treatment of exposures to concentration risk, therefore supervisors are expected to be transparent about their decision making process. This would have the additional benefit of facilitating comparability of supervisors' approaches across the EU.	In the case of cross-border banking groups, starting in 2011, consolidating and host supervisors of EEA entities of the group will be expected to decide on the level of own funds held by the institution at the consolidated and individual entity level. This joint decision process as required by Article 129(3) of the CRD and elaborated in the CEBS 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] requests supervisors to conduct joint assessment of risk and control factors, including concentration risk, and explain in the	New guideline dealing with specific aspects of cross-border groups and home-host supervisor cooperation has been introduced to the guidelines (see GL20).

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

			respective college of supervisors how the assessment of the risk profile results in the supervisory view on the level of capital. CEBS believes that the practice of joint assessments and joint decisions undertaken by the colleges of supervisors will significantly contribute to the convergence of supervisory practice in the EEA.	
15.	Proportionality	As regards the targeting of the guidelines on the various institutions, the adherence to the principle of proportionality is very much welcomed. Nevertheless the current guidelines may be overly concerned with the unmitigated exposure to concentration risk in the credit portfolios of smaller, regionally active lenders. Here the industry representatives would like to stress the importance of a bank's local knowledge, where geographic concentration directly translates into expertise regarding the market concerned. Especially for retail banks with a focus on lending to the local economy, credit risk tends to be spread across various industry sectors, which in turn leads to a diversified portfolio in real economic terms. It is therefore urged to take into account the mitigation effect of such banks' business models for the 'real' exposure to risk concentrations.	CEBS agrees with the concern, and has clarified the text of the guidelines.	GL21 has been clarified.
16.	Proportionality and cross border aspects	Concerning the application of the guidelines as regards banking groups, the question arises whether exposures to risk concentrations should be measured and addressed at the level of the	CEBS agrees with the concern and the fact that the cross-border group aspects were not adequately captured in the draft text. To this end, CEBS has introduced a specific guideline	New guideline dealing with specific aspects of cross-border groups and home-host supervisor cooperation has

		individual entity or at the group level. Concentration risk should be normally addressed at consolidated level for large banking groups, as material concentrations only appear at group level. Concentrations at solo level are essentially driven by legal entities specific businesses and locations along with local economies' intrinsic concentrations, and are largely irrelevant as they diversify at group level. Further, concentration risk should be assessed relative to the institution's markets intrinsic concentrations and relative to peers. Therefore, it was pointed out that categorically insisting on the measurement of concentration risk at the level of individual entities could be problematic.	(GL21) focusing on the specificities of the supervisory review and evaluation of concentration risk management in cross-border banking groups and the role of colleges of supervisors in this process.	been introduced to the guidelines (see GL20).
17.	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 risk management 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 practices is also fully embedded in the way the risk specific sections, including the section on liquidity concentration, are currently drafted.	The provisional nature and potential need to amend the section on liquidity risk concentrations to reflect the final text of the CRD IV is reflected in the disclaimer footnote preceding the Section 4.4.

		In particular, the proposals of the CRD IV related to liquidity risk may drive banks to heap single asset classes or a restricted type of assets onto their balance sheets. In particular, the new liquidity standards restricting liquidity buffers to a limited group of assets and the new capital standards emphasizing the use of common shares may go against Section 4.4 of the CEBS paper.	CEBS is closely monitoring 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 clarifications of the current guidelines and/or its risk specific sections, CEBS will amend the guidelines in the future.	
18.	Relation to other CEBS Guidelines	CEBS is known to be preparing new guidelines on capital allocation that will cover the issue of diversification. Therefore, the guidelines on capital allocation should be put forward at the same time as guidelines on concentration risk	CEBS is not currently working on any guidelines regarding capital allocation of risk-based capital. The aspects of reconciliation between assessments of the risk profiles, ICAAP methodologies and processes and compliance with various minimum requirements of the CRD with the level of own funds have been addressed in the CEBS 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[10] .	No changes needed.
19.	Relation to other CEBS Guidelines	Some clarifications were requested on how these guidelines are supposed to interact with those on stress testing. The Guideline 3 which notes stress testing is a key tool in the identification of concentration risk was supported. Therefore it was also recommended that paragraph 9 should also refer to the stress test principles outlined in	CEBS agrees with the close relation of the guidelines, especially the part on using stress testing for identification of inter-risk concentration and, therefore, introduced references throughout the paper.	Reference to CEBS Guidelines on stress testing has been introduced, where necessary, throughout the paper. Text on stress testing being a tool for identification of concentration risk has been

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

		CEBS CP 32. Complex chain reaction type events that involve the successive occurrence of contingent risks (for example liquidity), and second, third etc order events, that can only be addressed by way of stress and scenario testing, and sensitivity analysis. Stress tests should be done on a holistic basis looking at the risks being faced by the organisation as a whole. Separate stress tests should not be run for a concentration risk.		clarified to the extent that it is not requested to do specific concentration risk stress tests, if concentration risk is adequately captured in the institution stress testing programme and firm-wide stress tests (see paragraphs 37-38).
20.	Implementation	Guidance on the measurement of concentration risk at national level has already been produced by Central Banks or Banking Associations, especially as an aid for smaller banks. We expect them to be in line with the CEBS guidelines, but there should be a call for harmonisation among European countries in order to avoid potential conflicts stemming from differing legacy norms or national guidelines.	CEBS is proposing high-level guidance, which will be implemented by the national authorities, effectively meaning that national guidelines and rules will need to be changed, if necessary, to be compatible with the CEBS's guidelines. The implementation of the guidelines will be assessed by CEBS in the course of the work and implementation, including the implementation study to be conducted one year after the implementation date.	No changes needed.
21.	Implementation	Industry was very supportive of a possibility for the phased implementation of the guidelines, advocating that firstly, banks should start managing concentration risk within each silo (credit, market, operational). In a second step, the scope would be extended to a firm-wide view. Moving to one holistic framework should be done when the institution is able to manage the concentration risks that occur in each of the risk types separately. Therefore, the process to manage and measure concentration risk should	CEBS will expect its members to apply the present guidelines by 31 December 2010, meaning that by this date the guidelines should be transposed into national supervisory guidelines and 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	The section on implementation of the guidelines has been clarified.

		be introduced in a number of consecutive stages. The use of stress tests can be a helpful tool in achieving this goal.	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.).	
22.	Implementation	The timeline for implementation should be clarified. In particular, it is important to underline that 31.12.2010 is the implementation deadline for transposition by the national supervisors / into national law, but not for implementation by individual banks. The latter would be a challenge given substantial necessary changes to banks' IT systems, adaptation in stress testing procedures, additional data requirements etc.	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. 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.).	The section on implementation has been clarified to reflect the focus of the implementation deadline as well as planned implementation study.
23.	Implementation	The guideline currently gives no indication as to the areas which are perceived to be priorities, and which institutions should seek to address earlier, and which elements could be phased in later. It should be recognised that the processes that institutions already have in place will have a bearing on this decision and look forward to dialogue with supervisors on this issue. The proposal to conduct an implementation study after one year was also widely supported. This will enable CEBS to assess effectiveness and whether a level playing field is in operation.	Inter-risk concentration was largely neglected in the past, therefore, institutions should start addressing concentration risk in its entirety, adequately capturing both intra-risk concentration in key material risk areas as well as inter-risk concentrations. CEBS fully recognises the difficulties in modelling and measuring inter-risk concentrations and understands that in some instances it may take time to develop	No changes needed.

			modelling techniques.	
24.	International coordination	The EU is home to a significant number of globally active financial services firms and we emphasise that a globally consistent regulatory approach will support the strengthening of global risk management practices. The need for global regulatory convergence and the importance of uniformity in the application of regulation was stressed by the industry.	CEBS agrees with the concern over the need for an increased dialogue between supervisors and 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 testing, as elaborated in the CEBS guidelines for operational functioning of colleges 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.	No changes needed.
25.	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 becomes the EBA are much appreciated.	The changes to the EU supervisory framework are being currently discussed by the EU institutions and the final text is not known at the moment. Areas of the legislation, where European Banking Authority (EBA) will be tasked with development of the binding technical standards, are outlined in the so called “Omnibus directives”, which is currently being discussed by the EU Parliament. According to the available information, at the	No changes needed.

			current stage of the process, concentration risk 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 concentration risk, the current guidelines will be fundamentally reviewed and transformed into such standards according to the EBA procedures for development of binding technical standards.	
26.	Relation to other guidelines	What is the relationship between this guidelines and the revised Large Exposures regime, including CEBS guidelines on the implementation of the LER regime.	The large exposures regime (LER), which is included in the amended CRD coming into force on 31 December 2010 is a backstop regime designed to limit the impact on an institution of a counterparty failing. LER is addressing issues related to concentration of exposures to a single client or group of connected clients (so called single name concentration), whereas these guidelines are looking at the broader aspects of concentration risk going beyond simple credit concentration risk and addressing both intra-risk and inter-risk concentrations, in products and instruments, geographies, businesses, etc.	No changes needed.

