



Committee  
of European  
Banking  
Supervisors

# Annual Report 2006



## **Annual Report 2006 of the Committee of European Banking Supervisors**

This Annual Report has been submitted to the European Commission, the Council, and the European Parliament, in accordance with Article 6 of the Commission Decision of 5 November 2003 establishing the Committee of European Banking Supervisors (2004/5/EC) and Article 6.1 of the Charter of the Committee of European Banking Supervisors.

© Committee of European Banking Supervisors 2006  
Tower 42 (level 18), 25 Old Broad Street, London, EC2N 1HQ  
Telephone: +44 (0) 20 7382 1770  
Fax: +44 (0) 20 7382 1771  
Website: [www.c-eps.org](http://www.c-eps.org)  
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## Foreword by the Chair

In its third operational year, CEBS' agenda continued to be dominated by work related to the Capital Requirements Directive (CRD), which implements the Basel II capital adequacy framework in the European Union (EU). The new framework harmonises capital requirements for credit institutions and investment firms and encourages them to improve their risk management processes. The adoption of the CRD in June 2006, together with the introduction of International Financial Reporting Standards (IFRS), provides CEBS with a unique window of opportunity to promote greater consistency in supervisory approaches across the EU and the European Economic Area (EEA).

During 2006, and to an even greater extent in the first months of 2007, the direction of CEBS' work has been shifting from design to delivery: from the development of common supervisory approaches through guidelines, to the implementation and application of the commonly agreed principles in day-to-day supervisory practices. The focus of the Committee is more and more on monitoring the progress achieved in convergence of supervisory practices. As the guidelines issued by CEBS are mostly principles-based, rather than highly detailed or prescriptive, they need to be enriched and maintained in the light of practical experience in order to fulfil their convergence goal. This does not necessarily mean updating or modifying existing guidelines, but rather striving for convergence through an extensive and fit-for-purpose set of tools, such as implementation seminars, training programmes, surveys of good practices and the like. The real test of convergence will be CEBS' impact on the practical day-to-day supervision of cross-border banking groups in the longer term and on the ability to foster good supervisory practices and address level playing field issues in areas affecting the whole EU banking sector. These are the areas on which CEBS' success will ultimately be judged.

CEBS has three main tasks: to provide regulatory advice to the European Commission, promote convergence of supervisory practices, and enhance cooperation and exchange of information among banking supervisors within the EU and EEA.

In the course of 2006 the relevance of technical advice has gradually grown, as the Commission asked CEBS to provide substantial contributions in the review of delicate areas of Community legislation, ranging from the definition of own funds to the limits to large exposures, the prudential treatment of commodities business and firms, the equivalence of third countries supervision and, in early 2007, the supervision of liquidity risk.

At the same time, work on supervisory convergence and co-operation has remained very intense. By the end of 2006 CEBS had published twelve consultation papers and finalised nine sets of guidelines, seven of which are specifically related to the capital adequacy framework (CRD).

One key achievement is the realisation of the common European framework for supervisory disclosure, which will provide an opportunity to compare the national approaches to the implementation and application of the CRD according to a common layout, via CEBS' website. This framework is intended to make supervisory practices more transparent, and should prove to be a powerful tool in achieving consistent implementation of EU legislation and convergence of supervisory practices.

Operational networking is the other main area of innovation for CEBS. This project focuses on the supervision of cross-border groups and on mechanisms for cooperation between consolidating and host supervisors. It aims at providing a bottom-up approach to help ensure the effective application of the CRD and CEBS' guidelines by identifying practical issues emerging in day-to-day supervision and addressing them, with common solutions where

possible. In 2006, CEBS started a pilot project focused on a limited sample of ten cross-border groups, selected on the basis of the relevance of their cross-border business in the EU. If successful, the project will be extended to other banking groups. I view this work as essential to ensuring that CEBS delivers in practice what it has set out in policy.

Another important focus is the intensified cooperation (the so-called '3L3') with the other Lamfalussy committees: the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the Committee of European Securities Regulators (CESR). The three Committees agreed a joint protocol for cooperation in 2005, which resulted in a first programme for joint work on issues of cross-sector relevance, including the supervision of financial conglomerates, in 2006.

The 3L3 Committees have started to work on enhancing supervisory convergence and the implementation of the recommendations of the Financial Services Committee (as set out in the "Francq Report"). One of the key goals in this report is to create a common European supervisory culture, supported by common initiatives on staff training and short-term exchange of experts between authorities. CEBS aims to accomplish this by organising training programmes focused on CRD issues, and by developing exchanges of staff between national authorities. Greater consistency and convergence in the approaches of financial supervisors will contribute to the effective functioning of the Single Market. CEBS wants to be a key player in this evolution.

CEBS has benefited from the structures and transparent consultation process with CEBS' Consultative Panel. The Panel has offered input on procedures as well as helping to set priorities, and has contributed to a fruitful dialogue at the technical level. CEBS attaches great importance to the involvement of stakeholders in its work, and is committed to transparency and accountability.

This Annual Report, together with CEBS' published work programme, set out CEBS' methods and objectives, and should assist the European Institutions, the banking industry, and users of banking services in assessing how well CEBS is fulfilling its tasks. Its publication provides an opportunity for me to thank all of the Committee's stakeholders, along with other interested parties, who have contributed to its work. Without their cooperation, and without the extensive dialogue we have enjoyed with market participants, CEBS could not have achieved its goal of finalising guidelines that will promote convergence of day-to-day supervisory approaches in time for the implementation of the new framework for banking supervision.



Daniele Nouy  
Chair  
London, May 2007



## 1. Overview of progress made in 2006

2006 was a productive year for CEBS. The work programme for 2006 was adhered to closely and most products were delivered within the time schedule envisaged at the beginning of the year.

CEBS received several calls for advice from the Commission, and delivered technical input in key areas, including current supervisory and industry practices on Large Exposures, and current prudential practices for Commodities Business and firms carrying out commodities business as part of the review of commodities business under Article 48 of Directive 2006/49/EC. One additional Call for Advice has been received, on current rules and market trends on Own Funds, including a request to collect empirical data on the composition of own funds in Member States (MS).

Technical advice to the Commission was delivered within the deadlines set by the Commission. In all cases the advice was delivered on time, although the deadlines were very tight, ranging from 12 to 19 weeks. In developing this advice, CEBS relied on its Consultative Panel throughout the year, and in one case on an online questionnaire, to obtain input from interested parties. An important factor in the decision to proceed without normal consultation procedures in that case was that the advice provided was on framework legislation, and the Commission would be conducting consultations on the same subjects.

CEBS has finalised the outsourcing standards, co-operating with CESR and CEIOPS in order to ensure consistency of technical rules and supervisory guidance across sectors.

Major progress was made also in the finalisation of CEBS work to support convergence in the implementation of the Capital Requirements Directive (CRD)<sup>1</sup>. The wave of guidelines was completed on schedule, with minor postponement for the final

publication of the additional guidance on the supervisory review process under Pillar 2 in order to accommodate comments received during the consultation process. The finalisation of the work on crisis management was also briefly postponed, in order to take into account the lessons from the crisis management exercise performed to test the Memorandum of Understanding (MoU) between Ministries of Finance, central banks, and banking supervisors. The work has now been finalised. It was decided not to submit this work to public consultation and final publication, due to the subsidiary nature of the recommendations to the above-mentioned (unpublished) MoU and the sensitive nature of crisis management arrangements in general. The original intent of monitoring the implementation of CEBS' products was partly achieved in the course of 2006: following an initiative of the Consultative Panel, CEBS developed and implemented a methodology for assessing the progress made in meeting its objectives. This methodology will support the production of a report in the first half of 2007. CEBS decided to conduct further investigation of tools for peer review and to use its project on operational networking to assess the actual use of the guidelines in day-to-day supervision.

2006 marked a shift in CEBS' orientation and emphasis, from design to delivery of a more convergent supervisory framework. The project on operational networking, which seeks to identify and address practical issues emerging in the implementation of the CRD and CEBS guidelines in a bottom up fashion, is key to this refocusing of CEBS' activity. The project started in early 2006 and has been complemented by a number of parallel initiatives (seminars, case studies, etc.). CEBS will continue to further develop and test this new orientation of its work in 2007.

<sup>1</sup> Directives 2006/48/EC relating to the taking up and pursuit of the business of credit institutions (recast) and 2006/49/EC on the capital adequacy of investment firms and credit institutions (recast)

As the Committee moves from the production of guidance to its implementation, the nature of its deliverables is also changing. Traditional products (regulatory advice, guidelines, recommendations, and standards) are to be complemented by new types of output, focused more on facilitating convergence and co-operation in day-to-day supervisory practices.

### From design to delivery: what sort of outputs?

As CEBS moves from design to delivery, it needs to consider carefully what sort of deliverable it should aim for. The following deliverables might become increasingly common:

- *Surveys of supervisory and market practices*, possibly coupled with high-level principles to provide benchmarks for convergence. Surveys could be helpful in identifying different approaches; assessing their impact on the effectiveness of supervision, on the level playing field, and on the administrative costs for supervised entities; and prioritising further work where needed. In some cases, survey output could be included in the framework for supervisory disclosure, or a peer review mechanism, to allow meaningful comparisons between national approaches.
- *Summary feedback reports*, outlining the progress achieved in the practical implementation of each guideline issued by CEBS, to permit an assessment of implementation and convergence. The Committee might want to add its own commentary on the extent of convergence that has taken place.
- *Catalogues of practical supervisory responses* in specific areas (e.g., on validation of advanced approaches), or *Frequently Asked Questions (FAQs)*. These could originate from the project on operational networking or from other tools that CEBS is currently developing, such as discussion forums, in which experts in different areas network among themselves, and query systems, which allow each member to compile information on how fellow supervisors address specific issues. CEBS will continue in 2007 to benefit from the experiences gained in the publicly accessible CRD Transposition Group.
- *Workshops and seminars* (either internal or with industry) to consider progress in convergence of supervisory practices in specific areas of CEBS work.
- More informal deliverables, such as *internal updates* or published *newsletters* on specific supervisory issues.



The Economic and Financial Council (ECOFIN) has adopted the recommendations of the Financial Services Committee (FSC) Report on Financial Supervision (also known as the Francq Report). The report highlights the main challenges and concrete steps that could be taken to further develop supervisory arrangements in the EU. The three main challenges are: fostering supervisory cooperation and convergence, enhancing the cost-efficiency of the EU system, and improving cross-border supervision. Within this framework, CEBS is required to develop new tools to foster a common European supervisory culture, to address possible disputes via non-legally binding mechanisms such as mediation, to explore the possibilities for delegation of tasks and responsibilities, and to move towards common frameworks for supervisory reporting. The report also requires to further explore ways and means of developing “peer reviews” to ease supervisory convergence.

### Highlights of CEBS' Assessment

In late 2006, CEBS conducted an exercise to understand how its members, EU institutions, industry, and consumers regard to the committee. The aim was to provide input and ideas to the Inter-Institutional Monitoring Group (IIMG) and the Financial Services Committee (FSC) as part of the formal 2007 review of the Lamfalussy committees. This work also provides a benchmark for CEBS' aim to review and reassess its work programme and - if necessary - to adapt its strategy and objectives.

As mentioned in an earlier Consultation Paper (The role and tasks of CEBS - CP08) the Committee has committed publicly to developing a methodology to assess the progress and impact of its work. Against this background CEBS has developed a methodology for self-assessment in all of the technical areas in which it has developed guidelines. CEBS' Consultative Panel was also very active in this area and has provided input. The final questionnaire was a mix of self and external performance assessment.

The questionnaire was published in the form of an on-line assessment survey in November 2006, which gave all relevant stakeholders, including members, the opportunity to comment by the end of January 2007 on CEBS' objectives and on the efficiency of its working methods. The polling firm Ipsos MORI was contracted to assist CEBS and analyse the results. The results of this survey will be used to help prepare for the review of CEBS, along with the other Lamfalussy Committees, by the IIMG and the Financial Services Committee (FSC) in 2007. The outcome of this assessment was presented to the industry and general public at the first CEBS conference on 9 May 2007 in London. The reports summarising and commenting the results of the survey can be found on CEBS website (<http://www.c-ebs.org/publications.htm>).

## 2. The Achievements in 2006

### 2.1 ADVICE TO THE COMMISSION

#### 2.1.1 Quantitative Impact Study (QIS 5)

In November 2004, CEBS was asked to coordinate an EU-wide quantitative impact study (QIS), following the previous study conducted in 2003 (MARKT/1082/04-EN). CEBS' work was conducted in close liaison with the Basel Committee on Banking Supervision (BCBS) and its dedicated technical group. This also allowed the inclusion of EU countries in the Basel report, which supported discussions on a possible recalibration of the revised framework in 2006.

The data for this fifth Quantitative Impact Study (QIS 5) were collected during the last quarter of 2005, using the templates agreed at the BCBS level, adjusted to capture specific aspects of the CRD framework. The sample was composed of 262 institutions from 20 European countries, including 49 large, diversified, and internationally active credit institutions.

The final report was published in June 2006. It summarised the effects of the CRD on minimum regulatory capital requirements for credit institutions and investment firms in the EU. The QIS 5 had a broader scope than previous exercises, including new aspects such as the requirements for the estimation of Loss Given Default (LGD) parameters and Trading Book issues. According to the results, the average amount of minimum required capital under the CRD would decrease relative to the current regime. The results were broadly in line with the expectations of European supervisors, taking into account the favourable macroeconomic environment at the time of the exercise. The results also indicated that the CRD provides, on average, an incentive for European credit institutions to move to more sophisticated risk measurement and management techniques.

The actual impact of the implementation of the CRD will depend on the risk profile of the institutions at the relevant implementation dates, and will be

limited by the transitional floors that will apply until the end of 2009.

CEBS expects that, in the course of implementing the CRD, supervisors will monitor credit institutions in order to make them maintaining a solid capital base throughout the economic cycle. CEBS believes that supervisory mechanisms, including the supervisory review process (Pillar 2), are in place to achieve this goal.

The results of the QIS 5 for EU credit institutions are closely aligned with the results obtained at the Basel level, which led the BCBS to the decision not to change the scaling factor in the Basel II framework for the time being. The European Commission followed the same line of argument, suggesting no further change in the CRD's scaling factor.

#### 2.1.2 Call for Advice on the Definition of Own Funds

In mid 2005, CEBS received a Call for Advice in the context of the Commission's review of the rules on own funds laid down in the CRD. Article 62 requests the Commission to consider the progress achieved in convergence towards a common definition of own funds and, if appropriate, to submit by 1 January 2009 a proposal for amendments to the European Parliament and the Council. The Call for Advice has been refined through additional requests and CEBS is still actively working in this area.

In June 2006, CEBS published a survey on the national implementation of the current rules on own funds and on recent market trends in the issuance of capital instruments. The aim of this survey was to increase transparency and to highlight the main commonalities and differences in national regimes across Europe.

CEBS found that national approaches share many commonalities with regard to the core objectives of own funds. To be eligible for regulatory own funds, capital instruments should meet three criteria: (i)

permanence, (ii) loss absorption, and (iii) flexibility in the amount and the timing of distributions and payments. Variations in own funds rules arise either from the flexibility granted by the CRD, from local market specificities, or from differences in national tax and company laws or prudential approaches.

Among the main differences highlighted in the survey are the treatment of hybrid capital instruments, deduction of participations, and amortisation of additional own funds and the treatment of dividends.

A second survey, on recent market trends in new capital instruments and their principal characteristics, was conducted through an on-line questionnaire. CEBS noted that the volume and diversity of hybrid instruments were developing rapidly, mainly due to return-on-equity considerations, low interest rates, and a widening of the investor base. This made it even more important to address the consistency issues related to the eligibility criteria for hybrid instruments.

CEBS also undertook a quantitative analysis of the types of capital held by institutions within the EU, with a view to assessing the impact of differences in the national implementation of EU rules. The first part of this empirical analysis focused on hybrid capital instruments recognised as original own funds in the EU, and was published in March 2007. The information collected shed light on the characteristics of hybrid capital instruments. Although the main economic characteristics may vary across instruments and countries, some common features were identified: the vast majority of hybrid instruments are undated and deeply subordinated, and issuing firms have maximum discretion over the amount and timing of distributions and payments, which in most cases can be waived to absorb losses. Other loss absorbency features displayed wider diversity. CEBS intends to finalise the empirical analysis of all the elements of regulatory capital by mid 2007.

The key findings of CEBS' work on the definition of own funds are being shared continuously with the Basel Committee, which is also working on this issue, with a view to ensuring consistency and a level playing field at the international level.

Work will continue in 2007 with a view to developing a common understanding of the quality of regulatory capital in the EU and possible benchmarks for convergence.

Cross-sector consistency is a key to CEBS' work. CEBS and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) established a Joint Task Force on Capital which compared the characteristics of , and limitations to capital elements that are eligible for prudential purposes in the banking, insurance, and investment firm sectors. The methods for calculating capital for regulatory purposes were also addressed, with a particular focus on the impact of the new International Accounting Standards IAS/IFRS and on the prudential filters. A report comparing the current Directives in each sector was published in early January 2007.

CEBS and CEIOPS concluded that eligible capital elements in banking and insurance share many core commonalities. Some of the differences identified reflect differences in the nature of the activities of each sector. Four main areas of differences were highlight: hybrid capital instruments, deductions, revaluation reserves and unrealised profits, and methods and approaches to the calculation of eligible capital elements at the consolidated level.

CEBS and CEIOPS are pursuing their analysis in 2007 with the aim of assessing the impact of the sector differences in the supervision of financial conglomerates.

This work is being carried out under the umbrella of the Interim Working Committee on Financial Conglomerates (IWCF) and in the context of a specific draft Call for Advice to be issued by the Commission on this matter.



### 2.1.3 Cross-Border Consolidation

In 2004, the ECOFIN Council asked the Commission to consider reforms to the banking Directive and to other sectoral Directives concerning the procedures and criteria for dealing with applications for mergers and acquisitions (Article 16, now Art. 19 of the CRD). At the request of the Commission, CEBS provided technical advice on this issue in May 2005. The Commission also convened a European Banking Committee (EBC Level 2 of the Lamfalussy framework) working group, and later a cross-sector 3L3 working group, to consider these issues. CEBS was represented on these groups as an observer and contributed to the discussions. The Commission concluded its work and published a proposal to amend the Directives in September 2006. There was a first exchange of views on these issues by the Committee on Economic and Monetary Affairs (ECON) of the European Parliament in October 2006. The aim was to amend the legal texts, through a co-decision procedure in the European Council and European Parliament.

The proposals raised a number of significant issues, including issues of a prudential nature. These included the time limit that should be applied for taking a sound decision on an application, the assessment criteria to ensure that all prudential concerns are adequately met, and access by the Commission to confidential information.

As all three Level-3 Committees are affected by the legislative proposals, they agreed to send a joint letter (see also section 2.5.3 of this report) to the European Commission setting out their concerns.

### 2.1.4 Call for Advice on Definition of Large Exposures

Article 119 of the CRD requests the Commission to submit a report on the functioning of the provisions on Large Exposures to the European Parliament and the Council, together with any appropriate proposals. Accordingly, the Commission initiated a review of the Large Exposures regime and addressed a Call for Advice to CEBS. CEBS was asked to focus its work first on a stock take of current supervisory practices

and to conduct an industry consultation to gather a broad picture of industry practices in this area.

In an initial report on current supervisory practices, CEBS noted that there is a high degree of commonality on the core issues, but that divergences emerge where national authorities elaborate to provide clarity (e.g. on definitions), as well as in the exercise of national discretions included in the Directive text. Differences were also noted in the frequency of reporting requirements.

A second report on market practices, also issued in 2006, delved into issues such as the use of economic models in the measurement and management of concentration risks, and the specificities of smaller and less sophisticated institutions. This analysis was carried out through an on-line questionnaire. CEBS found a wide variety in the methods used by EU firms to measure and manage concentration risk. Smaller institutions often rely largely on limits on the size of their large exposures, expressed as a fraction of the institution's capital, or (less often) of assets, and often closely linked to regulatory limits. Larger, more sophisticated institutions use more varied methods for calculating internal limits, relying on economic capital models which capture the impact of large exposures on the riskiness of the institution's overall credit portfolio, and on stress-testing or scenario analysis. Concentration risks other than single-name exposures (e.g., sectoral or geographic concentration risk) are addressed with a mixture of tools and approaches, ranging from limits to simple statistics and judgmental considerations, with some sophisticated institutions using models-based approaches and stress tests. Large institutions appear to manage concentration risk and set limits only at group-wide level, although some also pay attention to intra-group exposures. Credit risk mitigation is commonly used to reduce concentration risk.

During the consultation, market participants pointed out that the risk weights for the large exposures regime should be tied to the risk weights used in the capital regime. Larger groups stressed that there is a gap between the internal tools for measuring and managing concentration risks and the regulatory requirements. CEBS' Consultative Panel also argued in favour of a closer alignment between the supervisory practices being developed on concentration risk under the Supervisory Review Process (SRP; see Section 2.2.2) and the large exposure review. The limits on intra-group exposures and the treatment of derivatives, trading book activities, and investment management and fund operations were considered to deserve a thorough review.

