

CEBS Consultation "Guidelines on stress testing" (CP32)
Spanish Banking Association (AEB) Additional Comments

The AEB would like to welcome the publication of *CEBS Guidelines on stress testing* and express its gratitude for the opportunity it has been given to express its opinions on a subject as important as the one contained in CP 32.

As a member of the European Banking Federation (EBF), the AEB has participated in the preparation of this Federation's response to the CEBS's consultation, and completely shares the opinions included in the EBF Response.

Nevertheless, due to a coordination problem, there was no time to include in the EBF response an additional remark regarding Guideline 11, which the AEB wants to transmit in this document.

Guideline 11: Institutions should develop reverse stress tests as one of their risk management tools to complement the range of stress tests they undertake.

We would like to question the usefulness of the reverse stress tests, since it should be remarked that, in practical terms, it is not a usual practice to perform this type of exercises within the entities as there will normally be a very large number of potential combinations that might end up threatening the institutions solvency. In fact, mathematically, it could be considered as a problem with infinite solutions. This implies that simplifications must be made to adequately inform the senior management.

As a result of this simplifying exercise it can be understood that only those selected combinations could lead to insolvency, while other possible combinations could as well prompt the same outcome. This can lead in turn to a false sense of safety, contrary therefore to what it is aimed at."

Madrid 30th March 2010