



*European Association of Co-operative Banks
Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken*

EACB Comments on JC paper on draft RTS on risk concentration and intra-group transactions under Article 21a (1a) of the Financial Conglomerates Directive

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The **European Association of Co-operative Banks** (EACB) is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 28 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the co-operative banks' business model. With 3.700 locally operating banks and 71.000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 215 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 56 million members and 850.000 employees and have a total average market share of about 20%.

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Introductory Remarks

The members of the EACB appreciate the efforts of ESAs to provide further clarification regarding the definitions of “significant risk concentration” and “significant intra-group transactions”, as well as the methodology for the coordinators.

While we see these draft RTS mainly addressed at the coordinators and supervisors, and understand that its main purpose is to further clarify the provisions laid out in the Financial Conglomerates Directive, we would like to share some remarks regarding the scope, criteria, reporting requirements and supervisory measures included in the draft RTS.

Answers to specific questions

1. *Is the suggested scope of the draft regulatory technical standards and the definition of significant risk concentration and significant intra-group transactions appropriate with respect to the mandate given in Article 21a (1a) of the Directive 2002/87/EC (FICOD)?*

Regarding the definition of “significant risk concentration” (Art 2), we are concerned about the inclusion in its scope of the possibility of contagion effects within the financial conglomerate and the possibility of conflicts of interest. In our opinion, these should be addressed at a higher level.

2. *Are the criteria, which coordinators and other relevant competent authorities shall take into account when identifying types of significant risk concentration and significant intragroup transactions, defining appropriate thresholds and periods for reporting and overseeing significant risk concentration and intra-group transactions, appropriate and comprehensive?*

According to our understanding, the goal of the RTS is twofold. On the one hand, the definition of significant risk concentration and significant intra-group transactions should be improved. On the other hand, the supervisory requirements according to Art. 7 and 8, and Annex II of the Financial Conglomerates Directive must be coordinated by the ESAs. In this regard, the ESAs have opted for a non-binding, non exhaustive definition (Policy Option 2), which allows for a great level of discretion for the coordinator when it comes to the interpretation. The criteria put forward in the RTS will facilitate an individual interpretation for each financial conglomerate.

While we understand the approach followed by the ESAs, we also believe that a level playing field must be guaranteed: the supervisory authorities of different financial conglomerates must therefore follow the same criteria when evaluating similar cases. A greater level of discretion should only be allowed for those elements related to the internal approaches, such as the risk management practices (similar to the separation between Pillars 1 and 2 in Basel III).

We consider it important to guarantee a high degree of legal certainty for financial conglomerates. Therefore, and despite the broad definition chosen, clear requirements



should be made. The responsibility to concretize these requirements lies with the supervisory authority and should not be passed on to the financial conglomerates subject to supervision.

3. Is the proposed information to be contained in a report on significant risk concentration and significant intra-group transactions appropriate? If not, which other information should be included?

Regarding the reporting requirements, we consider that a minimum level of harmonisation is required, especially in relation with the frequency of reporting and the reporting days, whether the supervised parent company is a bank, an insurance or a holding company. It should also be clarified which sectorial rules for the calculation of the corresponding exposure value should be followed in function of the type of financial conglomerate and the subject type of risk.

However, burdensome, "granular reporting" (e.g. "break-down reporting" in Art. 2.4(b) of draft RTS) should be avoided, since it would be excessive and difficult to implement.

4. Do you agree with the proposed set of supervisory measures to be taken into account by competent authorities? If not, which other measures should be included?

We believe that the provisions on governance and internal control laid out in the Financial Conglomerates Directive are enough and need not be complemented with additional constraints.

Regarding the reporting frequency (Art. 4(c) of draft RTS) should not be higher than once a year.

We are also concerned that the change in the provisions regarding the definition of thresholds (Art. 4(d) of draft RTS) would be detrimental to the level playing field that was achieved with the thresholds proposed in the Directive.

Finally, we would like to highlight that the sole purpose of the RTS is to streamline the provisions regarding "significant" risk concentration and "significant" intra-group transactions. Therefore, a clear mention of "significant" should be inserted in order to avoid misunderstandings that would increase the reporting burden.

5. Do you agree with the analysis of the impact of the proposals in this Consultation Paper? If not, can you provide any evidence or data that would further inform the analysis of the likely cost and benefit impacts of the proposals?

n/a