On the basis of CEBS' work and the input gathered from market participants, the Commission decided to expand the deadline of the review past December 2007, and issued a second Call for Advice to CEBS. In this context, CEBS is focusing its advice on the general purpose and metrics of a Large Exposures regime; on specific issues relating to credit risk mitigation, indirect concentration risk, and intra-group exposures; and on the possible need to move away from a 'one-size-fits-all' approach.

### **2.1.5 Call for Advice on Commodities Business**

CEBS received a call for technical advice from the Commission as input to the review of the prudential treatment of commodities business under Article 48 of the CRD. The Call for Advice is part of a larger review of the current provisions concerning commodities business and the prudential treatment of firms carrying out commodities business as set out in Directive 2004/39/EC on Markets in Financial Instruments (MiFID) and the CRD. In the same context, the Commission in December 2006 issued a Call for Evidence open to all interested parties.

In the Call for Advice, CEBS was invited to conduct a survey of supervisory practices for the commodities

business and for firms carrying out commodities business by December 2006, and to assess the prudential risks arising from the conduct of commodities business by April 2007.

At the end of 2006, CEBS submitted to the Commission the supervisory survey responding to the first part of the Call for Advice. CEBS' report to the Commission included an analysis of the national prudential supervisory regimes currently in place across the European Economic Area (EEA). The report discussed the scope of the regimes and their coverage of risks, and commented on the ways in which national supervisory regimes deal with commodities business carried out within financial and non-financial groups. The analysis also included an assessment of the prudential supervisory regimes in place in three major non-EEA countries.

With the transposition of the MiFID, the current definition of financial instruments will be broadened and a number of firms carrying out commodities business and business activities connected with commodities which are currently outside the scope of the EU directives will become subject to supervision. This may lead to amendments to the current prudential supervisory regimes. Further changes may result from the transposition of the CRD. CEBS is closely coordinating its work in this area with CESR.

#### **2.1.6 Equivalence of US and Swiss supervision**

Subsidiaries of third-country credit institutions play an important role in the European financial market and compete with EU credit institutions in the field of wholesale banking. In principle, these subsidiaries (and branches) from third countries must be authorised as credit institutions by the respective Member State.

The Commission has prepared two draft Calls for Advice to CEBS (and the IWCF), on the extent to which US and Swiss supervisory regimes are likely to

achieve the objectives of the banking and Conglomerates Directives, and thus whether EU supervisors can rely on equivalent consolidated supervision in those countries in relation to EU subsidiaries and branches. This work essentially updates earlier advice provided to the Commission in 2004, which in turn led to the publication of general guidance to EU supervisors on supervision when making their equivalence decisions.<sup>2</sup>

This work will be carried out as a single project and will cover all the main US Agencies and Swiss Agencies. Questionnaires were sent to the authorities involved, for response early in 2007. The aim is to deliver Advice to the Commission by end-2007.

## **2.2. CONVERGENCE OF SUPERVISORY PRACTICES**

### **2.2.1 Supervisory Disclosure**

#### **2.2.1.1 Implementation of the Supervisory Disclosure Framework**

Article 144 of the CRD (recast Directive 2006/48/EC) requires competent authorities to provide information on their supervisory and regulatory systems and states that the disclosures shall be published in a common format and made accessible in a single electronic location. In 2005, CEBS designed a common framework to help Member States (MS) fulfil the requirements of Article 144 and to promote convergence of supervisory practices.

In 2006, CEBS activated the supervisory disclosure framework (SDF), which is now running on the CEBS website at [www.c-ebs.org/SD/SDTF.htm](http://www.c-ebs.org/SD/SDTF.htm). The disclosures are accessible via the Internet, using both the CEBS website and national websites, which are linked to each other.

<sup>2</sup> [http://ec.europa.eu/internal\\_market/bank/thirdcountries/index\\_en.htm](http://ec.europa.eu/internal_market/bank/thirdcountries/index_en.htm)

The screenshot shows the CEBS website in Microsoft Internet Explorer. The main heading is "Options and national discretions". Below it, a text block states: "The 2006/48/EC and 2006/49/EC Directives contain a large number of national discretions and options which are based on national circumstances." Below this, there is a section titled "Tables of information:" with two bullet points:

- [COMPARATIVE TABLE OF NATIONAL DISCRETIONS AND OPTIONS](#) (Spreadsheet only)
- [MUTUAL RECOGNITION OF A MEMBER STATE](#) (Spreadsheet only)

An inset window shows a spreadsheet titled "Options national discretions.htm". The spreadsheet has columns for "Denomination" and "Description".

	C	D
	Denomination	Description
1	Inclusion of interim profits	Member States may permit the inclusion of interim profits before a formal decision has been taken on the accounts, subject to conditions
2	Waiver on certain deductions	Shares in another credit institution, financial institution, insurance or reinsurance undertakings may not be deducted if held temporarily for

CEBS is monitoring the framework closely to ensure that all relevant information is readily available. Unfortunately, there have been some delays in implementation relative to the original time line, in most cases caused by delays in the national transposition of the CRD by MS. Once the information is available, CEBS intends to use it to identify areas in which national differences might be a source of concern. An initial review will focus on the choices made concerning the options and national discretions contained in the CRD.

In its second interim report on the working of the Lamfalussy arrangements, the Inter-Institutional Monitoring Group asked CEBS to consider extending the framework beyond the CRD to cover all areas of

banking legislation. This recommendation will be addressed after the successful functioning of the CRD sections had been ensured.

#### 2.2.1.2 Setting up a Supervisory Disclosure Framework for the Guidelines on Common Reporting and on Financial Reporting

In the course of 2006, CEBS decided to extend the SDF to include information on the application of the two CEBS Guidelines on Reporting (COREP and FINREP). This initiative is based on a commitment included in the guidelines for the common reporting of the new solvency ratio (COREP), and has been extended for consistency reasons to the guidelines on financial reporting (FINREP). The extension has

been developed in line with the provisions in CEBS' Guidelines on Supervisory Disclosure, which were designed to be flexible enough to include any necessary changes. CEBS intends to formally update the CEBS Guidelines on Supervisory Disclosure in due course to mention the extension to reporting.

The first part of the supervisory disclosure on reporting has already been posted in a sub-section of the overall SDF on the CEBS website at <http://www.c-ebs.org/sd/Rules.htm>

The general information about the national implementation of the CEBS Guidelines on Reporting, provided separately for COREP and FINREP, will be supplemented at the end of 2007 with links to the websites of national authorities, where detailed information on the national application of the reporting frameworks will be made available. In order to allow meaningful comparisons, national authorities will present their national implementations using the formats of the published CEBS Guidelines.

### **2.2.2. Supervisory Review Process**

CEBS' consultation on implementing the supervisory review process, the so-called Pillar 2 of the revised international capital framework (Basel II). In 2005, CEBS started developing guidelines on the application of the supervisory review process (SRP) which laid out a general overview of the approach that will be taken to implement Pillar 2 and the corresponding provisions of the CRD. After two rounds of consultation, the final guidelines were published in January 2006. They were based on a combination of accepted best practices and the development of newly agreed sound practices relating to the new elements of Basel II and the CRD.

The supervisory review process is designed to enhance the link between the risks taken on by institutions, the management of those risks, and the capital held against them. The cornerstone of the

supervisory review process will be a structured dialogue between institutions and supervisors when reviewing and evaluating the institution's risk profile and capital needs.

The SRP is based on the principle of proportionality. According to which the Internal Capital Adequacy Assessment Process (ICAAP) of an institution should be related to its size and structure as well as to the nature, scale and complexity of its activities.

The supervisory review processes have been set out in detail in order to ensure transparency and promote convergence of supervisory practices. Supervisors have been using the guidelines during 2006 to prepare for the implementation of the CRD on 1 January 2007.

CEBS has organised internal implementation seminars for line-side supervisors and domestic Pillar 2 coordinators, to discuss issues encountered in the domestic implementation of these guidelines and their practical application. These seminars allow supervisors to benefit from each other's initial experiences and to develop their tools.

CEBS has also identified the main areas in which additional technical guidance would be necessary and should be taken into account in the supervisory review and evaluation process. Three technical annexes were developed, on concentration risk, interest rate risk in the banking book, and stress testing. These are discussed in more detail below.

CEBS is also carrying out initial thinking on 'diversification' and the credit that might be allowed for it in the solvency calculations. CEBS members are proceeding cautiously in this area, and have exchanged information on national work on how to take this issue forward. This discussion will continue in 2007, and has already resulted in a first seminar which included presentations by several cross-border credit institutions on their approach to diversification in their internal models.



### 2.2.2.1 Technical Annex on Concentration Risk under the Supervisory Review Process

In October 2006, CEBS published additional technical guidelines on the application of the supervisory review process to concentration risk under the CRD.

CEBS considered it important to issue additional technical guidance on concentration risk in preparation for the implementation of the CRD, and to promote a consistent implementation of Pillar 2. Like any other guidelines, these guidelines were subject to public consultation.

The guidelines benefited from a CEBS survey of market practices in the measurement and management of large exposures and concentration risks, which was undertaken in response to the Commission's Call for Advice (see Section 2.1.4).

The survey revealed a wide range of practices, from simple methodologies for measuring and managing concentration risk to sophisticated economic models. In economic capital models, concentration risk is not necessarily taken into account as a separate component but is rather modelled implicitly as part of a broader risk assessment. CEBS stressed that it was important for supervisors to adopt a flexible and proportionate approach when undertaking their supervisory review, allowing for the complexity of an institution's business and the sophistication of the methodologies it uses.

Since market practices are still developing, there is a need to ensure that such a technical paper is kept under review in light of experience and further market developments and of the outcome of the Commission's review on large exposures.

### 2.2.2.2 Technical Annex on Stress Testing under the Supervisory Review Process

CEBS published additional technical guidelines on stress testing under the SRP.

Numerous requirements of the CRD deal with stress tests. CEBS has therefore proposed common high-level guidance on how these tests should be conducted by institutions and assessed by supervisors. The technical annex defines the desirable features of stress testing, in terms of their scope, calibration, frequency, documentation, and the risks that they cover.

These additional SRP guidelines benefited from meetings with industry experts selected by the Consultative Panel of CEBS, and were then subjected to public consultation.

CEBS considers that a strong stress testing framework, designed under the principle of proportionality, is the key to managing an institution's risk profile. The dialogue under the supervisory review process will be crucial from this perspective. The guidelines are to be seen from an evolutionary perspective, as industry practices in this area are constantly developing. CEBS recognises that the Guidelines could require maintenance in light of future industry and supervisory developments.

### 2.2.2.3 Technical Annex on Interest Rate Risk in the Banking Book under the Supervisory Review Process

CEBS issued additional technical guidelines in 2006 on the application of the supervisory review process to the management of interest rate risk arising from non-trading activities. Market participants were publicly consulted.

This high-level guidance is not meant to provide detailed criteria on whether and how quantitative tools and models should be used and developed. The responsibility for this must rest with the institutions. Supervisors expect that institutions will develop their own systems and stress tests which are commensurate with their risk profile and risk management policies.

The CRD requires that supervisory measures be taken when an institution's economic value declines by more than 20% as a result of a "standard shock". The technical annex proposes a common definition of "standard shock" and stresses the need to achieve a common standard which can be applied consistently throughout the EU. National competent authorities have also committed to keep this "standard shock" under review in light of experience.

### 2.2.3. Guidelines on Outsourcing

Given the increasing use of outsourcing by institutions, including cross-border outsourcing, and its implications for effective prudential supervision, CEBS has deemed it appropriate to develop guidelines to promote greater consistency of approaches where possible within the national legal frameworks. These guidelines are designed to promote an appropriate level of convergence in supervisory practices throughout the EU, benefiting from the experience gained in various countries. The guidelines are principles-based and provide national supervisors with an adequate degree of flexibility to take into account domestic rules and specific features of their local markets and to accommodate developments in market practices.

The proposed guidelines define outsourcing as an "authorised entity's" use of a third party to perform activities that would normally be undertaken by the authorised entity. The use of a third party changes the risk profile of the authorised entity. It can mitigate risks, but it can also create new risks. Proper management of all related risks is therefore essential. A key principle is that outsourcing arrangements can never result in the delegation of senior management's responsibilities.

The outsourcing guidelines and their timeline have been influenced by the developments surrounding the Markets in Financial Instruments Directive (MiFID). In keeping with requests from the industry, the CEBS outsourcing guidelines have been aligned with the MiFID requirements, leading to a delay in the expected deadline until after the final publication of the Level 2 Commission Directive on this issue under MiFID. A mapping was published, showing the present version of CEBS guidelines, CESR's Technical Advice on MiFID, and the final version of the European Commission MiFID Level 2 measures.

The concept of proportionality, as laid down in the provisions of the CRD, also applies to outsourcing.



Supervisory authorities will adapt their approach to outsourcing to ensure that it is proportionate to the nature, scale, and complexity of the outsourced activities of an institution.

#### **2.2.4. Validation of AMA and IRB approaches**

The CRD allows institutions to use more risk-sensitive approaches to calculate their capital requirements for credit risk and operational risk. The most sophisticated approaches - the Internal Ratings Based Approach (IRB) for credit risk and the Advanced Measurement Approach (AMA) for operational risk - permit institutions to use internal models to estimate risk parameters (such as the probability of default (PD) of an obligor and, in the most advanced approach, loss given default (LGD) and credit conversion factors (CCF), and their operational risk. These estimates are inserted into a formula which is used to calculate the institution's capital requirements.

The accuracy of the resulting capital requirements depends on the precision of the estimated risk parameters. Supervisory authorities need to review how an institution estimates these parameters and approve the use of advanced approaches for regulatory purposes only if they are satisfied that the approaches meet certain minimum requirements. The use of the more risk-sensitive approaches requires institutions to meet higher risk management standards than are required under the less risk-sensitive approaches.

Following two rounds of public consultation, CEBS published in April 2006 its final guidelines on the validation and assessment of the risk management and risk measurement systems used by credit institutions and investment firms which have submitted an application to move to an advanced approach to calculate their capital requirements.

The guidelines on validation reflect a common understanding of what supervisors should take into account when assessing an application from an

institution to use the IRB or AMA approaches for regulatory purposes. CEBS' aim is to streamline the approval process, especially for cross-border groups, and to contribute to a level-playing field for institutions using the more advanced risk measurement approaches.

#### **Follow-up work on validation**

Networks of technical experts on validation issues (NOVI) have been established to conduct follow-up work resulting from the CEBS validation guidelines. This includes monitoring developments in good supervisory and industry practices with regard to the measurement and management of credit, market and operational risks, and maintenance of the validation guidelines.

In order to achieve these objectives, the validation networks should exchange information on technical issues and suggest areas where further input from CEBS would be useful. They should conduct their work in close cooperation with the operational network(s) linking together the colleges of supervisors for cross-border groups, described in Section 2.4.1. If and when necessary, the networks should contribute to surveys of good supervisory and market practices concerning validation issues and suggest possible further action. Given the degree of technicality of validation issues, two distinct networks have been created to deal with credit and operational risk issues respectively. To facilitate the information exchange within the networks, dedicated web-based "discussion fora" have been set up in the member's area of CEBS website.

#### **2.2.5. Common Frameworks for Supervisory Reporting**

##### **2.2.5.1 Updating of COREP and FINREP Guidelines**

2006 has been a year of implementation of the CEBS common reporting frameworks for the solvency ratio (COREP) and for consolidated financial statements (FINREP). Accordingly, the emphasis of CEBS' work in the area of reporting moved from developing

guidelines to delivering convergence in day-to-day practices. A number of mechanisms and networks have been set up to identify and address practical problems in the implementation of reporting frameworks. As part of this process, a thorough analysis was conducted to fine-tune the guidelines technically and to improve their internal consistency.

The review resulted in October 2006 in the publication of a new release of the guidelines on Common Reporting (COREP), which reflected the final text of the CRD. This new release consisted mainly of an update of the legal references and comments, which had changed significantly the final legislative text as compared to the drafts used in the development of COREP. CEBS also realised that additional guidance was needed for some templates in order to clarify the definition of certain items, and that some improvements in wording could be made.

Along similar lines, in December 2006 CEBS published a new release of FINREP. The need for a new version arose due to the development of the Extensible Business Reporting Language (XBRL) FINREP taxonomy that supports the reporting of these guidelines. Some additional guidance was needed in some templates to indicate more precisely the content of the item.

The revised guidelines replaced the former version. CEBS policy is that future updates will, in principle, be limited to once a year, in order to provide stability to the reporting framework. Future changes in COREP and FINREP will be based primarily on changes in the underlying regulations and on reporting improvements, such as those arising from implementation questions posted by national authorities or by external parties.

Virtual networks on reporting have been set up, to create a stable connection between national experts dealing with the answer to technical questions emerging in the implementation of the reporting frameworks. CEBS decided to publish these implementation questions, together with the technical

answers of the networks of experts, on CEBS' website (<http://www.c-ebs.org/implementationquestions/>). The networks also provide a valuable channel for sharing experiences and better understanding the approaches used in other MS.

#### **2.2.5.2 Extensible Business Reporting Language (XBRL)**

CEBS considers XBRL to be a helpful tool in constructing a harmonised European reporting mechanism. CEBS therefore developed XBRL taxonomies and made them available free of charge to national authorities and supervised institutions. XBRL taxonomies have been developed for both the COREP (Common Reporting) and FINREP (Financial Reporting) frameworks. These taxonomies may be found at [www.corep.info](http://www.corep.info) and [www.finrep.info](http://www.finrep.info).

#### **2.2.6. Workshop on proportionality**

Proportionality is a key concept in the implementation of complex new CRD provisions. The CRD applies to all credit institutions and investments firms, but the principle of proportionality aims at capturing the wide diversity of institutions and markets by directing supervisors to tailor their approaches according to several factors, including the nature, scale, scope, and complexity of the business and the systemic relevance of the entity.

As the principle of proportionality is of great interest to the industry and supervisors alike, CEBS and the European banking associations agreed to open a structured dialogue in this area. In 2006, contacts started to plan a first workshop on proportionality, which took place on 11 January 2007 at CEBS' premises in London. The workshop brought together banking supervisors and industry representatives for an open and informal exchange of views on the application of the principle of proportionality.

The workshop clarified the perspectives of small local credit institutions and large and complex groups on

the issue, and discussed the need for further guidance and the respective role of CEBS and national authorities. Participants stressed that proportionality is about striking a balance between objectives that can be perceived as contradictory: on the one hand, the need to avoid undue supervisory interference and adopt flexible supervisory practices that leave market participants with sufficient leeway to develop their own approaches; and on the other hand, the need to ensure legal certainty and a level playing field across Member States and between different categories of market participants. An open and constructive dialogue will be essential in reconciling these objectives in a pragmatic fashion.

#### **2.2.7. CRD Transposition Group**

In 2005, the Commission created the CRD Transposition Group (CRDTG), a forum for all interested parties to pose questions concerning the transposition of the Capital Requirements Directive. The objective is to facilitate the correct and coherent transposition of the CRD in the Member States and, in particular, to provide all interested parties with interpretations on the CRD and to make them available on the websites of the Commission and of CEBS. This should allow agreeing on common approaches in the implementation of the CRD, thus facilitating convergence in supervisory practices. Responses to questions on transposition are provided either by the Commission Services (interpretation of the CRD) or by CEBS (technical implementation issues). By February 2007, the CRDTG had received 220 questions, 34 of which were assigned to CEBS. 190 responses have been published. Roughly half of the questions were raised by national authorities.

#### **2.2.8. Implementation of the recommendations of the FSC Report on Financial Supervision (Francq Report);**

In May 2006, the ECOFIN Council endorsed a report of the Financial Services Committee on financial

supervision (the so-called Francq report). The report contained several recommendations addressed to CEBS and its sister committees, CESR and CEIOPS, for further enhancing the working of the supervisory arrangements by fostering convergence and strengthening cooperation within the EU. In particular, the Francq report suggested developing new tools, such as a mediation mechanism for dealing with cross-border disputes among EU supervisors and approaches for the delegation of tasks in the supervision of cross-border business, in order to avoid overlapping in the conduct of supervision. It also recommended measures to streamline the administrative burden for entities operating in several Member States, for instance in the area of supervisory reporting. The report also called for efforts to develop a common European supervisory culture, through common training programmes and exchanges of staff. Developments of tools such as peer review and impact assessment was also considered useful.

In order to implement these recommendations, CEBS established a dedicated task force, the Convergence Task Force (CoTF). Progress to date is described in detail in an ad hoc report to the FSC, which is scheduled to be published on CEBS' website in early June 2007. Some highlights of the work started in 2006 are provided below.

