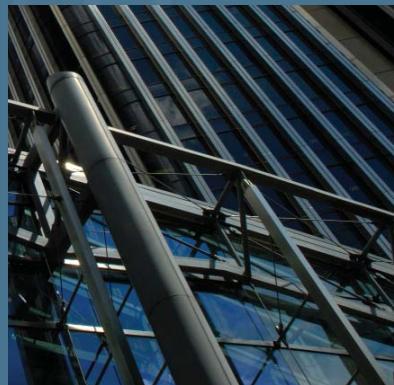
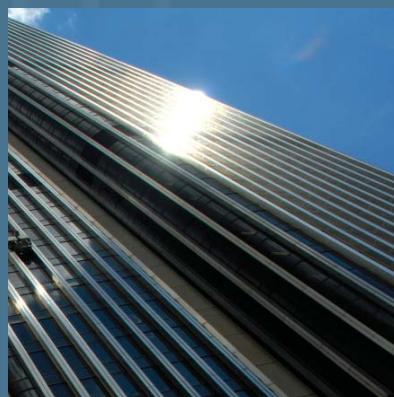




**CEBS**

Committee  
of European  
Banking  
Supervisors

# Annual Report 2007



## **Annual Report 2007 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.

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# Table of Contents

<b>FOREWORD BY THE CHAIRS</b>	<b>3</b>
<b>1. OVERVIEW OF PROGRESS MADE IN 2007</b>	<b>5</b>
<b>1.1 From Design to Delivery</b>	<b>5</b>
<b>1.2 Market turmoil</b>	<b>5</b>
<b>1.3 The Lamfalussy review</b>	<b>7</b>
<b>1.4 Technical advice to the Commission</b>	<b>11</b>
<b>2. ACHIEVEMENTS IN 2007</b>	<b>12</b>
<b>2.1 Advice to the Commission</b>	<b>12</b>
2.1.1 Call for Advice on the Definition of Own Funds	12
2.1.2 Call for Advice on the Definition of Large Exposures	13
2.1.3 Call for Advice on Liquidity Risk Management	14
2.1.4 Call for Advice on Commodities Business	17
2.1.5 Call for Advice on the Equivalence of Supervisory Arrangements in Switzerland and the United States	17
2.1.6 Call for Technical Advice on Options and National Discretions in the CRD	18
<b>2.2 Convergence in Supervisory Practices</b>	<b>19</b>
2.2.1 Implementation of the recommendations of the FSC Report on Financial Supervision	19
2.2.2 Supervisory Disclosure	22
2.2.3 Work on Pillar 2	22
2.2.4 Frameworks for Supervisory Reporting	23
2.2.5 Pillar 3	25
2.2.6 Prudential Filters	26
2.2.7 CRD Transposition Group	26
<b>2.3 Accounting and Auditing</b>	<b>27</b>
<b>2.4 Cooperation</b>	<b>28</b>
2.4.1 Operational Networking and Supervisory Colleges	28
2.4.2 Enhancing the practices of the supervisory colleges	29
2.4.3 Crisis management	30
2.4.4 Cooperation with third countries	31
<b>2.5 Cross Sectoral Convergence</b>	<b>32</b>
2.5.1 Joint work with other Level 3 Committees	32
2.5.2 Consistency projects to reduce supervisory burdens and streamlining processes	34
2.5.3 Reports to the European Institutions	36
2.5.4 Supervisory Culture / 3L3 Training	37
2.5.5 The Three Level 3 Committees: comments on Impact Assessment Guidelines	38
2.5.6 3L3 Medium Term Work Plan and the 3L3 Priorities going forward	39

<b>3. THE PROCESS</b>	<b>40</b>
<b>3.1 Operational Structure</b>	<b>40</b>
3.1.1 CEBS expert groups and task forces in 2007	41
3.1.2 Establishment of Task Forces	43
3.1.3 3L3 Structures	44
3.1.4 Bureau Members	45
3.1.5 The Secretariat	46
<b>3.2 Consultation and Dialogue with Interested Parties</b>	<b>47</b>
3.2.1 Consultation practices	47
3.2.2 Consultative Panel	48
<b>3.3 Accountability</b>	<b>51</b>
<b>4. ANNEXES</b>	<b>52</b>
<b>4.1 Commission Decision 2004/5/EC</b>	<b>52</b>
<b>4.2 Charter of the Committee of European Banking Supervisors (CEBS)</b>	<b>54</b>
<b>4.3 CEBS Members and Observers</b>	<b>58</b>
<b>4.4 Consultation and Transparency on Guidelines</b>	<b>60</b>
<b>4.5 Annual Report and Financial Statement of CEBS Secretariat Ltd.</b>	<b>61</b>
<b>4.6 Accomplished timeline for 2007</b>	<b>62</b>
<b>4.7 List of Abbreviations and Terms Used</b>	<b>63</b>

## Foreword by the Chairs

During its first few years of activity, CEBS focused its attention primarily on promoting convergence in supervisory practices under the new framework for capital adequacy defined by the Capital Requirements Directive (CRD). More recently, the Committee has broadened its areas of activity and taken up a significant set of new tasks.

In response to the financial turmoil triggered in the US market for subprime mortgages the cooperation within CEBS has taken new dimensions. Since August 2007, when the turmoil started, the Committee held several ad hoc meetings and conference calls with a structured exchange of information and joint assessments of the situation in EU markets. Prudential supervision has been intensified in different ways, also through reinforced cooperation within colleges of supervisors. The events are still unfolding and CEBS is very active developing its response, in line with the broad framework defined at the global level by the Financial Stability Forum and the Basel Committee on Banking Supervision. Supervision of liquidity risk, transparency of exposures to structured finance products and entities, valuations of illiquid financial instruments, stress testing and cooperation in crisis situations have been high on the agenda.

In 2007, CEBS has developed guidance for the working of colleges of supervisors. In a sense, this has been the distinctive feature of CEBS vis-à-vis other forum for international cooperation: the integration of the Single Market was asking more than the ability to agree on common standards, it required that the national authorities were able to connect amongst themselves in the actual performance of supervisory tasks and act in a joined up fashion to assess risks spreading across national borders. We achieved significant progress in setting up a framework for the effective working of supervisory colleges, but we are also aware that much remains to be done. The US sub-prime crisis although global in nature hit also some players with a predominantly national scope of business. But at the same time it made clear that in an increasingly interconnected financial system supervisors need to develop common ways of working together to prevent

crises and agreed procedures to cooperate to manage them. This is and will remain in the near future the acid test for assessing the functioning of the EU arrangements for supervision.

In light of the turmoil and of the recent review of the Lamfalussy process, the ECOFIN Council endorsed far reaching conclusions for strengthening the framework for financial supervision in the EU and addressing the areas of concern unveiled by the market development. Detailed roadmaps for action have been elaborated, which contain several tasks for CEBS and its sister committees. The European Parliament is also drafting a report on the reinforcement of the EU underpinnings for financial supervision and stability. The European Commission contributed actively to the definition of priorities for the future work of CEBS, and also took direct action by asking the Committee to provide technical advice to support the review of Community legislation in a number of important areas.

These developments have greatly increased the workload of the Committee and its Secretariat and the demand for deliverables. The Committee has been able to meet these demands thus far, thanks to the hard work of our highly experienced members, but in order to continue delivering on the high expectations placed on the Committee, structural improvements are needed in three areas:

First, it is important to establish a clearer and more formal institutional framework defining the role of the Committee and its accountability to EU Institutions. Second, the three Level 3 Committees need to intensify their cooperation and come up with common solutions reflecting the increasing integration in financial markets. And third, the dialogue with market participants and end-users of financial services needs to be intensified, in order to ensure that CEBS's work results in pragmatic responses to the practical issues that emerge from day-to-day supervision.

Progress is being made in each of these areas:

The Commission is reviewing the Decisions establishing the Level 3 Committees with a view to clarifying our tasks and developing a more robust institutional framework for our work. The possibility of mentioning CEBS, CEIOPS, and CESR explicitly in Community legislation is contemplated in the Commission's legislative proposals. The interaction with the European Council, the Parliament, and the Commission in defining CEBS's work priorities is being refined.

Cooperation between the three Level 3 committees has been stepped up and is absorbing an increasing amount of CEBS', CEIOPS' and CESR's resources. A common medium term work programme has been submitted to the EU institutions and released for public consultation, and joint task forces have been established, building on the precedent of the Interim Working Committee on Financial Conglomerates. Common working procedures have been adopted, with each Committee building on the blueprints developed by the other Committees.

Finally, the dialogue with CEBS's stakeholders is being reinforced. The Consultative Panel has been taking a more proactive role in analysing the unfolding of market events and helping CEBS to draw lessons from the crisis. Groups of industry experts have been formed to interact with CEBS's technical experts well before the formal issuance of papers for public consultation, and all parties are invited to identify implementation issues, with a view to finding practical common solutions.

This Annual Report summarises the work of CEBS in 2007 and early 2008. We hope that it will assist the European Institutions, market participants, and end-users of financial services in assessing how well CEBS is fulfilling its tasks. We wish 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 with them, CEBS could not have achieved the progress that has been acknowledged by all of the parties that have contributed to the Lamfalussy review.

London, May 2008



Daniele Nouy  
Chair  
2006-2007



Kerstin af Jochnick  
Chair  
2008-2009

# 1. Overview of progress made in 2007

## 1.1 From design to delivery

In 2007, the Committee continued the shift in its primary focus that began in 2006: from developing guidance for the Capital Requirements Directive (CRD - 2006/48/EC and 2006/49/EC) to providing advice regarding the implementation and practical application of the guidance. To some extent, therefore, the nature of CEBS's products has changed. Traditional products such as regulatory standards and guidelines have been complemented by new types of output that focus more on promoting convergence and cooperation in day-to-day supervisory practices. Examples of this new focus include surveys on good practices used by banks in the application of the new capital adequacy framework, more intensive use of internal networks of supervisory experts ('Convergence Networks') to address practical questions that arise in the course of implementation, and a greater focus on workshops and seminars to assist in the implementation of revised supervisory practices. Dedicated groups of market participants have been established to identify implementation issues on a bottom-up fashion and to engage in dialogue with CEBS groups of supervisory experts. Experimental query facilities have been set up in a number of areas, to ensure the timely exchange of information on questions relating to supervisory practices and help increase supervisory convergence across the Single Market. The project on operational networking, which has created a forum for the supervisory colleges of a number of banking groups that operate on a cross-border basis in the EU, has been an important channel for identifying and addressing practical implementation issues.

A major initiative has been the development of an electronic guidebook<sup>1</sup>, which serves as a compendium of CEBS guidelines. The guidebook provides users with easy access to all CEBS guidelines related to the CRD. It creates a common ground for CEBS members, upon which the national application of the guidelines can be built. Another practical tool put into operation by CEBS is the supervisory disclosure framework, which provides information on the implementation of CRD provisions and CEBS guidelines in

each Member State. The supervisory disclosure framework, which is available on CEBS's website, can be used to assess the degree of commonality in the implementation and application of Community legislation and CEBS guidelines, and to make comparisons between Member States.

In addition to this planned shift in focus to the delivery of convergence in day-to-day supervisory practices, CEBS has reviewed its priorities in light of the turmoil that has been affecting global markets since the summer of 2007, and also in response to requests for work coming from EU institutions, including those related to the review of the Lamfalussy process.

