



HELLENIC BANK ASSOCIATION

Response from the Hellenic Bank Association to the EBA consultation paper (EBA/CP/2014/36): *Draft Regulatory Technical Standards on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB approach*

Introduction

The Hellenic Bank Association (HBA) was established in 1928 and is a non-profit legal entity, representing the vast majority of Greek and foreign credit institutions, which operate in Greece, holding more than 95% of assets of the Greek banking system.

We welcome the opportunity to respond to the European Banking Authority's (EBA) consultation paper on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB approach.

Response to the consultation questions

Q1: What views do you have on the nature and appropriateness of the proportionality principle in Article 1(2)?

Par. 2 of Article 1 of the consultation paper is consistent with the proportionality principle, allowing competent authorities to apply the provisions of the RTS in a way that ensures effective and proportionate application of the arrangements laid down.

However, the proportionality principle could be further elaborated so that specific guidelines for the classification of institutions and the mapping of appropriate methods and requirements are presented. This would aid the consistency of adoption across NCAs and ensure a level playing field for banks.

Q2: Do you agree with the required independence of the validation function in Article 4(3) and Article 10? How would these requirements influence your validation function and your governance in general?

Pursuant to point 58 of the Basel Committee on Banking Supervision ('BCBS') consultative paper "*Guidance on accounting for expected credit losses*", "where a bank has outsourced its validation function, the bank has policies in place to ensure that qualified staff, who are independent of the development process, assess the quality of the work done by the external party in validating the models. In such a situation, the bank is still ultimately responsible for all model validation work and for ensuring that model validation work is endorsed by the appropriate level of bank management."

Contrary to the BCBS consultative paper, the EBA consultation paper does not allow a credit institution to outsource its validation function. For the purposes of ensuring the independence of validation function and achieving consistency with the provisions of the BCBS Guidance, we support the amendment of Article 10 of the EBA consultation paper



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so as to permit credit institutions, as an alternative to the establishment of an independent validation unit, to outsource the validation function. With regard to point (c), par. 1 of Art. 10, we believe that, under the condition that the independence of the validation function is ensured, credit institutions should be free to decide the hierarchy level of consolidation of reporting lines of the validation function and the credit risk control unit according to their internal function and governance.

Q3: Are the provisions introduced in Article 49(3) on the calculation of the long-run average of one-year default rates sufficiently clear? Are there aspects which need to be elaborated further?

According to par. 3 of Article 49 of the draft RTS, in case of observed data not representative of the range of variability of the default rate of a type of exposures in a complete economic cycle, competent authorities shall verify the fulfillment of the following conditions:

- a. the institution uses a relevant method to estimate the average of one-year default rates over a period that is representative of the variability of the default rates of that type of exposures in a complete economic cycle, and
- b. this method does not lead to a less conservative calculation of long-run average of one-year default rates than those estimated from the observed data.

With regard to the second point, we consider that the requirement credit institutions to use a method, which will not lead to a less conservative calculation of long-run average of one-year default rates may amplify the procyclicality in the banking system under certain circumstances. More specifically, in Greece, due to the unprecedented fiscal crisis of the last five years, the observed data do not cover a complete economic cycle and are not representative of the credit quality of institutions' portfolios in normal periods. As a result, the adoption of the abovementioned arrangement will amplify the procyclicality in the banking system.

For this reason, we consider that it is appropriate competent authorities to have the discretion to judge on a case-by-case basis the reconstruction methods used by the institutions, and in exceptional circumstances to allow the deviation from the abovementioned arrangement.

Q4: Do you agree with the required number of default weighted average LGD calculation method introduced in Article 51(1)(b) and supportive arguments? How will this requirement influence your current LGD calculation method? More generally, what are your views as to balance of arguments for identifying the most appropriate method?

NA



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Q5: Are the provisions introduced in Article 52 on the treatment of multiple defaults sufficiently clear? Are there aspects which need to be elaborated further?

The provisions of Article 52 of the draft RTS are sufficiently clear. We support the arrangement, which provides that for the purposes of treatment of multiple defaults the default date of the first observed default shall be taken into account.

Q6: Are the provisions introduced in Article 60 on the treatment of eligible guarantors for the purpose of own-LGD estimates sufficiently clear? Are there aspects which need to be elaborated further?

NA

Q7: Do you support the view that costs for institutions arising from the implementation of these draft RTS are expected to be negligible or small? If not, could you please indicate the main sources of costs?

It is expected that the implementation costs arising from the RTS under consultation (as such) will not be negligible neither for credit institutions using already the IRB approach nor for credit institutions preparing the transition to the IRB approach.

The main sources of costs would mainly originate from changes in the rating systems and pd/lgd models necessary to comply with the requirements specifically for:

- the default definition (in particular with the additional requirements of entry / exit criteria)
- the constraints regarding the treatment of multiple defaults within the observation period

Q8: What are the main benefits for institutions that you expect by the adoption of these draft RTS?

Additional clarity and enhancement of the supervisory convergence.

Q9: Do you expect that these draft RTS will trigger material changes to the rating systems (subject of the RTS on materiality of model changes)? If yes, could you please indicate the main sources of the changes (please list the relevant Articles of these draft RTS)?

The implementation by credit institutions of the provisions of these RTS will trigger material changes to the rating systems. Due to the implementation of these RTS in combination with the implementation of the *Commission Implementing Regulation 2015/227* concerning definitions of non-performing and forborne exposures, as well as of the RTS on materiality threshold of credit obligation past due will have substantial effects on the rating systems as described in Q7.