

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

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Committee of European  
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# Outline I

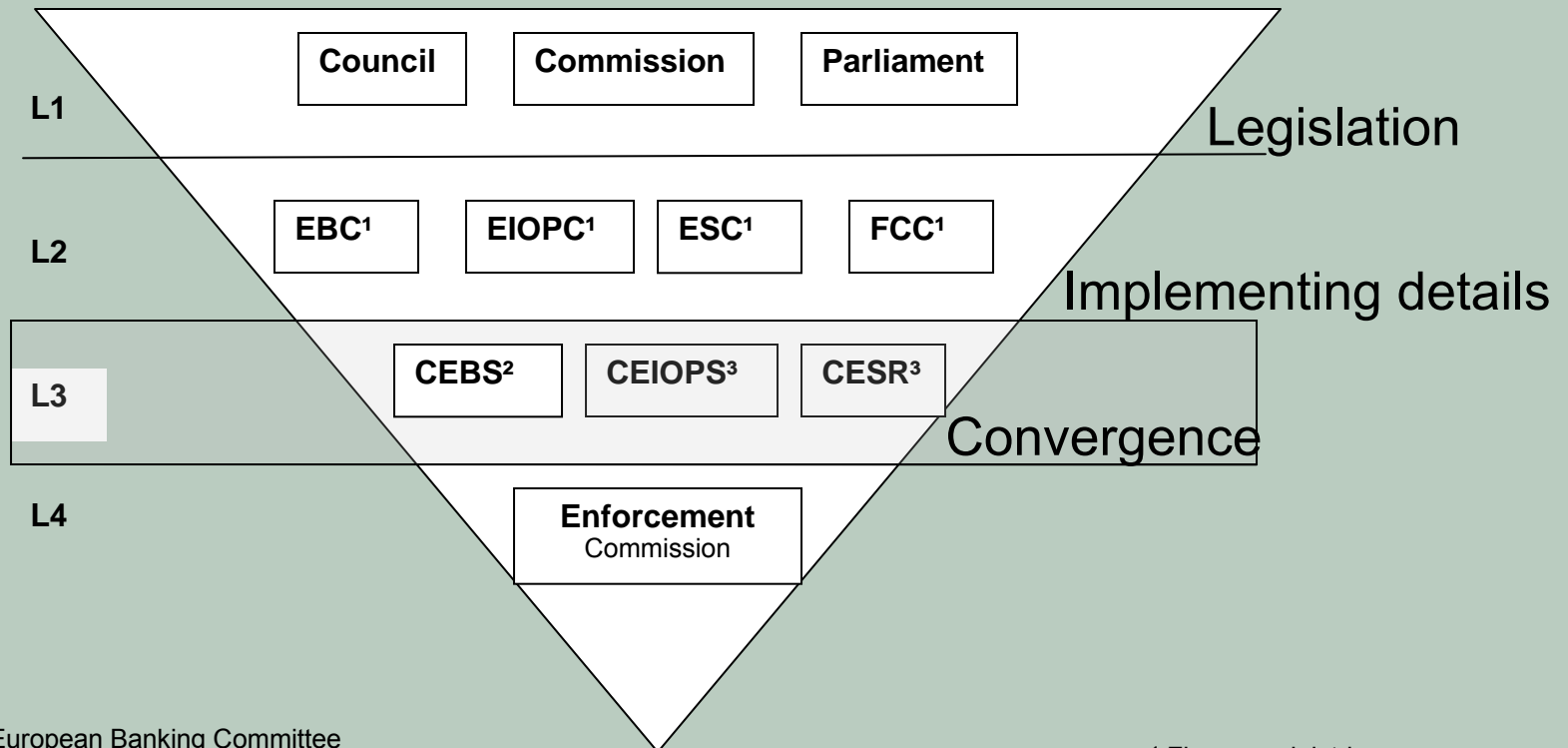
1. The role of CEBS
2. Rationale for colleges and college guidelines
3. Scope of the draft college guidelines
4. Main steps forward
5. Operational organisation of colleges
6. Exchange of information and communication with the group
7. Sharing and delegation of tasks

## Outline II

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

<sup>1</sup> Finance ministries  
<sup>2</sup> Supervisors and Central Banks  
<sup>3</sup> 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

# CP 34: Main steps forward

## 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 (Article 129.1 (b))
- Planning and coordination in emergency situations (Article 129.1 (c), Article 130.1)