## 1.2 Market turmoil

The financial turmoil triggered by the US market for subprime mortgages is still unfolding. Market developments have profoundly influenced CEBS's activities. Since August 2007, CEBS has held several ad hoc meetings and conference calls to support structured exchanges of information and joint assessments of the situation in EU markets. CEBS members have intensified their prudential supervision in a number of ways: through targeted interviews with banks' management, detailed analysis of banks' internal management information, targeted on-site examinations, requests for ad hoc supervisory reporting or intensification of regular reporting, and frequent contacts with external auditors. Cross-border cooperation between home and host authorities has been stepped up. There have been more frequent and more detailed bilateral discussions, and an increasing amount of joint work has been initiated within the supervisory colleges of some cross-border groups.

The results of this work have been communicated to CEBS, contributing to a common analysis of the main risks and the most effective supervisory responses. CEBS has also benefited from an analysis by its Consultative Panel of lessons learned by market participants.

<sup>1</sup> Electronic Guidebook: <http://www.c-ebs.org/ElectronicGuidebook.htm>

The market turmoil has provided a real-world stress test of CEBS's ability to establish effective networking between banking supervisors. CEBS is developing a framework for ranking risks from a supervisory perspective and for identifying issues that require a common supervisory response. The Committee has initially identified four main areas of concern for supervisors, on which its efforts are being concentrated:

- (i) liquidity conditions and the robustness of liquidity risk management,
- (ii) the transparency of securitisation activities and structured products,
- (iii) the valuation of complex illiquid instruments, and
- (iv) cross-border financial management.

**Liquidity conditions and risk management** continue to be under significant stress. The disappearance of liquidity and uncertainty in pricing in many markets indicate the need for steps to reinforce risk management practices and the supervisory framework. An initial stock-taking on the lessons learned from the crisis highlighted four areas in which improvements by firms are needed:

- (i) internal governance mechanisms need to be strengthened, as the survey indicated that banks in which senior management was directly responsible for the design and implementation of the liquidity risk management framework performed better;
- (ii) stress testing needs to be reinforced, with more severe scenarios and greater efforts to capture interactions between liquidity risk and credit, market, and operational risks;
- (iii) the outcomes of stress tests need to be used effectively and acted upon, notably in terms of contingency planning; and
- (iv) group-wide approaches to oversight of liquidity risk policies could be developed further, as those firms with effective group-wide approaches have been more successful, especially in the optimal use of collateral.

On the supervisory side, a first lesson concerned resources. Adequate supervisory resources must be devoted to liquidity supervision, and attention paid both to institutions' liquidity risk profiles and to the level of systemic risk they entail. Supervisors should systematically challenge institutions' assumptions in stress testing and ensure that they have robust processes for defining their strategy and risk appetite. It is also important that procedures for monitoring actual risk positions are well developed and sufficiently sophisticated for the chosen risk profile.

Concerning the **transparency of banks' securitisation activities and structured products**, CEBS conducted a snapshot analysis of disclosures made by a sample of 20 large European banks in their fourth-quarter 2007 and preliminary year-end financial statements. The results of this analysis are currently being updated and supplemented with an analysis of the information disclosed in the banks' audited 2007 financial statements and annual reports.

The preliminary analysis revealed differences in both the content and the presentation of the disclosures. The differences in the level of detail can be explained to some extent by varying levels of involvement in these lines of business. Nevertheless, CEBS believes that there could be some benefit in promoting more structured and organised disclosures in order to increase the comparability of the information. We are concerned that the lack of disclosure on banks' business models and on their role in structured finance activities could make it difficult for market participants to assess the banks' risk profiles properly. The disclosures seem in many cases to be aimed more at banks' immediate stakeholders - their shareholders - and less at market participants in the wider sense.

CEBS has also embarked on work on the **valuation of complex illiquid assets**. As market liquidity disappeared and previously observable market data became unavailable, some institutions began marking their exposures to model, while others continued to search for ways to mark to market. Explanations of how the valuations were carried out were not always comprehensive. The lack of consistency in banks' valuations, uncertainty about their accuracy, and

inadequate transparency may have contributed to the lack of confidence of market participants and exacerbated the market turbulence. There is a perception that guidance on valuations may be lacking, with some European financial institutions turning for guidance to US accounting standard for fair value measurements (SFAS 157). CEBS is liaising closely with the industry and with accounting and auditing standard-setters to ensure that robust and rigorous valuation standards are adopted which satisfy all involved parties. These standards should cover not only valuations as such, but also related internal controls, governance mechanisms, and disclosures.

Given the global nature of the market turmoil, CEBS is aware of the need to coordinate its work with initiatives in other international forums such as the Basel Committee on Banking Supervision (BCBS). Close contacts are being maintained to ensure that European and other international initiatives are closely aligned.

The current market turmoil underlines the importance of the framework for **cross-border financial crisis management**. CEBS commends the work on revising and extending the 2005 Memorandum of Understanding (MoU) on the

management of systemic cross-border crises. The MoU is intended to provide a framework for cooperation, both in normal times and in the resolution of a crisis, including the division of tasks between home and host supervisors, and covering all financial institutions (not just credit institutions) and market infrastructures. The MoU also contains some provisions relating to liquidity assistance to cross-border banking groups in a crisis. The MoU acknowledges the role of the colleges of supervisors in crisis management. CEBS has been working for some time to develop good practices for cooperation within the colleges in times of stress, and to devise practical tools for information exchange and internal and external communication.

### 1.3 The Lamfalussy review

CEBS contributed to the debate on the review of the institutional arrangements for financial regulation, supervision, and stability in the EU (the Lamfalussy Review). Several concrete proposals to step up regulatory and supervisory convergence, enhance supervisory cooperation, and strengthen the role, tasks, and tools of CEBS were put forward and considered in the policy debate.

#### **CEBS's contribution to the Lamfalussy Review**

##### **Concrete proposals to strengthen regulatory convergence**

- (i) Phasing out of options and national discretions. While CEBS has been requested by the Commission to conduct further work on options and national discretions included in the CRD and is actively contributing to this exercise, a strong policy commitment could be made to introduce options and national discretions only when absolutely necessary to smooth the transition to the new regulatory setting. It might also be considered introducing options and national discretions in Community legislation only through provisions subject to a standard sunset clause, which would allow for a reconsideration and possible elimination after a relatively limited period of time.

- (ii) Implementation of the Lamfalussy structure in the banking sector. Community legislation in banking is still pre-Lamfalussy, although a distinction between Level 1 and Level 2 is implicit in the list of articles subject to comitology procedures. The lack of a clear Lamfalussy structure creates some difficulties, for example in implementing the Better Regulation agenda in banking. Under the current arrangements, it is not always clear how the consultation process should best be organised and how an impact assessment should be structured, and the division of labour between the Commission and CEBS is not efficient. CEBS has frequently had to work under very tight deadlines, which have not allowed for proper consultation. A short-term solution would be to come to a clear ex-ante agreement in each Call for Advice on the dividing line between policy

principles and technical details. On policy principles, CEBS should be asked to provide supervisory input, while the responsibility for public consultation and impact assessment should lie primarily with the Commission. On technical details, CEBS should be allowed enough time and scope to conduct extensive consultations, and to conduct cost-benefit analyses and impact assessments as appropriate. In the longer term, a cost-benefit analysis should be conducted to assess the need for a comprehensive reshuffling of banking legislation according to the Lamfalussy framework.

- (iii) Developing own initiative advice. CEBS intends to develop advice on its own initiative, indicating to the Commission possible areas in which the degree of regulatory convergence is unsatisfactory and impedes progress in the pursuit of convergence in supervisory practices.
- (iv) Enhanced efforts at Level 4 to ensure consistent implementation of EU law. As pointed out by the Inter-Institutional Monitoring Group (IIMG), the enforcement of Community legislation is essential to ensure that the desired degree of harmonisation has been achieved.

### **Concrete proposals to enhance supervisory convergence**

- (i) Ex-ante definition of the convergence target and ex-post assessment of the results. CEBS should state clearly in its work programme, and in each product, the desired degree of convergence it intends to achieve. Dialogue with the industry and formal consultation processes, together with regular reporting to EU institutions, should help to ensure that there is agreement on the desired degree of convergence for each product. Ex post, CEBS should rely on peer review to conduct rigorous assessments and confirm that the original goals have been achieved. External monitoring of the results achieved should be reinforced by accountability exercises. In some cases, measurable targets should be set.
- (ii) Convergence tools. Practical new tools should be developed to support day-to-day supervisory convergence. These tools should be based on processes also in place at the national level, to ensure similar treatment and equivalence of outcomes in the application to different entities of supervisory instruments requiring some degree of discretion and judgement. Convergence Networks should be established to provide a channel for continuous dialogue on technical issues and to ensure that similar practical supervisory questions receive the same responses. Good practices papers should be developed to complement CEBS guidelines. These papers could be coupled with web-based facilities dealing with implementation questions, so that a response given to a bank on the suitability of a certain business approach is available to other banks, promoting a common understanding on the appropriate reading of CEBS's supervisory guidance. In some areas, joint assessments by teams composed of supervisors from different national authorities could help achieve convergence. This approach has been tested in the assessment of rating agencies' applications for recognition under the CRD in various EU countries. Similar approaches are being discussed for the analysis of economic capital models. These tools should gradually transform CEBS into a sort of 'virtual organisation', accessible on a decentralised basis but able when needed to perform some functions in a more connected fashion, through common structures and processes. Particular attention should be devoted to common training and staff exchanges, to foster a common European supervisory culture. CEBS would support dedicated structures for training at 3L3 level.
- (iii) Aiming at hard convergence in selected areas. Thus far, CEBS has worked mainly through guidelines, to achieve 'convergence in principles'. These efforts have produced tangible progress in some areas, but in other areas the convergence objectives have been only partially achieved. For example, more needs to be done in the area of supervisory reporting, and CEBS commits itself to making progress in this area. Cross-border groups have justifiably complained that different national authorities define data elements differently and do not coordinate their data submission deadlines. This increases costs for cross-border groups and makes it more difficult for authorities to aggregate data and make cross-border comparisons between banks. CEBS commits itself to rectifying these deficiencies by

implementing common EU-wide reporting for credit institutions, in the sense that data elements will have the same definition in each Member State. Any new proposal in this area will be subject to Impact Assessment using the methodology currently under development by all three Level 3 committees.

### **Concrete proposals to strengthen supervisory cooperation**

- (i) Further developing operational networks. The operational networking project has enormous potential and needs to be developed further with a view to achieving broadly congruent supervisory outcomes for cross-border groups, in a cost effective, risk-based, and proportionate manner.
- (ii) Reinforcing cooperation for crisis management: CEBS is proposing to adopt a 'variable geometry' for the operational networks, in which a selected group of relevant supervisory authorities and central banks would regularly address financial stability issues in an ad hoc format. In accordance with the work of the Economic and Financial Committee, such groups should be expanded to include representatives of finance ministries as appropriate.
- (iii) Developing CEBS's role as a hub for multilateral information exchange. In the past, the Groupe de Contact has developed confidential exchanges of information on supervisory issues. This function should be developed further, using teleconferencing and web-based tools.

### **Concrete proposals on CEBS's role, tasks and tools**

- (i) Enhancing CEBS's role: CEBS's mandate could be revised through appropriate decisions from all EU institutions, spelling out in greater detail the Committee's role and tasks. The Committee's role could also be mentioned in Community legislation. Political statements from EU institutions could define clear high-level priorities for CEBS's work, facilitating a transparent process for assessing progress.
- (ii) Strengthening accountability mechanisms. The enhancement of CEBS's role and the specification of its tasks should be coupled with mechanisms ensuring

accountability to all EU institutions. Reinforced accountability should respect the operational independence of supervisors.

