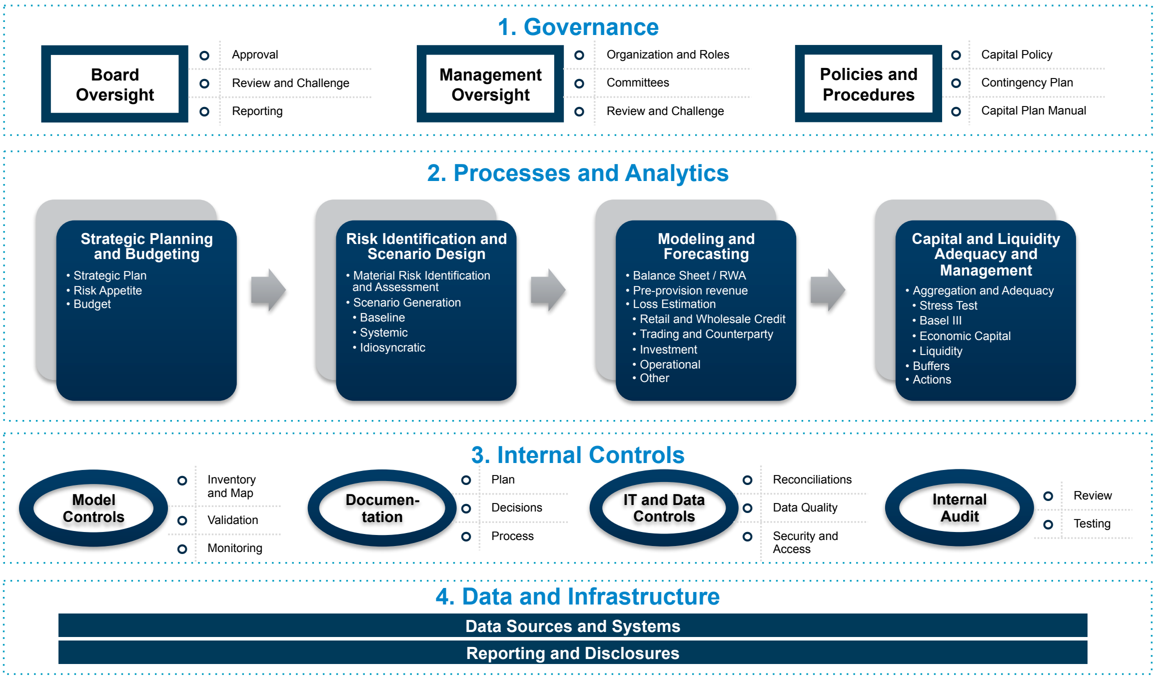
1. Do the guidelines specify the SREP process sufficiently? Are there areas where the EBA should aim for greater harmonisation, or where more flexibility would be appropriate?

Positive Feedback

- SREP guidelines are **comprehensive** as they cover key building blocks for adequate bank risk management, capital planning and liquidity planning including 1. Governance; 2. Processes and Analytics; 3. Internal Controls and; 4. Data and Infrastructure considerations.

Figure 1 – A&M Integrated Risk, Capital and Liquidity Framework



- SREP guidelines provide **explicit consideration** of business strategy and risk appetite setting when establishing supervisory guidelines. The assessment of bank business model and strategy provides proper context for supervisory reviews of capital and liquidity adequacy.

- SREP guidelines promote **strong linkages** between risk assessment and integrated capital and liquidity assessments. Forming a comprehensive view of the risk profile and understanding its interdependencies to capital and liquidity positions should be an integral part of the supervisory process.

Potential Areas for Enhancement

- SREP guidelines should provide more detailed standards in certain areas to promote further harmonisation and consistency of bank practices:

  1. **Governance and Culture**
     - Board governance and management committees to support bank capital and

liquidity assessment processes. In particular, clear delineation of board and management oversight expectations for risk, capital and liquidity should be established including Board role in approving capital / liquidity plans and balance sheet resource allocation strategies.

- In addition, cultural attributes such as proper accountability and equal stature of oversight functions should be contemplated

2. **Processes and Analytics**
    - Standard indicators for performance and risk assessments should be provided by supervisors to facilitate consistency and comparability across banks
    - Standard methods and approaches to determine capital buffers / add-ons for model uncertainty, control/governance deficiencies and funding risks should be provided to ensure consistency and comparability across bank practices
    - Clearer supervisory standards to link static capital/liquidity assessments and forward looking stress tests in capital and liquidity plans particularly in the context of multiple stress testing regimes being executed across US, UK and European jurisdictions
    - Detailed supervisory requirements for capital contingency planning should be provided to promote consistency and comparability across bank practices
        - i. Crisis levels
        - ii. Contingency triggers
        - iii. Range of capital actions
        - iv. Credibility and execution risks of actions

3. **Internal Controls**
    - Detailed supervisory requirements for model risk management and controls should be provided to promote consistency and comparability across bank practices
        - i. Model inventory and risks
        - ii. Model validation
        - iii. Model risk monitoring

4. **Other related areas**
    - Finally, a more explicit linkage between SREP guidelines and other related supervisory guidelines in areas such as resolution/recovery planning and risk data aggregation requirements should be provided to avoid overlaps / inefficiencies and promote an effective supervisory model.

