

Comments Template on EBA, EIOPA and ESMA's Joint Consultation Paper (JC CP 2012 01) on its proposed response to the European Commission Call for Advice on the fundamental Review of the Financial Conglomerates Directive		Deadline: 13.08.2012 cob
Stakeholder:	British Bankers' Association, Pinners Hall, 105 – 108 Old Broad Street, London EC2N 1EX	
The question numbers below correspond to Joint Consultation Paper JC CP 2012 01 Please follow the instructions for filling in the template: ⇒ <u>Do not</u> change the numbering in column "Question". ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a question, keep the row <u>empty</u>. ⇒ There are in total 10 questions. Please restrict responses in the row "General comment" only to material which is not covered by these 10 questions. ○ If your comment refers to multiple questions, please insert your comment at the first relevant question and mention in your comment to which other questions this also applies. ○ If your comment refers to parts of a question, please indicate this in the comment itself. Please send the completed template to joint-committee@eba.europa.eu, jointcommittee@eiopa.europa.eu, and joint.committee@esma.europa.eu, in MSWord Format.		

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CFA Questions	Comments	
General Comments		
1.	We believe that the supervisory approach should reflect the material risks posed by the group of companies. The authorities, by way of the (new) means to mitigate systemic risk and, arguably, with rules in place before the autumn of 2008, are able to take supplemental measures, including structural. Regard should be given to additional supervisory requirements of G-SIBs (E-SIBs and D-SIBs) in this context and the interaction of this with conglomerate requirements. Clarity is also required around the need for sub-financial conglomerate supervision if powers are to be introduced to have a single point of entry to supervise entire financial conglomerate. In this regard we would approve of recommendations 2 & 3, and recommendation 1 with option 2.	
2.	Such determination should depend on the group and its risk profile. For groups which are exclusively financial it should be the top legal entity for other groups it will depend on the group and its risk profile and availability/need of support in a stress – although the default presumption should be that the top-level Financial Hold Co should be responsible .	
3.	Such determination should depend on the group and its risk profile. The determination should be made by the supervisor rather than the European Commission. The European Supervisory Authorities should draft guidance for national authorities to follow. See above for need to consider other regulatory developments e.g. G-SIBs and the interaction with conglomerate requirements.	
4.	Incentives should depend on the group and its risk profile. However, comparative transparency would be aided by requiring publication of FICOD consolidated capital data for those conglomerates not presently providing a full group-level capital consolidation on either a Basel III (CRR/CRD4), or a Solvency II basis.	
5.	We believe that the authorities, by way of the (new) means to mitigate systemic risk and, arguably, with rules in place before the autumn of 2008, are able to take supplemental measures, including structural.	
Annex H Questions		
General Comments		
1.	The inclusion of pension schemes and special purpose companies may extend the scope to most financial institutions. It will depend on what impact IORPs have on the threshold tests. It also depends on how regulatory/supervisory rules are applied locally at present. It could mean more financial institutions would need to consider the threshold. The merits of the extension or	

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	otherwise can only be proven on a case by case basis.	
2.	These groups would vary in terms of size and risks.	
3.	The capital requirements ought, in theory and ideally, to match the risks. Basel III and, possibly, Solvency II will require sponsors to allocate capital for final salary/defined benefit pension funds in deficit. Regulators, tasked with ensuring financial stability, can require firms to hold additional capital and liquidity for their off balance sheet operations. This would be the situation in the UK, where we would foresee little additional capital requirement arising. Capital and liquidity requirements should at all times be commensurate with the risks of the activities being undertaken. Again there should be no double counting with additional requirements for other purposes e.g. capital buffers for systemic firms	
4.	Additional costs will result from new accounting and capital management/planning, modelling (where necessary), and reporting and IT requirements. The industry will need to engage with the joint authorities if this is to form a binding technical standard in order to harmonise reporting of such information. The obvious starting points include what is meant by 'significant', what form the reporting will take (an addition to current COREP requirements?) and the frequency of reporting and drafting timetable (including the implementation date). Significant attention needs to be given to the interaction with reporting requirements for other purposes including G-SIBs etc.	
5.	[Not applicable: It is for national supervisors to respond.]	

Key messages

- As the resilience of not just firms, but the financial system too has become the objective of the authorities, and the interaction of banks with the so-called "shadow banking system" and additional capital requirements for systemically important financial institutions ("SIFI") are under consideration, we believe that the concept of the Financial Conglomerates Directive (FICOD) should be reconsidered.
- The Capital Requirements Directive IV and Capital Requirements Regulation, especially the capital and liquidity requirements for engagement with non-bank financial institutions and sponsorship of pension schemes address the concerns raised by the authorities.

- The Liikanen panel is considering the merits of structural reform and is due to report in September. Article 6 of the draft Resolution and Recovery Directive (RRD) enables the authorities to require a group to restructure itself prior to resolution. The European Commission plans to issue corporate governance proposals this autumn. Should there be any recommendations by that panel, it would be helpful for the “shadow banking”, SIFI, Vickers (also known as the Independent Commission on Banking), Liikanen, RRD and corporate governance reforms to be considered when drafting the revised FICOD. Any additional capital requirements should be mindful of regulatory developments across the board.
- The ability of home state regulators to issue waivers should be maintained.
- It is essential to avoid the layering of reporting. COREP/FINREP requirements are extremely detailed and should be leveraged in the first instance.
- For bancassurance conglomerates, it is not clear what the implications on the insurance portfolio are? Is Solvency II applicable, in full or “lite”? This would be very costly, not to mention that there is not sufficient time for implementation? There is a disconnect on implementation dates FICOD, expected 2013, and SII, due in 2014. What would be the applicable interim rules, Solvency I?

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