- (iii) Opening the possibility of funding from EU budget for specific projects. When Community legislation or the recommendations of EU institutions direct CEBS to undertake resource-intensive projects, the possibility of EU budgetary support should be considered.
- (iv) Better focusing Level 3 tools. Level 3 tools should not become legally binding. The decisions sharpening CEBS's Level 3 tasks could differentiate between the three types of tools defined in the Lamfalussy report (standards, guidelines, and recommendations), clarifying what they are expected to achieve and associating different tools with different notions of convergence.

### **Concrete proposals on CEBS's working processes**

- (i) Relying more extensively on majority voting. CEBS intends to continue to work by consensus, but believes that the possibility of resorting to majority voting at Level 3 could improve the quality of its work and its ability to deliver convergence in supervisory practices. As discussed above, the adoption of measures by Qualified Majority Vote would not alter the legally non-binding nature of Level 3 tools. Strengthened decision-making mechanisms could be adopted as part of a package, combined with peer pressure mechanisms (peer review and 'comply or explain', mediation, and impact assessment).
- (ii) Better interconnection between EU and national objectives. CEBS would support proposals to introduce EU objectives in the mission statements of national authorities and, conversely, to include the pursuit of prudential objectives at the national level in CEBS's mandate. Such high-level links could be further supported by coordination in the definition of work programmes and specific projects.
- (iii) Improving dialogue with interested parties. CEBS supports the further development of existing facilities that would allow interested parties to identify relevant issues that CEBS should address, and to assist in prioritising among different tasks.

Several points were taken up in the final report of the Inter-Institutional Monitoring Group (IIMG). The recommendations of EU institutions based on its findings identified a number of areas in which CEBS and its sister Committees (CESR and CEIOPS) should work.

One of these areas is the supervision of cross-border groups. CEBS has already conducted substantial work in this area. In early 2006, CEBS published guidelines for cooperation between home and host supervisors<sup>2</sup>. Since then, CEBS has devoted substantial effort to addressing practical issues arising from the supervision of cross-border groups. A pilot project on operational networking created an infrastructure to support enhanced exchanges of information and experiences between consolidating and host supervisors for a sample of ten banking groups with substantial cross-border business in the EU. The ten banks in the sample also established an industry platform which engaged in fruitful dialogue with supervisory experts. At the end of 2007, CEBS published two documents to assist supervisors dealing with cross-border banking groups: a template for written agreements<sup>3</sup> setting out a common framework for the working of supervisory colleges, and a note on the range of practices from existing supervisory colleges which identified useful references, drawing on the experience of authorities that have been refining their cooperation arrangements over a fairly long period of time. The template for written agreements is being tested on the banking groups in the sample and will be subject to review in the light of practical experience. CEBS also supports the greater focus on supervisory colleges in the Directive text, as this could provide further impetus and support for CEBS's work.

In line with the recommendations stemming from the Lamfalussy review, CEBS has developed and adopted a peer review methodology and protocol and is currently putting them into practice. This peer review mechanism should promote further convergence and strengthen the national application of Level 3 measures and Community legislation. CEBS is also working on identifying obstacles stemming from differences in the supervisory powers and objectives of national authorities. Together with CESR and CEIOPS, CEBS is developing a common training platform for supervisors, and efforts are under way to facilitate staff exchanges, which should promote the development of a common EU-wide supervisory culture. The joint efforts of the three Level 3 committees have also resulted in the finalisation of a common impact assessment methodology, which should contribute to the Better Regulation agenda. Finally, a new mediation mechanism has been established, following the blueprint developed by CESR, to address potential divergences and conflicts between national supervisors.

<sup>2</sup> Guidelines for Cooperation between Consolidating Supervisors and Host Supervisors: <http://www.c-ebs.org/pdfs/GL09.pdf>  
<sup>3</sup> Template for Written Agreements and Range of Practices Paper: <http://www.c-ebs.org/press/27122007.htm>

## 1.4 Technical advice to the Commission

Advisory tasks absorbed a greater portion of CEBS resources in 2007 than in previous years. These activities support the European Commission's work reviewing and updating the regulatory framework. In most cases, CEBS has been asked to conduct surveys of existing supervisory and market practices as a preliminary step in assessing the appropriateness of the existing framework.

CEBS's main contributions focused on the review of the CRD and, more specifically, on the definition of capital and the regime for large exposures. The advice on capital included proposals for common criteria for the eligibility of hybrid capital instruments as regulatory capital, and for ensuring an appropriate quality of banks' capital. This is essential to make sure that capital provides an effective buffer for absorbing losses, especially under stress conditions. The advice on large exposures recommended

sharpening the focus of the large exposures regime and viewing it as a limit-based 'back-stop' regime to limit losses from event risk with a single counterparty or set of connected counterparties. The advice elaborated on the notion of connectedness, on the treatment of off-balance sheet exposures, and on the controversial issue of the treatment of intra-group and interbank exposures. The timing was very opportune, as the recent market turmoil has illustrated the importance of avoiding excessive concentrations of exposures to single counterparties - including in the interbank market - and CEBS's advice tries to take these lessons into account.

CEBS also received calls for advice on options and national discretions in the CRD<sup>4</sup>, and joint calls for evidence on commodities business<sup>5</sup> with CESR and on the equivalence of supervisory arrangements in Switzerland and the United States<sup>6</sup> with CEIOPS.



<sup>4</sup> Call for Technical Advice (No10) to CEBS on options and national discretions in the CRD: <http://www.c-ebs.org/Advice/documents/CFA10onnationaldiscretions16052007.pdf>

<sup>5</sup> CESR/CEBS Call for Evidence on Commodities: <http://www.c-ebs.org/Advice/documents/21012008CfEvidenceoncommodities.pdf>

<sup>6</sup> Call for Advice (No2) to IWCFC on Supervision in Third Countries: Switzerland and the USA: [http://www.c-ebs.org/Advice/documents/CfAtoIWCFCh\\_no2thirdcountrysupervision.pdf](http://www.c-ebs.org/Advice/documents/CfAtoIWCFCh_no2thirdcountrysupervision.pdf)

## 2. Achievements in 2007

### 2.1 ADVICE TO THE COMMISSION

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

Work on the Call for Advice to support the Commission's review of the rules on capital ("own funds") continued throughout 2007 and the first quarter of 2008.

In June 2006, CEBS published a survey on the national implementation of the current capital rules, along with an analysis of recent market trends in the issuance of capital instruments<sup>7</sup>. CEBS subsequently conducted a quantitative analysis of the types of capital held by EU institutions, with a view to assessing the impact of differences in the national implementation of EU rules. The first part of this analysis focused on hybrid capital instruments recognised as Tier 1 capital in the EU, and was published in March 2007<sup>8</sup>.

The second part of the quantitative analysis was published in June 2007 and had a wider scope, encompassing all capital instruments eligible for prudential purposes under the CRD. It was based on preliminary year-end 2006 data from a representative sample of institutions in the European Economic Area (EEA), collected using a common taxonomy and methodology.

While the overall structure of capital funds varies across Member States, on an aggregate basis Tier 1 capital represents almost two thirds of the regulatory capital of European credit institutions and investment firms (before deductions from total capital). Tier 2 capital represents roughly one third of total capital, while Tier 3 capital accounts for only 2%.

The analysis also explored the impact of the application of prudential filters and found that they result in only a slight decrease in eligible capital, due mainly to the shift of IFRS-related valuation differences from Tier 1 to Tier 2. The most important adjustment in absolute terms relates to the positive valuation differences for available-for-sale equities.

In June and November 2007, CEBS held two public hearings on capital, which were open to all interested parties. The first hearing followed up on the outcome of the qualitative and quantitative analyses published in 2006 and 2007. Its objective was to explore the range of concerns that the current EU definition of capital - and especially Tier 1 hybrid capital instruments - raise for market participants. The second hearing focused on CEBS's draft proposals for a common EU definition of Tier 1 hybrids. Its objective was to present the draft proposal and to gather initial feedback from market participants prior to the formal consultation, which opened with the publication of CP 17 in December 2007. CEBS's final proposals for a common EU definition of Tier 1 hybrids were published in April 2008. The proposals encompass the central criteria for the eligibility of Tier 1 hybrids and also touch upon the appropriate limit for their inclusion and the treatment of already issued instruments that do not comply with the criteria.

The objective of the proposals was not to create a new definition of eligible Tier 1 hybrid capital instruments, but rather to provide guidelines for a common EU interpretation of the eligibility criteria and to advise the Commission on the implementation of these criteria into EU legislation.

To be eligible as Tier 1 capital, hybrid capital instruments must be issued and fully paid up, publicly disclosed, and easily understandable. They must also be permanent, be able to absorb losses both in liquidation and on a going-concern basis, and allow the cancellation of payments. In stress situations, the instruments should help prevent the insolvency of the issuer and make its recapitalisation more likely.

CEBS believes that regulatory capital requirements should be met without undue reliance on hybrid instruments. CEBS put forward two options, both of which aim to strengthen the quality of institutions' regulatory capital. One option requires that Tier 1 hybrids do not at any time represent more than 30% of required Tier 1 capital. If an institution operates above the required Tier 1 capital level,

<sup>7</sup> Surveys on supervisory rules and on own funds and on recent market trends in new capital instruments: <http://www.c-ebs.org/press/23062006.htm>

<sup>8</sup> Quantitative survey on hybrid capital instruments: <http://www.c-ebs.org/Advice/20070313.pdf.pdf>

Tier 1 hybrids may not at any time represent more than 50% of total Tier 1 capital after deductions. The second option sets two limits (25% and 50% of total Tier 1 capital) for the eligibility of Tier 1 hybrids, relating to the quality of the individual instrument. Under both options, hybrids with redemption incentives must never exceed 15% of total Tier 1 capital after deductions (this limit is included in the overall limit on hybrids in both options). The eligibility of any instrument which is authorised or issued under existing national rules, and which no longer qualifies under the above interpretation as Tier 1 capital, must be reduced gradually over a period of 30 years.

Cross-sector consistency is a key objective in CEBS's work. The Interim Working Committee on Financial Conglomerates (IWCFC) responded to the Commission's call for advice on sectoral rules for eligible capital. The first part of the advice, published in January 2007, analysed the principal similarities and differences in the characteristics of regulatory capital for banks, investment firms, and insurance firms. The second part of the advice, published in August 2007, focused on the impact of the key differences flagged in the January 2007 report. The IWCFC found that most eligible capital instruments - although named differently - are in fact common to the banking and insurance sectors and share the same core characteristics. However, there are important differences as well, which can be explained by differences in the nature of business in each sector, and by differences in how eligible capital elements are calculated and taken into account at the group level. Based on this analysis, the European Financial Conglomerates Committee (EFCC) asked IWCFC to develop recommendations addressing how the main differences in sectoral rules affect the calculation of capital in financial conglomerates. In April 2008, CEBS and CEIOPS published these recommendations as the third and final part of their advice to the EU Commission. The recommendations focus on four main differences: the treatment of hybrids, revaluation reserves/latent gains, deduction of holdings, and the differences in the

consolidation approaches and methods foreseen by the Financial Conglomerates Directive. On the treatment of hybrids the IWCFC proposes that sectoral rules should be harmonised and that hybrid instruments that meet certain requirements should be eligible for inclusion no later than the date of implementation of Solvency II in the insurance sector, taking into account the current work of CEBS and CEIOPS.