2. **Do you agree with the proportionate approach to the application of the SREP to different categories of institutions? (Title 2)**

Positive Feedback

- SREP's proposed proportionate approach is **adequate** to adapt regulatory expectations to the complexity of institutions supervised

- SREP **linkage to G-SII** denominations for Category 1 institutions is also welcome to ensure consistency with other global regulatory expectations for systemic institutions

Potential Areas for Enhancement

- SREP proposed proportionate approach would benefit from a more explicit **quantitative and qualitative criteria** definitions for categories 2, 3 and 4 institutions that are consistent with those criteria elements used for category 1 selection (G-SII denomination criteria)

- Proposed quarterly **frequency for indicator monitoring** may fall short to spot potential weaknesses and emerging risks. An alternative solution is to regularly monitor market indicators on a more frequent basis to potentially identify idiosyncratic emerging risks that might require immediate supervisory attention. Examples of indicators that might be useful would include stock prices, CDS spreads, bond spreads, rating downgrades, etc.,

- SREP **monitoring granularity** of indicators needs to be specified (by business line, geography, legal entity or product type). Tracking indicators at the bank holding level might result in non-meaningful comparisons given multiple bank business models and idiosyncratic risk profiles.

- Proportionally is largely achieved through frequency of assessment. The guidelines should also clarify the depth of assessment as systems and controls will reflect the nature, scale and complexity of the institution

3. **Are there other drivers of business model / strategy success and failure that you believe competent authorities should consider when conducting the BMA? (Title 4)**

Positive Feedback

- **Explicit integration** of knowledge and understanding of business strategy, risk appetite and business plans into supervisory process is a positive development. List of drivers included in SREP guidelines to conduct BMA analysis is comprehensive.

- The concepts introduced in the BMA of viability vs. sustainability provide a **sound framework** to differentiate between supervisory short term priorities and longer term vulnerabilities

Potential Areas for Enhancement

- **Business model analysis** will benefit from adding the following considerations:
  - Business and geographical diversification when assessing sustainability
  - Incorporate measures that evaluate business risk-reward trade-offs such as risk-adjusted returns, RAROC, ROE through the cycle (after incorporating stress test results), etc.
  - Reliability of business plan forecasts (back-testing of forecasting accuracy between projected estimates and actual financial numbers)
  - Performance measures used by banks to evaluate success to ensure they incorporate a dimension of risk
  - Operational and human talent metrics particularly those related to oversight functions and how they interrelate to business growth plans

- While **business risks** are considered as part of the business model analysis in SREP they are not explicitly considered as a risk in the proposed capital and liquidity assessments
  - Some jurisdictions incorporate business risk as a Pillar 2 consideration
  - Business risk is also be captured in forward looking stress tests when projecting pre-provision revenue under adverse conditions

4. **Does the breakdown of risk categories and sub-categories proposed provide appropriate coverage and scope for conducting supervisory risk assessments? (Title 6)**

Positive Feedback

- SREP proposed risk categories and sub-categories are generally **comprehensive and consistent** with other risk assessment supervisory approaches and industry practices
    - Credit & Counterparty
    - Market risk
    - Operational risk
    - Interest rate risk

Potential Areas for Enhancement

- EBA and other regulatory bodies should consider **harmonizing risk taxonomies** used for supervisory purposes (SREP, Basel, Comprehensive Assessment, Concurrent Stress Tests, capital buffers, etc.,). The lack of consistency in risk taxonomies might lead to:
    - Double counting
    - Investor confusion in interpretation of capital and liquidity adequacy metrics and buffers
    - Lack of comparability across different capital and liquidity assessments (static vs. forward looking measures)
    - Comparability of capital adequacy processes across jurisdictions, particularly relevant for banks with global operations

- Performance **indicators** should ideally be mapped to risk taxonomy used

- **Risk categories** not explicitly mentioned or considered in SREP guidelines include:
    - Wrong way risk
    - Sovereign
    - Pension
    - Insurance
    - Business
    - Interrelationships among risks

5. **Do you agree with the use of a standard approach for the articulation of additional own funds requirements to be used by compete authorities across the Union? (Title 7)**

Positive Feedback

- Definitions of capital measures and buffers are in principle consistent with Basel III and largely consistent with capital and liquidity adequacy supervisory frameworks used in other jurisdictions such as the UK.