[11] See http://www.c-ebs.org/documents/Publications/Standards---Guidelines/2009/Large-exposures_all/Guidelines-on-Large-exposures_connected-clients-an.aspx

			These guidelines do not address issues of LER, as CEBS has tackled revised LER in the separate set of guidelines - Guidelines on the implementation of the revised large exposures regime[11].	
27.	Implementation	It is not clear to what extent CEBS is describing a future panacea of best practice against what is needed today. Also, it is not clear whether a firm should meet all of the principles or only those that are appropriate for its business model or, having identified gaps in practice, work towards eliminating them.	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.).	See paragraphs 18-20.
28.	Implementation	ESBG would welcome more details on how and when the implementation study is to be conducted.	To ensure the harmonisation of practices across member states, CEBS will conduct an implementation study one year after the implementation date. The implementation study will be focused on the transposition of the guidelines into national regulations and on their implementation in supervisory practices as well as on the progress made by institutions.	See paragraph 20.
Detailed comments				
29.	Originally article 16 and now 23 under Section 2: Definition of concentration risk	Point 16 on page four states that: "*For example, an institution highly dependent for its profits on a single business sector and/or a single geographic area may be affected to a greater extent by sectoral or regional business cycles. Different sources of income may not be independent of each other. These interdependencies should be taken into account when assessing concentration risk.*" This text refers to business risk, which is	CEBS considers profitability or earnings driven by any specific/ high dependence on one sector / sectors and / or a single geographic area to be concentration risk, whereas business and strategic risks deal with the potential reduction in margins, poor performance and fundamental and long lasting change to the business and competitive environments respectively.	No changes needed.

		typically influenced by the investment decisions that are made by senior management. As such, business risk cannot be influenced by risk management. Institutions that are in the final stages of implementing a firm wide concentration risk management system should include business risk as part of the firm wide elements. Business risk should be measured and managed on the group level of the institution.		
30.	Article 12 under now 16 Section 2: Background and introduction	We welcome the flexibility of the phased implementation of the guidelines (paragraph 12). We also agree that the guidelines may require modifications to the institutions ' current procedures, but we would like to point out that it may also require modifications to the supervisory authorities' current procedures.	We concur that the implementation of some of the CP31 guidelines may result in modification to supervisory processes, however, the end goal is to achieve a degree of consistency.	No changes needed.
31.	Guideline 1	Guideline 1: It is broadly accepted that concentration risk should be adequately addressed in the governance and risk management frameworks of banks. With regard to materiality, the CEBS approach of leaving firms to determine their tolerance is correct and avoids prescription. It should be clarified that concentration risk should only be addressed at consolidated level for large banking groups, as material concentrations (as defined in par. 14) only appear at group level. Concentrations at solo level are primarily driven by legal entities specific businesses and locations along with local economies' intrinsic concentrations, and are largely irrelevant as they	Please refer to point 2 above	No changes needed.

		diversify at group level.		
32.	Article 19 and 22 (now 26 and 29) under Guideline 1	*Article 19 – 20* We would like that guidelines clarify that institutions will not be required to set up specific policies, procedures or governance for concentrations if these are already addressed in their risk management frameworks. In particular, institutions are expected to adequately address concentration risk in their governance and risk management frameworks, and **where appropriate to** assign clear responsibilities, and **where relevant incorporate into existing** risk policies and procedures the identification, measurement, management, monitoring and reporting of concentration risk. *Article 22* As aforementioned, we would also like that guidelines recognise that material concentrations should be primarily addressed at group level as local concentrations generally diversify away. This topic could be addressed during the Supervisory Committee of the group in order for host regulators to have the required level of comfort on the management of concentrations. Concentration risk should be **adequately documented** in relevant risk policies, explaining how intra and inter – risk concentrations are addressed at both group and solo levels. The risk management policy (ies) should be embedded in the risk management culture at all levels of the	CEBS's view is that as long as the firm's risk management framework covers concentration risk management in suitably granular detail to address the risk, then there is potentially no need for duplication, but an upward reference to the framework from the local policy and procedures should be made and the appetite should be clearly delineated on a group and solo basis. CEBS does not expect institutions to redo the governance exercise, if they have already done so in the context of the risk management frameworks for the underlying risk categories.	Paragraph 19 / now 26: no changes needed. Paragraph 22 / see amended paragraph 29.

		business With regard to materiality, CEBS's approach of leaving firms to determine their tolerance is correct and avoids prescription.		
33.	Article 22 (now 29) under Guideline 1	We believe that a well-documented concentration risk policy should be established "at both group and solo level, *as appropriate*". The Guidelines should include a possibility to exclude some group entities for which (some or all) the risks and potential risk concentrations are not material. Including group entities which do not face material risks would be overly burdensome; it would not add meaningful information and may even be counterproductive if it delays the documentation and analysis of concentration risk. This would be the case, for example, for the Euroclear CSDs, which face only limited financial risks.	In CEBS's view risk policies should cover both group and sole levels.	No changes needed.
34.	Article 19 (now 26) under Guideline 1	Firms wholly support the principle that concentration risk should be addressed in the governance and risk management frameworks of banks. Supervisors should allow for a range of approaches. It should be noted that firms do not manage intra-risk concentration risk as a separate risk but integrate it into the policies, procedures of the various risk types. For example geographic or sectoral concentrations will be factored into limit setting for individual counterparties. We recommend the current wording in Guideline 1 is revised to reflect this point, as the current draft only focuses on	CEBS disagrees with the proposed amendment to paragraph 19 (now 26) that other risk type polices should address inter-risk concentrations as this potentially approaches each risk type on a silo basis rather than looking at the concentration risk in an integrated manner.	Paragraph 19 / now 26: no changes needed. Paragraph 22 / see amended paragraph 29.

		providing a separate, stand alone approach to concentration risk management. We suggest that the draft be amended as follows: Paragraph 19…. In particular, institutions are expected to adequately address concentration risk in their governance and risk management frameworks, and where appropriate to assign clear responsibilities, and **where relevant incorporate into existing** risk policies and procedures the identification, measurement, management, monitoring and reporting of concentration risk. Paragraph 22… Concentration risk should be **adequately documented** in relevant risk policies, explaining how intra and inter – risk concentrations are addressed at both group and solo levels. The risk management policy (ies) should be embedded in the risk management culture at all levels of the business….. With regard to materiality, CEBS's approach of leaving firms to determine their tolerance is correct and avoids prescription.		
35.	Article 22 (now 29) under Guideline 1	The advice on the treatment of concentration risk at both group and solo levels (paragraph 22) is not clear to us. To us concentration risk is naturally made at group-level i.e. the highest consolidated level of a cross-border bank. We agree that the concentration risk policy should be adequately documented, but the policy will be defined according to the structure of each banking group. The wording seems to imply that there is a generally accepted correct way of	In CEBS's view risk policies should cover both group and sole levels.	No changes needed.

		managing concentration risk at the solo and sub-consolidated levels. In reality both supervisors and institutions are struggling with the contradiction between the Banking Groups' legitimate wish to benefit from their diversified structures (which is an inherent part of any bank's value added to society, to diversify away risks) and the host national supervisors assignment to protect national taxpayers from paying the bill in the event of liquidation - and liquidation is always at the solo level. Even if these guidelines cannot present any clear answers, just acknowledging the difficulties inherent in this question would help much more than simply dodging it.		
36.	Article 23 (now 26) under Guideline 1	Art.23:"... Institutions are expected to have procedures for independent monitoring of any breaches of policies and procedures...". The meaning of "independent" could be further elaborated (independent from the "business"?). It is not clear whether this means that a (central?) risk function could perform this monitoring or whether this should be done by another control function, like Internal Audit.	Monitoring of risk concentrations should ideally be derived from the risk system and be provided to a function, separate from the business, to monitor (such as risk function) alongside the business. Risk should have a part to play in devising the concentration risk metrics for institutions to assess concentration. Internal Audit will perform an assessment of the business lines' controls in managing concentration within the prescribed appetite and limits.	No changes needed.
37.	Article 24 and 25 (now 32 and 33) under Guideline 2	*Article 24* See "Concept of inter-risk concentration" in Section 1 "General comments" as well as the response to article 22. *Article 25* The second order effect described in this article is unclear. One can see possible overlap with the measures envisaged in BCBS 164 regarding wrong-way risk. The second order	Please see point 4.	See paragraph 35.

		effect should be either clarified or abandoned.	Wrong way risk is one specific example of inter-risk concentration but is by no means the only one and as detailed.	
38.	Guidelines 2 and 3	We feel that the suggestions put forward in Guideline 2 '*In order to adequately manage concentration risk, institutions should have an integrated approach for looking at all aspects of concentration risk within and across risk categories (intra- and inter-risk concentration).*' And Guideline 3 '*Institutions should have a framework for the identification of intra- and inter-risk concentrations.*' are quite academic, lack practical relevance and focus too much on calculations. Risks should in our view be managed primarily by people and not only by models. This principle should be reflected in the consultative paper. As models are a simplified representation of reality, people will always be more versatile in spotting 'out of the box' links, developments, possibilities for contagion, etc.	CEBS considers that the risks detailed in Guidelines 2 and 3 should be managed by people, however, for this to occur effectively, an adequate and integrated framework needs to be in place to ensure that that risk are managed.	No changes needed.
39.	Guidelines 3 and 4	Guidelines 3 and 4: We welcome the suggestion that stress testing is a means of identifying concentration risk stemming from both intra- and inter-risk concentrations. The Basel Committee and certain supervisors – such as the UK Financial Services Authority - have put forward	Institutions need to ensure that they evaluate and quantify risks correctly taking into account the current environment, which then needs to be projected forward based on the firm's understanding of the economic / markets' expectations taking into account the firm's	See paragraph 35.

		proposals on stress and scenario testing, including reverse stress testing – some of which are currently being implemented by banks -. These initiatives will assist with the monitoring and mitigation of such risks. Supervisors should recognise that some concentrations, esp. inter-risk concentrations are intrinsically difficult to quantify and that experts' judgment should apply. As regards paragraph 27, banks are required to price risks correctly and, at the same time, they are called on to adopt a forward-looking approach to concentration risk management. While we basically agree with both requirements, we believe it is misleading to mention them together, since certain concentrations of risk, especially those that arise across risk types, can only be identified by stress tests as acknowledged in the same guideline. It is often not possible to measure them with the help of models. As a result, their pricing will not always be reliable. On top of this, realistic market prices for taking on risks are based on the assumption that portfolios are diversified and normally will not reflect a bank-specific concentration of risk. Concentration risk management therefore aims at protecting the bank from taking on risk positions which would exceed its counterbalancing capacities and at sensitising the bank to the dangers of such exposure. It is not, however, involved in risk pricing. Hence we suggest deleting this requirement from paragraph 27.	strategy. This will provide two results, the initial concentration and the projected concentrations going forward which should demonstrate / highlight to the firm's management possible increases / decreases in concentration which can either be in line with or break the firm's concentration risk appetite As a result, CEBS does not believe it needs to be separated.	
40.	Article 26 and 27 (now 34 and 35) under	*Article 26* We would like to reiterate that there is no risk drivers associated with concentration risk as, like already mentioned, concentration is not a	Please refer to point 10 under Guideline 2 above.	Guideline 2: No changes needed.