## **2.1.2 Call for Advice on the Definition of Large Exposures**

Article 119 of Directive 2006/48/EC<sup>9</sup> and Article 28(3) of Directive 2006/49/EC (the Capital Adequacy Directive or CAD)<sup>10</sup> directs 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. Following the finalisation of the CEBS's response to its first Call for Advice on this topic in 2006, the Commission decided to extend the scope of the review and issued a second Call for Advice to CEBS<sup>11</sup> in January 2007.

In keeping with the Commission's Better Regulation agenda, CEBS's advice was supported by a high-level market failure and regulatory failure analysis. The first part of the advice addressed the purpose of the Large Exposures regime, the need for and appropriate level of Large Exposures limits, and whether the Large Exposures regime is achieving its objectives. Following an intensive dialogue and consultation with a broad range of market participants, the first part of the advice<sup>12</sup> was finalised in November 2007. It set out CEBS's understanding of the objectives and purposes of a Large Exposures regime. CEBS believes that the need to ensure that the risks arising from bank exposures to individual counterparties or groups of connected counterparties are kept to an acceptable level follows from the overarching principles of prudential supervision.

CEBS concluded that the three pillars of Basel II do not adequately address the risk of major losses that a credit institution might incur in the event of the failure of a

9 Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast): [http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l\\_177/l\\_17720060630en00010200.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_177/l_17720060630en00010200.pdf)

10 Directive 2006/49/EC of the European Parliament and of the Council on the capital adequacy of investment firms and credit institutions (recast): [http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l\\_177/l\\_17720060630en02010255.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_177/l_17720060630en02010255.pdf)

11 Call for Technical Advice (No7) to CEBS on the review of the Large Exposures Rules: [http://www.c-ebs.org/documents/LE\\_CfA2.pdf](http://www.c-ebs.org/documents/LE_CfA2.pdf)

12 First Part of CEBS Technical Advice on the Review of the Large Exposures Regime: <http://www.c-ebs.org/press/06112007LEPart1.htm>

counterparty to which it is overly exposed, and that this justifies regulatory intervention. A Large Exposures regime based on limits would appear to be the most appropriate regulatory tool, even if some features of the current limit-based framework could be improved.

The advice also discussed the adequacy of the current Large Exposures limits. Given the nature of the unforeseen event risk arising from defaults on Large Exposures, and the low but material default rates of highly rated entities, CEBS concluded that the recognition of counterparty credit quality should not be recognised in the Large Exposure limits, which therefore should not be relaxed or eliminated for highly rated counterparties.

The second part of the advice<sup>13</sup>, finalised in April 2008, addressed a number of technical aspects of the Large Exposures regime. In particular, CEBS clarified the concept of connected clients and proposed to broaden the definition to include common sources of funding between counterparties as an indicator of economic interconnectedness. The advice discussed ways of dealing with unsecured interbank exposures, which can give rise to systemic risk and moral hazard problems. CEBS proposed (by a majority vote) that all interbank exposures above a specified threshold defined as an absolute amount should be subject to a limit equal to 25% of capital. CEBS believes that this proposal, which also takes into account the maturity of the exposures, strikes the correct balance between prudential objectives and the concerns expressed by small- and medium-sized institutions.

The advice also discussed the cost and benefits of imposing limits on intra-group exposures. CEBS noted that limiting these exposures would have a significantly different impact on the functioning of different Member States' banking systems. CEBS concluded that the national discretion provided in Article 113(2) of Directive 2006/48/EC, which allows the exemption of these exposures from the limits, should be maintained at this stage, and should be extended to exposures that meet the conditions of Article 80 (8).

CEBS also discussed whether a 'one size fits all' approach is desirable, and proposed exempting investment firms with limited licence and limited activity from the requirements.

The advice addressed a number of other issues, such as the scope of application of the rules (the advice supported the retention of a differentiated approach for trading book exposures), the exemption from the limits of exposures to certain sovereigns, the appropriate supervisory reaction to breaches of limits in the banking and trading books, the harmonisation of supervisory reporting across Member States, and the treatment of risk mitigation techniques (the advice proposed an alignment with the treatment for solvency purposes if the associated instruments are sufficiently liquid).

### **2.1.3 Call for Advice on Liquidity Risk Management**

CEBS began working on the supervision of liquidity risk late in 2006. The scope of the work was substantially broadened by a Call for Advice from the Commission in March 2007<sup>14</sup>, and more recently by the need to deepen the analysis based on lessons from the crisis triggered by the collapse of the US subprime mortgage market.

The Commission's Call for Advice asked CEBS to conduct a survey of the regulatory frameworks adopted in Member States, and to analyse selected topics related to liquidity risk management. The Committee was also invited to identify other areas or problems that appear not to be adequately addressed in the current EU regulatory framework. In light of the recent turmoil, CEBS took this opportunity to provide a comprehensive picture of the factors that influence liquidity risk, highlighting points of interest and possible recommendations.

13 CEBS Second Part of Advice on the Review of the Large Exposures regime: [http://www.c-ebs.org/press/20080403\\_LE.htm](http://www.c-ebs.org/press/20080403_LE.htm)

14 Call for Technical Advice (No8) to CEBS on Liquidity Risk Management:

<http://www.c-ebs.org/Advice/documents/CfAonLiquidityRiskManagement20070315.pdf>



CEBS finalised the first part of its technical advice<sup>15</sup>, including the survey of current regulatory approaches adopted by EEA regulators, in August 2007. More than half of all EEA countries have recently updated their liquidity regimes, and a few have made significant amendments. The main findings of the survey are as follows:

The supervisory frameworks of three countries allow varying degrees of direct or indirect reliance on the outcome of internal methodologies or models. Three countries have established standardised reporting of liquidity ratios and mandatory minimum limits. One country has introduced optional reporting of information on internal liquidity management on a consolidated basis.

Two-thirds of the countries distinguish between credit institutions and investment firms, either subjecting the latter to a different regime or exempting them altogether from liquidity requirements. A clear majority of countries apply the same supervisory requirements to all credit institutions, regardless of size and type (branch or subsidiary), but respecting the principle of proportionality. Some countries

mentioned exceptions to the general application of the host supervisory regime to foreign branches. Only one country indicated that it supervises liquidity risk solely at the consolidated level. More than two-thirds of the regimes supervise at both the consolidated and solo levels, in keeping with the general observation that centralised administration of a group-wide liquidity position is the most common practice in most countries. However, the level of centralisation varies substantially, and centralised administration is not the only practice. Over half of the countries do not impose limits on intra-group exposures, while about a quarter reported limits only for short-term intra-group exposures. Some respondents indicated that limits could be waived if cross-border establishments are subject to broadly equivalent supervision.

The first part of the Advice also noted that the distinction between quantitative and qualitative regimes could be misleading, as most of the countries with qualitative regimes do in fact collect liquidity data, monitor profiles, and would intervene on the basis of a quantitative

<sup>15</sup> First Part of CEBS'S Technical Advice to the European Commission on Liquidity Risk Management: Survey of the Current Regulatory Frameworks Adopted by the EEA Regulators: [http://www.c-ebs.org/Advice/documents/CfA\\_8\\_LiquidityStockTakesurvey.pdf](http://www.c-ebs.org/Advice/documents/CfA_8_LiquidityStockTakesurvey.pdf)

assessment if necessary. Furthermore, all countries indicated that they require stress testing of liquidity. 'Quantitative' and 'qualitative' regimes can therefore be viewed as being on a continuum, with variations depending on the extent to which supervisors are prescriptive in setting the assumptions and targets to be used by institutions.

CEBS is now working on the second part of the Call for Advice, in cooperation with a dedicated industry expert group on liquidity, and plans to submit the results of its work to public consultation in June 2008. This analysis is also being undertaken in close coordination with task forces of the Banking Supervision Committee and the Basel Committee on Banking Supervision.

Lessons learned from the sub-prime crisis are distilled in the first parts of the report, which elaborates on the nature of liquidity and liquidity risk in the light of recent market developments. The final parts of the report analyse the challenges that credit institutions and investment firms face in managing liquidity risk, and the issues involved in its supervision, including recommendations on the main prudential issues.

The self-fulfilling nature of liquidity risk deserves special attention: the assessment of liquidity risk should include an assessment of the economic sustainability of the conditions that permit an institution to raise cash. Key concepts that need to be expanded upon include 'cash-generating capacity' (or counterbalancing capacity against liquidity demand), 'liquidity buffer' (referring both to cash and dynamically managed assets and liabilities) and the link between liquidity funding and market risks (and more generally the interactions between liquidity risk and other risks). Although liquidity risk has been revealed as a singular risk, prudent institutions also manage it in tandem with other risks.

The involvement of senior management is a key factor. Senior management should define the institution's liquidity risk appetite and strategy, with a clear view of the risks implied by the institution's reliance on maturity transformation, and taking into account the results of extreme but plausible stress scenarios as well as potential constraints on cross-border flows. Senior management should also determine the precise allocation of responsibilities, and ensure that appropriate incentives are created through an internal transfer pricing mechanism. It should define the institution's survival period in relation to its contingency funding plan, and should have a well-defined strategy for providing adequate and timely information to the institution's various stakeholders.

It is essential that the institution have a comprehensive programme for identifying, measuring, monitoring, and managing liquidity risks, including off-balance sheet commitments. It is equally important that the institution have adequate resources and robust IT systems, commensurate with the complexity of the institution's activities and the techniques it uses to measure and monitor liquidity risk. Robust stress scenarios and contingency funding plans should be in place.

Supervisors should verify that supervised entities have appropriate strategies, policies, and procedures, for both normal and stressed times. They should also assess the composition and robustness of liquidity buffers, verify the adequacy of the assumptions underlying stress tests, check whether action is taken based on the results of those stress tests, and examine the effectiveness of the contingency funding plan. The possibility of relying on internal methodologies should be considered. Enhanced supervisory cooperation should be promoted, particularly for cross-border groups, and convergence in reporting requirements should be explored.

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

In December 2006, CEBS published a survey of supervisory practices for the commodities business and for firms carrying out commodities business, in response to the first part of the Call for Advice issued in the context of the Commission's review of commodities business under Article 48 of the CAD. In 2007, work focused on the second part of the Call for Advice, which requested an assessment of the prudential risks arising from the conduct of commodities business and the activities of firms carrying out commodities business.

Following public consultation and a public hearing held in July 2007, the final risk assessment<sup>16</sup> was published in October 2007. The report is based on information provided by CEBS members and observers on the structure and regulatory coverage of their commodities markets as well as on information provided directly by market participants on their business, their risk structure and risk mitigants, their perception of the current regulatory framework, and their concerns regarding possible amendments to the framework.

The report concluded that the market-level risks arising from commodities businesses are generally the same as the risks in other financial markets, and that these risks are present across all types of products. For a variety of reasons, the majority of transactions are carried out over-the-counter (OTC). Therefore, despite the use of risk mitigation techniques, significant counterparty credit risk (CCR) remains and needs to be managed appropriately. Other relevant risks identified in the report include market risk, operational risk, legal risk, and liquidity risk. The report also discussed the special characteristics of the commodities markets/business and their relevance to the prudential treatment of the different types of firms that are active in the commodities sector.

