*Madrid, 20th October 2014*

RESPONSE TO EBA CONSULTATION ON SREP

(CP/2014/14)

## The *Asociación Española de Banca* (AEB) welcomes the opportunity to express the views of its members banks on the EBA consultation paper on draft guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) under article 107(3) of Directive 2013/36/EU (CRD IV). AEB, being a member of the European Banking Federation and having contributed to the preparation of EBF’s response, fully shares and supports its approach and contents. However, we would like to additionally refer to some issues which, although more concrete and specific, are in our view also relevant. The following points are highlighted:

* **Categorisation of institutions (Paragraph 11)**

The term “*category”* involves a sense of hierarchy, and even of more/less quality, that we think should be avoided when classifying entities according just to size and/or cross‑border activity. We therefore would propose the term “*group*”.

Furthermore, the numerical classification (1, 2, 3, 4) for both categorization (grouping) and scoring could result confusing, so we would suggest an alphabetic alternative for the former, i.e., A, B, C, D.

* **Score (Paragraph 26)**

The amount of points for each category in the final score should be indicated, otherwise it could become too much discretional for competent authorities.

* **Monitoring of key indicators (Paragraph 47: Key indicators)**
* The text should specifically determine or define which financial and risk indicators have to be revised, so that all the entities know which parameters should be considered, and there is no disparity between those established by the ECB and other national supervisors.
* A clear definition of the "Materiality" concept should be included.
* **Evaluation of the business model viability (Paragraph 71 a.: measure of acceptable benefits)**
* The text indicates that the acceptability of returns should be assessed, among other criteria, by comparing ROE against COE over the following 12 months. We consider that some standardised ratios should be established for cases like the current crisis, because it could appear that very few businesses were viable in that situation.
* The profitability of the business model is very difficult to measure without a prospective analysis and knowledge of the market. In this sense the current text does not include elements that allow thinking that the supervisor is going to do this exercise but will only make a short term static analysis, which could distort the results.
* **Internal gobernance and institution-wide controls assessment (Paragraphs 77 and following)**

In order to limit national competent authorities discretion and avoid regulatory arbitrage, more detail on governance and internal control assessment criteria could be convenient.

* **Operational risk (Paragraph 223)**

According to the current text, it seems that all is arranged to measure the risk on the basis of classification of the types of events under the AMA methodology. There should be a clear and explicit explanation of how this evaluation will be made for those entities that do not apply this measuring model of operational risk, that is to say for those using Standard methods, which are the great majority of entities.

* **Capital assessment (Paragraph 311) and liquidity assessment (Paragraph 407)**

Competent authorities should assess inherent risks as well as risk controls, in order to finally come up with the residual risk.

* **Composition of the required additional capital (Paragraphs 334 to 336)**

According to article 104 of Regulation 575/2013, the evaluation of capital by the SREP can produce additional requirements of own funds for the entity, but not establish the proportional distribution of the components thereof. Therefore, we consider that such proportionality should not be imposed, but simply the coverage with total computable Own Funds.

* **Level of asset encumbrance (Paragraph 377.b)**

We think that more guidance on asset encumbrance (by means of principles or thresholds) could be convenient.

* **Relationship of weaknesses in SREP and additional needs of capital (Paragraphs 446 and 447)**

We consider that there should be a more detailed definition of the relationship between weaknesses in the SREP and the additional needs of capital. The current wording leaves too much discretion to competent authorities.

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