



25 January 2006

CEBS PUBLISHES GUIDELINES ON SUPERVISORY REVIEW PROCESS

The Committee of European Banking Supervisors (CEBS) today published guidelines on the Application of the Supervisory Review Process under Pillar 2¹. The supervisory review process is a central component of the new Capital Requirements Directive (CRD). It is designed to enhance the link between the risks taken on by credit institutions and investment firms, their management of those risks, and the capital they hold.

Each institution is responsible for assessing its risks and establishing its own internal capital needs. The supervisor is responsible for reviewing and evaluating the institution's assessment and for performing its own assessment of the institution's risk profile and capital needs.

The cornerstone of the supervisory review process will be a structured dialogue between institutions and supervisors. CEBS' guidelines represent a common understanding between EU supervisors on how this dialogue will be conducted, and clarify their expectations for the process.

CEBS has developed the guidelines after two rounds of public consultation. The second consultation (CP03 revised), which ended on 21 October 2005, generated 17 responses from trade organisations and other market participants.

The guidelines have been amended to incorporate many of the suggestions received. In particular, CEBS has:

- revised the internal governance section of the guidelines, including the definition of management body;
- clarified the scope of application of the guidelines and the framework for coordination between consolidating supervisors and host supervisors on the supervisory review process;
- stressed the importance of the concept of proportionality throughout the guidelines;
- used less prescriptive language to emphasise that the guidelines are guidance; and
- emphasised that the use of capital is only one (albeit important) of a number of ways to mitigate risk.

These guidelines will be followed by banking supervisors across the EU.

¹ The Basel II capital 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 and capital adequacy based on those risks. 'Pillar 3' motivates prudent management by enhancing the degree of transparency in institutions' public reporting.

Please use the following link for more information:
<http://www.c-eps.org/standards.htm>

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*The **Committee of European Banking Supervisors (CEBS)** is composed of high-level representatives from the banking supervisory authorities and central banks of the European Union. CEBS' main tasks are to advise the Commission in the field of banking activities, to contribute to the consistent implementation of Community Directives and to the convergence of supervisory practices, and to enhance supervisory cooperation. The Committee is chaired by Mme Danièle Nouy. The CEBS Secretariat is based in London. The Secretary General of the Committee is Mr Andrea Enria.*