CEBS Draft Guidelines for the Operational Functioning of Colleges (CP34)

Sebastiano Laviola
Chair of CEBS-GdC Subgroup on Operational Networks (SON)
Outline I

1. The role of CEBS
2. Rationale for colleges and college guidelines
3. Scope of the draft college guidelines
4. Main steps forward
5. Operational organisation of colleges
6. Exchange of information and communication with the group
7. Sharing and delegation of tasks
7. Joint decision on the permission to use internal models
8. Joint decision on the risk-based capital adequacy
9. Macro-prudential risks
10. Planning and coordination of supervisory activities in going concern
11. Planning and coordination of supervisory activities in emergency situations
The Role of CEBS (I)
The Lamfalussy structure

EBC = European Banking Committee
EIOPC = European Insurance and Occupational Pensions Committee
ESC = European Securities Committee
FCC = Financial Conglomerates Committee
CEIOPS = Committee of European Insurance and Occupational Pensions Supervisors
CESR = Committee of European Securities Regulators

¹ Finance ministries
² Supervisors and Central Banks
³ Supervisors
The Role of CEBS (II)

Objectives:
Promote efficient and effective supervision and the safety and soundness of the EU financial system through:

• Good and convergent supervisory practices
• Efficient and cost-effective approaches to supervision of cross-border groups
• Level playing field and proportionality

Main tasks:
• Advice to the Commission
• Uniform implementation of the EU banking legislation
• Convergence of supervisory practices and reporting
• Information exchange and supervisory cooperation
• Efficient and consistent functioning of colleges
• EU risk assessment from a supervisory perspective
CP 34: Rationale for colleges and for college guidelines

• Why colleges?

  • To enhance the supervision of cross-border groups drawing lessons from the financial crisis
    – At the global level, the FSB promotes the establishment of colleges to better assess risks faced by cross-border firms
    – CRD2 (Article 131a) requires the establishment of colleges as frameworks to reach agreement on key supervisory tasks, facilitating the handling of ongoing supervision and playing a role in the preparation of and during emergency situations

• Why guidelines for colleges?

  • CRD2 mandates CEBS to develop college guidelines to make their functioning operational while avoiding inconsistencies and regulatory arbitrage across colleges
CP 34: Scope and interaction with other initiatives

- **Scope of college guidelines**
  - Colleges to be set up for EEA cross-border groups with entities operating in EEA countries or both in EEA and non EEA countries
  - Colleges to be set up for credit institutions that operate solely through branches in the EEA, where those are significant

- **Interaction with “global colleges” / BCBS work-stream**
  - The consolidating supervisor to agree with non EEA supervisors on their contribution to the tasks covered by the GL
  - EU extensive experience on cooperation to serve as a reference for international guidance for colleges, though allowing for greater flexibility
  - Consistency check with the Basel guidance under way: avoid two separate collegial structures for one European cross-border bank
Main steps forward

- Clarity, while retaining flexibility, on college formats in order to promote an efficient functioning (Article 131a and recital 6)

- Colleges to be the driving force for the supervision of cross-border groups (Article 131a and recital 6)

- Enhanced information exchange guidance to avoid information gaps and reinforcement of communication channels and tools (Articles 129.1 (a), 132, 42 and 42a.2)

- Guidance on the interaction with the supervised group

- Guidance on sharing and delegation of task in a multilateral setting (131a)

- Process guidance for the joint decisions under the CRD (Articles 129.2 and 129.3)

- Guidance to foster the assessment of macroprudential risks

- Establishment of a yearly coordinated supervisory plan (Article129.1 (b))

- Planning and coordination in emergency situations (Article 129.1 (c), Article 130.1)
College membership

• Chair of the college
  - Consolidating supervisor of a EEA parent credit institution or EEA parent financial holding
  - Home supervisor of a EEA parent credit institution operating in other EEA countries through significant branches (recognised as such)

• Mandatory college members
  - Host supervisors of EEA banking subsidiaries
  - Host supervisors of EEA significant branches

• Other college members (depending on the group structure, risk profile and activity to be coordinated within the college)
  - Non EEA supervisors (confidentiality requirements)
  - Non banking supervisors (e.g. insurance supervisors)
  - Central banks as appropriate
College formats

• A single college for each banking group (allowing for different layers)
  – To avoid fragmented supervision of cross-border banking groups that may have centralised functions
  – Inclusion of non-EEA supervisors of relevant entities to the largest extent possible (and subject to confidentiality requirements)

