

Paris, July 9th 2010

French Banking Federation's Response to Consultation Paper on CEBS's Guidelines for the Joint Assessment of the Elements Covered by the supervisory review and evaluation process (SREP) and the Joint Decision regarding the Capital Adequacy of Cross Border Groups (CP39)
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Dear Sir,

The French Banking Federation (FBF) is the professional body representing over 430 commercial, cooperative and mutual banks operating in France. It includes both French and foreign-based organizations.

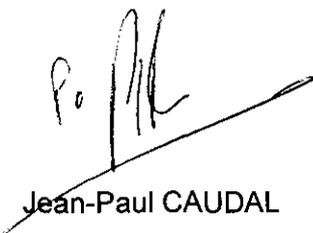
The FBF is pleased to take this opportunity to comment on the guidelines proposed in consultation paper CP 39. The paper provides a very good starting point to develop a comprehensive and consistent set of clear guidelines to improve the decision making process within colleges

We welcome the objectives pursued by CEBS to provide tools aiming at a larger harmonization and a shared understanding of the capital adequacy of cross-border banking groups.

However, the French banking industry does not fully agree with the role and the powers granted to local supervisors in cross-border banking groups. We regret that the role of the consolidated supervisor is limited to facilitate cooperation and coordination between supervisors. The guidance proposed by CEBS fits with CRD2 but the whole framework may change with the Commission's proposals to create a European Banking Authority. The FBF has identified some points in the proposed guidance that should be improved. You will find our detailed comments in the attached annex.

The French Banking Federation wants to see the instigation of healthy competitive conditions and believes the only way to do so is to establish appropriate regulations. The FBF remains at your disposal for any further discussion on these matters.

Yours sincerely,



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Guidelines for the joint assessment of the elements covered by the supervisory review and evaluation process (SREP) and the joint decision regarding the capital adequacy of cross border groups (CP 39)

French Banking Federation Detailed comments on the consultative paper:

➤ **Chapter 2 : The joint assessment of risk factors and risk management and control factors in the college of supervisors**

• **5. Summary table on the assessment of the material risks**

For the part dedicated to « credit risk », the French banking industry suggests to make a distinction between retail activities and non-retail activities. In fact, these two types of risks require different expertise and are generally subjected to special follow-up and controls, as well as specific tools.

• **2.2 Guideline 3. Element 4 : Corporate governance, including internal governance, at group and entity level**

46. College members should also assess the appropriateness of the organisational structure (both legal and functional) with regard to the business model and operations of the group throughout all markets and geographies it operates in, and discuss whether the level of complexity is appropriately counterbalanced by a strong risk control system and internal audit procedures.

The French banking industry is unconvinced by the power granted to supervisors concerning the assessment of the appropriateness of the organisational structure, both legal and functional, regarding the economic model and the group's activities. This point seems to be at odds within the framework of this consultative paper. We believe that supervisors should not interfere with the way banks organise their activities. We totally agree that supervisors must check if the chosen organisation does not undermine a strong risk control system and internal audit procedures

Generally speaking, if the detailed explanation of a result or a global assessment of an entity or group is about to be disclosed, it would be useful to distinct strong and weak aspects and results , as it would help supervisors to deal with issues according to a defined priority all along the SREP process (Tables 1,4,5,7,8,9 and 10).

➤ **Chapter 3 : Assessment of the ICAAP processes and methodologies for cross border groups at the group and solo levels**

• **Table 7. Summary table of the joint ICAAP process assessment**

It would be advisable to explain the principles leading to conclude an evaluation at the group level (column « total group ») with a process of an assessment by entity (principle of proportionality....).

• **Guideline 13. 85. Article 124 (1) of the CRD requires consolidating and host supervisors to review the arrangements, strategies, processes and mechanisms implemented by the institutions to comply with the requirement of the CRD. Annex XI of the CRD provides a list of elements, which need to be considered in the course of the SREP, including results of stress tests, for credit risk (IRB institutions) and market risk (internal models institutions), concentrated exposures and concentration risk management, residual risk stemming from the use of credit risk mitigation techniques, risk transfer through securitisation, liquidity risk management, and the impact of diversification.**

Within the framework of implementation of Article 124 (1) of the CRD, and more specifically in terms of models' validation, it would be appropriate to have more cooperation and coordination between home and host supervisors. When a bank has received the permission to use an internal model and has been using it for years, we believe that, when the model is implemented in a new bank (for instance after an acquisition) the local supervisor should admit that the model has been checked and that the parent bank has received the permission to use it. The local supervisor should not be in a position to radically question the model and to jeopardize the existing process. It should rely on the work already done by the college and limit its tasks to the implementation of the model in the subsidiary under its responsibility.

The coordinated dialogue between the group, its entities, and relevant supervisors, both home and host, to discuss the results of the models, the strategies and processes developed by banking groups might be needed.

➤ **Chapter 5 : Determination of the adequate levels of own funds at the group and entities levels**

- **97.e. When, as a result of this analysis, additional levels of own funds above the regulatory minimum are deemed necessary, supervisors should determine the types of capital (various capital instruments) that can be accepted to cover these additional requirements, and, if necessary, agree with the institution on a capital restoration plan.**

The types of capital considered as adequate to cover these additional requirements should be determined by the management of the bank, and not by the supervisor. The bank has to submit a plan to the supervisor, which validates it in a second phase.

- **101.h. The additional levels of capital (capital buffer) estimated by the institutions or required by the supervisor to cover the impact of stressed conditions (stress testing buffer).**

The French banking industry doesn't want to create an additional level and asks for integration of stress test in the capital planning.