##### **2.2.8.1 Training programmes and staff exchanges**

CEBS places a strong emphasis on the need to foster the emergence of a common European supervisory culture. In 2006, CEBS organised two test training seminars in cooperation with the Basel-based Financial Stability Institute (FSI). Following on from success of these initial initiatives, a further six courses (run by CEBS members, the FSI and CEBS itself), have been selected for promotion by CEBS in 2007. Members have been strongly encouraged to make these courses available to their staff, and a target number of participants has been set. Take-up of places will be closely monitored by the Secretariat.

Together with CESR and CEIOPS, CEBS is also engaged in the development of a joint 3L3 initiative on training, with the aim of designing a common European framework for training in financial supervision, with a primary focus on cross-sector issues but consistent with sector-specific needs.

CEBS has been working to develop a framework for the exchange of staff between member organisations as a means of promoting mutual trust and greater commonality of approaches in day-to-day supervision. A specific programme will be launched for exchanges of line-side supervisors of the groups included in the sample of the operational networking project (see Section 2.4.1).

#### 2.2.8.2 Mediation mechanism

Mediation is defined as a procedure in which a neutral intermediary, the mediator, endeavours, at the request of the parties to a dispute, to assist them in reaching a mutually satisfactory, legally non binding settlement. In the CEBS context, mediation is designed to be a peer mechanism or tool to be used specifically in helping to resolve supervisory disputes as they arise in a cross-border context. The objective is to support the application of existing cooperation tools among supervisors, such as CEBS' Guidelines on validation and on home-host cooperation.

Drawing on CESR's mediation mechanism (with the aim of ensuring as much cross-sector consistency as possible) CEBS' mediation mechanism has been tailored to take account of banking and prudential supervision concerns. The basic principles and the key features of the mechanism have been formalised in a draft protocol. Both documents, the proposal itself and the draft protocol, are put for public consultation until June 2007.

#### 2.2.8.3 Delegation of tasks

This work is being investigated within the context of operational networking and more generally in the

implementation of the guidelines on co-operation between consolidating supervisors and host authorities. CEBS will focus its work on delegation agreements and will identify possible obstacles with a view to overcoming them.

#### 2.2.8.4 Streamlining of reporting requirements

CEBS initiated an assessment of the progress made with the common reporting frameworks COREP and FINREP, and will determine whether there is further scope for streamlining the frameworks on a cross-border basis.

#### 2.2.8.5 Impact assessment

This is a key tool to help meet the objectives of the better regulation agenda.<sup>3</sup> The Commission has noted that better regulation is a shared responsibility of all policy makers, and that impact assessment should be applied by all parties. CEBS (along with CEIOPS) has endorsed and adopted the principles and a detailed methodology for impact assessments designed by CESR. The principles were agreed in late 2006 and the methodology in spring 2007. This work will be subject to a specific pilot study and public consultation by the 3L3 committees in 2007.

#### 2.2.8.6 Peer review

The Francq Report recommended that convergence should be promoted within financial sectors, and also between sectors, and suggested that peer reviews could be used to help achieve this goal. The Inter-Institutional Monitoring Group (IIMG), in its second interim report, also focused on convergence through transparency of transposition and implementation, and suggested that peer pressure may help curb regulatory additions. In December 2006 CEBS agreed to undertake a feasibility study to assess whether a

<sup>3</sup> In the context of the Lisbon Strategy, the Commission has launched a comprehensive strategy on better regulation aiming at simplifying and improving existing regulation, to better design new regulation and to reinforce the respect and the effectiveness of the rules, all this in line with the EU proportionality principle.  
[http://ec.europa.eu/governance/better\\_regulation/impact\\_en.htm](http://ec.europa.eu/governance/better_regulation/impact_en.htm).

peer review mechanism, as already established by CESR, would be practical and useful for CEBS. In March 2007 CEBS welcomed the results of the feasibility study and mandated the Convergence Task Force (CoTF) to propose and test a peer review mechanism.

## 2.3 ACCOUNTING AND AUDITING

### 2.3.1 Accounting

CEBS has continued to monitor developments in international accounting standards-setting. In 2006, the Committee, with the support of its Expert Group on Financial Information (EGFI), analysed and commented on a number of discussion papers and exposure drafts prepared by the International Accounting Standards Board (IASB) or the International Accounting Standards Committee (IASC) Foundation. These included:

- Discussion Paper on Management Commentary;
- Discussion Paper on Measurement Bases for Financial Accounting - Initial Recognition”;
- Exposure Draft of proposed amendments to IAS 1 Presentation of Financial Statements a Revised Presentation;
- IASC Foundation Draft Due Process Handbook for the International Financial Reporting Interpretation Committee (IFRIC);
- Discussion Paper on Preliminary Views on an Improved Conceptual Framework for Financial Reporting.

In order to give more visibility and transparency to CEBS' efforts in monitoring these developments, the CEBS website has been expanded to include all comment letters sent by CEBS in the context of the international accounting and auditing standard setting processes (at [http://www.cebs.org/comment\\_letters/intro.htm](http://www.cebs.org/comment_letters/intro.htm)).

CEBS has continued to analyse these developments with a view to identifying possible needs to update

or refine the guidelines on prudential filters for regulatory capital. Work in this area is ongoing and will contribute to empirical analysis on the composition of own funds that CEBS is currently finalising (see Section 2.1.2). In parallel, CEBS is continuing to deal with practical issues relating to the implementation of prudential filters.

### 2.3.2 Auditing

In 2006, CEBS finalised an internal stock-taking on the involvement of internal or external auditors in review or verification processes in the context of Basel II provisions of the Directive 2006/48/EC.

As with accounting, CEBS has continued to monitor developments in the international auditing standards-setting area. It analysed and commented on the following initiatives of the International Auditing and Assurance Standards Board (IAASB):

- Proposed Amendments to the Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services and the four proposed redrafted ISAs (The Clarity project)
- Proposed International Standard on Auditing 550 (Revised) Related Parties
- Proposed International Standard on Auditing 600 (revised and redrafted), The Audit of Group Financial Statements

## 2.4 COOPERATION

### 2.4.1 Operational Networking

In 2006, CEBS launched a pilot project on operational networking, which epitomises the refocusing of CEBS activities from the design of guidelines to the actual delivery of convergence in day-to-day supervisory practices.

Practical convergence towards a better and more consistent supervisory and regulatory environment should reduce unnecessary administrative burden

and allow credit institutions to conduct their cross-border activities in a more cost-efficient manner. At the same time, a more consistent regime should provide incentives for institutions to make improvements in their business practices, and in particular their risk management practices. CEBS' work programme for 2007 states, that "operational networks for the supervision of cross-border groups and cooperation between consolidating and host supervisors will be responsible for ensuring the effective application of the CRD and the related CEBS guidelines."

The project on operational networking provides an infrastructure that supports an enhanced exchange of information and experiences between consolidating and host supervisors of a sample of cross-border banking groups. The project creates a stable connection between colleges of supervisors, thus providing a multilateral setting for identifying concrete issues in a more coordinated fashion throughout the EU. It aims at identifying and addressing in a bottom-up fashion concrete issues emerging from the application of the CRD and CEBS guidelines. The project should enable CEBS to identify where there are problems, inconsistencies in approaches, or technical issues that need to be dealt with. It should allow defining priority issues that create concrete obstacles to cross-border business and supervision, and it should deliver pragmatic and common responses to overcome such obstacles.

The work on this objective has been assigned primarily to the Groupe de Contact (GdC). In June 2006, CEBS approved a supplementary mandate on operational networking for cross-border groups, which led to the establishment of an ad hoc sub-group on operational networking (SON).

The test phase of the project focuses on a limited sample of 10 cross-border banking groups and is expected to be completed by end 2007. The 10 groups were selected on the basis of a variety of criteria (size, relevance of cross-border activity, specific European

focus, type of bank, different organisational structure, etc.). The composition of the network encompasses representation of the perspective of both consolidating and host supervisors from 15 EU countries. If the test phase is successful, the sample of banking groups will be extended to other groups with significant cross-border business.

The project aims to provide an interface with the colleges of supervisors in charge of the selected groups, in order to:

- (i) identify issues stemming from the day-to-day implementation of Community legislation and CEBS guidelines and in the conduct of supervisory tasks with reference to cross-border banking groups;
- (ii) activate the appropriate groups of experts to develop a catalogue of pragmatic supervisory approaches - which are effective from both the home and the host point of view - which may help in for addressing the issues identified; streamlining supervisory practices, processes, and tools; and reducing the compliance burden for cross-border groups.

#### List of 10 cross-border banking groups

Banco Santander Central Hispano

BNP Paribas

Crédit Agricole

Deutsche Bank

Dexia

Erste Bank

Fortis

ING

Nordea

Unicredit



The first steps accomplished in 2006 identified the main priorities for immediate work. In particular, the project has begun to investigate the functioning of the colleges of supervisors, through a stock take of the internal organisations and processes for on-going cooperation and decision making, with a specific focus on the procedures for supervisory approval of the advanced approaches for credit (IRB) and operational risk (AMA) according to Article 129 (2) of the CRD. IRB and AMA implementation issues have also been identified as a major priority. In the second stage of the test phase, attention will shift to the implementation of the SRP under Pillar 2.

The work is being conducted through dialogue with representatives from the 10 groups included in the sample, and will envisage specific workshops to better focus key issues on which consistent, pragmatic supervisory solutions should be sought.

#### **2.4.2 Fostering supervisory cooperation and information exchange**

In addition to the specific efforts accomplished in the operational networking project, EU banking supervisors are putting into practice arrangements for cooperation and information-sharing between consolidating and host supervisors, within the legal framework of the responsibilities laid down in the new EU Directives, and based on the CEBS guidelines on supervisory cooperation between consolidating supervisors and host supervisors and the relevant chapters of the CEBS guidelines on model validation. The guidelines set out a practical framework designed to promote efficient, coherent, and cost- and resource-effective cross-border supervision for the benefit of both supervisory authorities and the supervised institutions. Supervision is to be based on information sharing, including, where necessary, consultation on supervisory action. Putting these guidelines into practice is one of the main challenges for CEBS.

##### **2.4.2.1. Information exchange**

CEBS is fulfilling a supplementary role to the direct sharing of information between supervisors, by providing a forum for confidential exchanges of information within the GdC and discussing issues which might in practice hamper a free flow of information between relevant supervisory authorities.

Based on a gap analysis and a report on practical barriers on information exchange, CEBS has found that banking supervisors already have mechanisms in place to exchange information both bilaterally (e.g. in the context of Memorandums of Understanding) and multilaterally (e.g. in the context of CEBS, the GdC, or the BSC). However, as market integration evolves, the current framework for information exchange needs to be reinforced to ensure that it can meet prudential and financial stability objectives, as also reflected by the reinforced obligations for exchange of information between supervisors stipulated in the CRD. CEBS analysed the practical barriers to such effective information sharing, especially where the information can be considered to be covered by obligations of secrecy or data protection.

These observations lead to the conclusion that there may indeed be some impediments to an easy exchange of information (due to legal or practical issues). This is clearly the case where there are widely differing interpretations and practices, but also where existing practices of all supervisors might not fit well with the intensified information exchanges expected or required when the CRD entered into force. These obstacles or disincentives vary in their impact. They often consist only of cumbersome checking procedures, or to uncertainties on the use which will be made of information. In areas where there are no significant differences, it might still be beneficial to clarify common positions and to achieve a common stance vis-à-vis other authorities (e.g. on data protection versus the need to obtain data with which to build IRB and AMA models). CEBS considers

that there is benefit in pursuing this work, stimulating better knowledge of each others' practices and indicating obstacles to be removed in order to increase mutual trust, promote convergence in interpretations of requirements under the mandatory checking procedures, and ease the sharing of information.

#### **2.4.2.2 Internal implementation seminars**

Much of CEBS' work in 2006 focused on CRD implementation. In order to monitor progress in adopting the Level-3 guidelines, as well as the level 1 and 2 requirements of the CRD. CEBS launched a programme of seminars. The first seminars allowed a wide-ranging discussion on the national preparation and implementation issues arising from the Pillar 2 and Home-Host guidelines. Seminars on technical and home-host aspects of model validation and on diversification were also organised.

An internal stock-take on the recognition of diversification benefits under Pillar 2 has been conducted by means of a questionnaire, which allowed CEBS members to share views and examine specific real-life case studies, in order to better identify and understand the issues.

#### **2.4.2.3 External Credit Assessment Institutions**

The CRD allows institutions to use ratings generated by eligible External Credit Assessment Institutions (ECAI) in assessing the credit risk of counterparties and in calculating capital requirements under the standardised approach. CEBS published its guidelines for a common approach to the recognition of ECAs at the beginning of 2006. The guidelines established common procedures for recognising both local and cross-border ECAs, including a 'joint assessment process' which will streamline the recognition of cross-border ECAs. These joint assessments will pave the way to a common approach to the 'mapping' of the credit assessments of recognised ECAs to the credit quality steps in the CRD. In 2006, four informal joint assessment

processes were initiated. The outcome of the first three assessments had already been published in 2006.

### **2.4.3 Cooperation with third countries**

#### **2.4.3.1 Cooperation with third-country supervisors**

Memorandums of Understanding (MoUs) are an important means of agreeing on supervisory co-operation, and due to the increasing trend of cross-border banking activities to and from third countries, minimum criteria for convergence in MoUs would be welcome. CEBS has continued to coordinate the information exchange on the state of the bilateral negotiations and signatures of MoUs with third countries by its Members, keeping an up-to date list of all MoUs. A common methodology, based on the role of the facilitator, played by a CEBS member, has been developed and further refined, building on the useful experiences in dealing with Russian and Ukrainian supervisors.

In order to support cooperation with third country supervisors, CEBS has been organising exchanges of information among its members on possible issues emerging in the implementation of Basel II/CRD by institutions with third country establishments, especially in view of the different implementation schedule in the EU and the US. CEBS is planning to host the exchange of information on third country structures between its members. The Commission has also asked CEBS to undertake work to assess emerging issues in the treatment of third country branches. A survey indicated that the members have different approaches to licensing and granting exemptions to third country branches. However, the analysis also led both CEBS and (in March 2007) the Commission and the EBC to conclude that there is not a strong case for developing further criteria for the treatment of third country branches as a priority. A key differentiator is the solvency regime which is applicable in member states, which explains much of the diversity in approaches. This diversity is not considered to have

raised concrete instances of non-level playing fields. There are around 200 authorised third-country branches in the EU. In only one country do third country branches have a significant/systemic presence. In view of other ongoing work, the third country branches are thus not considered to be a priority.

#### **2.4.3.2 Visit to the United States**

CEBS continued its regular EU-US supervisory cooperation with a second visit to the US, which provided an opportunity for bilateral meetings with representatives of the Federal Reserve Board and the Federal Reserve Bank of New York, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the New York State Banking Department. Several bilateral meetings with US supervisors have also taken place at the London offices of CEBS.

During these meetings, the US authorities updated CEBS on progress in the regulatory debate in the United States on Basel II, which is supposed to be applied only to large internationally active credit institutions, and the so-called Basel IA, i.e. the package intended to provide a revised and more risk-sensitive framework for non internationally active credit institutions. CEBS presented its work on the implementation of the CRD. US agencies were particularly interested in hearing about the processes for model approval in the EU, and some US supervisors showed an interest in joining the CEBS implementation seminars on validation. Gap year issues were also discussed.

#### **2.4.3.3 Participation in the Basel Committee on Banking Supervision as observer**

In addition to interacting with other committees and European institutions, CEBS actively follows the work of global standard-setting and cooperation organisations such as the Basel Committee on Banking Supervision (BCBS), the International Accounting Standards Board (IASB), and the Joint Forum. CEBS

became an observer at the BCBS and attends the meetings of the BCBS and some of its substructures. CEBS members and observers are regularly updated on recent developments at the BCBS. Discussions in 2006 covered the following areas relating to work on the implementation of the Basel Capital Accord: work on consolidation, operational risk, and the trading book; and finalisation of the QIS 5.

CEBS representatives participated at the International Conference of Banking Supervisors (ICBS), which is organised biannually and took place in early October 2006 in Merida, Mexico.

#### **2.4.3.4 Contribution to EU-China Financial Sector programme (and secondments)**

Within the framework of the EU-China Financial Sector programme, a delegation of Chinese Banking Regulatory Commission (CBRC) paid a visit to the CEBS Secretariat. Shortly thereafter, a member of staff of the CBRC was seconded to CEBS Secretariat. Members of the CEBS Secretariat and of the technical Expert Groups were also invited to the CBRC to give presentations and to hold workshops on accounting and reporting issues, cross-border supervision, and cooperation within the EU, as well as on outsourcing.

#### **2.4.4. Crisis management**

The increasing integration of the EU financial markets and market infrastructures, the growing number of large banking groups and the diversification of financial activities have helped to make markets more liquid and efficient and to increase the resilience and shock-absorbing capacity of the EU financial system. These developments also may increase the likelihood that financial market disturbances propagate cross-border, potentially hindering the smooth functioning of the financial system in more than one Member State. These market developments prompted the EU banking supervisors and central banks to enhance their cross-border information sharing and cooperation arrangements to respond to financial crises.

In this context, the Banking Supervision Committee (BSC) and the Committee of European Banking Supervisors (CEBS) jointly developed recommendations to assist EU banking supervisors and central banks in making their own preparations for and responding to cross-border crises. The underlying principle of these recommendations is that the primary responsibility for the management of a crisis remains with the credit institution involved and its managers and shareholders. In addition, the recommendations do not aim at overriding the respective national authorities' institutional responsibilities or restricting their capacity for independent and timely decision-making in their respective fields of competence and institutional framework.

The recommendations build upon the existing EU Memoranda of Understanding on cooperation between the EU authorities responsible for safeguarding financial stability in cross-border crisis situation, which were the first achievements in this field at the EU level. The first Memorandum of Understanding between EU supervisors and central banks was signed in 2003, which was followed by a second Memorandum of Understanding between these authorities and EU Finance Ministries in 2005. The recommendations draw on the principles set forth in these Memoranda and also on Articles 129 to 132 of the Directive 2006/48/EC (the so-called Capital Requirements Directive) requiring enhanced coordination and cooperation between consolidating home and host supervisors in relation to the monitoring and supervision of cross-border banking groups in normal times and emergency situations.

The recommendations cover the following aspects:

- *First*, the recommendations emphasise that successful coordination and cooperation in a cross-border crisis presupposes in particular the smooth and timely exchange of the necessary information between the responsible authorities,

including both home-country and host-country authorities of credit institutions and components of cross-border banking groups. The recommendations provide that any procedures should be based on functioning practices in normal times.

- *Second*, to further support cooperation, central banks and supervisors need to understand and take into account the particular cross-border effects of the crisis, and the cross-border impact of the decisions that are being taken, which may require a consistent approach in certain areas, such as external communication.
- *Third*, the recommendations offer practical considerations for banking supervisors and central banks on how to enhance their preparedness and contingency planning in case of cross-border financial crises. In particular, as a practical tool for the enhancement of cross-border cooperation in emergency situations, the report recommends relying on networks composed of relevant home- and host-country supervisors and central banks, which can provide an operational infrastructure for timely information-sharing and cooperation. However, as these networks are not entrusted with executive powers, they cannot themselves respond to a crisis, nor do they change the legal responsibility of each authority involved. In addition, cross-border cooperation can be improved by regular discussions, already in normal times, as well as by the creation of regional or bilateral MoUs, or by crisis management exercises.
- *Fourth*, the recommendations provide that cooperation with authorities other than central banks and banking supervisors may be appropriate given the particularities of the crisis. This may involve other EU financial supervisors, ministries of finance, deposit guarantee funds, relevant authorities from EEA-countries, and other non-EU home or host authorities.



## 2.5 CROSS-SECTOR COOPERATION ISSUES

### Supervisory convergence across sectors

Contacts with other Level 3 Committees

2006 is the first year that the three level 3 sister Committees, namely CEBS, the Committee of European Securities Regulators (CESR) and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) have a joint Work Programme, which was published in February 2006 and built on the Joint Protocol signed by the three Committees on 24 November 2005.

The objectives of the cooperation between the three Committees are set out in the Joint Protocol and include (i) sharing information in order to ensure compatible sector approaches are developed; (ii) exchanging experiences which can facilitate supervisors' ability to cooperate; (iii) producing joint work or reports to relevant EU Institutions and Committees; (iv) reducing supervisory burdens and streamlining processes; and (v) ensuring the basic functioning of the three Committees develops along parallel lines.

In light of the need for convergence to take place across sectors wherever possible and appropriate, and given the increasing importance of market integration and cross-sector business activities within the EU, the objective of the Work Programme is to make supervisory cooperation transparent across financial sectors and to enhance the consistency between the sectors so that work done in one financial sector is coherent with the work developed in the others.

The Committees have established liaison contacts for the daily contacts that take place between the Committees, as well as specific contact persons for each of the different work streams set out in the 3L3 Work Programme.