# CP 34: Chapter 1 (colleges organisation) I

## 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)

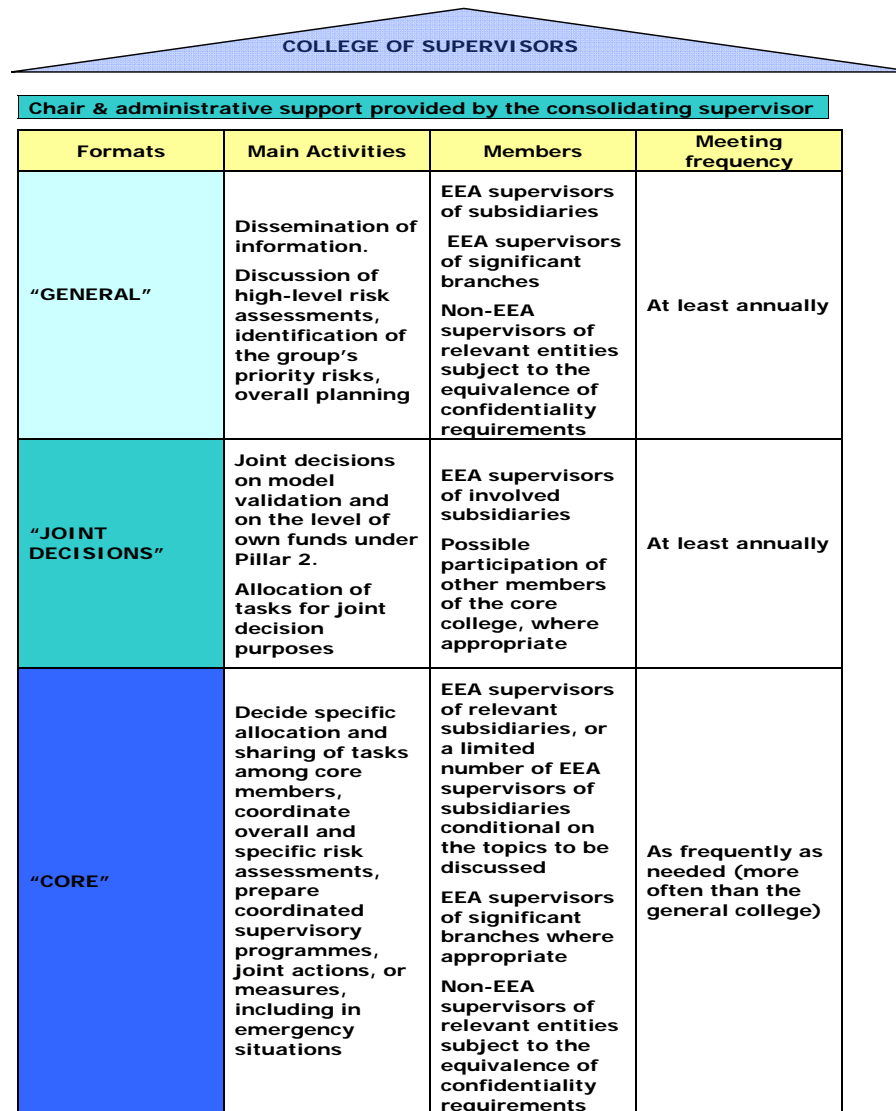
- Non EEA supervisors (confidentiality requirements)
- Non banking supervisors (e.g. insurance supervisors)
- Central banks as appropriate

# CP 34: Chapter 1 (colleges organisation) II

## 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



# CP 34: Chapter 1 (colleges organisation) III



## 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



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**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)

## CP 34: Chapter 2 (information exchange) I

### 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** performance of 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

## CP 34: Chapter 2 (information exchange) II

### 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

## CP 34: Chapter 2 (information exchange) III

### 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

## CP 34: Chapter 2 (interaction with the group)

### 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



## CP 34: Chapter 3 (sharing and delegation of tasks)

### Voluntary sharing and delegation of tasks

- **Based on the 3L3 work** on delegation of tasks and responsibilities, focussing 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