	Guideline 3	risk in itself, but a feature of the primary risks. *Article 27* This article is fairly general and unclear as it suggests integrating detailed-enough analyses of potential evolutions of financial markets and economic conditions in a forward looking approach to concentration risk. Thus, mentioning in the same article the importance of risk-adjusted pricing and the need for a forward looking dimension in concentration management is confusing. We generally agree with the premise of this principle. However, Members seek greater clarity on the intent of paragraph 27. We would suggest that 'assess' would be more appropriate than 'price'. *Article 28* In this article, BNP Paribas suggests that the expression in brackets "*(at both group and solo levels)*" be withdrawn.		Paragraph 27: See paragraph 35.
41.	Article 27 (now 35)	§ 27: The requirement that institutions should price risks with view on potential evolutions in financial markets and the economic environment is, in itself, logical. However, it should not be interpreted as a requirement to concretely price in concentration risk. Fulfilling such a requirement would indeed be difficult; also it would not necessarily yield objective and satisfying results: Concentration risk may not be measurable to a sufficient degree of precision, is highly sensitive on the model used, and may furthermore only become evident ex-post during stress tests. ESBG upholds as well that the identification and measurement of concentration risk should protect	Please refer to point 12 above	See paragraph 35.

		institutions from excessive risk exposures; however, it is not suitable in defining the prices to be charged for risk itself. Hence, the paragraph should be clarified along these lines or be deleted.		
42.	Guideline 3	We agree that institutions should be allowed to assess themselves which risk concentrations are significant. This is of particular importance where uncommitted exposures are concerned. When uncommitted credit lines, for example, can be cancelled unilaterally with immediate effect, or when such lines can only be drawn against good quality collateral, risk concentrations are unlikely to materialise.	Please refer to point 10 and 12 under Guideline 2 above.	Guideline 2: No changes needed. Paragraph 27: See paragraph 35.
43.		The banks believe it is useful to use stress testing in order to identify and monitor the concentration risk (GL 3 and GL 4). They recognise that the intra-concentration risk will be more easily to analyse than the inter-concentration risk. Institutions must retain a certain degree of freedom in the implementation of the Pillar 2 approaches which should not be totally normalised: this must remain a dialogue between the bank and its supervisor which must adapt its methods to the establishment's risk profile.	CEBS stresses that an institution does not operate in isolation, it should consider economic developments that influence the financial markets and their actors and vice versa. An important element to consider is system-wide interactions and feedback effects and how such effects may impact the institution. The analysis of these potential interactions and feedback effects should be thorough enough to enable the institution to implement a forward-looking approach to its concentration risk management.	See paragraph 35.
44.		Point 27 requires institutions to correctly price risks. At the same time, in this connection, a forward-looking approach to concentration risk management on the basis of potential evolutions in the environment is called for. Whereas in principle we agree to the two requirements, the amalgamation in point 27 is misleading: since	Please refer to point 12 above	No changes needed.

		certain risk concentrations – in some cases those across risk types – are recognised only in the context of stress tests (in this respect, see points 24, 29, 61), these often elude theoretical model approaches to measurement and therefore reliable objective pricing. The pricing concept in point 27 is also not defined in concrete terms, i.e. it remains unclear whether internal transfer pricing, arrangement of terms in customer transactions or benchmarks within the meaning of fair market prices are meant. In our view, concentration risk management, considering available counterbalancing capacities, aims to protect an institution from assuming excessively large risk exposures and to make it aware of this, but does not relate to pricing for the assumption of risks. In this respect, the requirement should be deleted from this point.		
45.		We generally agree with the premise of this principle. However, Members seek greater clarity on the intent of paragraph 27. We would suggest that 'assess' would be more appropriate than 'price'. In paragraph 29, we welcome the suggestion that stress testing is key tool in the identification of concentration risk. This approach accords with the approaches being taken by the Basel Committee and UK Financial Services Authority on stress and scenario testing. However, we do not think it is appropriate to run specific concentration risk stress tests, because these should be done on a holistic basis looking at the risks being faced by the organisation as a whole. Stress testing will identify concentration but stress tests should not be run for a	Please refer to point 12 above	No changes needed.

		concentration risk.		
46.	Paragraph 27 and 29 (now 35 and 37)	According to paragraph 27, banks are required to correctly price its risks in line with its view of the potential evolutions in financial markets and the economic environment. It is our opinion that this requirement goes too far. Not even in the use test of the IRB framework there is a requirement to consider the credit risk in the price setting. To be able to do this in the area of concentration risk would be very difficult since it is difficult to measure concentration risk on single transactions rather than on portfolio level. Hence we suggest deleting this requirement. Paragraph 29 states that stress testing should be performed on an institution-wide basis. It is our opinion that concentration risk should be assessed at the highest consolidated level.	Please refer to point 12 above.	No changes needed.
47.	Paragraph 29 now 37	Para 29 - **Stress-testing**: Members would like to understand how these guidelines are supposed to interact with those on stress testing. We agree with Guideline 3 which notes stress testing is a key tool in the identification of concentration risk. Therefore we recommend paragraph 9 should also refer to the stress test principles outlined in CEBS CP 32. Complex chain reaction type events that involve the successive occurrence of contingent risks (for example liquidity), and second, third etc order events, that can only be addressed by way of stress and scenario testing, and sensitivity analysis. Stress tests should be done on a holistic basis looking at the risks being faced by the organization as a whole. While we agree with guideline 3, stress	CEBS believes that an institution risk management and stress testing framework should take due account of system-wide interactions and feedback effects and how such effects may impact an institution. Institutions should also understand the systemic risk and wider impact of macro-prudential risks and the fact that this may draw out concentration risks.	No changes needed.

		testing will identify concentrations, separate stress tests should not be run for a concentration risk. In paragraph 29, we welcome the suggestion that stress testing is key tool in the identification of concentration risk. This approach accords with the approaches being taken by the Basel Committee and UK Financial Services Authority on stress and scenario testing. However, we do not think it is appropriate to run specific concentration risk stress tests, because these should be done on a holistic basis looking at the risks being faced by the organisation as a whole. Stress testing will identify concentration but stress tests should not be run for a concentration risk.		
48.	Paragraph 31 (now 40)	Instead of "quantify" BNPP would prefer a more appropriate verb, such as "assess", in order to take into account the potential difficulty to quantify. Hence, the article would be as follows: *"The measurement framework should enable the institution to evaluate and **assess** the impact of risk concentrations on its earnings/profitability, solvency, liquidity position and compliance with regulatory requirements in a reliable and timely manner…"* Moreover, BNP Paribas would like CEBS to add an article or a paragraph recognizing that some aspects of concentration risk (especially inter-risk concentration) are intrinsically difficult to quantify and that experts' judgment should	Assessment / evaluation is only one half (and the first part of the process), the second part is to quantify the risk exposures.	See paragraph 40.

		consequently apply.		
49.	Guideline 4	Guideline 4: '*Institutions should have a framework for the measurement of intra- and inter-risk concentrations. Such measurement should adequately capture the interdependencies between exposures.*' addresses intra- and inter risk concentrations. We would like to point out that the consecutive approach should apply here as well. This approach starts by looking at concentrations per risk type and subsequently takes firm wide concentrations into account as and when an institution is able to monitor these firm wide concentrations.	CEBS agrees.	No changes needed.
50.	Guideline 3	Guideline 3 requires institutions to have a framework for the identification of intra- and inter-risk concentrations and guideline 4 requires institutions to have a framework for the measurement of intra- and inter-risk concentrations. Since it is our opinion that concentration risk is not a risk area of its own we think that there should not be a requirement that the Swedish Bankers' Association 3 institutions should have a separate organisation for concentration risk. Our suggestion is to delete the requirement of framework and instead require that intra- and inter-risk concentrations are identified and measured.	The current CRD states quite clearly that concentration risk is not captured under Pillar 1 (either by the institution's internal models or standardised approaches) and, thus, it needs to be addressed in Pillar 2 and our experience is that this is one of the least understood risks in Pillar 2 and thus CEBS is to provide assistance to firms as to our expectations and to facilitate dialogue.	No changes needed.
51.	Guideline 6	We agree and appreciate the examples detailed. The use of key risk indicators is commonplace among European banks, acting as an early warning system. These are collated for risk committees to review.	Limit structures are related to risk appetite and is an essential part of risk management framework which we believe facilitates an institution's judgement.	No changes needed.

		Many supervisors already reviewed the functioning of risk control systems on a regular basis. Controlling, monitoring and mitigating concentration risk should part of the risk assessment in any institution. We feel however that it should be clarified that the requirement to set formal limit structures should only apply where it is appropriate based on the institution's own judgment.		
52.	Guideline 6	Controlling, monitoring and mitigating concentration risk should be part of the risk assessment in any institution. Many banks like BNP Paribas have already put in place limits and thresholds / alerts systems. However BNP Paribas considers that formal limit structures are no panacea and should not be a substitute for management's judgment. Accordingly, we would like that guidelines require institutions to set up formal limit structures only for cases considered as appropriate by the institutions, allowing the use other types of tools such as thresholds or regular monitoring of key indicators. Hence, in article 35, the expression "where appropriate" should be added: *"An institution should set,* ***where appropriate****, top-down and group-wide concentration risk limit structures (including appropriate sub-limits across business units and across risk types) for exposures to counterparties or groups of related counterparties, sectors or industries, as well as exposures to specific products or markets."*	Please refer to point 51 above.	No changes needed.
53.	Guideline 5 – paragraph 35	§ 35: The call for top-down and group-wide concentration risk limits could be interpreted as	Please refer to point 51 above.	No changes needed.