The Secretariats and Chairs of the Committees meet on a regular basis. During the course of 2006 there were three 3L3 Secretariats and three 3L3 Chairs meetings.

The work done under the 3L3 Work Programme 2006 can be divided into four sections as (A) joint work, (B) consistency projects, (C) reports to EU institutions and (D) information exchange:

### 2.5.1 Joint work

#### 2.5.1.1. Financial conglomerates

The work on financial conglomerates is led by CEBS and CEIOPS, with CESR participating as an observer. Preparations were started by the Committees in late 2005 to form an Interim Working Committee on Financial Conglomerates (IWCFC), which came into being in early 2006. It was chaired by Prof. Arnold Schilder (CEBS Member) and Vice-Chaired by Michel Flamée (CEIOPS Member). The decision to set up this Committee involved the EU supervisors in banking and insurance in the three level 3 Committees, the European Commission and the finance ministries in the European Financial Conglomerates Committee (EFCC). The EFCC needs expert input on financial conglomerates issues to feed its discussions for example when reviewing the Financial Conglomerates Directive (FCD). The European Commission confirmed in a letter to the IWCFC Chair in November 2006 its expectations of the IWCFC to address the unique challenges posed by conglomerates.

The Committee's work focuses on the consistent implementation of the FCD, looking at the convergence of national supervisory practices on issues such as the assessment of capital requirements, and tackling issues related to the identification, cooperation and coordination requirements.

The IWCFC met on three occasions in 2006, with a first meeting in May 2006. Most of the Committee's work in 2006 has led to exchanging information arising from the way the FCD has been implemented in the different Member States. In addition the Committee has been working on two draft Calls for Advice from the European Commission and the EFCC. These cover an investigation into the eligibility



of capital in the different sectors, and a joint exercise on the arrangements for supervision in the USA and Switzerland. (see 2.1.6).

The work of the Committee resulted in January 2007 in the publication of IWCFC's report on eligibility of capital instruments. The report analyses the main similarities and differences of the characteristics of regulatory capital for a bank, an investment firm and an insurance entity. The IWCFC found that most eligible capital instruments - although named differently - are in fact common in the banking and insurance sectors and share the same core characteristics. However there are important differences as well, which can be explained by the differences in the nature of business of each sector, or by differences in the calculation of eligible capital elements and the way they are taken into account at group level.

The IWCFC has a full Work Programme for 2007. In 2007 it will analyse the impact and consequences that any differences in the sector rules on eligible capital elements might have for the supervision of financial conglomerates. In 2008 it plans to deliver answers in the form of a roadmap on that issue. By end 2007 the Committee will also provide the European Commission with some technical analysis on the arrangements for consolidated supervision of financial conglomerates in the US and in Switzerland. Thirdly, the Committee will work on the identification of conglomerates and the use of the waiver provided by Article 3.3 of the FCD. Fourthly, the Committee will work on co-operation arrangements between authorities involved in the supervision of each financial conglomerate. Finally, the IWCFC will start to work in detail on the key risks for conglomerates, such as concentration risk and intra group transactions. Throughout, it will continue its dialogues already opened with the industry, such as presentations and case studies.

### 2.5.1.2. Joint definitions of standards, guidelines and recommendations

The three Committees aimed at aligning the common application of the terms used to describe level 3 measures, namely "standards, guidelines and recommendations" in each of the Committees. During the course of this work, it became apparent that due to the legal limitations inherent in the use of level 3 measures and the varying historical traditions of how these terms have been applied in each of the respective Committees, the terms are actually interchangeable in and across the sectors. As such, the Committees have agreed that an attempt to harmonise the use of the terms would not have added value, though a description of their use and expected effect would. The results of this work are attached as annex 4.11 to this annual report.

### 2.5.2 Consistency projects to reduce supervisory burdens and streamlining processes.

#### 2.5.2.1 Outsourcing

The joint work that the Committees undertook to ensure that to the greatest extent possible there would be consistency and alignment between the outsourcing rules set out in the MiFID level 2 measures, and the CEBS level 3 guidelines on outsourcing, has been completed following the adoption of the MiFID regulation in August and CEBS publication of its guidelines in December, including a table of the mapping of the compatibility of the sector work.

#### 2.5.2.2 Supervisory cooperation

The Secretariats of the three Committees have been working on a comprehensive report comparing the regulatory approaches and cooperative arrangements in place between the various supervisors. This will help share information on methods and practices across the sectors. The report is due to be finalised during the first half of 2007.



### 2.5.2.3. Reporting requirements

The three Committees issued a questionnaire to a number of conglomerates in the EU with the objective of identifying possible inconsistencies between sectors in the application of reporting requirements in the EU. The responses to the questionnaire are being analysed and the results will be presented in the first half of 2007. As a first impression, it is noted by the respondents that overlap on a cross sector basis is not the main issue when looking at reporting requirements.

### 2.5.2.4. Internal governance

During the course of 2006, the 3L3 Committees have been examining the internal governance rules that exist within the three sectors. The analysis is being debated by the members of the three Committees, both regarding the similarities and the differences in sector requirements and guidelines. It is anticipated that during the second half of 2007, the three Committees will decide what further work in this area should be done.

### 2.5.2.5. Substitute products

The Committees have increased their cooperation on the issue of substitute products, i.e. products which have essentially the same characteristics for clients, but are issued by institutions regulated in different sectors. There can be 'conduct of business' concerns as well as different burdens if there is no level playing field regarding the requirements to provide e.g. information to clients. This work will continue into 2007, based on a cross sector survey amongst supervisors on the approach to substitute products at a domestic level, and on the issues supervisors should look into at an EU level.

## 2.5.3 Reports to the European Institutions

### Financial market trends and cross sector risks

As set out in other sections of this report the three Committees have contributed to the work of the

Economic and Financial Committee's Financial Stability Table (EFC/FST) through the meetings this Committee held in April and September.

For the April 2006 EFC/FST meeting, the three Committees prepared a cross-sector report on cross-sector aspects regarding the functioning of bond markets in the European Market. The report, which was very well received, dealt with the bond markets primary and secondary markets and raised a number of points highlighted by market participants who had participated in the wholesale day arranged by CESR in February 2006.

For the September 2006 Financial Stability Table the three Committees provided the FST with an annual cross sector report on risks. The first part of the report dealt with conglomerates and the second part of the report dealt with possible regulatory arbitrage between the insurance and banking sectors deriving from the application of IFRS. For the same meeting, the Committees also provided a survey on EU approaches to supervision of offshore financial centres.

In addition to the above, the Committees also commented jointly on proposals made by EU Institutions where felt necessary and appropriate. The three Committees sent a joint technical letter to the European Commission in September 2006 regarding the proposal to amend the procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of shareholdings in the financial sector. Following the letter, changes to the directives were made.

During the course of 2006, the Commission gave the three level 3 Committees a mandate to work on issues relating to the 3rd Anti-Money Laundering Directive (Directive 2005/60/EC). A cross-sector Task Force on Anti-Money Laundering issues has been set up by the three Committees, under the Chairmanship of the CEBS Secretary General. A cross-sector mandate was agreed by all Committees



in the autumn. The Committees will conduct a stocktaking of the responsibilities of EEA financial supervisors, survey practical issues facing supervisors, and provide expert input into the contributions that the EU Committee of the Preventions of Money Laundering and Terrorist Financing (CPMLTF) will request from the three Committees.

#### 2.5.4 - Information exchange

In addition to the items covered under the first three sections of the 3L3 Work Programme the Committees have exchanged information on all issues set out under this section of the Work Programme, which is resulting in benefits such as identical or similar developments in areas such as peer review, impact assessment and mediation, as well as in the abovementioned work on substitute products and on the cross sector changes to directives on acquisitions.

#### Next steps

The analytical reports on Supervisory Cooperation, Reporting requirements and Internal Governance will be finalised during the first half of 2007, following which a decision regarding how to proceed in relation to these areas will be made.

In 2007 the Committees will continue and strengthen their common work according to the new 3L3 Work Programme 2007 (Annex 4.10). The work will be very heavily focused on the Lamfalussy review that takes place in 2007, which will require considerable common work in relation to the reports that the three level 3 Committees will produce, and the May 2006 ECOFIN conclusions.

The three level 3 Committees will also endeavour to define a more strategic view of their common work and will during the course of the spring hold a meeting of a joint 3L3 strategic task force with a view to establishing a common longer term perspective on 3L3 work.



## 3. The Process

### 3.1 OPERATIONAL STRUCTURE

CEBS was established as an independent committee by a Commission Decision adopted on 5 November 2003, and started operating at the beginning of 2004. CEBS' work is supported by a London-based secretariat, which is staffed by secondees from the member authorities.

CEBS' first Chair, José María Roldán (Banco de España), was elected at the first meeting of CEBS, on 29 January 2004. Mr. Roldán stepped down as the Chair in January 2006, and CEBS' Vice Chair Danièle Nouy (Commission Bancaire) was elected the new Chair. Helmut Bauer (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin) took over as a Vice Chair.

Mme Nouy and Mr. Bauer meet regularly with Andreas Ittner (Oesterreichische Nationalbank), Kerstin af Jochnick (Finansinspektionen) and Andrzej Reich (Narodowy Bank Polski), who formed the CEBS Bureau in 2006. As of 31 January 2007, Mr. Ittner and Mrs. Jochnick stepped down as members of the CEBS Bureau and were replaced by Rudi Bonte (Belgian Banking, Finance and Insurance Commission/CBFA) and Jukka Vesala (Finnish Financial Supervision Authority). The main role of the Bureau is to prepare and discuss matters of strategic importance; it also

gives advice and assists the Chair and the Committee in budgetary and administrative matters.

CEBS Secretary General Andrea Enria (Banca d'Italia) is responsible for operational working procedures and planning in the Secretariat. The Secretariat supports the Committee and its expert groups, acts as a coordinator for consultations with members and market participants, coordinates cooperation with the Commission and other committees, and assists the Chair and the Vice Chair in their public relations activities and representation functions.

CEBS work in 2006 was organised under six expert groups or task forces focusing on different work streams, and 2 joint task forces with the ESCB's Banking Supervision Committee (BSC) and 3L3 Committees.

The operational structure of CEBS had been under review as a consequence of the shift in the focus of CEBS' work from the preparation of consultation papers to the finalisation and implementation of guidelines. In 2006, CEBS worked with three permanent expert groups: the Groupe de Contact, the Expert Group on the Capital Requirements, and the Expert Group on Financial Information. The joint CEBS-BSC



CEBS members preparing for a plenary meeting at Tower 42 in London.

Task Force on Crisis Management continued its work until the completion of the mandate in early 2007. Throughout the year there have been several changes in the chairmanship of Expert Groups.

The Expert Group on Common Reporting and the Task Force on Supervisory Disclosure have fulfilled their tasks

and have been dissolved. The Steering Group on QIS 5, which was in charge of developing the EU study on the quantitative impact of the new regulatory framework for capital requirements, has been dissolved and substituted with a new Task Force in charge of assessing the impact of the new capital framework (TFICF).

### 3.1.1 CEBS expert groups and task forces in 2006



#### **Groupe de Contact (GdC)**

Chair Helmut Bauer,  
Bundesanstalt für Finanzdienstleistungsaufsicht-BaFin (Germany)

#### **Expert Group on the Capital Requirements (EGCR)**

Chair Kerstin af Jochnick,  
Finansinspektionen (Sweden)



#### **Expert Group on Financial Information (EGFI)**

Chair Arnoud Vossen  
De Nederlandsche Bank (The Netherlands)

#### **Convergence Task Force (CoTF)**

Thomas Huertas  
Financial Services Authority (United Kingdom)



#### **Joint 3L3 Interim Working Committee on Financial Conglomerates (IWCF)**

Chair Arnold Schilder, (CEBS) De Nederlandsche Bank (The Netherlands)  
Vice-Chair Michel Flamée, (CEIOPS) Commission Bancaire,  
Financiere et des Assurance, (Belgium)

#### **Joint CEBS-BSC Task Force on Crisis Management (TFCM)**

Co-Chairs Helmut Bauer, BaFin (Germany); and  
Lars Nyberg, Riksbank (Sweden)<sup>4</sup>



#### **Joint CEBS-BSC Task Force on the Impact of the new Capital Framework (TFICF)**

Chair Gerhard Hofmann  
Deutsche Bundesbank (Germany)

#### **Joint 3L3 Anti Money Laundering Task Force (AMLTF)**

Chair Andrea Enria, Secretary General, CEBS<sup>5</sup>



<sup>4</sup> This Task Force completed its work in December 2006 and had dismantled.

<sup>5</sup> Previous Chairs of Expert Groups in 2006: Fernand Naert, Commission Bancaire, Financiere et des Assurance, Belgium (Groupe de Contact); Clive Briault, Financial Services Authority, UK (Expert Group on the Capital Requirements); Arnold Schilder, De Nederlandsche Bank, The Netherlands (Expert Group on Financial Information)

### 3.1.1.1 Groupe de Contact

According to its Charter, the Groupe de Contact (GdC) is the main working group of CEBS. Throughout its existence, the GdC has always focused on information sharing on supervisory practices, providing input on regulatory initiatives, and the exchange of confidential and non-confidential information between competent authorities. Since it became part of the CEBS framework, it has also provided input to CEBS on regulatory initiatives by the Commission and the development of CEBS guidelines, while continuing its activities relating to the exchange of information on supervisory policies and practices, among other topics. The GdC has worked on the CEBS guidelines on cross border supervisory cooperation, the supervisory review process (Pillar 2), and internal governance. The members of the GdC are representatives from the competent supervisory authorities and those central banks with an operational involvement in banking supervision.

The mandate of the GdC has been refocused to take into account the shift in CEBS' priorities. The GdC now focuses more on maintenance of CEBS guidelines, and supports the development and functioning of operational networks for cooperation between EU banking supervisors. This includes the project of its subgroup on operational networking mentioned in the section 2.4.1 of this Annual Report. This structured exchange of experiences and work on identified topical issues is expected to assist and facilitate the development of consistent network mechanisms, including supervisory practices, processes, and tools and the maintenance of the level playing field through consistent implementation and application of CRD and CEBS guidelines.

The supplementary mandate of the GdC focuses on operational networking and practical implementation issues, while maintaining the present division of labour with the EGCRD. The main elements of the mandate are:

- developing operational networks for the promotion of co-operation between EU banking supervisors and the prompt identification of implementation issues for cross-border groups
- ensuring intensive exchanges of information on supervisory policies and practices, and regular confidential discussions (case studies) on specific institutions or groups;
- supporting CEBS in promoting consistent implementation of community legislation and convergence in practices on prudential supervisory approaches, for example by developing real-world case studies on the use of supervisory methodologies and procedures.

### 3.1.1.2 Expert Group on the Capital Requirements

The initial mandate of the EGCRD, which focused on certain aspects of the finalisation of the CRD, has basically been fulfilled. It has been renamed the Expert Group on the Capital Requirements (EGCR), and its mandate revised to reflect the change in its role. Specifically, it still assists in providing CEBS' response to Calls for Advice on Large Exposures and Own Funds, but as members move to the phase of national transposition and operational implementation of the CRD, there are several areas of work that will require the assistance of a network of technical experts. The guidelines on validation and on the recognition of ECALs will need to be maintained over time, via an active group of technical experts able to identify implementation issues for supervisors and to exchange information and assessments on the soundness of practices developed by market participants. The main elements of the EGCR mandate are:

- assisting CEBS in fostering the consistent implementation of community legislation on capital requirements, by identifying and assessing possible discrepancies in national regulatory frameworks and developing technical supervisory guidance or advice when needed;

- monitoring supervisory and industry practices relating to the measurement and management of credit, market and operational risk.

### 3.1.1.3 Expert Group on Financial Information

The Expert Group on Accounting and Auditing (EGAA) has been renamed the Expert Group on Financial Information (EGFI) and has been entrusted with additional tasks concerning the implementation, maintenance, and possible further development of the common reporting frameworks (FINREP and COREP).

The tasks of EGFI consist of assisting CEBS in carrying out its work programme in the area of financial information, including accounting, auditing, and supervisory reporting issues, and in particular:

- assisting CEBS in providing advice to the Commission on draft EU legislation or other Commission initiatives on financial information;
- monitoring and assessing developments in the area of financial information on an EU and international scale, and preparing CEBS input, proposals, or comments on these developments;
- providing a forum for discussion on the supervisory implications of developments in the area of financial information, and reporting back to CEBS on these issues;
- maintaining CEBS guidelines and standards in the area of financial information (including the common frameworks for supervisory reporting, FINREP and COREP, and the related XBRL taxonomies), monitoring their implementation, and, where appropriate, proposing updates. While CEBS cannot issue accounting standards or accounting guidance on such standards, CEBS may develop supervisory guidelines in the area of financial information in cases where accounting standards may impinge on the supervisory and prudential framework, in particular on the calculation of regulatory capital, risk management practices, or market discipline.

### Establishment of Task Forces

From time to time CEBS may establish ad hoc task forces, charged with a specific task and dissolved as soon as that task is accomplished. In particular, CEBS may use task forces to deal with issues requiring a specific technical expertise, or when the workload of permanent expert groups does not allow them to pursue an issue. The establishment of a task force is decided at CEBS level. With the exception of the Convergence Task Force, all the Task Force presently active have been established as a joint initiative with other Committees.

### 3.1.1.4 Convergence Task Force (CoTF)

At its September 2006 meeting, CEBS created a task force devoted to assisting CEBS in implementing the recommendations of the Financial Services Committee's (FSC) report on financial supervision (so-called Francq report) and the other work set out by the ECOFIN conclusions. The tasks assigned to the CoTF are:

- developing proposals for a mediation mechanism, building on the approach developed by CESR and tailoring it to the needs of banking supervisors;
- designing proposals to build up a common European supervisory culture, especially via common training and staff exchanges;
- preparing an overview report on the implementation of all the recommendations of the Francq report, covering the above-mentioned tasks and also the other tasks already assigned to Expert Groups; and
- proposing possible CEBS approaches to assessing the economic impact of draft advice to the Commission and of CEBS guidelines.
- conduct a feasibility study on the development of peer review mechanism for CEBS which fits other CEBS tools in this area.

### 3.1.1.5 Interim Working Committee on Financial Conglomerates (IWCFC)

A joint Interim Working Committee on Financial Conglomerates (IWCFC), focusing on prudential issues, was established in early 2006 by CEBS and CEIOPS, with CESR participating as an observer. As mentioned in section 2.5.1.1, where the focus and remit of the IWCFC are discussed in greater detail, the focus is on the consistent implementation of the Financial Conglomerates Directive (FCD), looking at the convergence of national supervisory practices on issues such as the assessment of capital requirements, and tackling issues related to the identification, cooperation and coordination requirements.

### 3.1.1.6 Anti Money Laundering Task Force (AMTLF)

CEBS has been offered observer status in the Committee for Prevention of Money Laundering and Terrorist Financing (CPMLTF). The CPMLTF expects CEBS and its sister Level 3 Committees to conduct work on convergence in supervisory practices for risk-based approaches to customer due diligence. The joint 3L3 Anti Money Laundering Task Force (AMTLF) was established in November 2006, when its mandate was agreed by CEBS, CESR and CEIOPS (see also section 2.5.3). The AMTLF is asked to concentrate on practical supervisory work on risk-based approaches to customer due diligence (CDD) and the know-your-customer principle (KYC) and their impact on internal organization and controls of intermediaries. More specifically, the AMTLF will:

- conduct a stock-taking on the responsibilities of EEA financial supervisors in the prevention of money laundering and terrorist financing (AML/CFT), including a description of the supervisory measures and resources available.
- develop surveys of practical issues facing supervisors in the area of CDD/KYC;

- elaborate a catalogue of common pragmatic supervisory responses to the specific issues identified by its members;
- provide expert input to the contributions that the Committee on the Prevention of Money Laundering and Terrorist Financing (CPMLTF) will request from CEBS, CESR and CEIOPS.

The AMTLF is assisting CEBS, CESR, and CEIOPS in providing a supervisory contribution to the implementation of Directive 2005/60/EC (the Third Anti-Money Laundering Directive). It should also provide a forum for networking and the exchange of experiences between supervisory authorities. The AMTLF is expected to fulfil its mandate by June 2008.

### 3.1.1.7 Joint Task Force on Crisis Management

The Joint Task Force on Crisis Management, which was established jointly with the ESCB' Banking Supervision Committee (BSC), seeks to improve cooperative arrangements for managing potential banking and financial crises. The Task Force developed guidance for dealing with financial crises - whether triggered by individual institutions, banking groups, developments in money and financial markets or market infrastructures, or external causes - that may have a systemic cross-border impact.

