Europäische Bausparkassenvereinigung
Fédération Européenne d'Epargne et de Crédit pour le Logement
European Federation of Building Societies

EFBS Transparency Register No: 33192023937-30

Brüssel, 12. März 2015

EFBS comments regarding the consultation of EBA concerning the 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 in accordance with Articles 144(2), 173(3) and 180(3)(b) of Regulation (EU) No 575/2013 (EBA/CP/2014/36)

The European Federation of Building Societies (EFBS) is an association of credit and other institutions promoting and supporting the financing of home ownership. Its purpose is to encourage the idea of acquiring home ownership in a Europe that is converging both politically and economically.

The members of the EFBS are specialised credit institutions established in eight Member States (D, AT, RO, SLO, HR, CZ, LUX and H). The business of the Bausparkassen is regulated by specific national Bausparkassen Acts. In compliance with the strict legal provisions, the Bausparkassen offer contractual savings schemes to their customers and grant them loans which must be secured by mortgage. They are not allowed to practise other forms of banking business. They may invest their excess liquidity only in particularly secure investment products, such as government bonds of EU Member States. Bausparkassen are subject to specific supervision by the national authorities. In the context of Bausparen the interest rates on savings and loans are fixed in advance and are usually lower than the market interest rate. In most Member States, Bausparkassen must obtain specific approval from the supervisory authority before offering a new tariff or a new product on the market. As part of this product testing, Bausparkassen must prove the sustainability of their products and tariffs.

As a consequence of the continued heavy work load in context of the new regulatory requirements in the financial sector on European level, member institutes do not have the human resources capacity to scrutinize the whole subject of this consultation in detail. Still, we would like to make some selective remarks.

Enclosure

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?

In article 10 of the draft RTS EBA requires that within a credit institution "the staff performing the validation function is separate from the staff responsible for the model design or development". By this means EBA pursues to establish an objective assessment of the rating systems. According to EBA "*the assessment of the level of independence should be based on the proportionality principle"* which could be welcomed.

But EBA also mentioned: *"As a minimum, in smaller institutions, the staff performing the validation function should be separate from the staff responsible for the model design or development."* For smaller banks it is almost impossible to comply with this requirement since they generally have only few employees responsible for model design, development and validation, usually working within the same unit. In addition, it is not clear how staff should be separated in order to implement the principle of independence of the valuation function according to article 10 (1d) of the draft RTS. Nevertheless it is compatible with the principle of an objective assessment of the rating systems if employees responsible for model development and validation work in the same unit with interchangeable roles as long as one person does not perform the two roles for the same model.

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?

The consultation paper does not consider that for institutions applying the standardized approach but preparing for IRBA proposal, additional costs need to be considered as they possibly have to apply the standardized approach until they fulfill all requirements of the draft RTS.

Moreover, not only costs should be considered as a negative consequence within the assessment. Possible negative impacts can be the loss of accuracy of default detection caused by the treatment of multiple defaults as a single default (as suggested in article 52 of the draft RTS).

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 methodology changes required in the draft RTS may trigger material changes to rating systems. However they depend on the concrete model design of each institution: If PD and LGD models were developed without consideration of a cure period or treatment of multiple defaults as one default or with differing definitions of cure periods/ treatment of multiple defaults, the methodology changes would lead to modifications in the risk-weighted assets which may exceed the quantitative thresholds which have been defined in the "RTS on materiality of model changes and extensions" of EBA.

The consideration of multiple defaults as one default within a cure period as well as changes of the length of a cure period both may have a high impact on the start and the duration of defaults and therefore on the LGD calculation and estimation (because of additional cash flows within cure period between two defaults, discounting of all cash flows to the beginning of first default, calculation of one LGD (for execution) instead of two LGDs (one for cure and one for execution, etc.)).

In case quantitative materiality thresholds are breached, further action will be required of the institution, e.g. provision of additional documentation, contact to regulators, and compliance with supervisory decrees.