• Proportionality concerns: possibility of not-fully fledged colleges when it is not going to increase the effectiveness and efficiency of supervision

• Different settings where it leads to a more effective functioning of the college
## Basic organisation of a college with several settings

### Chair & administrative support provided by the consolidating supervisor

<table>
<thead>
<tr>
<th>Formats</th>
<th>Main Activities</th>
<th>Members</th>
<th>Meeting frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>“GENERAL”</td>
<td>Dissemination of information. Discussion of high-level risk assessments, identification of the group’s priority risks, overall planning</td>
<td>EEA supervisors of subsidiaries, EEA supervisors of significant branches, Non-EEA supervisors of relevant entities subject to the equivalence of confidentiality requirements</td>
<td>At least annually</td>
</tr>
<tr>
<td>“JOINT DECISIONS”</td>
<td>Joint decisions on model validation and on the level of own funds under Pillar 2. Allocation of tasks for joint decision purposes</td>
<td>EEA supervisors of involved subsidiaries, Possible participation of other members of the core college, where appropriate</td>
<td>At least annually</td>
</tr>
<tr>
<td>“CORE”</td>
<td>Decide specific allocation and sharing of tasks among core members, coordinate overall and specific risk assessments, prepare coordinated supervisory programmes, joint actions, or measures, including in emergency situations</td>
<td>EEA supervisors of relevant subsidiaries, or a limited number of EEA supervisors of subsidiaries conditional on the topics to be discussed, EEA supervisors of significant branches where appropriate, Non-EEA supervisors of relevant entities subject to the equivalence of confidentiality requirements</td>
<td>As frequently as needed (more often than the general college)</td>
</tr>
</tbody>
</table>
College governance

Chair: takes the lead and makes sure that the outcome of college activities provides valuable input to consolidated and solo supervision

Administrative support: provided by the consolidated supervisor to facilitate operational functioning, acting as a central contact point for practical organisation

Participants: adequate level of expertise (possibility of specialised supervisory teams) and seniority (be in a position to propose actions and to pre-commit their respective authorities where needed)
Strengthening information exchange

• Further to specifying **relevant and essential information** that shall be exchanged -based on Articles 132, 42 and in CEBS Guidelines on Home-Host Cooperation (GL09)-, the college guidelines:

  • Provide lists of **information** items needed for the **key activities** of the college

  • Specify criteria to **coordinate information flows** within the college and between its different settings

  • Encourage the use of a full range of **communication channels**, including secured web platforms
Example of task-linked information

*For the planning and coordination of supervisory activities in going concern:*

- **Methodological information** relative to on-site examination, e.g. methods for conducting inspections, for reporting outcome to the supervised entities and for following-up on the recommendations made

- **Details on the key planned supervisory activities** (on-site and off-site), covering the scope of the activity, priority, timing, rationale and objectives

- **Main findings** of supervisory activities covered by the supervisory plan agreed by college members
Communication channels: example of a secured website framework

- **Main objectives**: to facilitate the coordination of information flows and ensure timely and secured information exchange

- **Overarching principles** for designing a website platform

- **Possible content** relative to the organisation of the college (e.g. agenda, documentation), relative to the supervised entities (e.g. authorisation, model validation, SREP)

- Principles governing **information flows** through the website (including host to host information)

- **IT security features** to respect confidentiality requirements
Communication with the supervised group

• Should cover **key activities** of the college:
  – Existence of the college and written agreements
  – Existence of sharing and delegation of tasks arrangements
  – Outcome of joint decisions
  – Main findings within the coordinated supervisory plan

• **Coordination of information requests** to supervised entities by the college members

• Organisation of **periodical meetings** between college members and representatives from the supervised group
Voluntary sharing and delegation of tasks

- Based on the 3L3 work on delegation of tasks and responsibilities, focusing on a multilateral perspective.