### 3.1.1.8 Joint Task Force on the Impact of the new Capital Framework

The Task Force on the Impact of the new Capital Frameworks (TFICF) was established jointly with the ESCB' Banking Supervision Committee (BSC) to monitor the minimum capital requirements under the new regulatory framework introduced by the CRD (i.e. Directives 2006/48/EC and 2006/49/EC). Its main objective is to assess the adequacy of the overall level and volatility of the requirements throughout the economic cycle. Differently than the fifth Quantitative Impact Study (QIS5), which was

undertaken between end 2005 and early 2006 on ad hoc collected data, this new monitoring exercise will be based on actual firms' reporting data after implementation and will cover a longer data period in order to deliver a more accurate analysis.

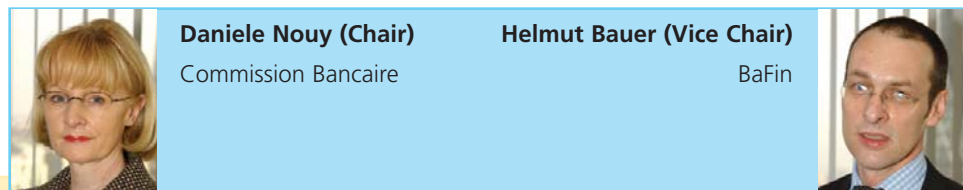
The tasks of the TFICF are in particular:

- defining the dataset to be used.
- organising the data collection process and discussing related technical issues such as data formats, the timing and frequency of reporting, and appropriate aggregation methodologies. Data collection will be based on the existing national

reporting implementations of the Guidelines on Common Reporting, minimising the collection of ad-hoc data. Future additional data requirements, if any, should be further discussed at the level of CEBS and BSC.

- analysing and monitoring capital adequacy (i.e. the level of minimum required and actual capital as well as cyclicity under the CRD) on the basis of appropriate indicators.
- contribute to monitoring of whether the CRD has significant effects on the economic cycle, in accordance with article 156 of Directive 2006/48/EC.

### 3.1.2 Bureau

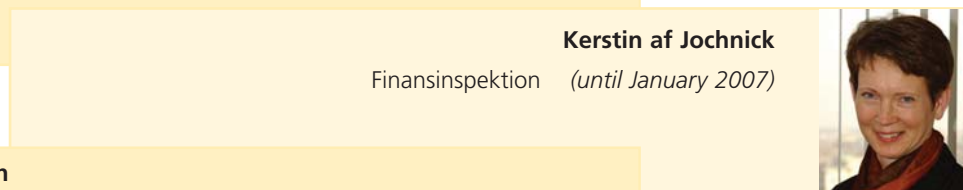


**Daniele Nouy (Chair)**  
Commission Bancaire

**Helmut Bauer (Vice Chair)**  
BaFin



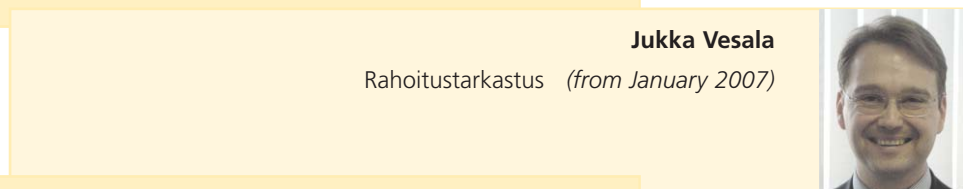
**Andreas Ittner**  
Oesterreichische Nationalbank *(until January 2007)*



**Kerstin af Jochnick**  
Finansinspektion *(until January 2007)*



**Andrzej Reich**  
Narodowy Bank Polski



**Jukka Vesala**  
Rahoitustarkastus *(from January 2007)*



**Rudi Bonte**  
Belgian Banking, Finance and Insurance Commission *(from January 2007)*

### 3.1.3 The Secretariat

In the execution of its tasks, CEBS aims to work by consensus of its members. Decisions are taken by consensus, except when providing advice to the Commission. In that case, the Committee strives for consensus, but if no consensus can be reached, decisions will be taken by qualified majority, with each Member country having the same number of voting rights as in the Council, as specified in the Nice Treaty.

Operational and administrative support to CEBS is provided by the CEBS Secretariat. The Secretariat has been organised as CEBS Secretariat Limited, a 'company limited by guarantee' under English law. All EU members and observers from other EEA countries contribute to the budget of CEBS Secretariat Limited, according to a formula based on the number of votes held by each jurisdiction in Council meetings. The total administrative and operational expenses of the Secretariat in 2006 amounted to £ 1,729,000. The Annual Report of CEBS Secretariat Limited, along with its financial statement, is attached to this report (Annex 4.9.)

The Secretariat's main tasks include preparing working documents, drafting consultation papers, and coordinating the work streams initiated in the substructures. The Secretariat also coordinates cooperation with the Commission and with other Level-3 Committees.

## 3.2. CONSULTATION AND DIALOGUE WITH INTERESTED PARTIES

### 3.2.1 Consultation practices

CEBS is committed to conducting its work in an open and transparent manner, and to satisfying both formal requirements and public expectations for public consultation and accountability.

CEBS is required by its Charter to conduct public consultations with market participants, consumers, and end-users before submitting advice to the Commission or publishing standards, guidelines, or recommendations. Public consultations assist the CEBS in analysing regulatory issues, identifying possible solutions, and exploring good market practices, by allowing it to benefit from the expertise of market participants and other interested parties.



**The CEBS Secretariat**  
**(from left to right): Karin Zartl;**  
**Jacobo Varela; Alan Houmann;**  
**Alison Smith; Birgit Hoepfner;**  
**Andrea Deak; Laetitia Mouquot;**  
**Roel Theissen; Andrea Enria;**  
**Guy Haas.**

(Until September 2006  
 Jouko Marttila and Thomas Dietz  
 were members of the Secretariat.  
 From February 2007  
 Cecile Meys replaced Karin Zartl.)

Consultation also enhances the openness and transparency of CEBS' work, helps to foster dialogue between interested parties, and ultimately promotes understanding of the Committee's work. It also helps to develop a consensus among interested and affected parties as to the appropriateness of regulatory and supervisory policies.

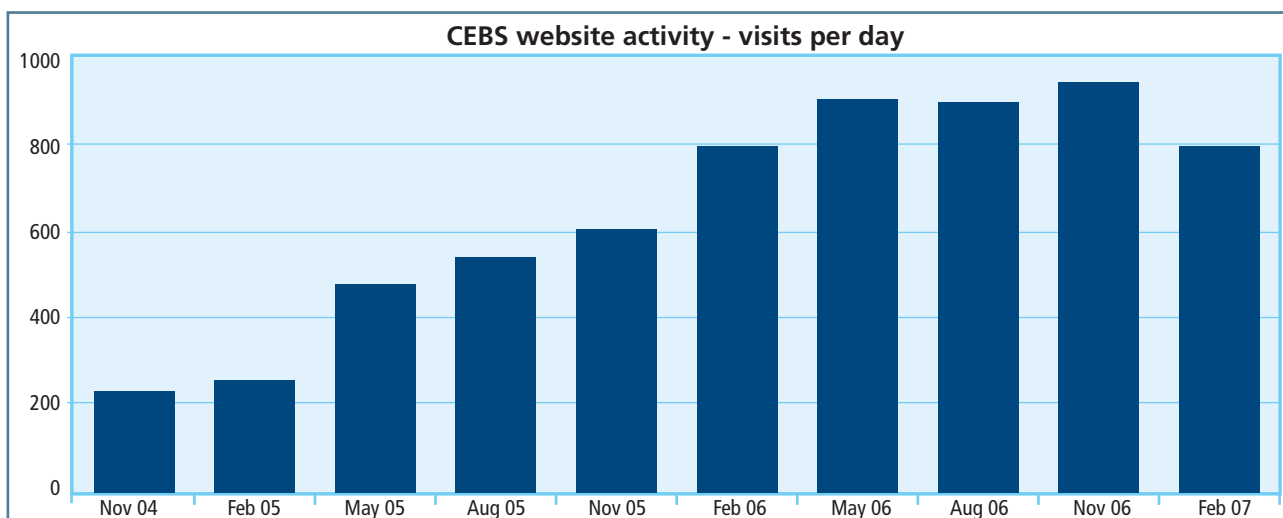
The Committee generally solicits comments from a wide range of interested parties, including market participants, consumers, other end-users, and their respective associations. However, the Committee may in exceptional circumstances choose to target a consultation exclusively at selected market participants and their associations. In such cases, the Consultative Panel assists CEBS in ensuring that the process is properly structured. CEBS normally allows three months for responses to each formal consultation. CEBS conducts a second consultation if the responses to the first consultation reveal significant problems or result in very substantial changes from the original proposal on which the consultation was based. The second round of consultation normally lasts for one month.

In addition to the formal consultation process, CEBS uses other methods of dialogue and interaction with market participants and end-users to obtain input for its consultation papers. These methods may include

panel discussions, hearings, technical workshops, questionnaires, informal contacts, and meetings with expert groups, where experts of the industry are appointed by the Consultative Panel.

The Committee's communication strategy emphasises the importance of transmitting information to all interested parties. The CEBS website at [www.c-eps.org](http://www.c-eps.org) serves as a primary mechanism for disseminating information to all interested parties. The content of the website is updated regularly. CEBS news and events e-mail alert mailing list has attracted more than 3500 subscribers. The number of daily visits to the website has increased steadily and reached over 900 on average by the beginning of 2007.

All the documents related to CEBS' role and tasks, including the Committee's Annual Report, work programme, consultation papers, press releases, guidelines, key speeches, and other publications, have been posted on its website. During the period from 1 March 2006 to 28 February 2007, a total of 54,739 separate visitors viewed [www.c-eps.org](http://www.c-eps.org). 15,300 visitors returned to the site more than once. The most popular pages included CEBS' standards and guidelines, publications, and press news. In addition to the public website, CEBS has a members-only area for internal (members and observers) use and exchange of information.





### 3.2.2 Consultative Panel

CEBS' Consultative Panel acts as a sounding board for CEBS on strategic issues, assists in the performance of CEBS' functions, and helps ensure that the consultation process functions effectively. The panel consists of market participants, consumer representatives, and other end-users of financial services. The panel has provided CEBS with expert views on best practices on several technical aspects of guidelines.

The Consultative Panel is composed of 21 members and 4 observers. Fourteen members of the Panel are appointed by CEBS on proposal of the Bureau, based on the suggestions by CEBS members. Two members each will be nominated by the European Banking Industry Committee (EBIC) and FIN-USE. One member is appointed on the joint nomination of the International Swaps and Derivatives Association (ISDA) - the London Investment Banking Association (LIBA) - and the International Capital Market Association (ICMA). One member each is nominated by The European Consumers' Organisation (BEUC) and the Union of Industrial and Employers' Confederations (UNICE). The Panel has appointed Mr. Freddy van den Spiegel (Fortis Bank), a representative of the banking industry, as its Chair.

The Panel members are appointed in a personal capacity and are expected to be in a position to speak with independence and authority. They are selected for their extensive experience in the field of European banking, their ability to understand the technical issues involved in bank supervision and prudential regulation, and their ability to take a broad strategic view on the issues facing the European Banking Market and the Single Market for Financial Services.

The Panel held three meetings in 2006, focusing mainly on CRD implementation, the supervisory disclosure framework, and operational networking. It flagged to CEBS' attention some practical

implementation issues and the need to discuss a procedure to collect and address such questions, building on the experience developed with the queries addressed within the CRD Transposition Group (CRDTG).

The Panel applied pressure for an early activation of the supervisory disclosure framework, especially for the provision of information on the choices made concerning national options and discretions. The panel urged CEBS to implement the framework as soon as possible, and to commit itself to further reduction and full harmonisation of reporting templates. CEBS has responded by extending Supervisory Disclosure to include reporting frameworks, in order to monitor the use of common templates in member states.

The Panel raised criticisms of the papers on validation and the draft paper on stress testing, which were amended and simplified before being submitted to public consultation. The Panel supported the project on operational networking, while highlighting initial concerns on the possible burden it may generate for the selected groups. The Panel expressed its appreciation for the reports on own funds published in June 2006.

The Panel proposed an online survey to assess CEBS' performance, and actively participated in drafting the questionnaire. The questionnaire was published towards the end of 2006 and ran until 31 January 2007. The Panel also provided a significant contribution to identifying priorities for CEBS work in the preparation of the work programme for 2007. The Panel suggested that CEBS focus on the implementation of the CRD and related CEBS guidelines, turning to monitoring and assessing the arrangements at the operational level later in 2007. The Panel also asked that the work programme for CEBS be coordinated with the work programmes of national authorities.

The Panel contributed actively to the preparation of several CEBS guidelines. Industry experts nominated by the Panel participated in technical workshops and experts meetings on issues related to COREP, Pillar 2, validation, stress testing, and commodities firms. The cooperative arrangements for the supervision of cross-border groups were discussed in all meetings of the Panel. Panel members supported CEBS' work on home-host issues and urged the Committee to enhance cooperation with non-EU countries, especially the United States.

#### Members of the Consultative Panel in 2006:

**Freddy van den Spiegel**, Fortis (The Chair)

**Hugo Banziger**, Deutsche Bank

**Albertus Bruggink**, EBIC (Rabobank)

**Riccardo de Lisa**, FIN-USE

**Richard Desmond**, UNICE

**Richard Gossage**, Royal Bank of Scotland

**Carl-Johan Granvik**, Nordea

**Christian Lajoie**, BNP Paribas

**Siegfried Jaschinski**, State Bank of Baden-Württemberg

**Benoît Jolivet**, FIN-USE

**Dirk Wilhelm Schuh**, EBIC (Eurohypo)

**Bertrand de Saint Mars**, Association Francaise des Entreprises d'investissement

**Mariusz Zygierewicz**, Polish Banking Association

**José Maria Méndez**, Spanish Federation of Savings Banks

**João Salgueiro**, Portuguese Banking Association

**Herbert Pichler**, Austrian Federal Economic Chamber

**Anthimos Thomopoulos**, National Bank of Greece

**Manfred Westphal**, BEUC

**Klaus Willerslev-Olsen**, Danish Bankers Association

**Andrew Cross**, Credit-Suisse

**Davide Alfonsi**, San Paolo IMI

**Wilfred Wilms**, FBE (observer)

**Anders Karlsson**, ESG (observer)

**Volker Heegemann**, EASB (observer)

**Walburga Hemetsberger**, EAPB (observer)

6

6 Previous Panel Members still at the beginning of 2006: Michael Kemmer, EBIC (HVB Group); Roman Maszczyk, PKO BP SA; Frederic Oudea, Societe Generale; Francesco Spinelli, Banca Bipop Carire.

### 3.3. ACCOUNTABILITY

Public consultation is the foundation of CEBS' procedures for ensuring accountability. Accountability is also served by the annual report which CEBS submits to the Commission and shares with the European Parliament and the Council, and by the work programme which CEBS publishes on a yearly basis. The Chair of CEBS reports to the European Parliament and upon request to the Council. CEBS also reports on supervisory convergence, and more generally on important strategic issues, to the European Banking Committee (EBC), the Inter-Institutional Monitoring Group for financial services (IIMG), the Financial Services Committee (FSC), and the Financial Stability Table of the Economic and Financial Committee (EFC-FST). Regular reporting promotes transparency and accountability, and should help European institutions to form a clearer and more up-to-date picture of potential barriers to further convergence.

CEBS regularly participates in the meetings of the EBC, where progress made in the preparation of regulatory advice is discussed. CEBS also report to the EBC on the progress made in Level-3 work at every meeting. A more extensive accountability session is organised at the EBC once a year, based on this Annual Report and an oral presentation from the Chair of CEBS.

In June 2006, CEBS presented its second progress report on supervisory convergence (<http://www.c-eps.org/documents/FSC06.pdf>) to the FSC. The report reviews the various activities that CEBS has undertaken under the Lamfalussy approach to facilitate the consistent implementation and application of the CRD and convergence in day-to-day supervisory practices. Regular reporting on progress in fulfilling CEBS' mandate should help EU institutions to assess how the Lamfalussy arrangements work in practice, and to compare the results achieved with the expectations of stakeholders. CEBS' reports also highlight issues and trade-offs encountered by the

Committee in fostering supervisory convergence: for example, the constraints posed by the national discretions embodied in the CRD and the difficulty in striking an appropriate balance between principles-based and rules-based guidance were mentioned in the 2006 report to the FSC. As mentioned in Section 3.8, the 2007 report to the FSC is under preparation and will focus mainly on the implementation of the recommendations of the so-called Francq report.

The FSC has established an ad hoc sub group on long term supervisory issues to follow the implementation of the Francq recommendations and more generally on the working of supervisory arrangements in the EU. CEBS participated in the work of this sub group as an observer.

The EFC-FST requests CEBS to prepare regular updates on risks to banking and regulatory hedging of such risks. As mentioned in Section 2.5.3, a joint report on cross-sector risks is submitted jointly by CEBS, CESR, and CEIOPS on an annual basis. CEBS is also represented in the Ad Hoc Working Group of the EFC-FST on financial stability arrangements.

On 22 November 2006, the Chair of CEBS was invited to a hearing at the Committee on Economic and Monetary Affairs (ECON) of the European Parliament. CEBS' Chair reported on the progress made by CEBS, on the open areas of work, and on the opportunities for better financial regulation in the EU. Specific attention was devoted to the implementation of the CRD, in particular the framework for supervisory disclosure; and to the new project on operational networking, as well as to key areas of CEBS advice. During the discussion, several questions were raised concerning EU-US issues in the implementation of Basel II. MEPs also warned CEBS against initiating Level-3 work ahead of Community legislation. Finally, there were questions on the proposals emerging under Solvency II and their possible cross-reading into the banking field.

## 4. Annexes

### 4.1 List of Abbreviations and Terms Used

**AMA** Advanced Measurement Approach

**AMLTF** Anti Money Laundering Task Force

**BCBS** Basel Committee on Banking Supervision

**BCD** Banking Directive (2000/12/EC-BCD)

**BSC** Banking Supervision Committee

**BEUC** European Consumers' Organization

**CAD** Capital Adequacy Directive (93/6/EEC-CAD)

**CBRC** Chinese Banking Regulatory Commission

**CCF** Credit Conversion Factors

**CEBS** Committee of European Banking Supervisors

**3L3 three "Level-3 Committees" or "Lamfalussy Committees"** (CEIOPS, CEBS, CESR)

**CEIOPS** Committee of European Insurance and Occupational Pensions Supervisors

**CESR** Committee of European Securities Regulators

**CDD** Customer Due Diligence

**CfA** Call for Advice

**Commission** European Commission

**COREP** Guidelines on Common Reporting

**CRDTG** Capital Requirements Directive Transposition Group

**CP** Consultation Paper(s)

**CPMLTF** Committee for Prevention of Money Laundering and Terrorist Financing

**CRD Capital Requirements Directive** (Proposal for Directives of the European Parliament and of the Council Re-casting Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions and Council Directive 93/6/EEC of 15 March 1993 on the capital adequacy

of investment firms and credit institutions, see [http://europa.eu.int/comm/internal\\_market/bank/docs/regcapital/st12890/st12890\\_en.pdf](http://europa.eu.int/comm/internal_market/bank/docs/regcapital/st12890/st12890_en.pdf)

**CoTF** Convergence Task Force

**EACB** European Association of Cooperative Banks

**EBF** European Banking Federation

**ECOFIN** Economic and Financial Council

**ECON** Committee on Economic and Monetary Affairs (Committee of the European Parliament)

**EEA** European Economic Area

**EFC** Economic and Financial Committee

**EFC/FST** Economic and Financial Committee - Financial Stability Table

**EFCC** European Financial Conglomerates Committee

**EFRAG** European Financial Reporting Advisory Group

**ESBC** European System of Central Banks

**ESBG** European Savings Banks Group

**EU** European Union

**EBC** European Banking Committee

**EBIC** European Banking Industry Committee

**ECAIs** External Credit Assessment Institutions

**EFCC** European Financial Conglomerates Committee

**EGCR** Expert Group on Capital Requirements

**EGFI** Expert Group on Financial Information

**FED** Federal Reserve Board (US)

**FDIC** Federal Deposit Insurance Cooperation

**FINREP** Standardised framework for consolidated financial reporting for credit institutions (Financial Reporting)

**FIN-USE** Forum of Users of Financial Services

**FSC** Financial Services Committee

**FSC Report** on Financial Supervision (Francq report)

**FCD** Financial Conglomerates Directive (Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council, OJ L 35 of 11.2.2003)

**FSAP** Financial Services Action Plan

**FSC** Financial Services Committee

**FSI** Financial Stability Institute

**GdC** Groupe de Contact

**GL** guidelines

**IAS** International Accounting Standards

**IASB** International Accounting Standards Board

**IASC** International Accounting Standards Committee

**IFRS** International Financial Reporting Standards

**ICAAP** Internal Capital Adequacy Assessment Process

**ICMA** International Capital Market Association

**IFRIC** International Financial Reporting Interpretation Committee

**IIMG** Inter-institutional Monitoring Group

**IRB** Internal Ratings Based

**ISAs** International Standards on Auditing

**ISD** Investment Services Directive (93/22/EEC-ISD)

**ISDA** International Swaps and Derivatives Association

**IWCFC** Interim Working Committee on Financial Conglomerates

**KYC** Know Your Customer

**LE** Large Exposures

**LGD** Loss Given Default

**LIBA** London Investment Banking Association

**MEP** Member of Parliament

**MiFID** Markets in Financial Instruments Directive (Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, OJ No. L 145 of 30 April 2004)