	(now 44)	an instruction to limit all exposures. ESBG would ask for clarification so that such an interpretation be avoided. Furthermore, we are highly doubtful that absolute limits or benchmarks above which concentration risk exists and/or becomes problematic can be established in the first place. We agree that institutions should have adequate arrangements in place for actively controlling, monitoring and mitigating concentration risk and find the examples included useful. However, we are concerned by paragraph 35, which suggests that there should be top down and groupwide concentration risk limit structures. We would note that concentration risks are often incorporated within risk type processes and procedures and therefore may not be addressed in this manner; key risk indicators may be used as an early warning system, with reporting mechanisms to ensure risk committees undertake review.		
54.	Guideline 5, paragraph 35	We agree and appreciate the examples detailed. The use of key risk indicators is commonplace among European banks, acting as an early warning system. These are collated for risk committees to review. Many supervisors already reviewed the functioning of risk control systems on a regular basis. Controlling, monitoring and mitigating concentration risk should part of the risk assessment in any institution. We feel however that it should be clarified that the requirement to set formal limit structures should only apply where it is appropriate based	CEBS acknowledges that setting limit structures may not always be the most appropriate or sufficient way of managing (inter-risk) concentration risks. However, the guidelines emphasize the importance of applying a holistic and comprehensive view to the management of risk concentrations. The limit structure of the institution should be reflective of this, taking into account intra- and inter-risk dependencies across the banking group where appropriate. The limit system is expected to go beyond a 'silo based' approach.	See paragraph 44.

		on the institution's own judgment.	CEBS is aware that the methodological approaches to measure inter-risk concentration in the industry are still under development and anticipates that models which capture a holistic approach will evolve over time; the same holds true for the development of limit structures. Institutions themselves are responsible for adequate risk management of concentration risk. In practice, there may be differing views of institutions and supervisors regarding the adequacy of the applied limit structure. Such cases can be dealt with under Pillar 2, in which the dialogue between institution and supervisor plays a key role.	
55.	Guideline 5, paragraph 35	Controlling, monitoring and mitigating concentration risk should be part of the risk assessment in any institution. Many banks like BNP Paribas have already put in place limits and thresholds / alerts systems. However BNP Paribas considers that formal limit structures are no panacea and should not be a substitute for management's judgment. Accordingly, we would like that guidelines require institutions to set up formal limit structures only for cases considered as appropriate by the institutions, allowing the use other types of tools such as thresholds or regular monitoring of key indicators. Hence, in article 35, the expression "where appropriate" should be added: *"An institution should set,*	Please refer to comment 54.	

		***where appropriate**, top-down and group-wide concentration risk limit structures (including appropriate sub-limits across business units and across risk types) for exposures to counterparties or groups of related counterparties, sectors or industries, as well as exposures to specific products or markets."*		
56.	Guideline 5, paragraph 35	§ 35: The call for top-down and group-wide concentration risk limits could be interpreted as an instruction to limit all exposures. ESBG would ask for clarification so that such an interpretation be avoided. Furthermore, we are highly doubtful that absolute limits or benchmarks above which concentration risk exists and/or becomes problematic can be established in the first place.	Please refer to comment 54.	
57.	Guideline 5, paragraph 35	In line with the comment related to group-wide policies under Guideline 1, we believe that limit structures should not necessarily be put in place at the highest level of consolidation. Firms should therefore rather "set top-down and group wide concentration limit structures, *when appropriate*". With regard to mitigation techniques, though institutions should not over-rely on specific mitigation instruments, it should be noted that not all instruments are equal in that respect and that concentration in, for example, well-rated government bonds should not be treated similarly to concentration in lesser-quality assets.	CEBS acknowledges that the quality of mitigating instruments may differ, which should be assessed and taken into account as part of the risk management process regarding concentration risk. Please also refer to comment 54.	See paragraph 51. Please also refer to comment 54.
58.	Guideline 5	We agree with guideline 5: '*Institutions should have adequate arrangements in place for actively controlling, monitoring and mitigating concentration risk.*' The fact that words like 'for example' are used underlines the institution-	Comment noted.	No changes needed.

		specific orientation that concentration risk management should have.		
59.	Guideline 5, paragraph 35	Point 35 could be interpreted as a requirement to subject all exposures to a limitation – which we do not consider appropriate. Rather, it should be ensured that suitable control mechanisms are implemented. In so far as these manage without limitations, the corresponding procedure should not be constricted unnecessarily. Limitation – especially for the risk concentrations arising from intra-risk exposures – as a rule already occurs on the basis of the normal risk measurement procedure.	Please refer to comment 54.	
60.	Guideline 5, paragraph 35	We agree that institutions should have adequate arrangements in place for actively controlling, monitoring and mitigating concentration risk and find the examples included useful. However, we are concerned by paragraph 35, which suggests that there should be top down and groupwide concentration risk limit structures. We would note that concentration risks are often incorporated within risk type processes and procedures and therefore may not be addressed in this manner; key risk indicators may be used as an early warning system, with reporting mechanisms to ensure risk committees undertake review.	Please refer to comment 54.	Please refer to comment 54.
61.	Guideline 5, paragraph 34	In paragraph 34 CEBS suggests that active management of risk exposures is required to mitigate the potential emergence of concentrated exposures within portfolios. In our view one option to this must also be to capitalise the bank instead of mitigating the exposure. According to paragraph 35 an institution should set top-down	CEBS emphasises the importance of capital adequacy in relation to concentration risk, which is reflected throughout the document. There is a trade-off between the amount of concentration risk that is mitigated and the amount of capital that is required.	No changes needed.

		and group-wide concentration risk limit structures for exposures. To us the use of limit structures is only one of many ways to manage concentration risks. Other ways would be hedging or capital allocation and pricing to create a good structure. It is our opinion that an institution must have the possibility not to manage a concentration risk if the bank actively decides to take on concentration, for instance as part of its business model.	However, capital should not be regarded as a substitute for adequate risk management. Furthermore, as the guidelines emphasize, the impact of concentration risk may go beyond capital and may affect the health of the institution in different ways, e.g. through liquidity. As such, just holding additional capital may not be a sufficient response in addressing the presence of concentration risk. The guidelines do not mean to disallow exposures to concentration risk per se. Instead, they require adequate management of concentration risk, especially in the situation where banks actively decide to take on concentration risk, for instance, as part of its business model.	
62.	Guideline 5, paragraph 35	We propose to change the wording as follows: *"An institution should set top-down and group-wide concentration risk limit structures, as appropriate."* With regard to mitigation techniques: we agree that institutions should not over-rely on specific mitigation instruments. However, not all instruments are equal in that respect. For example, reliance on collateral in the form of well-rated government bonds can be considered as an effective mitigation measure, irrespective of	Please refer to comments 54 and 57.	

		the concentration in such instruments.		
63.	Guideline 6, paragraph 43	The guidance of CEBS on reporting of concentration risk is welcome as long as it is principle-based and allows for banks to define their own reporting methods. This line should be followed by national supervisors when it comes to implement and review specific reports. We would suggest making it clearer that an additional, dedicated reporting framework is not necessary and that risk concentrations can be addressed in existing risk reports. There are different levels of application, consolidated, solo and legal entity. There are also different approaches, top-down and bottom-up. It should be left to firms to work out what is best for them/their business models.	The guidelines do not seek to enforce the establishment of a strictly separate reporting framework for concentration risk. CEBS recognises that it is the responsibility of the institution itself to develop and implement an adequate internal reporting framework for concentration risk. Reporting of concentration risk could be integrated within an existing framework or be part of a dedicated separate framework.	See paragraph 57.
64.	Guideline 6, paragraph 43, 44	*Article 43* The guidance of CEBS on reporting of concentration risk is welcome as long as it is principle-based and allows for banks to define their own reporting methods. As already mentioned it is neither appropriate nor efficient to require reporting at solo and consolidated levels. The consolidated level should be the priority. More fundamentally, putting together a reporting for concentration risk is conceptually difficult to understand as concentrations are not independent from their underlying risks. Concentration risk is a sub-product of a set of risks that are individually modelled. With regard to mitigating actions that have to be undertaken, the guidelines should clarify that not all concentrations should trigger mitigative actions, if	Please also refer to comment 63. The guidelines do not require all concentration risk exposures to be mitigated. However, resulting exposures are to be managed adequately as described by the guidelines, including an assessment in terms of capital adequacy. Regarding the frequency of the reporting, CEBS agrees that the materiality of the risk	See paragraphs 43, 57-58.

		these concentrations are consistent with the bank's risk appetite. *Article 44* BNP Paribas wants to outline that that the requirement on the frequency of the reporting "should reflect the nature of the risk drivers, especially with regard to their volatility" might be not be relevant when the driver is not material and/or the dynamics of a set of risk drivers are not correlated.	drivers is to be taken into account.	
65.	Guideline 6, paragraph 43	§ 43: A "monitoring and reporting framework for risk concentrations" should be integrated into the general risk reporting already taking place. A separate reporting process is not called for – double reporting may even lead to less efficient reporting.	Please refer to comment 63.	
66.	Guideline 6, paragraph 43	For the reasons outlined above under Guidelines 1 and 5, we propose to specify that reporting of concentration risk should be carried out "at both consolidated and solo level, *as appropriate*".	Please refer to comment 63.	
67.	Guideline 6	With regard to Guideline 6: '*Institutions should have adequate arrangements in place for reporting concentration risk. These arrangements should ensure the timely, accurate and comprehensive provision of appropriate information to management and the management body about levels of concentration risk.*' we note that reporting concentration risks can be quite tough to establish. Especially if the requirement is to create a holistic view, this can be hard to achieve. In our opinion, banks themselves should steer the way they shape their concentration risk management. Subsequently, the institution	Please refer to comment 63.	

		should convince the regulator that the adopted approach fits the organisation and meets all the prudential requirements.		
68.	Guideline 6, paragraph 43	Point 43 calls for a monitoring and reporting framework for risk concentrations. It should be clarified that here separate reporting is not necessarily required, but risk concentrations can be considered in the context of the regular risk reporting.	Please refer to comment 63.	
69.	Guideline 6	We generally support this principle. As regards intra-risk concentrations, we would note that reporting on these will be captured within existing management information produced and believe that additional specific concentration risk reporting should not be required.	Please refer to comment 63.	
70.	Guideline 6, paragraph 43	Paragraph 43: We propose to change the wording as follows: *"The reports should include information at both consolidated and solo levels, as appropriate, spanning business lines, geographies and legal entities."*	Please refer to comment 63.	
71.	Guideline 7, paragraph 46, 47, 48	Guidelines 7 and 20: Our opinion is that concentration risks should be one output, among others, of the stress testing process. All the more so as it is a key item in the banks ICAAP and capital planning frameworks as stated in the CEBS guideline. However, we would like to draw the attention of CEBS to the wide-scoping nature of the ICAAP. All features of a bank should be considered altogether and not in an isolated approach. In this vein, concentration risk should be assessed from the overall perspective of the banking group, together with the portfolio	The guidelines underline the importance of applying a holistic approach to the assessment of concentration risk. The guidelines do not impose a calculation methodology for the measurement of concentration risk and the amount of capital that is to be considered adequate given the level of concentration risk. CEBS agrees that unnecessary double counting of concentration risk when assessing capital adequacy is to be avoided.	See paragraphs 34, 57-58.

