UniCredit Group

Institutional and Regulatory Strategic Advisory – Regulatory Affairs
Group Risk Management – Strategic Risk Management and Control
Banking Supervisory Relations

30th June 2010

UniCredit Group's reply to the BCBS consultation on Good Practice principles on Supervisory colleges

GENERAL REMARKS

UniCredit Group (UCG) appreciates the coordination role that has been attributed to the consolidating supervisor. However, the BCBS consultation devotes a very limited mention to the leading path represented by the evolution of colleges in the EU legislative framework (see appendix 1) as on 15 June CEBS published the "Guidelines for the operational functioning of colleges".
Despite ample scope for improvement, which depends on the ability of the forthcoming European Banking Authority (EBA) to play a crucial role in the college, UCG considers that the CEBS guidelines should form the reference (benchmark) for the functioning of colleges proposed by the BCBS for EU headquartered banks.
UCG is of the view that one single college should be established. This should be open to EU and non-EU authorities with different constellations as appropriate and feasible, based on international agreements at government level. In this sense, when it comes to sharing information, the broadest setting could be set-up; whereas when it comes to take decisions, the EU setting is likely to be in place.

Colleges of supervisors may constitute a valid instrument to supervise cross-border banking groups, provided that:
a) the forthcoming EBA is granted sufficient resources and responsibilities within the colleges themselves (at least equivalent to those with the home supervisor in the EU),
b) the college is granted exclusive competence in a few issues relevant for consolidated supervision and is capable of taking decisions, and
c) appropriate arrangements are signed, between the relevant EU institutions and relevant governments, to involve non-EEA supervisory authorities as much as possible.

The colleges described by the BCBS seem, for UCG, to be of limited efficacy to play a role in promoting convergence in supervisory practices as well as in smoothly handling crisis management.

In accordance with the CEBS advise, it is also important to stress that the role of the EBA and of the parent company, as single entry point to implement the EU college's decisions or inputs, should be clearly enhanced (in contrast, for example, to the decentralised communication channel foreseen in principle 4).

Furthermore, in emergency situations, the following combination can be fundamental to manage the crisis in the most effective manner: a stronger EBA in coordination with the European Systemic Risk Board, well-functioning colleges (annual meetings seem of limited effectiveness) and a properly empowered and governed parent company.

The parent company should be the primary tool to access and manage a crisis in a banking group. It should have the power, the information, the knowledge and the data. It understands best the group's business model and systemically important business activities.

Moreover, to be effective, we argue that relevant international legislation, including European, must entrust the colleges with the task of identifying and addressing, to the greatest possible extent, the overlapping levels of legislation. (For example, a subsidiary should be compliant with its country-level legislation, the parent company's national legislation and, if applicable, the sub-holding's national legislation Particular attention should be paid to non-EU third countries.) With this regard an important issue is agreeing the supervisory boundaries of an institution, for instance, deciding which activities should be included such as leasing and asset management. The college should also be entrusted with reviewing the performance of delegated tasks and ensuring that local supervisory activities on topics of relevance for the group (e.g. capital adequacy) are coordinated by the consolidating supervisor.

Against this background, we would conclude that current information-sharing tasks attributed to international colleges seem of limited use. It is doubtful whether the essential elements of cooperation between banking supervisors described in principle 5 and appendix 2 are adequate. Until there are the conditions for real cooperation between banking supervisors, not excluding forms of multilateral, legally-binding arrangements between EU and non-EU countries, some doubts will always remain on the efficacy of cross-border crisis management instruments.

SPECIFIC REMARKS

Principle 1: College Objectives
Supervisory colleges should enhance information exchange and cooperation between supervisors to support the effective supervision of international banking groups. Colleges should enhance the mutual trust and appreciation of needs and responsibilities on which supervisory relationships are built.

The colleges described in the consultation paper seem to be of limited efficacy to play a role in promoting convergence in supervisory practices as well as in smoothly handling crisis management.
Colleges of supervisors may constitute a valid instrument to supervise cross-border banking groups, provided that:
a) the college is granted exclusive competence in a few issues relevant for consolidated supervision and is capable of taking decisions
b)the forthcoming EBA is granted sufficient resources and responsibilities within the colleges themselves (at least equivalent to those with the home supervisor in the EU), and
c) appropriate arrangements are signed, between the relevant EU institutions and relevant governments, to involve non-EEA supervisory authorities as much as possible.
Group overview should be from a capital adequacy perspective, i.e. risk profile compared to available capital and not only the former, as reported in the proposed text.

Principle 2: College Structures
Supervisory colleges should be structured in a way that enhances effective oversight of international banking groups, taking into account the scale, structure, and complexity of the banking group and the corresponding needs of its supervisors. Whilst a college is a single forum, multiple or variable sub-structures may be used as no single college structure is likely to be suitable for all banks.

The home supervisor, which in EU legislation is more properly defined as consolidating supervisor, should be tasked to:

1) chair, set the agenda and action plans;
2) arrange meetings for the general and core college as needed.
3) set-up mapping the group's entities;
4) decide on the membership (BCBS and CEBS provide general guidance);
5) decide whether to include non-banking supervisors.

We would have expected a clear mention of the important role of CEBS/EBA as full participant in the college, as well as a mention of the participation of the supervised entity. In this regard we support the BCBS statement that the host supervisors provide the home supervisor with effective contribution to the overall supervisory assessment of the banking group.
It is sensible that the consolidating supervisor chair the college. The chair should take the lead in the college's activities with the objective of enhancing consolidated supervision.
In order to foster convergence and reaching joint-decisions, the expectation is that colleges meet much more frequently then on an annual basis. The high-level regular meetings should be held with very senior representatives (e.g. members of the Governing Board) of the competent authorities, while the specialist staff should attend the meetings dedicated to specific issues (also in the forms of working groups).
The establishment of supervisory teams is encouraged. It would be productive to foresee the participation of experts from the supervised entity.