**MoU** Memorandum of Understanding

**MRC** Minimum Required Capital

**MS** Member States

**NOVI C** Network on Validation issues / Credit risk

**NOVI O** Network on Validation issues / Operational risk

**OFCs** Off-Shore Financial Centres

**QIS** Quantitative Impact Study/Studies

**Panel** CEBS Consultative Panel

**RAS** Risk Assessment System

**SDF** Supervisory Disclosure Framework

**SON** Subgroup on Operational Networking

**SRP** Supervisory Review Process

**TFCM** Joint Task Force on Crisis Management

**UNICE** Union of Industrial and Employers' Confederations

**XBRL** Extensible Business Reporting Language

## 4.2 CEBS Members and Observers

Institution	Name	
	CEBS - Chair	Mme Danièle Nouy
Austria	Finanzmarktaufsicht Oesterreichische Nationalbank	Heinrich Traumuller Andreas Ittner
Belgium	Commission Bancaire, Financiere at des Assurances (CBFA) Banque Nationale de Belgique (NBB)	Rudi Bonte Peter Praet
Bulgaria	Bulgarian National Bank	Petar Andronov/ Rumen Simeonov
Cyprus	Central Bank of Cyprus	Costas S.Poullis
Czech Republic	Ceská Národní Banka	Leos Pytr
Denmark	Finanstilsynet Danmarks Nationalbank	Flemming Nytoft Rasmussen Jens Lundager
Estonia	Finantsinsektsoon Eesti Pank	Andres Kurgpold Sven Meimer
Finland	Rahoitustarkastus Suomen Pankki	Jukka Vesala Heikki Koskenkylä
France	Commission Bancaire Banque de France	Didier Elbaum
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) Deutsche Bundesbank	Helmut Bauer Gerhard Hofmann
Greece	Bank of Greece	Panagiotis Kyriakopoulos
Hungary	Pénzügyi Szervezetek Állami Felügyelete Magyar Nemzeti Bank	Erika Marsi Tamás Kálmán
Ireland	Financial Regulator and Central Bank of Ireland	Mary Burke
Italy	Banca d'Italia	Giovanni Carosio
Latvia	Finansu un kapitāla tirgus komisija Latvijas bankas	Jānis Placis Vita Pilsuma
Lithuania	Lietuvos Bankas	Filomena Jaseviciene/ Vytautas Narusevicius

Luxembourg	Commission de Surveillance du Secteur Financier Banque Centrale du Luxembourg	Claude Simon Norbert Goffinet
Malta	Malta Financial Services Authority Central Bank of Malta	Karol Gabarretta Anthony Cortis
Netherlands	De Nederlandsche Bank	Arnold Schilder/Arnoud Vossen;
Poland	Narodowy Bank Polski	Andrzej Reich
Portugal	Banco de Portugal	Pedro Duarte Neves/ Adelaide Cavaleiro
Romania	National Bank of Romania	Adrian Cosmescu
Slovakia	Národná Banka Slovenska	Pavel Ferienc
Slovenia	Banka Slovenije	Samo Nucic
Spain	Banco de España	José María Roldán Fernando Vargas
Sweden	Finansinspektionen Sveriges Riksbank	Kerstin af Jochnick Göran Lind
UK	Financial Services Authority Bank of England	Thomas Huertas Andrew Gracie
EU	European Central Bank	Mauro Grande
<b>Observers</b>		
Iceland	Sedlabanki Íslands Fjármálaeftirlitid	Ragnar Hafliðason Jonas Thordarson
Liechtenstein	Financial Market Authority (FMA)	René Melliger
Norway	Kredittilsynet Norges Bank	Bjørn Skog stad Aamo Arild Lund
EU	European Commission	Patrick Pearson
ESCB	Banking Supervision Committee	Edgar Meister

### 4.3 Commission decision 2004/5/EC

## COMMISSION

### COMMISSION DECISION

of 5 November 2003

### establishing the Committee of European Banking Supervisors

(Text with EEA relevance)

(2004/5/EC)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Whereas:

- (1) In June 2001, the Commission adopted Decisions 2001/527/EC <sup>(1)</sup> and 2001/528/EC <sup>(2)</sup> setting up the Committee of European Securities Regulators and the European Securities Committee respectively.
- (2) In its Resolutions of 5 February and 21 November 2002, the European Parliament endorsed the four-level approach advocated in the Final Report of the Committee of Wise Men on the regulation of European securities markets and called for certain aspects of that approach to be extended to the banking and insurance sectors subject to a clear Council commitment to reform to guarantee a proper institutional balance.
- (3) On 3 December 2002, the Council invited the Commission to implement such arrangements in the fields of banking and insurance and occupational pensions and to establish as soon as possible new committees in an advisory capacity in relation to those fields.
- (4) An independent body for reflection, debate and advice for the Commission in the field of banking regulation and supervision should be established.
- (5) That body, to be called the Committee of European Banking Supervisors, hereinafter referred to as 'the Committee', should also contribute to the consistent and timely application of Community legislation in the Member States and to the convergence of supervisory practices throughout the Community.

- (6) The Committee should promote cooperation in the banking field, such as the exchange of information.
- (7) The establishment of the Committee should be without prejudice to the organisation of banking supervision at either national or Community level.
- (8) The composition of the Committee should reflect the organisation of banking supervision and should also take account of the role of central banks as regards the overall stability of the banking sector at national and Community level. The respective rights of the different categories of participants should be clearly identified. In particular, chairmanship and voting rights should be reserved to the competent supervisory authorities of each Member State; and participation in confidential discussions about individual supervised institutions should, where appropriate, be restricted to the competent supervisory authorities and to the central banks entrusted with specific operational responsibilities for supervision of the individual credit institutions concerned.
- (9) The Committee should organise its own operational arrangements and maintain close operational links with the Commission and the Committee established by Commission Decision 2004/10/EC of 5 November 2003 establishing a European Banking Committee <sup>(3)</sup>.
- (10) The Committee should cooperate with the other committees in the financial sector, in particular with the Committee established by Decision 2004/10/EC, with the Banking Supervision Committee of the European System of Central Banks and with the *Groupe de Contact* of European banking supervisors. In particular, it should be possible for the Committee to invite observers from other committees in the banking and financial sector.

<sup>(1)</sup> OJ L 191, 13.7.2001, p. 43.

<sup>(2)</sup> OJ L 191, 13.7.2001, p. 45.

<sup>(3)</sup> See page 36 of this Official Journal.



- (11) The Committee should, at an early stage, consult extensively and in an open and transparent manner with market participants, consumers and end-users.
- (12) Whenever the Committee provides advice on provisions applicable to both credit institutions and investment firms, it should consult those authorities competent for the supervision of investment firms which are not already represented on the Committee,

HAS DECIDED AS FOLLOWS:

*Article 1*

An independent advisory group on banking supervision in the Community, called 'the Committee of European Banking Supervisors' (hereinafter 'the Committee') is established.

*Article 2*

The role of the Committee shall be to advise the Commission either at the Commission's request, within a time limit which the Commission may lay down according to the urgency of the matter, or on the Committee's own initiative, in particular as regards the preparation of draft implementing measures in the field of banking activities.

The Committee shall contribute to the consistent application of Community directives and to the convergence of Member States' supervisory practices throughout the Community.

It shall enhance supervisory cooperation, including the exchange of information on individual supervised institutions.

*Article 3*

The Committee shall be composed of high level representatives from the following organisations:

- (a) the national public authorities competent for the supervision of credit institutions, hereinafter 'the competent supervisory authorities';
- (b) the national central banks entrusted with specific operational responsibilities for the supervision of individual credit institutions alongside a competent supervisory authority;
- (c) the central banks which are not directly involved in the supervision of individual credit institutions, including the European Central Bank.

Each Member State shall designate high level representatives to participate in the meetings of the Committee. The European Central Bank shall designate a high level representative to participate in the Committee.

The Commission shall be present at the meetings of the Committee and shall designate a high level representative to participate in its debates.

Whenever confidential information concerning an individual supervised institution is exchanged, participation in that discussion may be restricted to the competent supervisory authorities and the national central banks entrusted with specific operational responsibilities for the supervision of the individual credit institutions concerned.

The Committee shall elect a chairperson from among the representatives of the competent supervisory authorities.

The Committee may invite experts and observers to attend its meetings.

*Article 4*

The Committee shall maintain close operational links with the Commission and with the Committee established by Commission Decision 2004/10/EC.

It may set up working groups. The Commission shall be invited to participate in the working groups.

*Article 5*

Before transmitting its opinion to the Commission, the Committee shall, at an early stage, consult extensively and in an open and transparent manner with market participants, consumers and end-users.

When providing advice on provisions applicable to both credit institutions and investment firms, the Committee shall consult all authorities which are competent for the supervision of investment firms and are not already represented on the Committee.

*Article 6*

The Committee shall submit an annual report to the Commission.

*Article 7*

The Committee shall adopt its own rules of procedure and organise its own operational arrangements, including voting rights. Only representatives of the competent supervisory authorities shall receive voting rights.

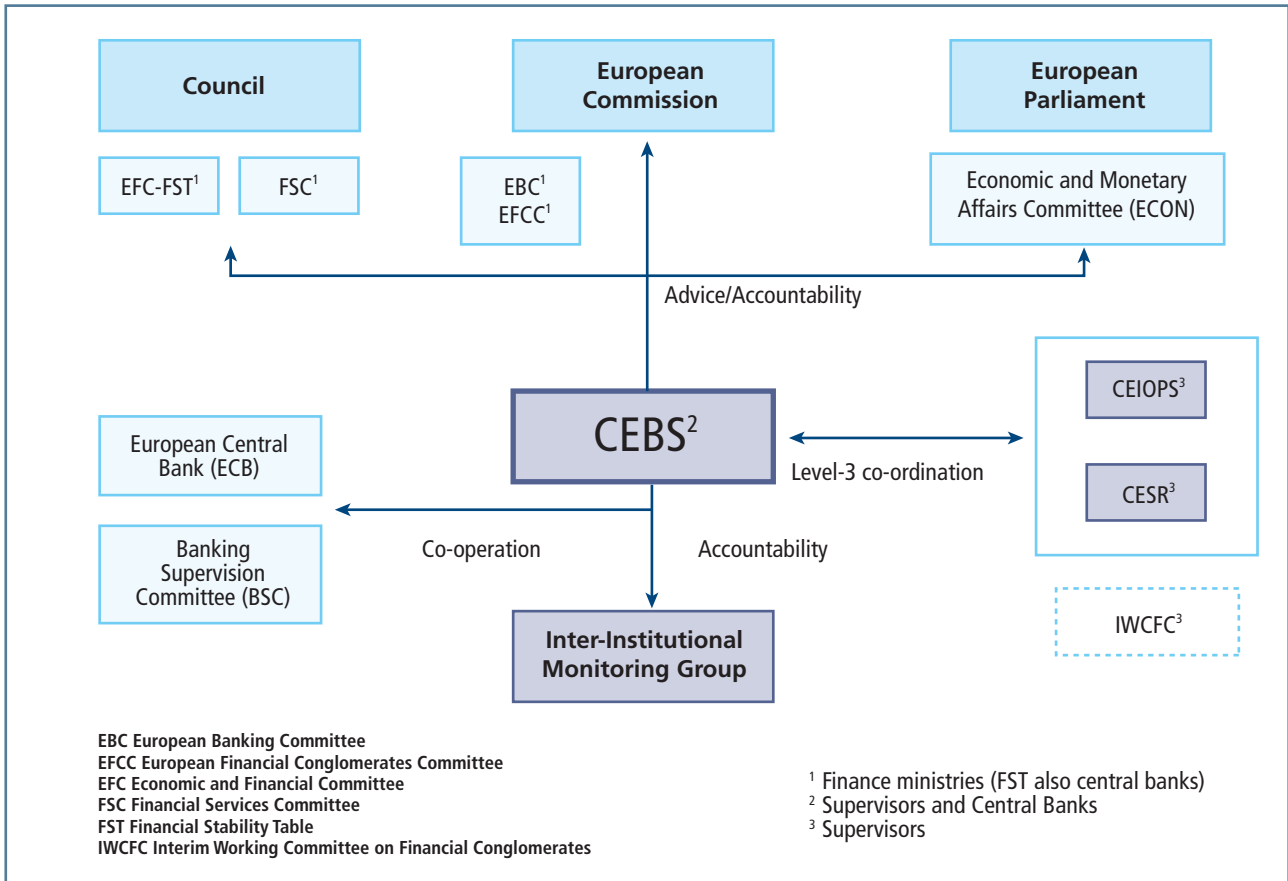
*Article 8*

The Committee shall take up its duties on 1 January 2004.

Done at Brussels, 5 November 2003.

For the Commission  
Frederik BOLKESTEIN  
Member of the Commission

#### 4.4 CEBS in the Lamfalussy Framework



#### 4.5 Charter of the Committee of European Banking Supervisors (CEBS)

Having regard to:

- 1) the mandate given by the ECOFIN Council to the Economic and Financial Committee to work on EU financial stability, supervision and integration (7 May 2002);
- 2) the reports of the Economic and Financial Committee on financial regulation, supervision and stability of 9 October 2002 and 28 November 2002;
- 3) the conclusions of the Ecofin Council of 8 October 2002 and 3 December 2002;
- 4) the Report of the Committee on Economic and Monetary Affairs of the European Parliament and the Resolution of the European Parliament on prudential supervision in the European Union (6 November 2002 and 21 November 2002);
- 5) the Commission decision of [...] establishing the Committee of European Banking Supervisors (2003/.../EC);
- 6) the proposal for a directive of the European Parliament and the Council amending European Parliament and Council Directive 2000/12/EC, Council Directive 91/675/EEC, Council Directive 85/611/EEC as last amended by European Parliament and Council Directives 2001/107/EC and 2001/108/EC, Directive 2002/87/EC, Directive 2002/83/EC, Directive 73/239/EEC (as amended by Directive 90/618/EEC), Directive 93/6/EEC, Directive 94/19/EC and establishing a new financial services committee organisational structure;

**considering** that the growth of efficient, competitive and sound banking markets, at the national, European and international levels, is necessary for the proper allocation of resources and the cost-effective financing of the economies of the Member States of the EEA;

**considering** the freedom of establishment and the freedom to provide financial services within the EEA;

**considering** the necessity to eliminate obstructive differences between the laws of the Member States, to make it easier to take up and pursue the business of credit institutions;

**considering** that the protection of savings and the creation of equal conditions of competition are fundamental to achieving and maintaining sound and stable financial markets;

**considering** that close co-operation as well as information exchange between regulatory authorities are essential for the successful supervision of the European banking sector and that synergies between banking supervision and central bank oversight should be taken into account, especially in the context of the Memorandum of Understanding on high-level principles of co-operation between the banking supervisors and central banks of the European Union in crisis management situations;

**having regard to** the importance of greater supervisory and regulatory convergence for the achievement of an integrated banking market in Europe;

**having regard to** the benefits of co-operation with other sectoral regulatory networks;

**having regard to** the need to base all its actions around a common conceptual framework of overarching principles for the regulation of the European banking market;

**having regard to** the importance of involving all market participants in the regulatory process and to work in an open and transparent manner;

**considering** that the role of the Committee of the European Banking Supervisors is to:

- (i) advise the Commission either at the Commission's request or on the Committee's own initiative, in particular for the preparation of draft implementing measures in the field of banking activities;
- (ii) contribute to a consistent implementation of EU directives and to the convergence of member State's supervisory practises across the European Union;

(iii) promote supervisory co-operation, including through the exchange of information;

the members of the Committee resolve to adhere, both in principle and in practice, to this Charter and to the following provisions:

#### **ARTICLE 1 - MEMBERS OF THE COMMITTEE**

1.1 Each Member State of the European Union will designate a senior representative from the national competent supervisory authority in the banking field to participate in the meetings of the Committee. This representative will be the voting member. In addition, each Member State will designate as a non-voting member a senior representative of the national central bank when the national central bank is not the competent authority. In the case that the national central bank is the competent authority, the Member State may designate a second representative from this institution. The European Central Bank will also designate a senior representative as a non-voting member.

1.2 Applying the same rules as in 1.1, the competent supervisory authorities in the banking field from countries of the European Economic Area, which are not members of the European Union, will designate senior representatives to participate in the meetings as observers. These observers will fully participate in the meetings without, however, participating in decision making.

1.3 Upon signing of the Accession Treaty, observership will be granted to the acceding countries, until they become members of the European Union.

1.4 The European Commission as well as the Chairs of the Banking Supervision Committee of the ESCB (BSC) and of the Groupe de Contact (GdC) will also have observer status in the meetings. Where a common interest to work together appears, the Committee may accept

additional observers to participate in meetings.

1.5 The members of the Committee should keep the national members of the European Banking Committee informed about its discussions and, where necessary, make all appropriate national arrangements to be in a position to speak for all competent national authorities that have an interest in the discussed matter.

1.6 Where relevant to its work, the Committee may invite external experts.

#### **ARTICLE 2 - CHAIR**

2.1 The Committee will be chaired, in a personal capacity, by a voting member. The Chair will be chosen by consensus or - if consensus cannot be achieved - elected with a majority of two thirds of the voting members for a period of two years. In this respect, the voting members should seek to represent the common view of voting and non-voting members of the Member State. For the duration of the Chairmanship period, the relevant supervisory authority will nominate an additional member as representative.

To assist the Chair, the Committee will also elect a Vice Chair among its voting members following the same procedure used to elect the Chair. The Vice Chair may replace and represent the Chair in case of absence or impediment.

2.2 The Chair organises and chairs the meeting of the Committee and executes all other functions delegated to the Chair by the Committee. The Chair is responsible for public relations and the representation of the Committee externally. The Chair is also responsible for the supervision of the Secretariat. After consultation with the Vice Chair, the Chair decides on the agenda of the meetings. The Chair may delegate some of its functions to the Vice Chair.

2.3 In addition to the Chair and Vice Chair and also for a period of two years, the Committee may

elect up to three members to form the Bureau. These members shall reflect the composition of the Committee. The role of the Bureau is to advise and assist the Chair, e.g. in the preparation of meetings and in its administrative functions and to monitor the budget in close co-operation with the Chair and the Vice Chair. Notwithstanding the above, the first Bureau will be elected for a period of three years.

### **ARTICLE 3 - OPERATIONAL LINKS WITH THE EUROPEAN COMMISSION**

- 3.1 The representative of the European Commission will be entitled to participate actively in all debates, except when the Committee discusses confidential matters.
- 3.2 Representatives from the European Commission will be invited to participate actively in meetings of Expert Groups, under the same conditions as in Article 3.1.

### **ARTICLE 4 - TASKS**

- 4.1 The Committee will advise the European Commission on banking policy issues, in particular in the preparation of draft measures for the implementation of European legislation (defined as "level 2 measures" in the Lamfalussy Report). The Committee may provide this advice either at the European Commission's request or on its own initiative.
- 4.2 The Committee will respond within a time-limit, which the Commission may lay down according to the urgency of the matter, to the mandates given by the European Commission in respect of the preparation of implementing measures.
- 4.3 The Committee will foster and review common and uniform day to day implementation and consistent application of Community legislation. It may issue guidelines, recommendations and standards, relating to this and to other matters that the members will introduce in their regulatory/

supervisory practices on a voluntary basis. It may also conduct surveys of regulatory/supervisory practices within the single market.

- 4.4 The Committee will develop effective operational network mechanisms to facilitate the exchange of information in normal times and at times of stress and to enhance day-to-day consistent supervision and enforcement in the Single banking Market.
- 4.5 The Committee will observe and assess the evolution of banking markets and the global tendencies in banking regulation in respect of their impact on the regulation of the Single Market for financial services. In this respect, the Committee will particularly take account of the work of the BSC.
- 4.6 The Committee will provide a platform for an exchange of supervisory information, in order to facilitate the performance of member's tasks, subject to the relevant confidentiality provisions stated in the EU legislation. In exceptional circumstances and at the explicit request of an individual member, those members, who represent the competent supervisory authority and further institutions which have a material operational and practical involvement in banking supervision (in principle, the institutions represented in the Groupe de Contact), may meet in restricted session in order to discuss strictly confidential micro-prudential matters, without prejudice to existing agreements for exchange of information. Banking supervisors of EEA member countries who are observers of the CEBS may also join a restricted session.

### **ARTICLE 5 - WORKING PROCEDURES**

- 5.1 The Committee will meet at least three times a year. Additional meetings may be convened if and when appropriate.
- 5.2 All decisions will be taken by the members of the Committee which may delegate decisions to the Chair.