		structure and diversification characteristics. We strongly oppose the view that concentration risk should be assigned additional capital itself. For this reason, we would encourage CEBS to be more explicit in this guideline as regards the overall assessment of an institution in which the risk of concentrations is just a part of the entity's risk profile. The guideline appears to imply that concentration risk can be measured independently of the underlying risks involved and subjected to a separate capital charge. This would not be the case. Concentrations are normally captured when risk positions are measured at portfolio level. An across-the-board additional capital charge for concentration risk would consequently result in a duplication of capital requirements calculated under the bank's ICAAP. The real challenge facing banks is to identify concentrations of risk which have not as yet been adequately addressed with the help of established models. These risk concentrations, especially if they have been uncovered in the course of stress testing, must then be analysed to ascertain to what extent they need to be backed by regulatory capital or what other measures are appropriate	As stated in the CEBS Guidelines on application of supervisory review process under Pillar 2 (GL03), it is the responsibility of the institution to define and develop its ICAAP. Institutions should have a process for assessing their overall capital adequacy in relation to their risk profile. Institutions may develop various methodologies for assessing their risk exposure and setting capital against it. The onus is on the institution to demonstrate, during its dialogue with its supervisor, that its internal capital assessment is comprehensive and adequate to the nature of risks posed by its business activities and its operating environment. The dialogue should be structured to cover elements, including how the institution allocates capital against risk. As regards inter-risk concentrations, supervisors are aware that the methodological approaches to measuring inter-risk concentration in the industry are still under development and anticipate that models which capture a holistic approach will evolve over time. Banks are expected to identify concentrations of risk which have not as yet been adequately addressed with the help of established models.	

72.	Guideline 7, paragraph 46, 47, 48	GL7 & 20: As mentioned earlier, we strongly oppose the view that institutions should hold "capital for concentration risk". Concentrations are one element already considered in the ICAAP, along with diversification and risks not included in pillar 1. Based on the comparison of the overall ICAAP result against pillar 1 capital requirements it should determined whether additional capital is required. *Article 46 & 110* As concentration and diversification are interlinked, concentration is taken into account in the ICAAP. The concentration is captured as a sub-product by the treatment of the other risks in the ICAAP process. Concentration risks should be one output, among others, of the stress testing process. Within the stress testing process concentrations should be assessed from the overall perspective of the banking group, together with the portfolio structure and its diversification characteristics. *Article 47* Proposing to measure net and gross exposures to concentration risk does not make sense as concentration risk can not be isolated from the primary risks. Measuring net concentration risk, after taking into account mitigants is unrealistic, especially because many mitigating factors are not quantifiable. *Article 48* BNP Paribas firmly opposes the possibility, left open by the guideline, to have a dedicated capital charge for concentration, which would be based on a measurement of the concentration performed independently from the	Please refer to comment 71.	

		measurement of the underlying risks.		
73.	Guideline 7, paragraph 47	§ 47: The notion that institutions should assess their gross and net exposure to concentration risk suggests that concentration risk can be quantified separately from the general risk categories within/across which it manifests itself. ESBG does not see how this should be possible in a reliable and adequate manner. Accordingly, we are also very sceptical concerning the idea to allocate extra capital to what would be derived as an unmitigated net exposure to concentration risk. Since within portfolios concentration risk is already measured to a large extent, requesting additional capital to be allocated to cover any derived overall net-exposure to concentration risk could lead to doubling the capital allocated within ICAAP in order to address concentration risk within a risk area. Thus ESBG rather believes that the main challenge for institutions is to identify those occurrences of concentration risk which their current models have not been able to capture sufficiently. For such cases, there will be a need to investigate whether extra capital is called for or whether other mitigation measures would be more effective.	Please refer to comment 71.	
74.	Guideline 7	The French banks consider that the concentration risk should indeed be taken into account in the ICAAP (GL 7) but they believe that the regulatory response should not be limited to imposing additional capital requirements. Moreover, they consider very important to sidestep the obstacle of standardization of methods. Other measures can be put in place by each bank in order to limit this risk, notably through an improvement in the	Please refer to comment 71.	

		internal control system.		
75.	Guideline 7, paragraph 50	We agree with Guideline 7: '*Institutions should ensure that concentration risk is taken into account adequately within their ICAAP and capital planning frameworks. In particular, they should assess, where relevant, the amount of capital which they consider to be adequate to hold given the level of concentration risk in their portfolios.*' Looking at the elements that are mentioned in paragraph 50, we note that all these elements are already included in the management of concentration risk. For instance in the large exposures regime, the monitoring of geographical-, product- and sectoral concentrations, stress tests, etc. The objective of these measures is to find out what the second order effects of concentration are, so that these can be acted upon by the institution.	The elements mentioned in paragraph 50 refer to credit risk. The scope of the guidelines goes beyond that and aims at the management of both intra- and inter-risk concentrations.	No changes needed.
76.	Guideline 7, paragraph 47	According to point 47, institutions are to determine their gross and net exposure to concentration risk. The point thereby implicitly assumes that concentration risks can be measured separately from the original risk types and underpinned with capital, which is not the case. The measurement of risk exposures at portfolio level regularly also includes the corresponding concentrations. Flat-rate separate capital cover for concentration risks would therefore lead to double cover under the ICAAP. The challenge for institutions consists more in the identification of concentration risks which have so far not been adequately addressed with the current models. For these, it is then necessary in each case to examine – especially in so far as	Please refer to comment 71.	

		they were determined in the context of stress tests – the extent to which capital cover is economically necessary and/or other measures are indicated.		
77.	Guideline 7	We agree that concentration risk should be taken into account in the ICAAP and capital planning. However, we think that the supporting text is confusing. These paragraphs seem to mix up the mitigants against concentration risk, for example buying credit protection, with the capital that should be held aside against concentration risks that can not be mitigated, i.e. providing a buffer against the effects of concentration risk once it has materialised. A firms' Pillar 2 process should have analysed whether concentrations have been sufficiently well mitigated (whether first or second order) so as not to require further capital underpinning. The guideline implies that concentration risk can be measured independently of the underlying risks involved and subjected to a separate capital charge. Concentrations are normally captured when risk positions are measured at portfolio level. An across-the-board additional capital charge for concentration risk would consequently result in a duplication of capital requirements calculated under the ICAAP. The challenge facing banks is to identify risk concentrations which have not, as yet, been adequately addressed with the help of established models. These concentrations, especially if they have been uncovered in the course of stress testing, must then be analysed to ascertain to what extent they need to be backed by regulatory capital or what other measures, i.e.	Please refer to comment 71.	

		qualitative, are appropriate.		
78.	Guideline 7	As stated in the guidelines concentration risk is of big importance in the banks ICAAP and capital planning frameworks. It is however our opinion that concentration risk should be assessed from the overall perspective of the banking group together with diversification characteristics. The guideline can be read in a way that implies that concentration risk can be measured independently of the underlying risks involved and subjected to a separate additional capital charge. We strongly oppose this. The guidelines should instead state that banks should identify concentrations of risk which have not been adequately addressed with the help of established models.	Please refer to comment 71.	
79.	Guideline 7, paragraph 47	Paragraph 47: We note that the calculation of a net exposure to concentration risk is only meaningful for realised exposures. Uncommitted credit lines that would be used against a good quality collateral should not be taken into account, as noted under Guideline 3.	Please refer to comment 71.	
80.	Credit risk section 4.1	We would appreciate more clarity on how the recommendations included in CP31 relate to the recently amended Large Exposures rule.	Please refer to comment 26.	Adapted footnote 11.
81.	Paragraph 50	Point 50 describes the concentration risks resulting from "common underlying factors". As regards the securitisations field, this has already been discussed in respect of CEBS CP 26 in the context of the requirements corresponding to Pillar I. We should like to refer to the discussions set out there and to emphasise two points in	Please refer to comments 80 and 85.	

		particular: A review of the corresponding underlyings is in many cases necessary, but nevertheless to be subject to materiality thresholds, i.e. not to be carried out per se in all cases. For transactions contracted up to and including 2010, transitional periods are also necessary, since the corresponding instruments and processes cannot be converted ad hoc. We should appreciate corresponding guidance in CP 31 so that the institutions are not faced with inappropriate requirements during the concrete on-the-spot checks.		
82.	Paragraph 50	Paragraph 50: We note that "common main sources of funding" are difficult to assess if not publicly disclosed.	CEBS acknowledges the challenges that may arise in identifying and assessing these relationships. However, the potential impact of such common risk drivers can be too material to be ignored.	No changes needed.
83.	Guideline 8, paragraph 52	*Article 52* It should be noted that many of these elements will be addressed in Pillar 1 when BCBS 164 will come into force.	Comment noted.	No changes needed.
84.	Paragraph 50	In relation to the definition of connected clients, please note that "common main sources of funding" are difficult to assess if not publicly disclosed.	Please refer to comment 82.	
85.	Guideline 8, paragraph 54	For securitisation transactions, the CEBS's recommendation is very difficult to implement (paragraph 54) and is already disadvantageous in respect of large exposures limits. Consequently, the banks would need a more appropriate timeframe. Moreover, it will be necessary to ensure that the proposal does not distort competition, by penalising European banks. On	CEBS acknowledges the importance of a level playing field. CEBS acknowledges the challenges in taking into account and assessing the credit concentration risks that may arise from the	No changes needed.

		international level, it would be advisable that discussions between supervisors come to a harmonized level of requirements.	structure underlying complex products. However, the potential impact can be too material to be ignored.	
86.	Guideline 8, paragraph 52	In response to Guideline 8 '*Institutions should employ methodologies and tools to systematically identify their overall exposure to credit risk with regard to a particular customer, product, industry or geographic location.*' we note the three step approach we introduced on page 2. In our view this approach will properly address concentration risk. In paragraph 52, it is mentioned that inter obligor relationships can be complex. We agree with this statement and welcome the acknowledgement that this can be burdensome to execute.	Please refer to comment 82.	
87.	Guideline 8, paragraph 51, 52, 54, 55	We support the principle in guideline 8. However, we seek further clarification on paragraph 51 and how it relates to the following paragraphs. Paragraphs 52 and 54 seem to relate to transaction structure and it would be helpful if these could be linked. We understand the regulatory desire in paragraph 55 but would note that, owing to the variability of available information, it will be necessary to accept that institutions will operate on a best efforts basis. We also note that this guideline overlaps with some of the requirements of the large exposures regime with respect to connected counterparties.	CEBS welcomes the suggestion to link paragraphs 52 and 54. Paragraphs 52 to 55 should be read as examples of the complexities mentioned in 51. Please also refer to comments 80 and 84.	See paragraphs 61-64.
88.	Guideline 8, paragraph 55	Paragraph 55 states that interdependencies between creditors which may go beyond sectoral or geographic links may only become apparent under stressed circumstances and that stress testing would be a helpful tool to gauge the size	Comment noted.	See paragraph 65.