In December 2007, CEBS and CESR received a joint Call for Advice on commodity derivatives and exotic derivatives and related business. On the basis of the technical advice already provided to the Commission by the two committees, as well as the findings of the Call for Evidence issued by the Commission in December 2006, CEBS and CESR were

asked to conduct a market analysis and regulatory failure analysis, and to provide advice on whether the MiFID and CAD treatment of firms providing investment services relating to commodity derivatives and exotic derivatives continues to support the intended aims of market and prudential regulation. CEBS and CESR were also asked for their views on various options and combinations of options relating to the exemptions set out in MiFID and CAD.

The consultation paper was published on CEBS's website on 15 May 2008<sup>17</sup>. A public hearing open to all interested parties will be held in July 2008.

### **2.1.5 Call for Advice on the Equivalence of Supervisory Arrangements in Switzerland and the United States**

Subsidiaries and branches 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, establishments from third countries must be authorised as credit institutions by the respective Member State.

The Commission issued two Calls for Advice jointly to CEBS<sup>18</sup> and to the IWCFC, on the extent to which the US and Swiss supervisory regimes are likely to achieve the objectives of consolidated and supplementary supervision, as provided for in the CRD and the Financial Conglomerates Directive (2002/87/EC); and thus whether EU supervisors can rely on equivalent consolidated supervision in those countries in relation to EU subsidiaries.

These two tasks were carried out as a single project, and covered all relevant US and Swiss supervisory agencies. Questionnaires on supervisory practices were sent to the supervisory agencies involved for response in 2007, and CEBS and the IWCFC assessed the changes to the supervisory regimes or practices in the United States and Switzerland since the exercise was last performed in 2004. CEBS and the IWCFC also assessed the experience of EU supervisory authorities in cooperating with the relevant US and Swiss supervisory agencies.

16 Report on the Risk Assessment of the Risk Arising from Commodities Business and from Firms Carrying out Commodities Business:  
[http://www.c-ebs.org/press/09102007\\_commodities.htm](http://www.c-ebs.org/press/09102007_commodities.htm)

17 Consultation Paper on CESR's / CEBS's Technical Advice to the European Commission on the Review of Commodities Business:  
[http://www.c-ebs.org/Consultation\\_papers/consultationpapers.htm](http://www.c-ebs.org/Consultation_papers/consultationpapers.htm)

18 Call for Technical Advice (No9) to CEBS on Supervision in Third Countries: [http://www.c-ebs.org/Advice/documents/CfA\\_9onsupervisioninthirdcountries.pdf](http://www.c-ebs.org/Advice/documents/CfA_9onsupervisioninthirdcountries.pdf)

The joint response of CEBS and the IWCFC<sup>19</sup> to the two requests was delivered to the Commission in February 2008. The Advice noted that the following banking and investment services supervisory authorities in the United States (the Federal Reserve Board, the Office of Comptroller of the Currency, the Office of Thrift Supervision, the New York State Banking Department, and the Securities and Exchange Commission) and the two Swiss supervisors (The Swiss Federal Banking Commission and The Federal Office for Private Insurance) were found to be equivalent notwithstanding limited caveats. It was not possible to provide a statement on equivalence for the US National Association of Insurance Commissioners, as it is not itself a supervisory authority, but an assessment of the model framework was conducted and is summarised in the Advice.

### **2.1.6 Call for Technical Advice on Options and National Discretions in the CRD**

In May 2007, the Commission issued a Call for Technical Advice on options and national discretions in the CRD. CEBS was asked to conduct a technical analysis on the exercise of options and discretions identified in CEBS's supervisory disclosure framework, indicating for each of them:

- i) the manner in which it is exercised;
- ii) whether CEBS deems it appropriate, with a view to achieving convergence of supervisory practice, to achieve further harmonisation;
- iii) where consensus may not be found on the deletion of an option or discretion or on the use of mutual recognition, the precise reason for this, including the views expressed by the majority and the minority of the Members; and
- iv) where appropriate, a corresponding drafting proposal.

In the summer of 2007, CEBS members, observers, and market participants together drafted a questionnaire asking market participants for their views on the options and national discretions in the CRD and possible solutions for reducing the number of options and discretions. The

questionnaire<sup>20</sup> was posted on the website for a three-month response period that ended in October 2007. In parallel, a questionnaire was sent to CEBS members and observers. Responses were received from all of the supervisors represented in CEBS and from 16 market participants (13 from trade associations and 3 from individual institutions).

The Call for Advice stated that ongoing consultation with industry should play a key role in identifying ways to reduce the number of national discretions. CEBS has also stressed the importance of dialogue with market participants. Therefore, at year-end 2007, CEBS initiated further work on its response to the Call for Advice. CEBS Consultative Panel Members and Observers were invited to nominate industry experts to be part of an industry expert group. CEBS met on a regular basis with industry representatives to exchange views and bring more clarity to the issues surrounding national discretions.

As acknowledged by CEBS, the Commission, and market participants, reducing the options and national discretions in the CRD is a particularly challenging task. Nevertheless, CEBS has achieved significant progress in this area, and draft advice presenting CEBS's preliminary views and proposals<sup>21</sup> was published in May 2008 for a three-month public consultation. The draft advice was also transmitted to the Commission as initial input on the Call for Advice. CEBS proposed a set of solutions for reducing the number of options and national discretions in the CRD, with the goal of supporting a level playing field and promoting further convergence in supervisory practices. For each option and national discretion, CEBS proposed one of the following alternatives: keeping or transforming the national discretion into a supervisory decision to be implemented and applied on a case-by-case basis, transforming it into an option for credit institutions, deleting it from the CRD, deleting the option or the discretionary part of the national discretion, applying (binding or non-binding) mutual recognition, or considering a joint EU assessment process. Transmission of the final advice is envisaged by year-end 2008.

19 Joint Technical Advice to the European Commission on the Equivalence of Supervisory Arrangements in Switzerland and the USA with regard to Banking /Investment Groups and Financial Conglomerates: <http://www.c-ebs.org/press/22022008.equivalence.htm>

20 Questionnaire on Options and National Discretions: <http://www.c-ebs.org/press/19072007ND.htm>

21 Consultation Paper on CEBS's Technical Advice on the Options and national Discretions in the CRD: <http://www.c-ebs.org/press/20080522OND.htm>

## 2.2 CONVERGENCE OF SUPERVISORY PRACTICES

### 2.2.1 Implementation of the recommendations of the FSC Report on Financial Supervision (the Francq Report)

In May 2006, the ECOFIN Council endorsed the Report on Financial Supervision of the Financial Services Committee (the Francq report). The report contained several recommendations addressed to CEBS and its sister Committees, the Committee of European Securities Regulators (CESR) and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), for improving the operation of supervisory arrangements by fostering convergence and strengthening cooperation within the EU. The Francq report suggested developing new tools - such as a mediation mechanism for dealing with cross-border disputes among EU supervisors, peer review to allow comparisons of supervisory outcomes, and delegation of tasks in the supervision of cross-border business - in order to avoid overlaps in the conduct of supervision. The report also recommended measures to streamline the administrative burden for entities operating in several Member States, for instance in the area of supervisory reporting; and it called for efforts to develop a common European supervisory culture through common training programmes and exchanges of staff. All three Committees were directed to develop a comprehensive impact assessment methodology to complement this work.

In the course of 2007, detailed progress reports were provided to the FSC<sup>22</sup>. CEBS has implemented the following recommendations:

#### 2.2.1.1 Mediation mechanism

Mediation is 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 context of CEBS, mediation is a peer mechanism used specifically to help resolve supervisory disputes that arise in a cross-border context. The objective is to support the application of existing cooperation tools among supervisors, such as CEBS's Guidelines on validation and on home-host cooperation.

CEBS's mediation mechanism draws on the mediation mechanism developed by CESR, in order to ensure as much cross-sector consistency as possible; CEIOPS is also following the same lines. CEBS's mechanism has been tailored to take account of banking and prudential supervision concerns. The basic principles and key features of the mechanism have been publicly consulted, and the formalised Mediation Protocol<sup>23</sup> was published in the second half of 2007.

#### 2.2.1.2 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 useful in achieving this goal. The Inter-Institutional Monitoring Group (IIMG), in its second interim report, also focused on convergence through transparency in transposition and implementation, and suggested that peer pressure may help curb regulatory additions. Here again, CEBS and CEIOPS have benefited from the experience of CESR in designing their mechanisms.

CEBS considers peer review to be a powerful tool for achieving convergence. CEBS has established an independent group - the Review Panel - dedicated to conducting peer reviews. CEBS has conducted a feasibility study, tested the peer review mechanism, and in October 2007 published the Protocol and Methodology<sup>24</sup> that it will use.

22 Progress Report to the Financial Services Committee June 2007: <http://www.c-ebs.org/documents/FSCreport2007June.pdf>

23 Mediation Protocol between Banking Supervisors: [http://www.c-ebs.org/press/25092007\\_Mediation.htm](http://www.c-ebs.org/press/25092007_Mediation.htm)

24 Peer Review Mechanism: Protocol and Methodology: [http://www.c-ebs.org/press/15102007\\_Peerreview.htm](http://www.c-ebs.org/press/15102007_Peerreview.htm)

As set out in the Protocol and Methodology, the peer reviews conducted by the Review Panel will assess the degree of convergence of outcomes achieved by CEBS members in implementing a given supervisory provision or practice. Each peer review will consist of a self-assessment conducted by CEBS members using clear and objective implementation criteria, and an independent review conducted by the Review Panel. The credibility and the effectiveness of the mechanism are assured by the independence of the Review Panel, the clarity and objectivity of the methodology, and the transparency of the process.

#### **2.2.1.3 Impact assessment**

Impact assessment is a key tool for meeting the objectives of the Better Regulation agenda.<sup>25</sup> The Commission has stated 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 a set of principles and a detailed methodology for impact assessments developed by CESR. The principles were agreed in late 2006, and led to the publication of a joint CESR/CEBS/CEIOPS consultation paper that set out draft guidelines to be used by the Level 3 Committees' Expert Groups in conducting Impact Assessments (IA) as part of their policy analysis and in the course of formulating recommendations. These guidelines were finalised in the spring of 2008<sup>26</sup>. In the future, CEBS will conduct impact assessments on all draft advice, new Guidelines, and amendments to existing Guidelines. The impact assessment guidelines were tested on a provisional basis on the draft advice on Large Exposures, and will be applied to a number of projects in 2008.

#### **2.2.1.4 Delegation of tasks**

In 2006, the FSC suggested that supervisors should explore the preconditions for the use of a mechanism for delegation delegating tasks. CEBS believes that enhanced cooperation and coordination of supervisory activities and an efficient division and allocation of resources can contribute significantly to effective and cost-efficient cross-border supervision. CEBS is looking at ways to facilitate the greater use of delegation arrangements, and exploring how a delegation framework could be applied in a consistent and convergent way. As a first step, CEBS is analysing the current assignment of responsibilities to home and host supervisors, identifying their different tasks, and assessing potential obstacles to delegation.

CEBS is of the view that delegation can take a variety of forms. Delegation can be used in both directions: from home to host supervisor and vice versa. Often only the delegation of tasks to the home authority is considered, but it may be efficient and cost effective to delegate some tasks to host supervisors in order to take advantage of their local knowledge.

Home-host delegation has been identified as a priority issue in the 3L3 Medium-Term Work Programme (see 2.5 section on 3L3 Annual Report and Medium Term Work Programme).