- 5.3 In its working and/or deliberation and/or decisions, the Committee will respect the national and EU legislation regarding secrecy and confidentiality.
- 5.4 The Committee will rely predominantly on the Groupe de Contact, which will be its main working group and which will report to it. The Committee will endorse the Charter of the Groupe de Contact and its work programme.
- 5.5 In addition, the Committee may establish expert groups, chaired by a committee member (or under the member's supervision), working with a given mandate and to be disbanded upon completion of the mandated work. The composition of such expert groups should be flexible in order to involve other relevant authorities where necessary. The Committee may also establish permanent groups, working within specific terms of reference.
- 5.6 For the execution of its tasks as set out in Article 4 above, the Committee will aim to work by consensus of its members. Decisions are taken by consensus, unless when giving advice to the Commission. In that case, the Committee will strive for consensus, and, if no consensus can be reached, decisions will be taken by qualified majority, whereby each Member country has the same number of voting rights as in the Council as stated in the Nice Treaty. When a decision is taken by qualified majority, the Committee should identify and elaborate the opinion of individual members. With this aim, the different opinions of the members should be recorded. Decisions taken by qualified majority are not legally binding in areas where national authorities are competent.
- 5.7 Unless otherwise stated, the principles under 5.6 will also apply in all remaining matters.
- 5.8 The Committee will ensure that in undertaking its work, it acts in conformity with the

conceptual framework of overarching principles identified in the Ecofin Council Conclusions of 2002 and the Commission Decision establishing the Committee.

- 5.9 The Committee will publish its annual work programme. Generally, the Committee may publish a summary of the non-confidential results of its meetings.
- 5.10 The Committee will use the appropriate processes to consult (both ex-ante and ex-post) market participants, consumers and end users which may include inter alia: concept releases, consultative papers, public hearings and roundtables, written and Internet consultations, public disclosure and summary of comments, national and/or European focused consultations. The Committee will make a public statement of its consultation practices and may establish a market participants consultative panel.

## **ARTICLE 6 - ACCOUNTABILITY AND INSTITUTIONAL LINKS**

- 6.1 The Committee will submit an Annual Report to the European Commission which will also be sent to the European Parliament and the Council.
- 6.2 The Chair of the Committee will report periodically to the European Parliament and/or when requested by the Council, and shall maintain strong links with the European Banking Committee.
- 6.3 The Chair of the Committee may participate as an observer in the meetings of other committees and groups, both at the European as well as at the international level, on request and when relevant for the work of the Committee. On behalf of the Committee, the Chair may address these committees with matters of common interest. The Chairs of the respective committees may also be invited to participate as observers in the Committee.

- 6.4 The Chair of the Committee shall aim to ensure adequate cooperation, e.g. by holding periodical meetings with the Chairs of the BSC, the CESR, the CEIOPS and of any other level 3 committee which will be established to discuss cross-sectoral issues of common interest.

#### **ARTICLE 7 - SECRETARIAT**

- 7.1 The Secretary General shall be appointed by the Committee after being proposed by the Chair for a period of three years. The Chair shall propose the Secretary General after consultation with the Vice-Chair and the Bureau. This contract is renewable. Other permanent or seconded staff are appointed on a personal basis by the Chairman after consulting with the Vice Chair and the Secretary General.
- 7.2 In general, the seconded staff of the Secretariat will be provided by the voting members of the Committee; it will work under the responsibility of the Chair in close co-operation with the Vice-Chair. The Secretariat shall prepare and maintain the minutes of the meetings, assist the Committee and the expert groups in their functions and, finally, execute all other functions assigned to it by the Committee or the Chair.
- 7.3 The Secretariat will act as a co-ordinator for all consultations and assist the Chair and the Vice Chair in their public relations activities and representation functions; it will also coordinate the co-operation with the European Commission and other Level 3-committees.

#### **ARTICLE 8 - BUDGET**

- 8.1 The Committee will function with an annual budget. The Chair shall present, after consultation with the Vice-Chair and the Bureau, a proposal for this budget to the Committee no later than at the last meeting of the year preceding the budget year; the proposal has to be adopted by 31 December at the latest.
- 8.2 The members of the Committee and the observers mentioned in Article 1.2 will contribute annually to the budget. An internal rule will fix the amount of the annual individual contribution of each represented country, and the modalities of the payment. These contributions will be based on the number of votes held by the respective jurisdiction in Council meetings. If the country is not represented in the Council, contributions will be agreed on a proportional basis."

#### **ARTICLE 9 - FINAL PROVISIONS**

- 9.1 This Charter will take effect on [...].
- 9.2 The Charter may be amended by consensus.
- 9.3 The Committee may adopt further rules to facilitate its functioning.

#### 4.6 Consultation and Transparency on Guidelines

Number	Final title of Guidelines or Consultation Papers	End of Public Consultation	Consultation Period	Date of current document
CP 01 (and CP01 revised)	Public statement of Consultation Practices	1st consultation 31 July 2004	3 months	29 April 2004
		2nd consultation 19 June 2007	3 months	
CP02	Guidelines on (and CP02 revised)	1st consultation Outsourcing	3 months 31 July 2004	14 December 2006
		2nd consultation 6 July 2006	3 months	
CP03 (and CP03 revised)	Application of the Supervisory Review Process under Pillar 2	1st consultation 31 August 2004	3 months	25 January 2006
		2nd consultation 21 October 2005	4 months	
CP04 (and CP04 revised)	Guidelines on Common Reporting (COREP)	1st consultation 30 April 2005	3 months	16 October 2006
CP05	Supervisory Disclosure	24 June 2005	3 months	1 November 2005
CP06 (and CP06 revised)	Financial Reporting Framework (FINREP)	8 July 2005	3 months	15 December 2006
CP07	External Credit Assessment Institutions (ECAI) Recognition	30 September 2005	3 months	20 January 2006
CP08	The role and tasks of CEBS	28 October 2005	3 months	28 October 2005
CP09	Cooperation between consolidating and host supervisors	8 November 2005	4 months	25 January 2006
CP10 (and CP10 revised)	Model Validation and Approval	30 October 2005	3,5 months	4 April 2006s
CP11 (a and b)	a) Concentration Risk and b) Interest Risk in the Banking Book (IRRBB) under Supervisory Review Process	23 June 2006	3 months	3 October 2006 14 December 2006
CP12	Stress Testing under the Supervisory Review Process	30 September 2006	3 months	14 December 2006
CP13	Establishment of a mediation mechanism	19 June 2007	3 months	



## 4.7 Accomplished timeline for 2006

### CEBS Work Programme 2006 - actual out turn against plans

	1st Quarter 2006	2nd Quarter	3rd Quarter	4th Quarter
<b>1. ADVICE TO THE COMMISSION</b>				
Own funds definition - stock take				
Own Funds - further call - not originally planned				
Large Exposures				
Commodities				
QIS 5				
Cross-border consolidation (M&A)				
<b>2. FINALISATION OF CEBS' PRODUCTS</b>				
Home-host guidelines				
Crisis management (joint with BSC)				
Pillar 2 (revised incl. internal governance) follow up in internal governance				
Pillar 2 additions (incl. risk buckets)				
Model validation (revised)				
ECAls				
Outsourcing standards				
<b>3. IMPLEMENTATION AND CONVERGENCE MONITORING OF CEBS' PRODUCTS</b>				
Case studies				
Reviews of national implementation				
Methodology for assessing CEBS progress				
Supervisory guidance for IFRS				
<b>4. MAINTENANCE OF CEBS' PRODUCTS</b>				
Integrated compendium of guidelines				
Reporting frameworks (database/taxonomy)				
Supervisory disclosure framework (updates)				
<b>5. OPERATIONAL NETWORKING</b>				
Home-host cooperation				
Operational network - including home-host				
Networks on validation - including home-host				
Surveys of market practices				
Information exchange				
Common staff training				

**Key:**

	Planned	Actual out turn
<b>Technical work</b>		
<b>Public consultation</b>		
<b>Feedback and revision of products</b>		

## 4.8 CEBS Work programme for 2007

### 1. Progress in 2006 and outlook for 2007

1. 2006 was a productive year for CEBS, in which much of the groundwork was laid for the achievement of the Committee's medium-term objectives. The work programme for 2006 has been closely followed and most products have been delivered according to the time schedule that was envisaged at the start of the year. The attached timeline (Annex 1) highlights the areas where progress has been against the original plans. Overall this shows that CEBS very largely delivered as expected and was able to present its work on time.
2. With reference to the calls for advice received from the Commission, CEBS delivered technical input in several key areas, including on current supervisory practices and industry practices on Large Exposures (May and August 2006, respectively); and a major survey on current rules and market trends on Own Funds (June 2006). In all cases the advice was delivered according to the deadline, which was always very tight. As in 2005 CEBS was unable to conduct full public consultations on these pieces of advice, although it relied on extensive questionnaires and informal discussions conducted through the Consultative Panel. CEBS also received two additional calls for advice in August 2006 on Own Funds and on the prudential treatment of commodities business and firms. Work is presently on-going in these areas. Finally, CEBS, together with the other two Lamfalussy Committees, also submitted own-initiative advice to the Commission on the revision to the banking Directive (Article 19) on cross-border consolidation, in a joint letter in October 2006.
3. Major progress was made also in the finalisation of CEBS work to support convergence in the implementation of the Capital Requirements Directive (CRD). The wave of guidelines was completed according to schedule, with minor postponement for the final publication of the additional guidance on the supervisory review process under Pillar 2, needed to accommodate comments received during the consultation process. The work on crisis management was also postponed, in order to take into account the lessons from the crisis management exercise performed to test the Memorandum of Understanding between Ministries of Finance, central banks and banking supervisors. In this area it was also decided not to submit the work to public consultation and final publication, due to the internal nature of the recommendations and the possible moral hazard implications. An extensive press release will be published shortly. The original intent of monitoring the implementation of CEBS' products was partly reviewed in the course of 2006: following an initiative of the Consultative Panel, CEBS developed and implemented a methodology for assessing the progress made in meeting its objectives, which will support the production of a report in the first half of 2007; moreover, CEBS decided further investigate tools for peer review and use its project on operational networking to assess the actual use of the guidelines in day-to-day supervision.
4. The work programme for 2006 highlighted that CEBS was envisaging a shift of orientation and emphasis, from design to delivery of a more convergent supervisory framework. The project on operational networking, which aims identifying and addressing practical issues emerging in the implementation of the CRD and CEBS guidelines in a bottom up fashion, is key to the refocusing of CEBS activity. The project started according to schedule in 2006 and has been complemented by a number of parallel initiatives (seminars, case

studies, etc.). During 2007 CEBS will continue and further develop this new orientation of its work. In 2007 the standards and guidelines should be in operation at the practical level of day-to-day supervision across the EU, and the operational networks for the supervision of cross-border groups and co-operation between consolidating and host supervisors will be responsible for ensuring their effective application.

5. As the Committee moves on from the production of guidance and more towards its implementation, the nature of its deliverables will also change. Traditional products (regulatory advice, guidelines, recommendations and standards) will have to be coupled with new types of output, more focused in assisting convergences and co-operation in day-to-day supervisory practices - see box for discussion.

### What sort of outputs in 2007?

As CEBS moves from design to delivery, it will need to consider carefully what sort of deliverable it should aim for. The following deliverable might become more common in 2007 and following years:

- *Surveys of supervisory and market practices*, possibly coupled with high level principles to provide benchmarks for convergence, could be developed to identify different approaches, assess their impact on the effectiveness of supervision, on level playing field and on the administrative costs for supervised entities and prioritise further work where needed. In some cases, this type of output could be included in the framework for supervisory disclosure, to allow a meaningful comparisons between national approaches;
- *Summary feedback reports*, showing in outline the progress achieved with the practical implementation of each guideline issued by CEBS, so that there can be some assessment of implementation and convergence. The Committee

might want to add its own commentary on the extent that convergence has taken place.

- *Catalogues of practical supervisory responses* in specific areas (e.g., on validation of advanced approaches), or Frequently Asked Questions (FAQs). These could originate from the project on operational networking and other tools CEBS is currently developing, such as discussion forums, by means of which experts in different areas can network among themselves, and query systems, which allow each members to compile information on how fellow supervisors address specific issues. 2007 will allow CEBS to continue benefiting from the experiences gained in the publicly accessible CRD Transposition Group.
- *Workshops and seminars* (either internal or with industry) to consider progress in convergence of supervisory practices in specific areas of CEBS work.
- Even lighter touch deliverables, such as *internal updates* or published *newsletters* on specific supervisory issues.

### 2.Context and overview of work programme for 2007

*The focus of this work programme has been defined with the support of the consultative Panel, which has participated jointly with CEBS Bureau in an exercise aimed at ranking all issues CEBS could deal with in 2007 according to their importance and urgency.*

6. The Committee will keep its main orientation on the promotion of co-operation and convergence of supervisory practices in the operational implementation of the new framework for capital adequacy introduced by the CRD. A number of initiatives will be developed to support home-host co-operation at the operational level and to identify issues emerging in the day-to-day application of the new regulatory framework.

7. The ECOFIN has taken on board the recommendations of the FSC Report on Financial Supervision (so called Francq Report). It highlights the main challenges and the concrete steps that could be taken to further develop supervisory arrangements in the EU. These three main challenges consist of fostering supervisory cooperation and convergence, enhancing the cost-efficiency of the EU system and finally improving cross-border supervision. Within this framework, CEBS is required to develop new tools to foster a common European supervisory culture, to address possible disputes via non-legally binding mechanisms such as mediation, to explore the possibilities for delegation of tasks and responsibilities, and to move towards common frameworks for supervisory reporting.
8. The White Paper of the Commission on Financial Services Policy 2005-2010 places great emphasis on initiatives aimed at achieving better regulation and on the need for a regulatory pause. The focus is shifting towards ensuring consistent implementation of existing legislation and convergence in supervisory practices throughout the Single Market. In line with this general aim, CEBS plans to devote a great effort to ensure that the guidelines and standards issued are effectively driving towards consistent implementation of the CRD and to convergence of day-to-day supervisory practices.
9. High priority will also be devoted to the intensification of co-operation with EU supervisors in other sectors and with banking supervisors in areas outside the EU. In particular, CEBS and its sister Level 3 Committees - the Committee of European Securities Regulators (CESR) and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) - will further develop their co-operation on the basis of their joint protocol for co-operation, which will be accompanied by the programme for joint work

on issues of cross-sector relevance. A separate joint 3L3 work programme for 2007 covering joint initiatives of the three is published together with this sector work programme. The two documents complement each other and should be read together in order to have a full picture of CEBS work plans. CEBS also plans to intensify its contacts with non-EU banking supervisors also involved in the implementation of Basel 2. Particular attention will be devoted to co-operation with US authorities, but contacts are established also with other relevant jurisdictions.

10. In developing its initiatives, CEBS intends to further consolidate the dialogue with interested parties, developing the tools already used in 2006. The support of the Consultative Panel in structuring an open consultation process and a fruitful dialogue at the technical level is gratefully acknowledged.
11. The remainder of this paper sets out the specific areas of work planned for the year 2007.

### 3. Work streams and priorities for 2007

*CEBS' projects are grouped under three main headings, in line with the main tasks defined in CEBS Charter: (1) regulatory advice; (2) work to support convergence in supervisory practices, also with a view to enhance the cost efficiency of prudential supervision; and (3) co-operation and information exchange issues. The issues referred to as "priority" will be treated as especially important. Of course, also issues not labelled as "priority" would be expected to be completed according to the indicated timeline, but the Committee would first choose to postpone work in these areas if it or its members face major time and resources constraints.*

#### 3.1 Regulatory advice

12. **Own funds:** the Commission invited CEBS to carry out a quantitative analysis of the types of capital held by institutions within the EU, with a view to assess the impact of differences in the national

implementation of EU rules. This analysis should have a special focus on hybrid instruments. Following this work, the Commission could ask for further advice on the need for a review of the definition of own funds, in line with the work been developed at the Basel Committee.

*Expert Group on Capital Requirements*

*Deliverable: Report on quantitative analysis of regulatory capital held by institutions*

*Timeline: May 2007*

- 13. Commodities business and firms:** CEBS received a call for technical advice from the Commission with regard to the review of the prudential treatment of commodities business under Article 48 of the CRD. Following the review of current supervisory practices, the work will focus on the assessment of prudential risks.

*Expert Group on Capital Requirements*

*Deliverable: Report on the prudential risks arising from the conduct of commodities business and from the activities of firms carrying out commodities business*

*Timeline: April 2007*

- 14. Large Exposures:** The Commission is expected to issue a second call for advice asking CEBS to explore ways in which supervisory convergence could be achieved within the existing regime and to consider the needs for more fundamental changes to the existing regime.

*Expert Group on Capital Requirements*

*First deliverable: first part of advice on (i) ways in which supervisory convergence could be achieved within the existing rules; (ii) the purpose of the Large Exposures regime; (iii) the metric used to measure large exposures (iv) third country regimes.*

*Timeline: October 2007*

*Second deliverable: second part of advice on a range of issues including the treatment of credit risk mitigation, intra-group exposures and other 'group' aspects, reporting, and inconsistent interpretation of definitions.*

*Timeline: March 2008*

- 15. Liquidity:** The Commission announced a forthcoming call for advice on the assessment of the current arrangements on liquidity risk issues. CEBS will complement the work on liquidity issues being conducted from a financial stability perspective by the Banking Supervision Committee (BSC) of the ESCB. CEBS will also closely liaise with the parallel work stream on liquidity supervision being activated at the Basel Committee.

*Groupe de Contact*

*First deliverable: Stock-take of current practices in the EU*

*Timeline: June 2007*

*Second deliverable: Issues paper on liquidity risk supervision*

*Timeline: September 2007*

- 16. Equivalence of third country (US and Switzerland) supervision:** the Commission will soon finalize a mandate to CEBS (and IWCFC) to review the 2004 general guidance on the equivalence of US and Swiss consolidated banking (and conglomerates) supervision.<sup>7</sup> Public consultation is not envisaged, although the Consultative Panel will be kept informed of progress.

*Groupe de Contact*

*Deliverable: Advice to the Commission to inform the general guidance to supervisors on the equivalence of consolidated banking supervision in the US and Switzerland.*

*Timeline: November 2007*

<sup>7</sup> Parallel work is being requested with reference to the equivalence of supplementary conglomerate supervision. This stream of work is discussed in the 3L3 work programme

## 3.2 Convergence of supervisory practices

### 3.2.1 Implementation of the Francq recommendations

17. As mentioned at point 7, CEBS will have to address several recommendations of the FSC report on financial supervision (so-called Francq report) aimed at fostering convergence of supervisory practices and to enhance the cost effectiveness of supervision in the EU. CEBS will draft a general report on the progress made in implementing the recommendations.

#### *Convergence Task Force*

*Deliverable: Report to the FSC on the implementation of the Francq report recommendations.*

*Timeline: June 2007*

18. The report will cover work under way in the following areas:

- (i) **Training programmes and staff exchanges:** CEBS emphasises the need to foster the emergence of a common European supervisory culture. Efforts to develop CEBS-sponsored training programmes and open up to all member organisations the training programmes organised at the national level will intensify in 2007. CEBS will also work to developing a framework for the exchange of staff between member organisations, as a key channel to promote a greater commonality of approaches in day-to-day supervision. A specific programme will be launched for exchanges of staff in charge of the line-side supervision of the groups included in the sample of the operational networking project.

#### *Convergence Task Force*

*Deliverables: Training programmes on CRD implementation and common framework for staff exchanges.*

*Timeline: planning phase completed by June 2007, implementation in the second half of 2007*

- (ii) **Mediation mechanism (priority issue):** CEBS mediation mechanism is under construction, building on the framework already in place at CESR.

#### *Convergence Task Force*

*Deliverable: Consultation paper on CEBS mediation mechanisms*

*Timeline: March 2007, implementation by 2008*

- (iii) **Delegation of tasks (priority issue):** this will be investigated within the context of operational networking and more generally in the implementation of the guidelines on co-operation between consolidating supervisors and host authorities. See section 3.3.

#### (iv) **Streamlining of reporting requirements**

**(priority issue):** CEBS will assess the progress made with the common reporting frameworks COREP and FINREP and identify whether there is further scope for streamlining the frameworks on a cross-border basis (see point 34).

- (v) **Impact assessment:** impact assessment is a key tool to help meet the objectives of the better regulation agenda. The Commission has noted that better regulation is a shared responsibility of all policy makers and impact assessment should be applied by all parties. CEBS should therefore build on the work already carried out by CESR, to agree principles and a detailed methodology for impact assessments.