Potential Areas for Enhancement

- Over-reliance on **supervisory benchmarks** when ICAAP not deemed reliable has the risk of discouraging banks to improve their risk and capital management practices. In addition, depending on how supervisory benchmarks are constructed, they might not be granular or specific enough to capture bank idiosyncratic risks. SREP guidelines should provide more explicit standards in the area of construction and usage of supervisory benchmarks including detailed considerations around benchmarks applicability, granularity, weight relative to internal estimates, calibration and soundness.

- Supervisory ability to change **confidence level and time horizon** of risk estimates can discourage banks to develop their own internal risk and capital models. It might also contradict one of the intended principles of ICAAP, which allows banks to define their own level of model conservatism based as a function of their target rating levels. SREP guidelines that allow and promote the use of internal models, and that counterbalance such usage with strong model risk management standards, is an alternative solution.

- Not allowing for **inter-risk diversification** highly penalizes groups with global diversified operations. Furthermore, compliance with SREP assessments at the subsidiary standalone level might exacerbate the effects of ignoring diversification benefits. Understanding and measurement of inter-risk diversification at the holding company and across subsidiaries is important when setting risk appetite setting and capital allocation targets at banks with global operations.

- Providing further granularity of how **own funds requirements add-ons** will be calculated would be beneficial to understand capital requirement expectations, allow firms for proper capital calibration/planning and promote transparency of SREP standards:
    a. **Model add-on** – uncertainty of model estimates can be evaluated through the following steps:
        i. Model inventory impacting risk, capital and liquidity assessments which includes purpose, materiality, past performance, validation results and controls to allow for an evaluation of intrinsic and residual risks by model
        ii. Uncertainty buffer calculations for medium or high risk residual models based upon factors such as sensitivity analysis, backtesting, performance monitoring and benchmarking results

Figure 2 – A&M Model Uncertainty Framework

Identify all quantified risks and models used for quantification

Inventory of all models used during the stress testing process
- Credit Risk Models (PD)
- LGD Models
- Retail and Commercial Loss estimation
- Investment risk
- Operational risk
- PPNR
- Others

Assessment of model approaches

Assessment based on:
- Criticality within stress test program
- Model data quality
- Model documentation
- Model validation

Additional considerations include:
- Model maturity / history
- Model performance

Identify models requiring capital considerations

Determine inherent risk based on prior assessment against five criteria:
- Conceptual soundness
- Data integrity
- Model performance
- Model implementation
- Output report reliability

Identify risk mitigants:
- Model testing performed
- Performance monitoring
- Validation performed
- Other remediation

Residual risk levels for each criteria are determined and an overall risk level is determined

Determine model uncertainty buffer

Uncertainty of the model based on:
- Model overall risk level
- Model materiality
- Model sensitivity
- Model back-testing

Determine estimate of model uncertainty ($ value) for each model

b. **Process and governance add-on** - deficiencies of process and governance can be evaluated through the following steps:
   i. Identify process and governance deficiencies including assignment of materiality and criticality of identified weaknesses
   ii. Evaluate qualitatively potential impact of process / governance weaknesses in capital estimates through scenario analysis and business judgment overlay

Figure 3 – A&M Process and Governance Uncertainty Framework

Identify perceived weaknesses in processes

- Assess capital related process and governance deficiencies containing material risks
- Review identified audit issues impacting capital measurement and management
- Evaluate results from risk self-assessment
- Incorporate data quality analysis efforts

Classify severity of identified weaknesses

Classifications are based on:
- Time required to remediate
- Effort required to remediate
- Estimated impact on capital management processes