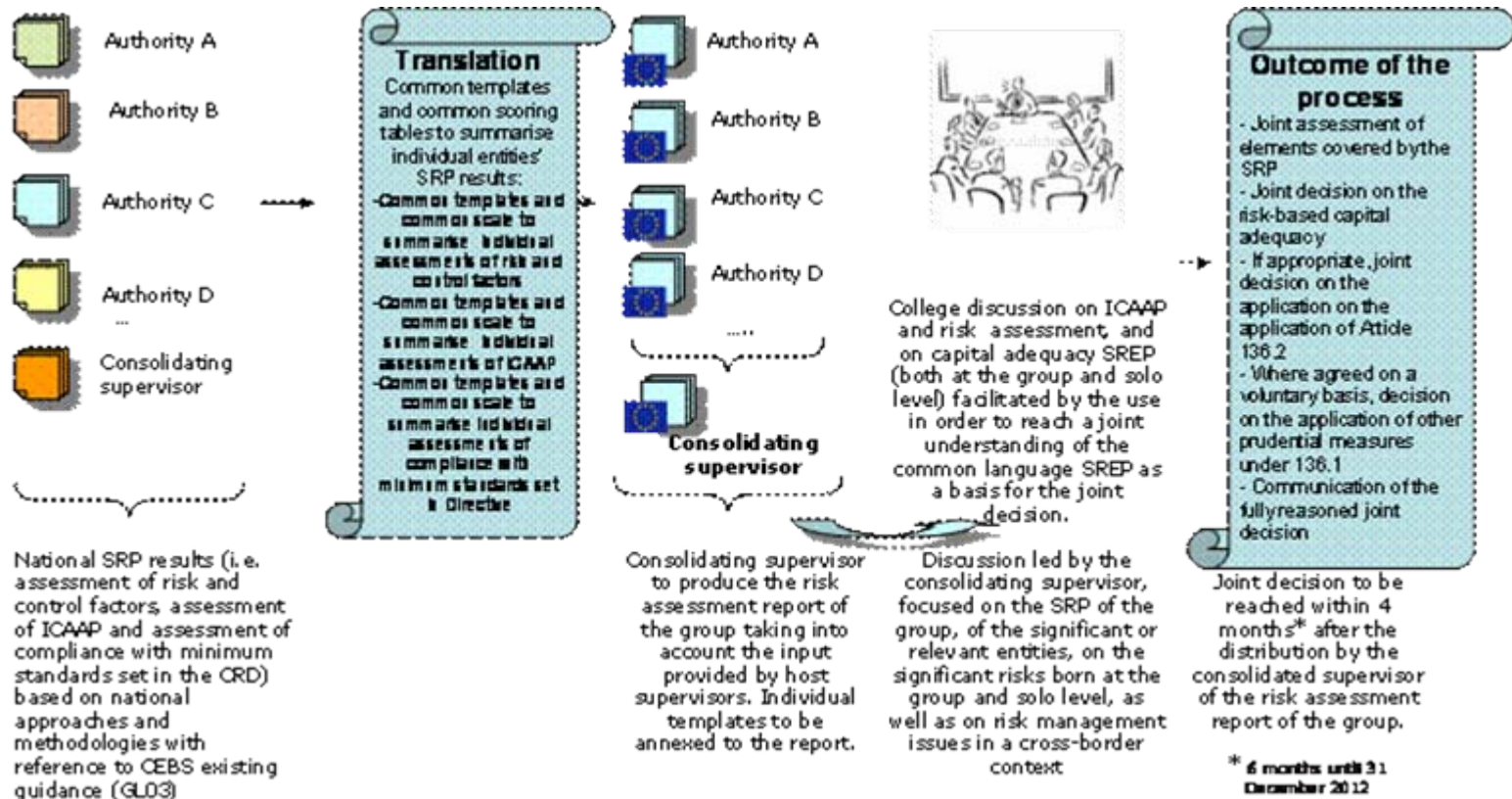
# CP 34: Chapter 4 (joint decision on internal models)

## 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)

# CP 34: Chapter 5 (joint decision on risk-based capital adequacy)

## Joint assessment and decision on the risk-based capital adequacy



## CP 34: Chapter 5 (joint decision on risk-based capital adequacy) II

### 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**

## CP 34: Chapter 5 (joint decision on risk-based capital adequacy) III

### 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.

## CP 34: Chapter 6 (macro-prudential risks)

### 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**

## CP 34: Chapter 7 (ongoing cooperation) I

### 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

# CP 34: Chapter 7 (ongoing cooperation) II

## Example of a template for a coordinated supervisory plan

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

Entities subject to examination	Competent authority(ies) responsible	Level of priority* / timing	Themes	Rationale & objectives <i>[few bullet points to explain why the examination has to be performed / relevance for the colleges &amp; what are the main objectives]</i>
<b>I. On-site inspections</b>				
Group XY	Authority A	H S1 20XX	Model validation IRBA "corporate"	Rationale : - state of preparation of the group ... - centralised model ... Objectives : - review parameters, - control & governance ...
Group XY	Joint EU inspection (Authority A, Authority B ...)	M T3 20XX	ICAAP / economic capital model	Rationale : - - Objectives : - -
Subsidiary YZ	Authority C	L T4 20XX	Leverage finance	Rationale : - - Objectives : - -



## CP 34: Chapter 8 (emergency cooperation) I

### 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)

## CP 34: Chapter 8 (emergency cooperation) II

### 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

## CP 34: Chapter 8 (emergency cooperation) III

### 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



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