		of these hidden concentrations. This is a very demanding requirement and the question is if it is realistic to believe that the stress tests will be that sophisticated.		
89.	Guideline 8	As mentioned earlier, we question the terminology of 'concentration risk' and suggest the title of this guideline be modified as follows: From *"The models and indicators used by institutions to measure* ***credit concentration risk*** *should adequately capture the nature of the interdependencies between exposures."* To *"The models and indicators used by institutions to measure* ***credit risk*** *should adequately capture* ***concentrations****."*	This guideline is not to be read as a necessary requirement to develop a separate model for the measurement of credit concentration risk. CEBS acknowledges that credit concentration risk may be included in an overall credit risk modelling framework.	No changes needed.
90.	Guideline 9	Although Guideline 9: '*The models and indicators used by institutions to measure credit concentration risk should adequately capture the nature of the interdependencies between exposures.*' is true, models and indicators need to be complemented by competent risk managers in order to be effective. With regard to models, the PD, EAD and LDG models are regularly validated and monitored for performance. In terms of regulatory capital, there are caps and floors that make sure that excesses cannot occur. Full diversification models, however, are much harder to assess for effectiveness, both in terms of quality of the model as well as understanding the results.	Comment noted.	No changes needed.
91.	Credit risk section 4.1	We note that paragraph 12 of the consultation document states that: *"the implementation of some specific aspects of the guidelines may require modifications to institutions' current*	As stated in the CEBS Guidelines application of supervisory review process under Pillar 2 (GL03), it is the responsibility of the institution to define and develop its ICAAP.	No changes needed.

		procedures." While the change of certain procedures could be supported, we advocate that the internal models which are used to measure credit concentration risk ought not to be changed.	Institutions should have a process for assessing their overall capital adequacy in relation to their risk profile. Institutions may develop various methodologies for assessing their risk exposure and setting capital against it. The onus is on the institution to demonstrate, during its dialogue with its supervisor, that its internal capital assessment is comprehensive and adequate to the nature of risks posed by its business activities and its operating environment. The dialogue should be structured to cover elements, including how the institution allocates capital against risk.	
92.	Paragraph 63	§ 63: CEBS considers that VaR models may not adequately capture market risk concentrations, since VaR measures may not reflect stressed market conditions. ESBG does not agree with this line of reasoning, since concentration risk does not necessarily build on stress risk. Therefore we find that VaR models can be used for the identification of risk concentrations. We would invite CEBS to clarify that, as such, the applicability of VaR models in this context is not questioned.	Comment is taken on board	See paragraph 73.
93.	Paragraph 61-63	For market risks (paragraph 61 et seq.), the CEBS' proposal should be covered by the new market approaches, which will be implemented under Pillar 1 and will lead to increased capital requirements (CRD Ill). Notably, the IRC model of an institution will take into account market concentrations, counterparties and concentrations	CEBS agrees that intra-risk concentrations should be addressed in the risk management of the specific underlying risk areas (e.g. liquidity concentrations are addressed in liquidity risk management). Therefore, it might not be necessary to set up parallel risk management frameworks, including stress	CEBS has clarified the interpretation of the guidelines in relation to intra-risk concentration and capture of such concentrations in the risk specific risk management tools in the introduction (see new

		within and between class of products in a stress period. Consequently, requirements under Pillar 2 must not be duplicated with these new requirements under Pillar 1.	testing, reporting, etc. However, institutions should clearly demonstrate to their supervisors that concentration risk is adequately captured in the risk management framework and tools set up for the specific risk areas, e.g. credit concentrations are adequately addressed in the credit risk management, including risk measurement models, economic capital models, where appropriate, internal reporting, stress testing, etc. As for interactions between various risk factors and inter-risk concentrations, in CEBS's view they might not be sufficiently captured in the existing "silo" risk management models, therefore, special attention is required both from institutions and supervisors, and, accordingly the principles set forward in the guidelines apply in full.	paragraph 7) and throughout the text of the guidelines.
94.		CEBS states in **point 63** that VaR models may not capture market risk concentrations adequately. In conjunction with Guideline 7, it should be clarified that VaR models can continue to be used to assess concentration risks. In our view, the use of VaR models should not be called into question.	Comment is taken on board:	See paragraph 73.
95.	Paragraph 65	§ 65: The assessment of concentration risk should take into account market related liquidity risk and the resulting changes in liquidity horizons. ESBG recognises the merit of	CEBS does not suggest having different limit structures for different liquidity horizons, but	GL9 has been clarified.

		considering this aspect, for example, in context of stress tests for liquidity risk where no limits to such risk are imposed. However, as regards the limitation of risk, ESBG does not consider it factual to take into account the risk of changing liquidity horizons. Here, we would ask CEBS for clarification.	the fact that liquidity horizons might change should be taken into account. Clarification of Guideline 10.	
96.		We seek further clarity on how this guideline fits with the introduction of stressed VaR requirements in CRD 3. We also question whether Guideline 10 is suggesting that the liquidity horizon on all instruments should be extended by the same amount, as we think that a differentiated approach may also be appropriate.	VaR requirements: Comment taken on board (change to para. 74) G10: A global extension of horizons is not suggested here. In order to avoid misinterpretations-> Clarification of Guideline 10.	See paragraph 84 and revised text of the GL9.
97.	**Section 4.3 (Operational risk)**	For the operational risk, under the AMA approach (section 4-3), the proposed guidelines should take into account the concentration risk's approach via correlations calculated during a high risk period, in parallel to the market concentration rules and on counterparties which will be used in Pillar 1, as for example IRC. In the same way, the AMA approach models the losses resulting from operational risk and their frequency, just as their recurrence's probability and the level of capital required to cover exceptional losses. Once again, every double counting must be dismissed.	‘high risk period”: change of text “double counting”: CEBS agrees that intra-risk concentrations should be addressed in the risk management of the specific underlying risk areas (e.g. liquidity concentrations are addressed in the liquidity risk management). Therefore, it might not be necessary to set up parallel risk management frameworks, including stress testing, reporting, etc. However, institutions should clearly demonstrate to their supervisors that concentration risk is adequately captured in the risk management framework and tools set up for the specific	CEBS has clarified the interpretation of the guidelines in relation to intra-risk concentration and capture of such concentrations in the risk specific risk management tools in the introduction (see new paragraph 7) and throughout the text of the guidelines.

			risk areas, e.g. credit concentrations are adequately addressed in the credit risk management, including risk measurement models, economic capital models, where appropriate, internal reporting, stress testing, etc. As for interactions between various risk factors and inter-risk concentrations, in CEBS's view they might not be sufficiently captured in the existing "silo" risk management models, therefore, special attention is required both from institutions and supervisors, and accordingly the principles set forward in the guidelines apply in full.	
98.	Guidelines 11 and 12	GL11&12: As stated under general comments it is our opinion that the guidelines under the different risk areas should be dealt with under respective risk area. The guidelines on operational risk are relevant for operational risk management, but are already covered in the framework for operational risk. As is stated in paragraph 67 the concept of operational risk concentration is new and the understanding, from both supervisors and institutions, are in an early stage. Therefore it is our suggestion that the section on operational risks is deleted. Only the parts of inter-risk analysis related to operational risk should be a part of concentration-risk specific guidelines.	CEBS agrees with the close relation of the guidelines, especially the part on using stress testing for identification of inter-risk concentration and, therefore, introduced references throughout the paper.	CEBS has clarified the interpretation of the guidelines in relation to intra-risk concentration and capture of such concentrations in the risk specific risk management tools in the introduction (see new paragraph 7) and throughout the text of the guidelines. References to other guidelines have been added.
99.	Guideline 11	We agree and welcome the illustrated examples and the CEBS's intention to revise guidance after	HFMI: comment taken on board.	See paragraph 83.

		further study. We find however very unlikely that high frequency/medium impact (HFMI) would jeopardise the survival of an institution (as indicated par. 73) as they would trigger corrective measures before doing so. It is not clear to what extent CEBS is describing a future panacea of best practice against what is needed today. Also, it is not clear whether a firm should meet all of the principles or only those that are appropriate for its business model or, having identified gaps in practice, work towards eliminating them.	CEBS acknowledges that the implementation of some specific aspects of the guidelines may require modifications to institutions' current procedures. Therefore, CEBS recommends that the implementation of the guidelines be phased, moving from the adequate management of intra-risk concentration to holistic approach, covering both intra- and inter-risk concentrations, and - whenever necessary - national supervisors provide the institutions with sufficient flexibility regarding the implementation of specific aspects of the guidelines.	The section on implementation of the guidelines has been clarified to reflect the phased implementation
100.	Paragraph 73	*Article 73* It is very unlikely that high frequency/medium impact (HFMI) loss events would jeopardize the survival of an institution as they would trigger corrective measures before doing so.	Comment taken on board.	See paragraph 83.
101.		We feel that the definition and understanding of operational risk concentrations still needs to be further refined. For example, we would like to understand how the requirements outlined in CP31 regarding the management of operational risk concentrations relate to the requirements of the Advanced Measurement Approach. Institutions applying the AMA are already deemed to include relevant scenarios in their assessment of capital needed for operational risk. One or a few of these scenarios may cover potential risks concentrations. We believe that HFMI and LFHI	relation to AMA: CEBS agrees that intra-risk concentrations should be addressed in the risk management of the specific underlying risk areas (e.g. liquidity concentrations are addressed in the liquidity risk management). Therefore it might not me necessary to set up parallel risk management frameworks, including stress testing, reporting, etc. However, institution should clearly demonstrate to its supervisors that concentration risk is adequately captured	CEBS has clarified the interpretation of the guidelines in relation to intra-risk concentration and capture of such concentrations in the risk specific risk management tools in the introduction (see new paragraph 7) and throughout the text of the guidelines.