Quantify estimated capital impact for each severity

- Capital is assigned to each identified weakness based on classification

Aggregate all capital estimates

- Process buffer is capital allocation of all aggregated estimates

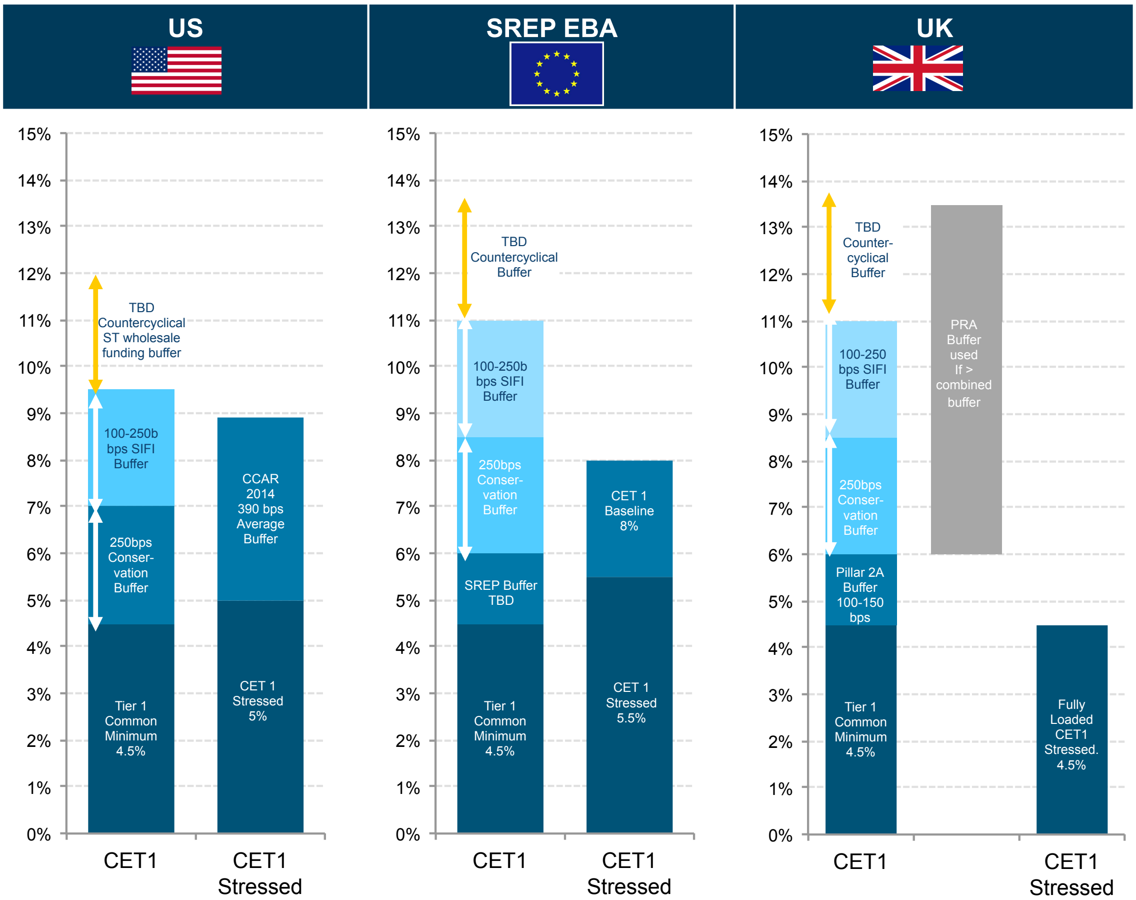
Illustrative Template for Capturing Process Weakness Analysis

Process Weakness	Severity Classification	Capital Impact ($)
Identified Process Weakness 1	High	Estimated $-value
Identified Process Weakness 2	Medium	Estimated $-value
Identified Process Weakness 3	Low	Estimated $-value
Identified Process Weakness "N"…		
Total		**Aggregated $-value**

c. **Funding risk**, including potential double counting of incorporating funding risks in forward looking stress tests (more adequate way of capturing funding risks relative to static capital measures)

- EBA and other regulatory bodies should consider **harmonising capital buffer methodologies** for static capital / liquidity adequacy measures and forward looking stress tests
    - Static and forward looking capital adequacy measures being considered in the US, Europe and UK differ in implementation especially guidelines related to supervisory buffers and minimum post-stressed capital ratios
    - The guidelines propose that the additional capital requirements should be binding requirements, always applied in additional to the CRD IV capital requirements. The guidelines do not however specify how the SREP add-ons will interact with the Capital Buffers and maximum distributable amounts (MDA). With the EU developing a sustainable market for Additional Tier 1 capital, the EBA should provide clarity in this area in order to allow sufficient transparency and investor protection.
    - It would also be helpful if the EBA could provide information on whether the SREP add-ons will be incorporated into the hurdle rate of the ECB stress-tests going forward

Figure 4 – Comparing capital adequacy across jurisdictions



- **RWA consistency** is not addressed under SREP guidelines. Providing more detailed guidance in this area would be beneficial to understand capital requirement expectations, allow banks for proper capital calibration/planning and promote transparency of SREP standards.

6. **Do you agree that competent authorities should be granted additional transition periods for meeting certain capital and liquidity provisions in the guidelines (Title 12)?**

Positive Feedback

- Transitional periods are adequate to allow for proper capital and liquidity planning
- The liquidity requirements introduce both firm specific and supervisory stress tests. This will be material undertaking for both firms and National Competent Authorities in many jurisdictions, so the EBA should carefully consider the appropriate transitional arrangements.

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