The mapping of a group's entities by the consolidating supervisor is a very useful exercise with the support of the supervised group. With this regard UCG deems it of the utmost relevance that

supervisors agree on the supervisory boundaries for institutions, for instance deciding whether to include activities such as leasing and asset management.

The division into core and general colleges is useful, especially to address EEA and non-EEA arrangements.

Non-EEA authorities can make valuable contributions to the supervisory college, therefore agreements between EEA countries should not be unnecessarily strict and so impede the active participation of non-EEA supervisors.

Smooth cooperation is crucial, especially in emergency situations for which specific guidelines may be considered.

It is expected that the consolidating supervisor will encourage non-EEA supervisors' participation.

Principle 3: Information sharing
College members should make their best efforts to share appropriate information with respect to the principal risks of the banking group. Mutual trust and relationships are key for effective information sharing. Nonetheless, formal confidentiality agreements, such as contained in Memoranda of Understanding (MoUs), among college members facilitate this process.

UCG understands MoUs are not legally binding and is therefore sceptical about their effectiveness under normal and stressed market circumstances.
Moreover, the college should address all the risks of the group, as each risk may be relevant for the group's stability.

In this regard, the college should consider discussing the summary of the strategy as capital positions should be related to business purposes as well as a quantitative overview of the group's risks.

Principle 4: Communication Channels
Communication channels within a college should ensure the efficiency, ease of use, integrity and confidentiality of information exchange. The home supervisor should make sound communication channels available to the college and host supervisors should use them appropriately and continuously.

UCG agrees that an adequate framework enforcing confidentiality is a precondition for cooperation on these sensitive matters.

Principle 5: Collaborative Work
Supervisory colleges should promote collaborative work between members, as appropriate, to improve the effectiveness of the oversight of international banking groups. Collaborative work should be based on agreement between supervisors and should recognise national legal constraints.
It is acknowledged that there are no mechanisms to incentivise the delegation of tasks. Specialisation is seen as a positive development towards a more efficient supervision, consistent with the necessity to adapt supervision to different business models and not *vice-versa*. The college should also be entrusted with the task to review the performance of delegated tasks and make sure that local supervisory activities on topics of relevance for the group, with capital adequacy amongst them, are coordinated by the consolidating supervisor. Nevertheless, should host supervisors promptly inform the consolidating supervisor about undergoing supervising activities, it would strongly enhance the college's effectiveness.

The supervised entity could also be informed about the sharing and delegation of tasks.

The more integrated a group is, the better supervisory cooperation and the delegation of responsibilities should be.

We are concerned that different supervisors will use different types of evaluation processes. In this regard, a key issue is to agree on the consolidated supervision, from a group perspective. This implies, amongst other things, acknowledging diversification benefits and an intragroup financing framework (e.g. liquidity and capital support).

When assessing the group's risk profile, it is crucial that all college members use the same templates. In this way supervisors can compare assessments and share information in the easiest way. That holds also for reporting dates to avoid unnecessary duplication of processes at parent company and subsidiary level. This applies, above all, for the purposes of what in EU legislation is referred to as "ICAAP" where many supervisors ask for regular reporting and therefore a teplate could improve the consistency and effectiveness of the process at group level.
Sharing model reviews and the related systems is deemed necessary. Group overview should be from a capital adequacy perspective, i.e. risk profile compared to available capital and not only the former, as reported in the proposed text.

Principle 6: Interaction with the Institution
Interaction between the college members and the banking group should complement the interaction that individual supervisors (both home and host) have with the specific entity they supervise.

The expected structured dialogue between the college and the supervised entity seems minimal.
UCG considers that:

1) requests to the group should be coordinated, to the greatest extent possible, by the college and the consolidating supervisor should have a central role;
2) the college's communications, via the consolidating supervisor, should be performed through the parent company. For efficiency and effectiveness reasons, the expectation is that the parent company will act as the single entry point to implement any deliberation or request from the college.
3) the consolidating supervisor should regularly organise meetings between the college and the senior management and/or representatives of the supervised group.
4) for the benefit of the quality of supervision and its effectiveness in general, the host supervisor should inform the local licensed entities as well as the parent company.

Principle 7: Crisis Management
Supervisory colleges and crisis management structures are distinct but complementary. The work of a banking group's supervisory college should serve as one of the building blocks for crisis management planning.

The supervised entity, in close cooperation with the appropriate college constellation, should:

1) prepare a contingency plan in cooperation with central banks and finance ministers;
2) assess the potential impact of the emergency situation on the group as well as on market liquidity and financial systemic stability in the Member States where the bank is present.

The consolidating supervisor should be tasked to:

3) collect information from host supervisors and disseminate as appropriate;
4) draw-up a coordinated supervisory response and coordinate external communication.

<u>The standardisation of reporting should involve deadlines as well as formats.</u>
We see ample scope to improve the college's cooperation during a crisis. It is not clear whether there are the incentives and conditions for a coordinated supervisory response. Less coordination

would be particularly detrimental for the supervised entity. Moreover it is important to clearly mention the role of CEBS/EBA. This is crucial but unfortunately left to voluntary arrangements.

Principle 8: Macroprudential Work
Supervisory colleges can help ensure that the intensity of supervision of large, complex, internationally active banking groups is tailored to their systemic importance. Supervisory colleges should facilitate the process of identification and dissemination of information relevant to macroprudential analysis.

There seems to be a need to further elaborate this part and clarify cooperation with the European Systemic Risk Board and the Financial Stability Board. For instance, the former could be for Europe and the latter worldwide, with the two interacting with each other.

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