



## European Banking Industry Committee

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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)

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### **Response: CEBS Consultation Paper 10 On Guidelines on the Implementation, Validation and Assessment of Advanced Measurement (AMA) and Internal Ratings Based (IRB) Approaches**

1. The European Banking Industry Committee (EBIC) welcomes the opportunity to comment on CEBS' Consultation Paper 10 on guidelines on the implementation, validation and assessment of advanced measurement and internal ratings based approaches.
2. The EBIC supports CEBS' objective to provide guidance based on supervisory authorities' common understanding on the meaning and the implementation of the minimum requirements for using these approaches, as set out in the Capital Requirements Directive (CRD). **However, we are concerned that the proposed guidelines on occasions fall short of meeting this goal and that they will substantially increase the regulatory burden for banks, rather than reduce inconsistencies.**
3. We would request CEBS to carefully consider the link between the present consultation paper and CP 03 on the application of the Supervisory Review Process under Pillar II. **Validation is an ongoing process and should be understood as a part of the second pillar of the Basel II rules. Having said this, we believe that there are relevant contradictions between CP 10 and CP 03.**
4. **In industry's view CEBS adopts too great a level of detail, which in some cases is not sufficiently clear.** CEBS runs the risk that the proposed guidance could cloud the understanding of concepts already established in prior negotiations. CEBS should adopt a top-down, principles-based approach which deals with only the most important issues in line with the proposals that are made in CP 03. This would also solve the problem of the inconsistencies and the lack of structure which we believe have been built into CP 10.
5. The EBIC stipulates that the proposals put forward by CEBS partly include excessive conservatism and requirements that go beyond the scope of the CRD. We believe that CEBS' guidelines should merely serve CEBS' self-defined objective of laying down a common understanding of the CRD requirements. **We would, therefore, urge CEBS to set out mandatory minimum standards with parameters of acceptable divergence built into them, rather than to seek maximum harmonisation. To this aim, there is an urgent need for CEBS to strike a better balance between the different supervisory cultures within its membership.**
6. The proposed provisions are particularly burdensome as regards how a bank must structure its internal governance. If CEBS' guidelines were to be implemented strictly, the shape of banks' businesses would in effect be dictated by legislation and guidance which could stymie an institution's ability to organise itself to carry out its day-to-day business and best serve its

customers. We believe that the standards set in the paper are excessively intrusive and interfere too largely with the responsibilities of both the supervisory and management functions.

7. In general, and in particular with a view to smaller institutions that have adopted the more advanced approaches, we would request CEBS to ensure that the principles of proportionality and flexibility be maintained and applied appropriately. This should be enhanced through an extensive dialogue between supervisors and the institution, which we believe is largely neglected in the proposed consultation paper.
8. We call on CEBS to clarify that in its function as a guidance paper CP 10 provides recommendations rather than imperative instructions. We find the tone of the paper misleading in this regard and would urge CEBS to reconsider in particular its use of modal verbs (“could” rather than “should”).
9. We welcome CEBS’ aim of promoting convergence of supervisory approaches across the EU member states. However, we believe that the proposed application form will not work as a vehicle for the exchange of information between supervisors given the extensive level of detail which constitutes an unmanageable quantity of information. In order to streamline the common supervisory requirements we would suggest the adoption of a **qualification certificate** which would provide a list of the main qualification points. It would be used by the consolidating supervisor for its compliance assessment and serve as a communication tool between supervisors. At the same time, it should be the basis for information requests from other supervisors to the consolidating supervisor for group matters, whereas information requests on local issues would be addressed directly to the bank.
10. The EBIC has **serious concerns in terms of timing**. Supervisors are in many cases already well-advanced in their preparations for the use of the new capital requirements rules and have launched many advanced examinations and application packs. Banks have adjusted their internal structures to these prior supervisory guidelines. The provisions laid down are often not in line or substantially stricter than the current implementation regimes. It would result in a serious duplication of work and major administrative costs if banks were at this stage to comply with the additional pack of guidelines laid down in CP 10, especially given the fact that there is no possibility for banks to backtrack to prior stages in the implementation process. We would therefore strongly recommend that the revised version of CP 10 be understood as a long-term goal, rather than as guidance for the initial validation process. In the context of CP10 being a long term aim and a learning process for supervisors and institutions alike, the EBIC would also urge supervisors to show flexibility, particularly in the beginning of CRD application. Certain, reasonable breaches of supervisors’ expectations may occur in the early phases and should be tolerated if an institution clearly demonstrates its willingness to improve and to cooperate.
11. We note that these general, high-level remarks are complementary to and should be read in conjunction with those detailed responses that have been submitted to CEBS by other EBIC members.