



**Press Release  
20 June 2005**

## **CEBS STARTS A SECOND ROUND OF CONSULTATION ON THE SUPERVISORY REVIEW PROCESS**

The Committee of European Banking Supervisors (CEBS) today opens a public consultation based on a revised and expanded version of its first consultation paper on the application of the Supervisory Review Process.<sup>1</sup> The current consultation period will run for four months, until 21 October 2005.

The Supervisory Review Process is designed to enhance the link between the risks that credit institutions and investment firms take on, their management of those risks, and the capital they hold. It is also designed to encourage improvements in their risk management. Each institution is primarily responsible for assessing its risks and defining its own capital needs. The supervisor is responsible for reviewing and evaluating the institution's assessments and for performing its own assessment of the institutions' risk profile and capital needs.

The proposals in this second consultation paper are addressed to both supervisory authorities and institutions, with an emphasis on the dialogue and interaction between the institution's capital adequacy assessment and the supervisor's review and evaluation.

The Supervisory Review Process is a central component of the revised international capital framework (Basel II).<sup>2</sup> The Basel II framework will be implemented in the EU once the proposed Capital Requirements Directive (CRD) has been adopted by the Council and the European Parliament. The proposals set forth in this consultation paper will be revisited after the final text of the CRD has been approved.

CEBS has considered the comments submitted during the first consultation, and has redrafted its proposals to incorporate some of the suggestions it received. The paper also includes new proposals, including guidelines on the general application of internal governance, and more specifically on how internal governance applies to credit institutions' and investment firms' internal capital adequacy assessment processes. It also includes more detail on how the dialogue between the institution

---

<sup>1</sup>“The Application of the Supervisory Review Process under Pillar 2” (CP03) was first published in May 2004. The first consultation period closed on August 31, 2004.

<sup>2</sup> The Basel II framework is based on three 'pillars'. 'Pillar 1' aligns minimum capital requirements more closely with institutions' actual risks. 'Pillar 2' provides for the supervisory review of institutions' internal assessments of their overall risks. 'Pillar 3' motivates prudent management by enhancing the degree of transparency in institutions' public reporting.

and its supervisor should be conducted, and how supervisors will use their own risk assessment systems as part of the Supervisory Review and Evaluation Process.

Today's publication provides an overview of the guidelines, but more detail will need to be added later, to flesh out the practical review and evaluation processes with regard to specific individual risks to which institutions may be exposed. CEBS is also considering whether and how to provide specific guidance for small institutions on how to develop their internal capital adequacy assessment processes.

For more information about the consultation, please visit the CEBS website:

[http://www.c-eps.org/Consultation\\_papers/consultationpapers.htm](http://www.c-eps.org/Consultation_papers/consultationpapers.htm)

CEBS will also hold a public hearing on these proposals, on Wednesday 27 July 2005, at its offices in London. More information on this and a registration form will be published on the CEBS website.

Press Contact:

Mr. Jouko Marttila

Communications Officer

Phone: +44 207 382 1780

Fax: +44 207 382 1771/2

E-mail: [jouko.marttila@c-eps.org](mailto:jouko.marttila@c-eps.org)

*The Committee of European Banking Supervisors (CEBS) is comprised of high level representatives from the banking supervisory authorities and central banks of the European Union. CEBS main tasks are to give advice to the Commission in the field of banking activities, to contribute to the consistent implementation of Community Directives, to promote the convergence of supervisory practices and to enhance supervisory co-operation. The Committee is chaired by Mr José-María Roldán. The CEBS Secretariat is based in London. The Secretary General of the Committee is Mr Andrea Enria.*