- To increase the efficiency of supervision of cross-border groups by:
  - Optimising resources and expertise
  - Avoiding duplication of tasks
  - Removing burdens on the supervised institutions

- To be considered when designing the coordinated supervisory plan
Joint Decision on Model Validation

- Recall of the cooperation **procedure described in CEBS Guidelines for model validation (GL10)**, focussing on a **multilateral perspective**

- College members involved in the validation process to agree on a **validation plan** covering:
  - Timetable (max 6 months after application), steps and allocation of tasks
  - Common understanding of criteria and tools
  - Content of the application package

- **Coordination** of the validation work **by the consolidating supervisor**

- **Discussion of issues** within the college (national discretions, legal issues)

- Decision documented and communicated to the parent by the consolidating supervisor

- Transmission of the decision to the subsidiary: parent and host (if required by host legislation)
Joint assessment and decision on the risk-based capital adequacy
Cooperation procedure: authorities involved in the joint decision on the risk based capital adequacy

• **Required**: consolidating supervisor and EEA supervisors of subsidiaries, taking into account their relevance for the group and their significance in local markets

• **Depending** on the group’s structure and risk profile: non EEA members of the college and non-banking supervisors

• Degree of *integration* of the banking group *determines* the degree of *interaction* among college members

• **CEBS** can be consulted
Cooperation procedure: frequency of the joint assessment and decision

- Joint decision to be updated on an annual basis → joint assessment to be reviewed accordingly

- Supervisors may make a written and reasoned request to update the joint decision, in case of major events impacting the group or its entities

- Annual assessment may concentrate on certain areas provided that all significant changes to the overall risk profile are taken into account.
Macro-prudential risks

• **Objective**: make sure that the work within the college takes due account of systemic risks and the group’s exposure to those risks as well as the identification of institution specific risks that can affect the financial system

• When assessing the risk profile, college members should take into account **macro-risks and sectoral** risks identified by European and international bodies

• The use of **stress-tests** to assess the group’s resilience to adverse macroeconomic scenarios should be part of the analysis

• College members should be able to identify **group specific risks** that may impact the financial system
Planning and coordination of supervisory authorities in going concern: a coordinated supervisory plan

- **Objectives**: coordinate supervisory activities of interest to college members, ensure consistency between individual plans and identify scope for joint activities

- **Starting point**: joint assessment by college members of the elements covered by the SREP

- **Scope and frequency**: main entities of the group (involving non-EEA supervisors where needed and as far as possible), on-site and off-site activities, on a yearly basis

- Formally **endorsed**, periodically **reviewed** and updated. Notified to institutions where possible and agreed by college members
## Example of a template for a coordinated supervisory plan

### Coordinated supervisory examination plan for the group XY – Year XX

<table>
<thead>
<tr>
<th>Entities subject to examination</th>
<th>Competent authority(ies) responsible</th>
<th>Level of priority*/ timing</th>
<th>Themes</th>
<th>Rationale &amp; objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. On-site inspections</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Group XY                        | Authority A                         | H                         | Model validation IRBA “corporate” | Rationale :  
- state of preparation of the group  
- centralised model  
Objectives :  
- review parameters,  
- control & governance ... |
|                                 |                                     | S1 20XX                    |        |                        |
| Group XY Joint EU inspection (Authority A, Authority B ...) |                                     | M                         | ICAAP / economic capital model | Rationale :  
-  
Objectives :  
- |
|                                 |                                     | T3 20XX                    |        |                        |
| Subsidiary YZ                   | Authority C                         | L                         | Leverage finance | Rationale :  
-  
Objectives :  
- |
|                                 |                                     | T4 20XX                    |        |                        |
Planning and coordination of supervisory activities in emergency situations

- **Objective**: specify the role that colleges can play in the preparation of the management of emergency situations

- Focussed on the **core college** where it leads to a smoother coordination of assessments and actions, with adequate information to all college members

- College structure may be used to facilitate **cooperation with other relevant authorities** (Central Banks, Finance Ministries) and, if applicable, other networks (CBSG)
Planning and coordination in emergency situations

- Enhance preparation for an emergency situation
  - Preferred **channels** of communication
  - **Contact** lists
  - **Cooperation arrangements** with other networks, where established
  - Predefined set of **information** to be updated and shared under emergency
  - Check capacity of the group to provide timely information
  - Encourage firms to develop **contingency plans**
  - Review the different **resolution tools** in each country
  - **Simulation** exercises
  - Periodic **risk assessments** to identify vulnerabilities to adverse scenarios
Planning and coordination in emergency situations

- **Identification** of emergency situations: college members should assess potential impact on the soundness of the group and on the stability of the financial system of the Member States where the bank is present.

- **Management** of emergency situations: active exchange of information, coordinated response drawn up by the relevant college members under the lead of the consolidating supervisor and coordinated **external communications** to avoid contradictory messages.
Contacts:

**CEBS:**

http://www.c-ebs.org

cp34@c-ebs.org