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For publication

**UniCredit reply to the EBA consultation paper on
Draft Guidelines on product oversight and governance arrangements for retail banking
products**

UniCredit is a major international financial institution with strong roots in 17 European countries, active in approximately 50 markets, with almost 8,000 branches and over 130,000 employees. UniCredit is among the top market players in Italy, Austria, Poland, CEE and Germany.

UniCredit welcomes the opportunity to provide its views and opinion on the consultation paper “Draft Guidelines on Product Oversight and Governance arrangements for retail banking products” issued by the European Banking Authority (EBA).

GENERAL QUESTIONS

Question 1: Do you agree with the proposed approach of capturing the entire product life cycle by covering distributors as well as manufacturers?

Yes, UniCredit agrees on the proposed approach. Such approach captures the product life cycle adequately and, at the same time, ensures that retail products properly satisfy and address the needs of the customers.

UniCredit is of the view that the guidelines should be only applicable to products newly and freshly manufactured and distributed once the guidelines are endorsed. On the opposite, such guidelines should not apply to already existing products which are distributed to new clients after the introduction of the guidelines.

Question 2: Do you agree with the delineation of the two sets of requirements for manufacturers and distributors?

Yes, UniCredit broadly agrees with the delineation of the requirements designed by the EBA. However, we would like to highlight two concepts, which in our view should be properly addressed:

1. **new product:** while we appreciate that the EBA clearly defines what a „product” is, we deem appropriate defining also what a „new product” is in order to clearly define the scope of application of the oversight and governance requirements proposed by the EBA. According to UniCredit, a „new product” should be defined as a product with features that require significant changes in the methods, processes and systems that the Bank uses to deliver the product to customers;
2. **complex products:** the EBA refers to complex products without providing a definition of what „complex” means. To avoid any undesirable ambiguity and to clearly define the scope of application, UniCredit suggests qualifying complexity by taking into account two key factors: the risk embedded in the product (from the customer’s perspective) and its return/reward.

Question 3: Are there any additional requirements that you would suggest adding to either of the two sets of requirements? If so, why?

No, UniCredit deems the requirements envisaged by the EBA already satisfactory and exhaustive.

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SPECIFIC QUESTIONS REGARDING GUIDELINES FOR MANUFACTURERS (Title II)

Question 4: Do you agree with Guideline 1 on establishment, proportionality, review and documentation?

Yes, UniCredit agrees with the proposed guidelines 1.1, 1.2, 1.3 and 1.4. However, with regards to guideline 1.5, we highlight once again that a proper definition of complex product should be given, taking into proper account the specific risk associated to the product and its return/rewards.

Question 5: Do you agree with Guideline 2 on manufacturers' internal control functions?

Yes, we agree.

Question 6: Do you agree with Guideline 3 on the target market?

Most if not all manufacturers have internal product approval/production governance processes with the objective of ensuring that EU requirements are met in terms of adequate client disclosure, management of conflicts, product due diligence and documentation. The EBA guidelines suggest that such an internal governance arrangement will prevent a product of being miss-sold and avoid consumer detriment.

Identifying a target market is an element to be considered in the product oversight and governance arrangements. However one must not limit a manufacturer's ability to provide clients with opportunities they demand. Such opportunities may be outside the original targeted market. As long as there is an appropriate process in place which ensures that the above EU requirements are met, the manufacturer should not be forced upfront to target and develop only one market .

Based on the above considerations, UniCredit would suggest to the EBA to revise the guidelines following such an approach, hence to identify the "non-target market" (which would give raise to a mis-selling) rather than the "target market".

In addition, in UniCredit's experience, the products currently sold to the retail market have already a high level of standardisation, since they are developed with the aim to target a wide range of customers. In our view, it is therefore inappropriate to refer to a "target market" for such products, since the large majority of the retail products are already sold to all retail clients, given the high level of standardisation embedded in those products.

While UniCredit agrees that the implementation of these guidelines would bring many benefits to consumers of banking products, such guidelines should not block or impede in any way the ability of banks to respond to market opportunities but allow also some degree of flexibility to manufacturers (i.e. changing trends or increasing demand from a particular demographic segment).

Finally, UniCredit deems important to highlight that a manufacturer cannot be fully responsible in the event that a distributor sells a product to a wrong market segment. A manufacturer can ensure a appropriateness for a market, a correct description of the features and a complete documentation of a

product however he cannot be responsible if a distributor sells such product to whom he should not have.

Question 7: Do you agree with Guideline 4 on product testing?

UniCredit welcomes the suggestion that products should be tested, even under stress scenarios. However, the concept of “wide range of scenarios” is very broad and should be better defined. We therefore suggest a revision of point 4.1 as follows:

“4.1. Before product is designed and brought to the market; an existing product is sold to new target markets; or significant changes to existing product are introduced, the manufacturer should conduct product testing, in order to be able to assess how the product would affect its consumers under a **predefined reasonable number of** scenarios, including stressed scenarios **so that the risk/reward profile is properly captured**. Manufacturers should make appropriate product changes where the scenario analysis gives rise to poor results for the target market”.

In addition, scenarios should be well calibrated depending on the type of products in order to avoid unintended consequences (e.g.: intimidating the customer). For instance, in the case of a saving account, which scenarios should be envisaged: Scenarios for a fixed rate? Different interest rate scenarios? Taking inflation into account?)

Question 8: Do you agree with Guideline 5 on product monitoring?

We generally agree with Guideline 5 on product monitoring, however it seems to us that Guideline 5 expresses the same concept already reported in guideline 2.2, without any further additions. Hence, Guideline 5 could be eliminated.

Question 9: Do you agree with Guideline 6 on remedial action?

Yes, we agree.

Question 10: Do you agree with Guideline 7 on the selection of distribution channels?

Yes, we agree.

Question 11: Do you agree with Guideline 8 on information for distributors?

Yes, we agree.

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SPECIFIC QUESTIONS REGARDING GUIDELINES FOR DISTRIBUTORS (TITLE III)

Question 12: Do you agree with Guideline 1 on establishment, proportionality, review and documentation?

Question 13: Do you agree with Guideline 2 on the distributor’s internal control functions?

Question 14: Do you agree with Guideline 3 on the knowledge of the target market?

Question 15: Do you agree with Guideline 4 on information?



We would like to point out that in case the manufacturer and the distributor are located in the same Legal Entity, it should be clarified that the product oversight and governance arrangements could be jointly performed.

Also, with reference to guideline 4.2 a principle of proportionality should be applied.



Main Contributors

Please find below the list of the key areas involved in this work, whose contribution made possible to coordinate and provide UniCredit answers to this Consultation. Some other areas have been involved alongside the UniCredit Group, but are not listed below.

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