



European Banking Industry Committee

European Banking Federation (EBF) • European Savings Banks Group (ESBG) • European Association of Cooperative Banks (EACB) European Mortgage Federation (EMF) • European Federation of Building Societies (EFBS)
European Federation of Finance House Associations (Eurofinas)/European Federation of Leasing Company Associations (Leaseurope) • European Association of Public Banks (EAPB)

H6030DEH

Response: CEBS Consultation Paper CP10 (Revised) – Guidelines on the Implementation, Validation and Assessment of the Advanced Measurement (AMA) and Internal Ratings Based (IRB) Approaches

1. The European Banking Industry Committee (EBIC) welcomes the opportunity to comment on the revised guidelines on validation of the advanced models. We continue to support CEBS' objective of promoting a common understanding of the minimum requirements for using the AMA and the IRB approaches. However, we assess that CP10 comes too late to address the issue of inconsistencies between application packs.
2. Although we welcome the “good faith clause” in principle, it is not clear to us why it only refers to sections 3 and 4 and not to section 2. Banks which are already far advanced in their implementation work will be required to do considerable work to comply with section 2 of the guidelines. We would encourage CEBS to extend the good faith clause across the entirety of the guidelines.
3. We believe that for a number of additional reasons, the proposed guidelines fail to deliver the stated objective in an appropriate manner. In particular, while we appreciate that CEBS has incorporated more flexibility into parts of the paper we continue to be concerned as regards the excessive level of detail. High levels of detail are not necessary to achieve convergence. What is needed is a commonality of approach and a shared culture in assessing the way banks manage risk and develop their systems. The revised proposal is far from delivering this top-down, principles-based approach. In fact, it incorporates more detail than the original version.
4. To prevent that this over-prescriptive approach would determine the risk management practices of banks, we call on CEBS to clarify that the provisions should not be understood as a check list for supervisors. Rather, we suggest that the formal application should be construed as a summary of the bank's internal methods together with the precise identification of the exposures concerned. It cannot be the basis for a full validation exercise, which requires in-depth analysis and extensive documentation which is only made available in the course of on-site examination.
5. We note that on several occasions, the proposed guidelines go beyond the requirements of the CRD. In particular as regards the sections on operational risk we do not agree with CEBS' view that the provisions merely serve the purpose of explaining and clarifying the CRD. While CEBS cannot prevent its members introducing super-equivalence at a national level, it must not under any circumstances do so itself. We also call on CEBS to make clear in its guidelines that Member States should seek to limit super-equivalence to areas deemed necessary due to local market conditions.

6. Furthermore, some of the proposed provisions are not in line with common modelling techniques, or are simply impracticable. This is particularly evident in the new sections relating to the more technical aspects of validation of the Advanced Measurement Approach.
7. EBIC has also observed inconsistencies concerning definitions and requirements, as well as the introduction of new terminology which is neither defined nor commonly used within industry practice. Despite the time constraints, we suggest that the language be reviewed and that the appropriate terms be used in each section.
8. The concerns summarised above are in particular relevant as regards the provisions on operational risk, and more specifically the approach to correlation. As it currently stands, the proposed guidelines are not appropriate both in terms of industry practice, terminology used and the delivery of a principles-based approach. In addition, the conservatism and super-equivalence to the CRD built into the requirements jeopardise the consistency between supervisory requirements and the banks' risk management practices and compromise strongly the incentive to move to AMA.
9. For more specific comments and examples, please note that a number of EBIC members have submitted their individual responses to CEBS.