<sup>25</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, improving the design of new regulation, and reinforcing compliance with and the effectiveness of the rules, all of 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). In addition, the White Paper on Financial Services published at the beginning of 2006 (in Annex 2 COM (2005)629 of 05/12/2005) mentions explicitly that Impact Assessment will accompany any new Commission proposal.

<sup>26</sup> Impact Assessment Guidelines: <http://www.c-ebs.org/press/20080430IAGL.htm>



### **2.2.1.5 Training programmes and staff exchanges**

CEBS places a strong emphasis on fostering the emergence of a common European supervisory culture. The central focus of CEBS's work in this area has been developing training programmes. In 2007, CEBS organised several training seminars, both on its own and in cooperation with the Basel-based Financial Stability Institute (FSI).

CEBS members have launched a significant number of common training initiatives for supervisors: in 2007, more than 170 members of staff from national authorities attended training programmes sponsored by CEBS. A framework for short-term secondments has been developed to promote the exchange of staff involved in the supervision of cross-border groups. CEBS is working in this area in close cooperation with its sister Committees, CESR and CEIOPS; the three Committees have launched a joint initiative to promote training programmes on issues of common interest for the three sectors.

Together with CESR and CEIOPS, CEBS is also developing a joint 3L3 initiative on training and establishing a 3L3 Training Platform. The aim of this work is to develop a common European framework for training in financial supervision, focused primarily on cross-sector issues but consistent with sector-specific needs (see section 2.5 for more information).

### **2.2.1.6 Streamlining reporting requirements**

In 2007, CEBS conducted an assessment of the level of convergence in supervisory reporting<sup>27</sup>. The study concluded that the FINREP and COREP reporting frameworks should be regarded as a first step towards common EU reporting requirements. The development and implementation of these two frameworks represent an improvement in convergence compared to the wide variety of national reporting approaches that preceded them.

As a follow-up to this study, CEBS agreed to undertake a number of activities aimed at correcting the main problems encountered by the industry in the implementation of FINREP and COREP:

- Differences in data definitions
- Differences in reporting procedures (i.e. remittance date and reporting frequency of the reports)
- Differences in national implementation

As a result of the analysis, CEBS has prepared a road-map to deliver an EU-wide reporting framework in the coming years.

27 Assessment of Convergence on Supervisory Reporting: [http://www.c-ebs.org/press/08102007\\_convergence.htm](http://www.c-ebs.org/press/08102007_convergence.htm)

## **2.2.2 Supervisory Disclosure**

In 2006, CEBS activated the common supervisory disclosure framework to help Member States fulfil the requirements of Article 144 of Directive 2006/48/EC and to promote convergence of supervisory practices. Article 144 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. The supervisory disclosure framework set up by CEBS complements mediation and peer review, enhancing peer and market pressures for greater consistency in supervisory approaches.

The disclosures are accessible on the Internet, on both CEBS's website ([www.c-ebs.org/SD/SDTF.htm](http://www.c-ebs.org/SD/SDTF.htm)) and on national websites; the two are linked to each other.

CEBS is monitoring the implementation of the framework on national websites, and is also reviewing CEBS's website to ensure that the framework functions properly. The IIMG has recommended exporting the approach to other areas of banking legislation and to other sectors of financial activity. This is a major accomplishment and a step towards enhanced transparency, which should lead to convergence in supervisory practices through peer and market pressure.

## **2.2.3 Work on Pillar 2**

The underlying aim of Pillar 2 (the second component of the new Basel II capital framework) is to enhance the links between an institution's risk profile, its risk management and risk mitigation systems, and its capital. Pillar 2 calls upon institutions to develop sound risk management processes that adequately identify, measure, aggregate, and monitor their risks. Institutions are expected to have an adequate assessment process that encompasses all the key elements of capital planning and management and generates adequate amounts of capital to set against those risks.

The Internal Capital Adequacy Assessment Process (ICAAP) under Pillar 2 is the responsibility of the institutions; it is their process. The role of supervisors is to review and evaluate the ICAAP and the soundness of the internal governance processes within which it is used. The cornerstone of the supervisory review process is a structured dialogue between institutions and supervisors when reviewing and evaluating the institution's risk profile and capital needs. The Supervisory Review Process is based on the principle of proportionality, according to which the ICAAP of an institution should be related to its size and structure as well as to the nature, scale, and complexity of its activities.

CEBS has been heavily involved in supporting and promoting a common understanding between EU supervisors on how this dialogue should be conducted. Work on developing guidelines for the application of the Supervisory Review Process began in 2005 and resulted in the adoption of extensive Pillar 2 guidelines supplemented by technical annexes on concentration risk, interest rate risk in the banking book, and stress testing in 2006.

EU supervisors have been implementing and applying the guidelines since 2006. CEBS is assisting national authorities with challenges arising from the implementation of the guidelines, and looking into technical issues not covered earlier.

During the summer of 2007, CEBS conducted an intensive stock-taking on national implementation of Pillar 2, which identified Pillar 2 issues needing further attention and common understanding. CEBS has also received an 'Issues List' from the Industry Platform on Operational Networks, which identifies Pillar 2 issues requiring further elaboration in the view of the industry. All of the issues that have been identified are reflected in the CEBS Work Programme for 2008.

CEBS is focussing on emerging practices in economic capital modelling (ECM), and on issues such as diversification benefits and capital allocation, to mention a few. CEBS is also looking into the technical aspects of risk diversification, and will develop tools to assist supervisors in their dialogue with the industry on this subject.

In December 2007, CEBS organised a workshop on 'Home-Host Cooperation and Pillar 2 Implementation'. The workshop was attended by members of the Industry Platform on Operational Networks and Consultative Panel members (representing cross-border banks), and by supervisors from CEBS member authorities. The workshop addressed certain issues of home-host supervisory cooperation and Pillar 2 implementation. A Template for 'Multilateral Cooperation and Coordination Agreements' was introduced at the workshop, and the current state of play of CEBS's work on diversification was discussed. The industry representatives presented their views and experiences in modelling diversification for economic capital purposes, providing valuable input for CEBS's work on the topic.

## **2.2.4 Frameworks for Supervisory Reporting**

### **2.2.4.1 Updating COREP and FINREP Guidelines**

Following the implementation in 2006 of the common reporting frameworks for the capital ratio (the Guidelines on Common Reporting, or COREP) and for consolidated financial statements (the Guidelines on Financial Reporting, or FINREP), the focus CEBS's work on reporting has shifted from developing guidelines to delivering convergence in day-to-day practices. The updated COREP and FINREP guidelines published in 2006 reflect the final text of the CRD.

CEBS has committed to limiting future updates to once a year, in order to provide stability to the reporting framework. In general, future changes in COREP and FINREP will be based on changes in the underlying regulations and on reporting improvements, such as those arising from implementation questions posted by national authorities or external parties.

CEBS proposed amendments to FINREP in April 2007. During the consultation period, CEBS received a number of comments and constructive contributions from industry participants, which have improved the quality and the accuracy of the proposals. The Guidelines (CP06rev)<sup>28</sup> were developed along those lines.

A study assessing the level of convergence achieved by the introduction of the CEBS Guidelines on Reporting has been published. The study was launched against the background of several EU initiatives to improve convergence in supervisory reporting. CEBS's main conclusion was that the CEBS Guidelines on Reporting represent the first step in harmonising the reporting practices of its members. The assessment study showed that the COREP guidelines have achieved a significant level of commonality among CEBS members, particularly for the core layer of the framework.

This conclusion also holds for the FINREP guidelines<sup>29</sup>. The core templates show almost full convergence among CEBS members that request this kind of regular reporting, whereas the detailed templates show lower levels of commonality. Despite these initial achievements, CEBS recognises that more work is needed in the medium term to achieve greater convergence in supervisory reporting, at least for groups that operate cross-border within the EU. To that end, a road-map towards more standardised supervisory reporting is being developed.

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

CEBS considers XBRL to be a helpful tool in constructing a harmonised European reporting mechanism. CEBS has 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 can be found at [www.corep.info](http://www.corep.info) and [www.finrep.info](http://www.finrep.info). CEBS has also conducted two workshops on this topic with supervisory and industry participants.

The main aim of the workshops was to update CEBS members on the latest developments in the CEBS taxonomies and XBRL specifications. The workshops were also attended by a number of banking and software industry representatives, who came to gather information from the practical problems that institutions were facing with the use of XBRL for regulatory reporting, either from a domestic perspective or on a cross-border basis.

#### **2.2.4.3 Implementation questions**

CEBS has developed a web-based system for soliciting and publishing technical questions that arise in the implementation of the reporting frameworks. The goal is to provide a stable, direct, and transparent connection with national experts who deal with these questions. CEBS publishes the implementation questions, along with answers provided by the networks of experts, on CEBS's website (<http://www.c-ebs.org/implementationquestions/>). The networks also provide a valuable channel for sharing experiences and improving understanding of the approaches used in other member states. Any interested party can submit questions on the implementation of the CEBS reporting guidelines (COREP and FINREP). Implementation questions dealing with the reporting frameworks have also been published on websites of national authorities. CEBS expects that this system will improve the consistency and common understanding of the implementation of the Guidelines on Reporting at the national level, simplify the reporting procedures, and reduce the administrative burden on cross-border groups. By the end of 2007, CEBS had answered 75 questions received on the implementation of FINREP and COREP.

#### **2.2.4.4 Remittance dates and reporting frequency**

CEBS has committed to further work towards convergence of reporting frameworks in Europe. In December 2007, CEBS published a proposal to amend the Guidelines on Common Reporting (COREP) for the periodic reporting to supervisory authorities in the EU by a supervised entity of its solvency under the recast Directives 2006/48/EC and 2006/49/EC. The proposal aims at harmonising the reporting frequency and of the maximum remittance periods for sending in this information<sup>30</sup>. This harmonisation effort is of particular importance to institutions that have to comply with the regular reporting requirements of multiple national regulators. The proposal should help reduce the reporting burden on credit institutions and investment firms - as requested by the industry - and contribute to harmonisation of supervisory practices.

29 Guidelines for the Implementation of the Framework for Consolidated Financial Reporting (FINREP):  
[http://www.c-ebs.org/documents/Final\\_CPO6revAnnex2\\_.pdf](http://www.c-ebs.org/documents/Final_CPO6revAnnex2_.pdf)

30 Proposal for Standardization of Remittance Dates and Reporting Frequencies for Supervisory Reporting (COREP): <http://www.c-ebs.org/press/19122007.htm>

## 2.2.5 Pillar 3

In 2007, CEBS conducted a survey on the regulatory implementation of the disclosure requirements for credit institutions set out in chapter 5 of Directive 2006/48/EC, which transposes the Pillar 3 requirements of Basel II into EU legislation.

The rationale underlying Pillar 3 is that disclosure allows market participants to assess an entity's capital adequacy. Institutions are required to disclose information on the scope of application of the Directive, the amounts and types of capital they hold, their risk exposures, and their risk assessment processes. This information is to be disclosed at the highest level of consolidation. While disclosure should in principle be market-driven, there is a role for supervisors in ensuring that adequate disclosure is provided, particularly when the use of internal methodologies gives institutions more discretion in assessing capital requirements. It is generally recognised that supervisors should facilitate the creation of an adequate environment for the proper functioning of market discipline.

To ensure that the conclusions drawn by CEBS were appropriate, an industry workshop on Pillar 3 issues was held in December 2007.

The survey and the related discussion with the industry generally did not uncover any major concerns with supervisors' implementation of Pillar 3 provisions.