#### *Convergence Task Force*

*Deliverable: (3L3) Guidelines covering principles and detailed methodology on Impact Assessment. This should also be tested through a pilot study.*

*Timing: Principles to be agreed by early 2007; with draft methodology by Spring 2007 (which should be tested and consulted in the context of a pilot project in 2007) and finalized by end-2007.*

- (vi) **Peer review:** CEBS will consider the feasibility of adopting a review process for assessing members' implementation of its guidelines, recommendations and standards, moving from the approach already in place at CESR

*Convergence Task Force*

*Deliverable: Feasibility study on a review mechanism.*

*Timeline: June 2007*

- 19 In implementing the Francq recommendations and reporting on the progress achieved, CEBS will aim at the maximum possible degree of consistency with its sister committees, CESR and CEIOPS.

### 3.2.2 Other strands of convergence work

#### 20. **Mergers and Acquisitions (Art 19) L3**

**implementation work** As and when the amendments to Article 19 (M&A) are agreed, CEBS will need to flesh out key aspects of the new provisions: on the cooperation (home-host) arrangements underpinning the supervisory assessment of an application, on a common approach to and disclosure of the information required by supervisors to make an assessment, and on the fit and proper criteria.

*Groupe de Contact*

*Deliverable: guidelines and inclusion of information in the supervisory disclosure framework*

*Timeline: June 2008*

21. **Prudential filters (priority issue):** CEBS will further follow the implementation by its members of the Guidelines on prudential filters for regulatory capital as well as their quantitative impact. This effort will build on the work undertaken for the Commission in the area of the call for advice on own funds, in order to avoid duplication of work. (see point 12)

*Expert Group on Financial Information*

*Deliverable: Analytical report on the implementation of prudential filters*

*Timeline: September 2007*

22. **Proportionality:** At the beginning of 2007 a workshop with representatives of the industry will be held. On this occasion the industry will be offered the opportunity to present its views on proportionality to CEBS. This will serve a first exchange of ideas upon which further steps will be considered.

23. **Pillar 2:** Work in this area will start with exchanges of experiences on the implementation of CEBS guidance on the Supervisory Review and Evaluation Process (SREP) and supervisory measures under Pillar 2. CEBS will also discuss the issue of diversification, by organising a seminar in February 2007 to gain more experience of the industry techniques and calculations.

*Groupe de Contact*

*First deliverable: Summary of issues highlighted in the internal seminar on diversification effects under Pillar 2*

*Timeline: March 2007*

*Second deliverable: Internal report on experiences gained on SREP and supervisory measures under Pillar 2*

*Timeline: December 2007*

#### 24. **CRD national discretions and mutual**

**recognition:** CEBS will keep discussing the possibility for further convergence in the exercise of the options and national discretions granted by the CRD. During 2007 CEBS will complete its analysis of possible criteria for relying on mutual recognition as a tool to foster convergence.

*Expert Group on Capital Requirements*

*Deliverable: Internal note on mutual recognition and national discretions*

*Timeline: June 2007*

- 25 **CRDTG: CRD transposition group on answering queries (joint effort with the Commission) (priority issue):** The CRDTG agreed to continue collecting questions on the implementation of the CRD in the course of 2007.

*Expert Group on Capital Requirements, Groupe de Contact and Expert Group on Financial Information (according to topic)*

*Deliverable: Answers to technical supervisory questions, to be posted on the dedicated website of CEBS and Commission*

*Timeline: until December 2007 (deadline for the implementation of advanced approaches)*

26. **Regulatory framework for disclosure by credit institutions and investment firms (Pillar 3):** CEBS will continue to monitor the national implementation of Pillar 3 and exchange experiences on the issues arising in this area.

*Expert Group on Financial Information*

*Deliverable: Internal note on regulatory implementation of Pillar 3*

*Timeline: December 2007*

- 27 **Monitoring of developments in accounting and auditing standards:** CEBS will continue to monitor the developments in the area of international accounting and auditing standards and, if deemed necessary, provide input to the standard-setting process.

28. **Monitoring of minimum capital requirements and analysis of cyclicality:** In co-operation with the BSC, CEBS will start monitoring the minimum

capital requirements to assess the adequacy of the overall level of capital requested under the new regulatory framework and the volatility of the requirements throughout the business cycle.

*Task Force on Minimum Requirements on Capital*

*Deliverable: Methodology for the assessment of the impact of new capital requirements, with a framework for data collection*

*Timeline: September 2007*

### 3.3 Co-operation and information exchange

29. **Operational networking (priority issue):** CEBS has been increasingly called to address practical issues emerging in the implementation of the CRD and of related CEBS guidelines. Operational networking mechanisms have been intensified to identify and address these issues. Part of the project is a test through a project envisaging a high intensity dialogue with regard to a sample of 10 cross-border groups and their supervisory home and host authorities. This work will be conducted in a bottom up fashion, through case studies, surveys of implementation issues, catalogues of pragmatic supervisory solutions, stock takes of supervisory and market practices. The first deliverables of the intensified operational networking will focus on the current practices of colleges of supervisors, issues emerging in the validation of advanced approaches for credit and operational risk. It may also include the application of the supervisory review process. The project on operational networking will be complemented by wider and more general work on delegation of tasks between supervisors, the organisation of joint inspections, sharing of practices on group wide MoU's, on secrecy and data protection, as well as the exchange of experiences in the area of integrity supervision.



*Groupe de Contact*

*First deliverable: Survey of current practices at colleges of supervisors Timeline: March 2007*

*Second deliverable: Survey of implementation issues in the validation of AMA and IRB approaches to be delivered by the GdC test project on operational networking*

*Timeline: June 2007*

*Third deliverable: Survey of implementation issues on the supervisory review process*

*Timeline: December 2007*

*Fourth deliverable: seminars and discussion fora on the abovementioned subjects, on integrity supervision and on implementation methodologies, both in confidential sessions and with invitation of market participants*

*Timeline: calendar to be defined*

*Fifth deliverable: Analysis of the potential for delegation of tasks and joint inspections*

*Timeline: discussion paper March 2007, interim report December 2007, with follow up for 2008 to be determined.*

**30. Crisis management:** following the conclusion of the joint work with the BSC on cooperation in crisis situations, CEBS will focus its attention on practical arrangements for crisis management, with a particular focus on the role of operational networks and on practical arrangements to support supervisory co-operation. In line with the recommendations of the Financial Stability Table of the EFC, CEBS will also co-operate with the BSC to discuss methodological issues emerging in the assessment of the systemic impact of a cross-border crisis.

*Groupe de Contact*

*Deliverable: Internal note on refinements in the arrangements for co-operation in crisis situations*

*Timeline: December 2007*

**31. Information exchange:** CEBS has already established discussion forums for the networks of experts on validation issues and query systems to collect and compare approaches followed by its members. During 2007 the mechanisms to support co-operation and information exchanges will be further upgraded and extended throughout CEBS Expert Groups and networks of experts.

**32. Third country relations (priority issue):** CEBS will closely monitor developments in the worldwide area, e.g. by attending the Basel Committee on Banking Supervision and by the bilateral contacts with amongst others the US and Chinese supervisors. It will organise exchanges of information among its members on possible issues emerging in the implementation of Basel II/CRD to institutions with third country establishments, especially in view of the different implementation schedule in the EU and the US. CEBS will also host the exchange of information on third country supervisory structures between its members, amongst others to facilitate bilateral MoU negotiations with third countries. The Commission has also asked CEBS to undertake work to assess whether there are issues emerging in the treatment of third country branches.

#### 4. Maintenance of CEBS products

*Expert Group on Financial Information*

*Deliverable: Extension of Supervisory Disclosure to CEBS common reporting frameworks (COREP and FINREP)*

*Timeline: December 2007*

33. **Common reporting frameworks:** CEBS will update on an ongoing basis its reporting frameworks and the related XBRL-taxonomies, in order to accommodate any developments in international accounting standards changes required by the implementation of the CRD. A web-based facility, accessible to both supervisors and market participants, will be established to collect and address questions emerging in the implementation of the reporting frameworks.
34. **Internal governance and electronic guidebook:** CEBS will finalize its work on integrating the various internal governance requirements early 2007, including the necessary added references to e.g. the “know-your-structure” requirements requested by the EU. Following this work, CEBS will complete the announced electronic guidebook of standards, guidelines, advice and other work of CEBS.

*Groupe de Contact*

*First deliverable: Consolidated guidelines on internal governance*

*Timeline: September 2007*

*Second deliverable: Electronic Guidebook*

*Timeline: December 2007*

## 5. Monitoring of progress

### 35. **Assessment of CEBS’ progress for the 2007**

**Lamfalussy Review (priority issue):** The results of the online survey on the progress made by CEBS in the first years of work will be prepared by Ipsos MORI. CEBS will complement this analysis with its own assessment of the progress made, integrating the results of the survey with in-house analysis on the progress achieved in specific areas of supervisory work. The results of this work will be discussed at a public Conference in May 2007 and forwarded to the Inter-Institutional Monitoring Group and other relevant EU bodies, as CEBS input to the review of the Lamfalussy process.

*Deliverable: Analysis of responses from stakeholders and Report on CEBS progress*

*Timeline: early May 2007*

36. **Assessment of convergence in supervisory reporting:** a specific study will be conducted to assess the degree of commonality achieved with the implementation of CEBS reporting frameworks (COREP and FINREP). The study will also include comparisons with supervisory reporting packages in certain third-countries.

*Expert Group on Financial Information*

*Deliverable: Analytical report on convergence in supervisory reporting*

*Timeline: September 2007*

## The Timeline for 2007

<b>CEBS Work Programme 2007</b>	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
CEBS meetings			7 Mar			14 Jun			28 Sep			6 Dec
<b>1. Regulatory advice</b>												
Own funds definition												
Commodities business and firms												
Large Exposures									*			
Liquidity						*						
Equivalence of third country												
<b>2. Convergence work</b>												
Francq Report Tasks:												
Report to FSC												
Training programmes & staff exchanges						*						
Mediation mechanism												
Delegation of tasks												
Streamlining of reporting requirements												
Impact assessment												
Peer reviews												
<b>Other convergence work</b>												
Mergers and Acquisitions L3 implementation work												
Prudential filters & monitoring of developments in accounting & auditing standards												
Proportionality												
Pillar 2			*									
CRD national discretions and mutual recognition												
CRD Transposition Group on answering queries												
Framework for disclosure (Pillar 3)												
Monitoring of minimum capital requirements												
<b>3. Co-operation and information exchange issues</b>												
Operational networking:												
(i) Survey on colleges												
(ii) Survey on implementation issues												
(iii) Survey on pillar 2												
Analysis on delegation of tasks												
Crisis management												
Memorandum of Understandings (MoUs)												
Thrid country relations												
<b>4. Maintenance of CEBS products</b>												
Framework for Supervisory Disclosure (FSD)												
Common reporting frameworks												
Internal governance				Consultation	Feedback and finalisation							
Electronic guidebook												
<b>5. Monitoring of progress</b>												
Assessment of CEBS' progress for 2007												
Assessment of convergence in reporting												

Key: \* 1st deliverable

#### 4.9 Annual Report and Financial Statement of CEBS Secretariat Ltd.

	For the year to 31 December 2006 £'000	23 June to 31 December 2005 £'000
<b>Revenues</b>		
Contributions from members	1,088	1,588
Other income	209	201
Interest	67	72
<b>Total revenues</b>	<b>1,364</b>	<b>1,861</b>
<b>Expenses</b>		
Secondment fees	814	721
Premises	403	373
Professional fees	39	87
Communication costs	24	6
Depreciation	165	164
Computer and IT development	56	47
Travel	93	85
Salaries and employee benefits	83	75
Lease tax	-	-
Meetings	28	21
Office supplies	17	13
Miscellaneous	7	15
<b>Total expenses</b>	<b>1,729</b>	<b>1,607</b>
<b>Excess of revenues over expenses before taxes</b>	<b>(365)</b>	<b>254</b>

Members contributions were used during the period to fund the expenses above and to pay for the following fixed assets:

Computer equipment	7	3
Office equipment and furniture	-	9

The full financial statements can be found on the CEBS web-site [www.c-ebs.org](http://www.c-ebs.org)

As required by Company Law in Great Britain the following statement is required:

The above are not the company's statutory accounts. The statutory accounts for the year ended 31 December 2006 have been delivered to the Registrar of Companies and received an audit report which was unqualified and did not contain statements under s237(2) and (3) of the Companies Act 1985.



#### 4.10 3L3 WORK PROGRAMME 2007

This 3L3 work programme for 2007 is developed in accordance with the Joint Protocol of 24 November 2005. The items included have been selected on the basis of a "significance test" based on three criteria: CESR, CEBS and CEIOPS agreed to focus their joint work only on those topics for which a) there is a high risk of disruptive regulatory arbitrage, b) cross-sector cooperation can deliver obvious gains in the effective conduct of supervisory activities, and c) co-operation between the three Committees could bring about a real efficiency gain. In the work programme some issues are referred to as "priority", meaning that they will be treated as especially important and will be done in 2007. The Committees may find other areas of common concern during the course of the year, depending (inter alia) on changes in the markets and regulatory initiatives and the results of analytical reports which are currently being prepared.

##### A. Joint Work

*This section of the work programme sets out work which is to be carried out jointly by the three Committees, and which should result in joint output.*

##### A.1. Financial Conglomerates (priority issue)

The joint Interim Working Committee on Financial Conglomerates (IWCF) will focus on the identification and mapping of conglomerates and on the framework and process for supervisory cooperation.

Technical input to the Commission will be provided in the area of capital requirements for financial conglomerates, focusing on (a) a comparison of sectoral rules for eligibility of capital instruments, (b) an analysis of the consequences of the sectoral rules for the supervision of financial conglomerates, (c) recommendations relevant to the supervision of financial conglomerates.

In close connection with related work for banking, the IWCF will also provide technical analysis of the

equivalence of Third Countries supervision, focused in particular on Switzerland and the United States.

##### A.2. Integrity

The Committees will work jointly to ensure consistency of approaches in the prevention of money laundering and Terrorist financing (AML/CFT) and in the approach to Off-Shore Centres and non-cooperative jurisdictions (OFCs).

AML/CFT: the Committees will support convergence of supervisory practices in the implementation of Directive 2005/60/EC (so-called Third Anti-Money Laundering Directive). In particular, they will conduct a mapping of responsibilities, resources and instruments of national authorities - by mid-2007 - and a survey of practical issues emerging in the implementation of the Directive - by late 2007.

The Committees will jointly work to fulfil the tasks included in the terms of reference of the Financial Stability Table of the EFC. In the course of 2007 they will develop sector specific databases facilitating the exchange of supervisory information concerning OFCs. The Committees will also start exploring possible approaches for the supervision of financial business in such jurisdictions, focusing in particular on internal governance issues. This work, to be conducted in close connection with global forums such as the Financial Stability Forum, will extend into 2008.

##### A.3. Joint overview of 'fit and proper' criteria on managers

The Committees will review the "fit and proper" criteria for managers across the sectors with a view to have a clear benchmark for convergence of supervisory practices when new legislation in the area of cross-border mergers is in place. This is a priority project, but the precise timing will be defined with reference to the finalisation of the review of relevant Community legislation.



## **B. Consistency projects to reduce supervisory burdens and streamline processes**

*This section of the work programme sets out mapping and comparison of sector work projects that aim at streamlining processes and developing consistent approaches across sectors. This might lead to future joint initiatives. Under this heading have been introduced a number of new tasks that can be derived from the implementation of the so called Francq report, endorsed by ECOFIN in their conclusions of 5 May 2006.*

### **B.1. 3L3 consistency on Francq report issues (priority issues)**

The 3L3 Committees will actively cooperate to ensure consistency of approaches in the implementation of the ECOFIN recommendations on financial supervision (so-called Francq recommendations). In particular, close connections will be established between sector work on:

Efforts to enhance a common supervisory culture (training, staff exchanges, etc.)

Peer review and mediation

Better regulation, with a particular focus on impact assessments

Delegation of tasks

### **B.2. Own funds (priority issue)**

Following the comparison of capital elements eligible for (and deductible from) own funds of banks, investment firms and insurance companies, the 3L3 will analyse in 2007 the impact of the differences and consider how relevant issues can be addressed.

### **B.3. Finalisation and follow up to other analytical work from 2006. (priority issue)**

In the first quarter of 2007 the Committees will complete analytical reports on:

Internal governance

Reporting requirements

Supervisory cooperation

Substitute products and related level playing field issues

The reports should serve as the basis for a first analysis by the three Committees, assessing whether there are different approaches, highlighting where each Committee might benefit from experience gained in other sectors, and checking whether further detailed analysis and/or cross-sector harmonisation are deemed useful.

In particular - following the initial work - the issue of the selling and marketing of substitute products (financial instruments, bank saving products, and insurance saving products) may require to joint work in a manner to be defined under heading A during the course of 2007.

For more detailed information, reference is made to the 3L3 Work Programme 2006.

### **B.4. Commodities firms' supervision - possible 3L3 item**

The CEBS' review of prudential supervisory practices and prudential risks that arise from conduct of commodities business advice on commodities firms, will be finalized in 2007. As a contribution from CESR is expected within the framework of the call for evidence on commodities firms recently issued by the Commission, CEBS and CESR will cooperate closely to ensure consistency of approaches in this area. CEIOPS will continue to liaise with CEBS and CESR in view of its work on Solvency II.

## **C. Reports to European Institutions**

### **C.1. Financial market trends, cross sector risks/convergence (priority subject)**

On cross sector risks and on cross sector convergence, the Committees will continue to report jointly to European institutions and/or EU committees, such as the ECON Committee of the



European Parliament, the Financial Stability Table of the EFC or the Financial Services Committee (FSC).

### **C.2. 3L3 joint Annual Report/medium term agenda**

A joint 3L3 report for 2007 will be prepared for the FSC, including a backward looking section on the results already achieved under the Joint Protocol and the 3L3 Work Programme 2006, and a forward looking section to identify a 2/3 years' work agenda and priorities.

### **D. Information points for the exchange of experiences**

On the following issues the Committees will exchange information on their respective work in progress, with the aim of identifying the need for any further specific action. Need for such information may be on a continuous basis or on an ad-hoc basis.

- 1. Solvency II/Basel II**
- 2. Enforcement of IFRS**
- 3. Audit Committee representation**
- 4. Deposit insurance/Investor compensation/Insurance guarantee**
- 5. Mutual funds/Hedge funds**
- 6. External Credit Assessment Institutions/Credit Rating Agencies**
- 7. Clearing and settlement**
- 8. IT data sharing arrangements, including sharing of set-up and maintenance costs.**
- 9. Crisis Management**



#### 4.11 Draft 3L3 Secretariats' Note as annex to the 3L3 Section of 2007 Annual Reports

##### Use of 3 Level 3 Definitions - 'Standards', 'Guidelines', 'Recommendations'

CEBS, CEIOPS and CESR (the 3L3 Committees) issue Standards, Guidelines and Recommendations for their financial services sectors.

In doing so they fulfil a core function set for them. The Lamfalussy report<sup>8</sup>, now covering the securities, banking, insurance and occupational pensions financial sectors, provides their key objective as "to greatly improve the common and uniform implementation of Community rules" and that therefore, they should:

- "produce consistent guidelines for the administrative regulations to be adopted at the national level;
- issue joint interpretative recommendations and set common standards regarding matters not covered by EU legislation - where necessary, these could be adopted into Community Law through a Level 2 procedure;
- compare and review regulatory practices to ensure effective enforcement throughout the Union and define best practice;
- periodically conduct peer reviews of administrative regulation and regulatory practices in member states, reporting their results to the Commission and to the ESC."

It is clarified that "the outcome of this work would be non-binding although clearly it would carry considerable authority." This applies to each of the three titles, so that the use of any of them would have that effect.

The 3L3 Committees have their own individual constitutional Charters. Their financial sectors have sector-specific law, regulation, rules and practice. There is some crossover, yet there are consequential differences between the sectors as to purposes and meanings.

To clarify, and help distinguish where there is EU supervisory cross-sector convergence, the 3L3 Committees have jointly reached an understanding regarding the future use of the titles 'Standards', 'Guidelines' and 'Recommendations', for their publications:

The titles will continue to be used for those Level 3 publications which aim to achieve the common and uniform implementation of Community rules.

The 3L3 Committees' choice between the three titles may be sector-specific.

The 3L3 Committees may therefore use the titles either independently of each other, without subjecting them to 3L3 parallel use, or jointly with each other, for example to reflect some 3L3 parallel use.

The titles will be used for publications linked to future peer pressure, where possible and useful, supported by a Level 3 Committee mechanism, for example Peer Review or Mediation.

If a 3L3 Committee does not need a particular title, it need not use that title at all.

Publications which do not have the aims stated above, should be given different titles from these, such as Reports, Q&A's, Agreements executed by all Members, Speeches, or Press Statements.

<sup>8</sup> Final Report of the Committee of Wise Men on the Regulation of European Securities Markets (Brussels, 15 February 2001), [http://europa.eu.int/comm/internal\\_market/securities/docs/lamfalussy/wisemen/final-report-wise-men\\_en.pdf](http://europa.eu.int/comm/internal_market/securities/docs/lamfalussy/wisemen/final-report-wise-men_en.pdf), page 37f