		loss events should only be considered as contributing to concentration risk if they have a common cause (which may be reasonably high-level, like inadequate controls or procedures). Otherwise, there are no indications that this is not pure coincidence, and should therefore not be treated as a risk concentration.	in the risk management framework and tools set up for the specific risk areas, e.g. credit concentrations are adequately addressed in the credit risk management, including risk measurement models, economic capital models, where appropriate, internal reporting, stress testing, etc. As for interactions between various risk factors and inter-risk concentrations, in CEBS's view they might not be sufficiently captured in the existing "silo" risk management models, therefore special attention is required both from institutions and supervisors, and therefore the principles set forward in the guidelines apply in full. HFMI-events: comment taken on board	See paragraph 84.
102.	Guidelines 11 and 12	GL11&12: As stated under general comments it is our opinion that the guidelines under the different risk areas should be dealt with under respective risk area. The guidelines on operational risk are relevant for operational risk management, but are already covered in the framework for operational risk. As is stated in paragraph 67 the concept of operational risk concentration is new and the understanding, from both supervisors and institutions, are in an early stage. Therefore it is our suggestion that the section on operational risks is deleted. Only the parts of inter-risk analysis related to operational risk should be a part of concentration-risk specific guidelines.	CEBS agrees that intra-risk concentrations should be addressed in the risk management of the specific underlying risk areas (e.g. liquidity concentrations are addressed in the liquidity risk management). Therefore, it might not me necessary to set up parallel risk management frameworks, including stress testing, reporting, etc. However, institution should clearly demonstrate to its supervisors that concentration risk is adequately captured in the risk management framework and tools set up for the specific risk areas, e.g. credit concentrations are adequately addressed in the credit risk management, including risk measurement models, economic capital	CEBS has clarified the interpretation of the guidelines in relation to intra-risk concentration and capture of such concentrations in the risk specific risk management tools in the introduction (see new paragraph 7) and throughout the text of the guidelines. References to other CEBS Guidelines have been

			models, where appropriate, internal reporting, stress testing, etc.	introduced.
103.	Guideline 12	We agree that institutions should use appropriate tools to assess their exposure to operational risk concentration. As a matter of example, UK banks have key risk indicators (KRIs) in place, acting as an early warning system. These are collated for risk committees, which include representatives from Internal Audit, Operational Risk and, often, Compliance, to review. UK firms are assessed on business continuity by both the FSA and internal risk control functions in accordance with the FSA's Senior Management Arrangements, Systems and Controls (SYSC) handbook (which also requires stress testing, as discussed above).	CEBS acknowledges the comment.	No changes needed
104.		We believe that there is some confusion in the text regarding the role of Internal Audit, which, to our understanding, is to ensure that existing procedures are adequate and are adequately applied, not to assess exposures to risk.	Comment taken on board.	See paragraph 89.
105.	Paragraph 78	Point 78 (operational risk) calls for consideration of near misses and operational risk gains. A similar specification was already discussed in connection with the AMA. According to the currently valid interpretation, near misses and risk gains are not to be considered in the capital requirements modelling. However they may be	CEBS agrees that intra-risk concentrations should be addressed in the risk management of the specific underlying risk areas (e.g. liquidity concentrations are addressed in the liquidity risk management). Therefore it might not me necessary to set up parallel risk management frameworks, including stress	CEBS has clarified the interpretation of the guidelines in relation to intra-risk concentration and capture of such concentrations in the risk specific risk management tools in the introduction (see new

		applied in the context of control. Against this backdrop, a corresponding requirement should not be included in the context of the consideration of concentration risks.	testing, reporting, etc. However, institution should clearly demonstrate to its supervisors that concentration risk is adequately captured in the risk management framework and tools set up for the specific risk areas, e.g. credit concentrations are adequately addressed in the credit risk management, including risk measurement models, economic capital models, where appropriate, internal reporting, stress testing, etc. As for interactions between various risk factors and inter-risk concentrations, in CEBS's view they might not be sufficiently captured in the existing "silo" risk management models, therefore special attention is required both from institutions and supervisors, and therefore the principles set forward in the guidelines apply in full.	paragraph 7) and throughout the text of the guidelines.
106.		- art. 79: "Operational risk managers and internal audit functions should be involved in the assessment...". We are of the opinion that Internal Audit should not be involved in the risk assessments, in order to avoid confusion of control functions. The operational risk managers use internal audit findings and reports as input. The ORM assessments are performed by operational risk managers together with business and process experts. Internal Audit reviews the operational risk framework, its implementation and results. - art.82: we suggest to check the examples of	Paragraph 79: Taken on board. Paragraph 82: For an aggressive selling campaign legal expenses insurance could be bought. Paragraph 83: As no reasoning behind this comment is provided it cannot be commented upon.	See paragraph 89.

		insurance covers mentioned; for example, we deem "aggressive sales campaigns" impossible to insure. - art. 83: we suggest to eliminate from this CP the risks relative to the use of insurance and address these concerns in future guidelines regarding insurance as mitigation technique.		
107.	Section 4.4 (Liquidity risk)	For the liquidity risk, we consider the principles proposed by the CEBS to be globally fairly sound (GL18). However, an additional capital requirement laid down in A rticle 136 of the CRD does not appear to us to be the appropriate answer to a concentration risk deemed to be excessive. Here again, better coordination between the supervisors within the colleges should make it possible to obtain individual decisions that are consistent with the group situation and the positions taken by the supervisor on a consolidated basis. This point seems to be essential for the French banks.	An institution should take concentration risk into account in its assessment of capital adequacy under ICAAP and be prepared to demonstrate that its internal capital assessment is comprehensive and adequate to the nature of its concentration risk. In CEBS's view if an institution is able to demonstrate to its supervisors that concentration risk (both intra- and inter-risk) is adequately captured in the capital planning framework, it might not be necessary and, given the models employed by institutions, not always be possible to explicitly allocate capital to concentration risk (show capital estimate attribute to concentration risk as a single line). Exact allocation of capital to concentration risk will depend on the institutions, approaches, however both intra- and inter-risk concentration explicitly or implicitly.	See paragraph 57.

			The guidelines do not prescribe any methodology for computing capital, however, it is expected that the institutions adequately cover all material risks in their capital planning, including concentration risk.	
108.	Paragraph 85	Point 85 ff (Liquidity Risk) is concerned with the identification of risk concentrations within the liquidity risk. In particular, we would like to refer to the intended requirements of the Basel Committee ("International Framework for Liquidity Risk Measurement, Standard and Monitoring" on 17 December 2009) as well as the European Commission ("Possible further Change to the Capital Requirements Directive", February 2010) for the establishment of a uniform liquidity regime. As banks are expected to hold a stock of cash and high quality government bonds, risk concentrations could result which may have regulatory causes.	The aim of these guidelines is to enhance risk management 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 practices is also fully embedded in the way the risk specific sections, including the section on liquidity concentration, are currently drafted. CEBS is closely monitoring 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 to/in and clarifications of the current guidelines and/or its risk specific sections, CEBS will amend the guidelines in the future.	No changes needed.
109.	Guideline 13	We are not sure to understand what is meant by "non-contractual commitments". We cannot see which types of commitments could be established	The guidelines have in mind the cases of implicit (reputational) support. For example, in recent market turmoil, some banks have faced additional liquidity calls to support off-	No changes needed.

		without contract.	balance sheet vehicles even when there was no legal commitment to do so (it was their view that not providing such support would damage their reputation).	
110.		GL13-16: The Basel Committee' s consultation paper on "International framework for liquidity risk measurement, standards and monitoring" as weil as the "Possible further changes to the capital requirements directive" (CRD IV) from the European Commission, introduce new requirements for liquidity risk. Since the suggested guidelines overlap with the suggested new rules and since the nature of liquidity risk are not an issue on loss estimation it is our **Swedish** Bankers' **Association** 4 suggestion that also the section on liquidity risk is deleted. Only the parts of inter-risk analysis related to liquidity risk should be a part of concentration-risk specific guidelines.	The aim of these guidelines is to enhance risk management 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 practices is also fully embedded in the way the risk specific sections, including the section on liquidity concentration, are 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 to/in and clarifications of the current guidelines and/or its risk specific sections, CEBS will amend the guidelines in the future.	The provisional nature and potential need to amend the section on liquidity risk concentrations to reflect the final text of the CRD IV is reflected in the disclaimer footnote preceding the Section 4.4.
111.	Guideline 14	The Basel Committee's consultation paper on "International framework for liquidity risk measurement, standards and monitoring", as well as new liquidity rules introduced in some jurisdictions, introduce two new measures of liquidity risk exposures, one short-term and one long-term .Hence there will be additional monitoring and there is a link between the availability and monitoring of unencumbered	The aim of these guidelines is to enhance risk management 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 practices is also fully embedded in the way the risk specific sections, including section on liquidity concentration, is currently	The provisional nature and potential need to amend the section on liquidity risk concentrations to reflect the final text of the CRD IV is reflected in the disclaimer footnote preceding the Section 4.4.

		assets with recovery and resolution plans. As well as these hard tests, regulators are also required to monitor the overall funding and liquidity profile of banks. Uniformity of application is important. Firms should not be disadvantaged depending on their supervisor. The review after 12 months is welcome.	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 and clarifications of the current guidelines and/or its risk specific sections, CEBS will amend the guidelines in the future.	
112.		According to Guideline 14 (point 92), credit institutions must identify and monitor concentration risk in their funding sources. In this respect, the focus is on factors which may lead to a sudden, significant withdrawal of funds or deterioration in their access to funding sources. In the context of the sample list of individual products and sources, mention is made in the subparagraph on secured funding sources of covered bonds on a par with asset-backed commercial papers and securitisation of loans. We should like to point out that the German Pfandbrief is based on strict legal provisions and pronounced expert knowledge. Pursuant to legal provisions, a Pfandbrief cannot mature prematurely, so payment obligations arising from Pfandbriefe never occur unexpectedly. In addition, even during the acute phase of the financial market crisis, neither the primary nor the secondary Pfandbrief markets succumbed. It is true that the issues declined in volume, but issuing activity was consistently maintained. Whilst many funding sources contained in the list	Comment noted. Modification of wording.	See paragraph 102.