The most important issues were:

- the scope of application of the Pillar 3 disclosure requirements. Some countries require partial or even full disclosure from all entities (including significant subsidiaries of EU parent institutions) and
- the relationship between accounting disclosures and Pillar 3 disclosures.

On the first issue, CEBS has conducted follow-up work on the application of the requirements to significant subsidiaries. This work indicated that a possible solution would be to require the disclosure of Pillar 3 information with a subsidiary's solo financial statements. On the second issue, CEBS is awaiting the outcome of work undertaken by the industry before deciding on the need for any measures in this area. CEBS will monitor developments closely and coordinate its work with any measures that it may take as a result of its assessment of banks' transparency in the context of the recent market turmoil.



## 2.2.6 Prudential Filters

In its 2007 work programme, CEBS committed to following up on the work carried out in 2005 on prudential filters. In 2007, CEBS conducted an assessment of the implementation of CEBS's Guidelines on Prudential Filters for Regulatory Capital. The results of this analysis were published in October 2007 in an Analytic Report on Prudential Filters.

The objective of prudential filters is to maintain the definition and quality of regulatory capital for institutions using IFRS for prudential reporting. The analysis assessed CEBS members' compliance with the 2004 guidelines and the quantitative impact of the filters on regulatory capital. It also provided a basis for discussion and organised a public hearing<sup>31</sup> on the possible scope for further convergence of these filters. CEBS also analysed developments with a view to identifying possible updates or refinements of the guidelines on prudential filters for regulatory capital.

The analytical report<sup>32</sup> published in October 2007 showed that the implementation of the prudential filters has improved over time, and that CEBS members have achieved a high level of compliance with the prudential filter guidelines. However, the flexibility provided in the guidelines has led to some differences across countries, in particular regarding the treatment of unrealised gains and national adjustments to pension schemes. These are the two areas in which the prudential filters result in the largest adjustments in quantitative terms, both at the aggregate level and (in most cases) at the national level; and they have been identified as the areas that offer the greatest scope for further convergence.

In light of CEBS's commitment to transparency and consultation with interested parties, CEBS discussed the report, its conclusions, and the possible scope for further convergence of prudential filters, at a public hearing<sup>33</sup> attended by a broad range of market participants, including investment banks, commercial banks, and trade associations from various countries. These discussions generally confirmed the findings of the report.

Based on these findings, CEBS has decided to seek further convergence in the treatment of unrealised gains within the context and timeframe of the discussion on the redefinition of regulatory capital. CEBS will also continue to assess the need for and economic appropriateness of harmonised adjustments to regulatory data related to IAS 19 (on Employee Benefits).

## 2.2.7 CRD Transposition Group

The CRD Transposition Group (CRDTG), created in 2005 as a forum in which interested parties could pose questions concerning the transposition of the CRD, continued its work in 2007 and will remain in operation at least until the end of 2008. Its objective is to facilitate the correct and coherent transposition of the CRD in Member States, by making interpretations on the CRD available to all interested parties on the websites of the Commission and CEBS. This should promote 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 11 April 2008, the CRDTG had received 332 questions, 37 of which were assigned to CEBS. 36 responses have been published<sup>34</sup>.



31 Summary of the Public Hearing on Prudential Filters: <http://www.c-ebs.org/documents/SummaryPHprudentialfilters16102007.pdf>

32 Analytical Report on Prudential Filters for regulatory Capital: [http://www.c-ebs.org/press/documents/145Final\\_Analytical\\_report\\_on\\_prudential\\_filters.pdf](http://www.c-ebs.org/press/documents/145Final_Analytical_report_on_prudential_filters.pdf)

33 Summary of the Public Hearing on Prudential Filters: <http://www.c-ebs.org/documents/SummaryPHprudentialfilters16102007.pdf>

34 Website of the CRD Transposition Group: <http://www.c-ebs.org/crdtg.htm>

## **2.3 ACCOUNTING AND AUDITING**

CEBS has continued to monitor developments in international accounting and auditing standard-setting. In 2007, with the support of its Expert Group on Financial Information (EGFI), CEBS analysed and commented on a number of discussion papers and exposure drafts prepared by the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB).

In order to give more visibility and transparency to CEBS's 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)).

### **Exposure drafts and discussion papers commented on by CEBS**

#### **Accounting**

Discussion Paper on Fair Value Measurements

Discussion Paper on Preliminary Views on Insurance Contracts

Exposure Draft ED 9 Joint agreements

#### **Auditing**

ISA 550 Related Parties

ISA 250 (Revised) The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements

ISA 200 (Revised and Redrafted) Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing

ISA 500 (Redrafted) Considering the Relevance and Reliability of Audit Evidence  
Proposed Strategy for 2009-2011

ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report & 706 (Revised), Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report

ISA 700 the Independent Auditor's Report on General Purpose Financial Statements (Redrafted)

ISQC1, Quality Control for Firms that perform Audits and Reviews of Financial Statements and Other Assurance and related Services Engagements / ISA 220, Quality Control for an Audit of Financial Statements

ISA 620, Using the Work of an Auditor's Expert

## 2.4. COOPERATION

### 2.4.1 Operational Networking and Supervisory Colleges

Since 2006, CEBS has been working on operational networking between supervisors dealing with cross-border groups, and on the functioning of the colleges of supervisors. This work is intended to foster practical convergence in the day-to-day application of Community legislation and CEBS guidelines to cross-border business. It should reduce unnecessary administrative burden and allow credit institutions to conduct their cross-border activities in a more cost-efficient manner. A more consistent regime should also provide incentives for institutions to improve their business practices, and in particular their risk management practices.

The work on operational networking provides an infrastructure that supports an enhanced exchange of information and experiences between the consolidating and host supervisors of a sample of cross-border banking groups. It creates a stable connection between colleges of supervisors, thus providing a multilateral setting for identifying issues in a more coordinated fashion throughout the EU. The project enables CEBS to identify where there are problems, inconsistencies in approaches, or technical issues that need to be addressed. The work focuses on obstacles to cross-border business, with the aim of supporting pragmatic supervision of groups that meets the objectives of both supervisors and institutions.

The work is conducted using a bottom-up approach to:

- (i) identify issues arising in the day-to-day implementation of Community legislation and CEBS guidelines and in the supervision of cross-border groups;
- (ii) develop a catalogue of pragmatic supervisory approaches for addressing these issues, which are effective from both the home and the host point of view and which can help streamline supervisory practices, processes, and tools and reduce the compliance burden for cross-border groups;

(iii) promote interaction with the industry and within CEBS, by activating appropriate groups of experts when needed;

(iv) act as a hub in facilitating and enhancing the functioning of the colleges of supervisors, and act as a catalyst so that information is exchanged and home-host issues are effectively addressed and coordinated within the colleges of supervisors.

The main focus of the work on operational networks is on (i) enhancing the functioning of the colleges of supervisors, and (ii) addressing cross-border Pillar 2 issues.

Following an initial test phase, CEBS decided in December 2007 to enlarge the cross-border banking groups involved in the work on operational networking from the original 10 to 17. The 17 groups were selected based on 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 includes consolidating and host supervisors from 19 EU countries.

#### LIST OF THE 17 CROSS-BORDER BANKING GROUPS

Banco Santander Central Hispano

BNP Paribas

Commerzbank

Crédit Agricole

Deutsche Bank

Dexia

Erste Bank

Fortis

ING

Intesa Sanpaolo Group

KBC

National Bank of Greece

Nordea

Raiffeisen Zentralbank

SEB

Societé Générale

Unicredit

## 2.4.2 Enhancing the practices of the supervisory colleges

The work on operational networking resulted in the publication of two papers in December 2007: Range of Practices on Supervisory Cooperation<sup>35</sup> (Range of Practices paper), and a template for Multilateral Cooperation and Coordination Agreements<sup>36</sup> (Template for Written Agreements). Both documents are addressed primarily to supervisory authorities, but credit institutions will also benefit from enhanced supervisory cooperation.

The Range of Practices paper identifies the range of practices in existing supervisory colleges and provides a point of reference for the operation of supervisory colleges that are still in a development stage.

On the basis of the Range of Practices paper, CEBS developed the Template for Written Agreements required by Article 131 of Directive 2006/48/EC. The Template for Written Agreements is a common operational document, intended to foster consistency across EU banking groups while retaining enough flexibility to be adapted to the specific organisation, the circumstances of each college and banking group, and the legal frameworks of the participating authorities.

### 2.4.2.1 Dialogue with industry on operational networking

The industry has set up a group which acts as a sounding board for CEBS's work on operational networking. The Industry Platform on Operational Networks consists of the same banks represented in the work of the respective CEBS subgroup, and acts as a counterpart and sounding board for CEBS's work relating to the functioning of the colleges of supervisors. This dialogue included several meetings with industry representatives in 2007. Industry representatives have also participated in seminars and workshops concerning the functioning of colleges and more technical issues such as Pillar 2. These interactions with the industry have resulted in a fruitful exchange of views on various issues of mutual interest.



<sup>35</sup> Range of practices on supervisory cooperation: [http://www.c-ebs.org/press/documents/CEBS%202007%2075%20\(Range%20of%20practices\)%20final.pdf](http://www.c-ebs.org/press/documents/CEBS%202007%2075%20(Range%20of%20practices)%20final.pdf)

<sup>36</sup> Template for written agreements:

[http://www.c-ebs.org/press/documents/CEBS%202007%20177%20rev%202%20\(template%20for%20written%20agreements\)%20final%202.pdf](http://www.c-ebs.org/press/documents/CEBS%202007%20177%20rev%202%20(template%20for%20written%20agreements)%20final%202.pdf)

#### **2.4.3 Crisis management**

Helping supervisory authorities to prepare for crises and improving communication and coordination between authorities in times of stress is a priority for CEBS. CEBS has been participating in improving the EU crisis management framework since its establishment.

In early 2007, CEBS, in cooperation with the Banking Supervision Committee (BSC) of the ESCB, finalised a joint report on recommendations for crisis management to assist EU supervisors and central banks in managing and preparing for systemic cross-border crises.

Recent market developments highlight the importance of effective information sharing, cooperation, and coordination between authorities. CEBS is focusing its efforts on improving the practical arrangements for crisis management, with a particular focus on practices and infrastructures for information exchange and practical arrangements to support supervisory cooperation.

An important step in clarifying supervisory cooperation in the crisis management process has been achieved through the development of the Template for Multilateral Cooperation and Coordination Agreements, mentioned in the previous section of this Annual Report. The Template includes an extensive section on crisis management.

However, the most significant development in the field of crisis management in the EU was the adoption of an updated EU-wide Memorandum of Understanding (MoU) on Cooperation on cross-border financial stability.

The Memorandum commits all signatories (the financial supervisory authorities, central banks, and finance ministries of the European Union) to cooperation across borders between relevant authorities, both in normal times and in times of stress, in order to ensure preparedness for the management of a cross-border crisis. The new Memorandum extends the previous Memorandum (signed in 2005) in three ways. First, it is more concrete: it spells out in more practical detail how cooperation should be organised and it identifies which issues should be addressed between authorities. It includes common principles on cross-border crisis management, a common framework for assessing

the systemic implications of a financial crisis, and common practical guidelines. Second, the new Memorandum takes into account explicitly the links between financial sectors, securities markets, and insurance and occupational pension supervisors, and therefore involves a broader range of authorities/signatories. And third, the new Memorandum includes two new countries: Romania and Bulgaria.