		dried up completely, this was not the case for Pfandbriefe. We therefore suggest deleting covered bonds from the list.		
113.	Guideline 17	With regard to Risk Assessment Systems, we counsel that qualitative comments are as important as the figures. Results should not be compared without an understanding of business models and discussions with management.	The comment is already captured under paragraphs 113 and 114.	No changes needed.
114.		With regard to Risk Assessment Systems, we agree that qualitative comments are as important as the figures. Results should only be compared with an understanding of business models and discussions with management. If peer review is to be conducted and specific information sought from firms, it would be helpful to have clarity on any metrics to be used.	The comment is already captured under paragraphs 113 and 114.	No changes needed.
115.	Guideline 18	We agree, but point out that supervisors already hold and have exercised the referred power as set out in the Article 136 of the CRD. As stated in the key messages, additional capital is not the only means of mitigating concentration risk.	The comment does not suggest any changes.	No changes needed.
116.	Guideline 18 and 19	GL18 & 19: With regard to supervisory assessment of a firms liquidity and capital provisions in relation to the unmitigated part of concentration risk, supervisors should focus on regulation as a mitigant to concentration risk. In terms of capital and inline with Pillar 2 more generally, it is up to an individual firm to assess how much capital should be held against all the risks it faces, which will include concentration risk.	An institution should take concentration risk into account in its assessment of capital adequacy under ICAAP and be prepared to demonstrate that its internal capital assessment is comprehensive and adequate to the nature of its concentration risk. In CEBS's view, if an institution is able to demonstrate to its supervisors that	See new paragraph 52 and amended paragraph 57.

			concentration risk (both intra- and inter-risk) is adequately captured in the capital planning framework, it might not be necessary and, given the models employed by institutions, not always be possible to explicitly allocate capital to concentration risk (show capital estimate attribute to concentration risk as a single line). Exact allocation of capital to concentration risk will depend on the institutions' approaches, however, both intra- and inter-risk concentration should be taken into account explicitly or implicitly. The guidelines do not prescribe any methodology for computing capital, however, it is expected that the institutions adequately cover all material risks in their capital planning, including concentration risk.	
117.	Guideline 19	It should be noted that new global and some domestic proposals address capital and liquidity buffers. Supervisors already hold and have exercised the power to increase capital and reduce risk. As stated in the key messages, additional capital is not the only means of mitigating concentration risk. Nevertheless, the EBF wishes to recall that measures of this nature should only be imposed after having taken all the	An institution should take concentration risk into account in its assessment of capital adequacy under ICAAP and be prepared to demonstrate that its internal capital assessment is comprehensive and adequate to the nature of its concentration risk.	See new paragraph 52 and amended paragraph 57.

		steps of a sound supervisory review process, what involves: firstly, to ensure a fair understanding of the bank risk profile by establishing a dialogue with the institution, secondly, to challenge the methods and make recommendations geared to find common ground and, only as a last resort, to oblige the bank to hold own funds in excess of the minimum requirement.	In CEBS's view, if an institution is able to demonstrate to its supervisors that concentration risk (both intra- and inter-risk) is adequately captured in the capital planning framework, it might not be necessary and, given the models employed by institutions, not always be possible to explicitly allocate capital to concentration risk (show capital estimate attribute to concentration risk as a single line). Exact allocation of capital to concentration risk will depend on the institutions, approaches, however both intra- and inter-risk concentration should be taken into account explicitly or implicitly. The guidelines do not prescribe any methodology to compute capital, however it is expected that the institutions adequately covers all material risks in its capital planning, including concentration risk.	
118.		We refer to our response to Guideline 7. It is not clear how supervisors will assess whether capital held by the institution adequately covers the nature and the level of concentration risk. Depending on the regulators a differentiated assessment could be performed among countries, potentially jeopardizing the common level playing	An institution should take concentration risk into account in its assessment of capital adequacy under ICAAP and be prepared to demonstrate that its internal capital assessment is comprehensive and adequate to the nature of its concentration risk.	See new paragraph 52 and amended paragraph 57.

		field within the industry.	In CEBS's view if an institution is able to demonstrate to its supervisors that concentration risk (both intra- and inter-risk) is adequately captured in the capital planning framework, it might not be necessary and, given the models employed by institutions, not always be possible to explicitly allocate capital to concentration risk (show capital estimate attribute to concentration risk as a single line). Exact allocation of capital to concentration risk will depend on the institutions, approaches, however both intra- and inter-risk concentration should be taken into account explicitly or implicitly. The guidelines do not prescribe any methodology to compute capital, however it is expected that the institutions adequately covers all material risks in its capital planning, including concentration risk.	
119.	Guideline 20	Guidelines 7 and 20: Our opinion is that concentration risks should be one output, among others, of the stress testing process. All the more so as it is a key item in the banks ICAAP and capital planning frameworks as stated in the	An institution should take concentration risk into account in its assessment of capital adequacy under ICAAP and be prepared to demonstrate that its internal capital assessment is comprehensive and adequate	See new paragraph 52 and amended paragraph 57.

		CEBS guideline. However, we would like to draw the attention of CEBS to the wide-scoping nature of the ICAAP. All features of a bank should be considered altogether and not in an isolated approach. In this vein, concentration risk should be assessed from the overall perspective of the banking group, together with the portfolio structure and diversification characteristics. We strongly oppose the view that concentration risk should be assigned additional capital itself. For this reason, we would encourage CEBS to be more explicit in this guideline as regards the overall assessment of an institution in which the risk of concentrations is just a part of the entity's risk profile. The guideline appears to imply that concentration risk can be measured independently of the underlying risks involved and subjected to a separate capital charge. This would not be the case. Concentrations are normally captured when risk positions are measured at portfolio level. An across-the-board additional capital charge for concentration risk would consequently result in a duplication of capital requirements calculated under the bank's ICAAP. The real challenge facing banks is to identify concentrations of risk which have not as yet been adequately addressed with the help of established models. These risk concentrations, especially if they have been uncovered in the course of stress testing, must then be analysed to ascertain to what extent they need to be backed by regulatory capital or what other measures are appropriate	to the nature of its concentration risk. In CEBS's view if an institution is able to demonstrate to its supervisors that concentration risk (both intra- and inter-risk) is adequately captured in the capital planning framework, it might not be necessary and, given the models employed by institutions, not always be possible to explicitly allocate capital to concentration risk (show capital estimate attribute to concentration risk as a single line). Exact allocation of capital to concentration risk will depend on the institutions, approaches, however both intra- and inter-risk concentration should be taken into account explicitly or implicitly. The guidelines do not prescribe any methodology to compute capital, however it is expected that the institutions adequately covers all material risks in its capital planning, including concentration risk.	

120.		GL7 & 20: As mentioned earlier, we strongly oppose the view that institutions should hold "capital for concentration risk". Concentrations are one element already considered in the ICAAP, along with diversification and risks not included in pillar 1. Based on the comparison of the overall ICAAP result against pillar 1 capital requirements it should determined whether additional capital is required.	An institution should take concentration risk into account in its assessment of capital adequacy under ICAAP and be prepared to demonstrate that its internal capital assessment is comprehensive and adequate to the nature of its concentration risk. In CEBS's view if an institution is able to demonstrate to its supervisors that concentration risk (both intra- and inter-risk) is adequately captured in the capital planning framework, it might not be necessary and, given the models employed by institutions, not always be possible to explicitly allocate capital to concentration risk (show capital estimate attribute to concentration risk as a single line). Exact allocation of capital to concentration risk will depend on the institutions, approaches, however both intra- and inter-risk concentration should be taken into account explicitly or implicitly. The guidelines do not prescribe any methodology to compute capital, however it is expected that the institutions adequately covers all material risks in its capital planning, including concentration risk.	See new paragraph 52 and amended paragraph 57.

121.	Guideline 21	We agree with the assertion that "a balanced view thus has to be taken when assessing the focused activity that may inherently lead to concentrated exposures". For example, many of our members are private banks or institutions catering for particular sectors, for example charities, leisure, development etc. They have the expertise to manage such bespoke services and risks and this fact should also be considered. It is important to guard against unintended consequences and prescription. For example, a niche operator will know its clients and markets. Therefore, the guidance should distinguish between cross-border banks and smaller firms, and not try to shoehorn institutions towards diversification that they may not understand, for example clients and markets that they do not usually cater to.	Clarification is fostered through additional paragraph 130.	See paragraph 130.
122.		§ 111 – 113: ESBG welcomes that CEBS considers that expertise and local knowledge contribute to the quality of risk management and may therefore mitigate the exposure to concentration risk. However, we would urge that in this context not only those institutions with a focus on selected products or categories of borrowers be mentioned. The argument of "relatively better portfolio quality given the greater local knowledge" equally applies to long-standing regionally oriented retail banks. ESBG therefore stresses that such banks should be included among the institutions where the benefits of local expertise are recognised as risk	Clarification in para 130.	See paragraph 130.

		mitigating factors.		
123.		We do not consider that there should always be a "positive relation between the degree of concentration and the level of capital". We have presented arguments in favour of this comment under our “General comments” to the paper. We appreciate CEBS’ thoughtful analysis under §112-113 in this respect.	An institution should take concentration risk into account in its assessment of capital adequacy under ICAAP and be prepared to demonstrate that its internal capital assessment is comprehensive and adequate to the nature of its concentration risk. In CEBS’s view if an institution is able to demonstrate to its supervisors that concentration risk (both intra- and inter-risk) is adequately captured in the capital planning framework, it might not be necessary and, given the models employed by institutions, not always be possible to explicitly allocate capital to concentration risk (show capital estimate attribute to concentration risk as a single line). Exact allocation of capital to concentration risk will depend on the institutions, approaches, however both intra- and inter-risk concentration should be taken into account explicitly or implicitly. The guidelines do not prescribe any methodology to compute capital, however it is expected that the institutions adequately covers all material risks in its capital	See new paragraph 52 and amended paragraph 57.

			planning, including concentration risk.	
124.		We agree with the guidance and in particular that a balanced view should be taken when assessing the focused activity by members that are, for example, private banks or institutions catering for particular sectors, such as charities, leisure, and development, and which have developed expertise to manage such bespoke services and risks. In such cases it is not necessarily beneficial to force diversification into areas that the institution does not have experience and therefore sufficient risk management capabilities.	Clarification is fostered through additional paragraph 130.	See paragraph 130.