The Memorandum defines procedures and practical arrangements for the involvement of all concerned parties both in preparing for and during a crisis, based on existing legal responsibilities and building on existing networks of authorities.

Moreover, the Memorandum recognises the roles of colleges in ongoing supervision and the role colleges could play in informing and contributing to the Cross-Border Stability Groups to support their role in crisis management.

The Memorandum also defines coordination mechanisms, including the identification of a national coordinating authority and a cross-border coordinating authority; and it stresses the need for preparation in 'normal' times. The Memorandum includes a commitment and recognises that burden-sharing issues are important and must be addressed before a crisis.

## **2.4.4 Cooperation with third countries**

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

MoUs are an important means of agreeing on supervisory cooperation. Given the increasing amount cross-border banking activity to and from third countries, minimum criteria for convergence in MoUs would be welcome. CEBS has been coordinating the information exchange on the state of bilateral negotiations and on the MoUs that its members have signed with third countries, keeping an up-to-date list of all MoUs.

To support cooperation with third country supervisors, CEBS has organised exchanges of information among its members on issues arising from the implementation of Basel II/CRD by institutions with third-country establishments, especially in view of the different implementation schedules adopted in the EU and the United States.

Contacts and exchanges of information with supervisors from a number of jurisdictions have also taken place at CEBS's level. A more structured dialogue with US supervisors or other groups of regional supervisors has been postponed, in light of the delays in the implementation of Basel II in other jurisdictions. Workshops on practical challenges in cross-border implementation of Basel II are scheduled for the near future.

### **2.4.4.2 Participation in the Basel Committee on**

#### **Banking Supervision**

In addition to interacting with other committees and European institutions, CEBS actively follows the work of global standard-setters 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.





## 2.5. CROSS SECTORAL CONVERGENCE

### 2.5.1 Joint work with other Level 3 Committees

The objectives of the cooperation between the three Level 3 Committees, namely the Committee of European Banking Supervisors (CEBS), the Committee of European Securities Regulators (CESR), and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) are set out in the Joint Protocol signed by the three Committees on 24 November 2005, and include:

- (i) sharing information in order to ensure compatible sector approaches are developed,
- (ii) exchanging experiences, which can facilitate supervisors' ability to cooperation,
- (iii) producing joint work and reports to relevant EU Institutions and Committees,
- (iv) reducing supervisory burdens and streamlining processes, and
- (v) ensuring that the basic functioning of the three Committees develops along parallel lines.

In accordance with the Joint Protocol, the three Level 3 Committees have published their joint 3L3 Work Programmes and Annual Reports for the previous two years.

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 work 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 2007 there were three 3L3 Secretariats and three 3L3 Chairs meetings.



3L3 Secretary Generals (from left to right):  
Andrea Enria (CEBS); Fabrice Demarigny (CESR);  
Alberto Corinti (CEIOPS)

### 2.5.1.1 3L3 Medium Term Task Force

Following an initiative from the 3L3 Chairs in autumn 2006, a 3L3 'Strategic Policy Task Force' was set up. It is comprised of 13 high level members/ supervisors who came from all three Committees and who met once, in June 2007, in Paris. As a result, a medium- term 3L3 strategy has been proposed for all three Committees, which the Committees launched as a 3L3 Medium Term Work Plan Consultation Paper<sup>37</sup> on 22 November 2007. The draft Medium Term Work Programme proposed six key areas for the next three years: home/host issues and delegation of tasks, competing products, credit rating agencies, internal governance, and financial conglomerates, and the valuation of illiquid instruments. The consultation with the market resulted in contributions from 13 respondents, and will be used to produce future 3L3 Work Programmes.

The work done under the 3L3 Work Programme 2007 can be divided into joint work, consistency projects, reports to EU institutions, and information exchanges.

<sup>37</sup> 3L3 Medium Term Work Programme: <http://www.c-ebs.org/press/documents/3L3MediumTermWorkProgrammeCP.pdf>



### 2.5.1.2 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. 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 into its discussions, for example when reviewing the Financial Conglomerates Directive (FCD). The European Commission confirmed in a letter to the IWCFC, in November 2006 its expectations of the IWCFC in addressing 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, equivalence of third country supervision, and tackling issues related to identification, risk concentrations and intra-group transactions, cooperation and coordination requirements.

The IWCFC met on three occasions in 2007. Most of the Committee's work in 2007 has led to analysing and exchange of information arising from the way the FCD has been implemented in the different Member States. The IWCFC has worked on two Calls for Advice from the European Commission and the EFCC: one investigating the eligibility of capital in different sectors, and a joint exercise with CEBS on arrangements for supervision in the United States and Switzerland.

In September 2007, the IWCFC submitted its annual report on macro-prudential developments to the Financial Stability Table on Financial conditions and Financial Stability in European Financial Conglomerates. In November 2007, the IWCFC sent its list of identified conglomerates to the European Commission<sup>38</sup>. By defining the list of identified conglomerates the Committee also worked on the use of the waiver provided by Article 3(3) of the FCD across the EEA.

The IWCFC has a full work programme for 2008. In addition to the work on the Calls for Advice on Capital and Equivalence described above, the Committee will continue its work on the current practices in applying the concept of Relevant Competent Authorities, and producing a practical guidance for supervisors regarding the supervision of risk concentrations and intra-group transactions. Also the Committee will continue to work on cooperation arrangements between authorities involved in the supervision of each financial conglomerate. Finally, the IWCFC has been asked to assist the European Commission in its review of the FCD on a number of issues that relate to the language, scope, and internal control requirements of the FCD. Throughout 2008, the IWCFC will continue its dialogue with the industry, including presentations and case studies at its plenary meeting.

<sup>38</sup> [http://ec.europa.eu/internal\\_market/financial-conglomerates/docs/200711\\_conglomerates\\_en.pdf](http://ec.europa.eu/internal_market/financial-conglomerates/docs/200711_conglomerates_en.pdf)



### **2.5.1.3 Integrity**

CEBS, on behalf of all three Level 3 Committees, sits as an observer on the Committee for Prevention of Money Laundering and Terrorist Financing (CPMLTF). The CPMLTF expects the three Level 3 Committees to conduct work on convergence in supervisory practices for risk-based approaches to customer due diligence (CDD). The joint 3L3 Anti Money Laundering Task Force (AMLT) was established in November 2006, when its mandate was agreed by CEBS, CESR, and CEIOPS. The AMLTF 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 also provides a forum for networking and the exchange of experiences between supervisory authorities. In conducting this work the AMLTF is, in accordance with its mandate, concentrating on practical supervisory work on risk-based approaches to CDD and the know-your-customer (KYC) principle, and their impact on the internal organisation and controls of intermediaries. More specifically, the AMLTF has in 2007:

- conducted 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.
- initiated the development of surveys on practical issues facing supervisors in the area of CDD/KYC;
- provided expert input for the contributions that the CPMLTF will request from CEBS, CESR and CEIOPS.
- initiated development of a common understanding in relation to the information on the payers that should accompany fund transfers to payment service providers of payees, arising out of the EU Regulation 1781/2006, so as to propose some practical solutions in processing such messages, such as timeframes for seeking missing information, holding funds, reporting, and internal controls.

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

#### **2.5.2.1 Supervisory cooperation**

The Secretariats of the three Committees finalised in 2007 a report on the sharing of information methods and supervisory cooperation practices across the sectors. The Committees thereby closed this item from the 2006 work programme. The report could be used internally in the home/host and delegation work stream that will be set up in 2008.

The 3L3 Medium Term Work Programme includes work on home/host issues.

#### **2.5.2.2 Reporting requirements**

The Committees finalised the report on reporting requirements from the 2006 work programme. The report was based on responses to a questionnaire from eight conglomerates in the EU with the objective of identifying possible inconsistencies between sectors in the application of reporting requirements in the EU. The responses have been analysed in the report, which has been approved by the Committees. It is noted that the respondents' main concern is not an overlaps on a cross-sector basis. The conclusions from the report are published below at the end of this 3L3 section.



### **3L3 Annex - Conclusions from the 3L3 report on reporting requirements**

The report was based on answers to a questionnaire addressed to eight conglomerates.

The goal of the present exercise was to find out, first, whether there are reporting requirements which are inconsistent and/or duplicative, and second, whether this poses a problem that the Level 3 Committees should address.

The main conclusions are the following:

Market participants do not perceive that there are material cross-sectoral inconsistencies and overlaps in the reporting requirements arising from sectoral EU regulations. A number of reasons were given to support this, among them: the existence of a single financial regulator (two respondents), the great difference between banking and insurance reporting that do not lead to significant overlaps (one respondent), and the lack of a centralised reporting unit, which implies that the company was not able to precise any inconsistencies or overlaps (one respondent).

Nevertheless, some entities have raised concerns about the differences in the treatment of banking activity in the insurance financial statements, and vice versa (two respondents)

Some market participants perceive not cross-sectoral, but rather cross-border inconsistencies: although this was not covered by the survey, several institutions express the view that the implementation of EU-regulations increases the reporting burden on a cross-border level due to overlaps and inconsistencies (five respondents).

Market participants also indicated that the application of different accounting standards is one of the source of potential inconsistencies (three respondents).

Specific concerns were voiced in the insurance sector with regard to the reporting requirements arising from the Insurance Groups and Financial Conglomerates Directives in the area of intra-group transactions and adjusted solvency margin (two respondents).

Other concerns were raised about the reporting requirements for statistical purposes stemming from ECB requirements; respondents were flagging its lack of usefulness (one respondent) or inconsistencies with financial reporting requirements (one respondent).

#### **2.5.2.3 Internal governance**

During the course of 2007, the 3L3 Committees continued 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. In addition, a stock-taking was done on the differences that exist in the texts and the definitions of the internal governance requirements stemming from the CRD and MiFID.

Internal governance is included in the 3L3 Medium Term Work Programme, and it is anticipated that during the second half of 2008, the three Committees will establish a joint 3L3 Task Force. The work of that task force will initiate a preliminary analysis of options for simplifying the cross-sector internal governance framework, building on the stock-taking mentioned in the previous paragraph done on the differences that exist in the texts and the definitions of the internal governance requirements stemming from the CRD and MiFID.



#### **2.5.2.4 Competing/Substitute products**

The Committees have increased their cooperation on the issue of competing/substitute products: i.e. products which have essentially the same characteristics for clients/investors, but are issued by institutions regulated in different sectors. There can be 'conduct of business' concerns, as well as different burdens in case of a lack of level playing field regarding the requirements e.g. to provide information to clients. The Committees have undertaken a cross-sector survey among supervisors on the approach to substitute products at a domestic level, and on the issues supervisors should consider at an EU level. Given that the European Commission has undertaken work in this area, the Committees consider that further work from the Committees should first await the outcome of the Commission. The item is included in the 3L3 Medium Term Work programme.

#### **2.5.2.5 Cross-border consolidation**

During the course of 2007, the 3L3 Committees agreed to set up a new joint Task Force, the Cross Border Mergers and Acquisitions Task Force, to produce guidelines to assist supervisors in the implementing the new Directive on Cross-Border Consolidation (2007/44/EC), which came into force in September 2007, including producing common guidelines for assessing 'fit and proper'. The item is included in the 3L3 Medium Term Work programme.

#### **2.5.3 Reports to the European Institutions**

##### **2.5.3.1 Financial market trends and cross-sector risks**

As set out in other sections of this annual report, the three Level 3 Committees have contributed to the work of the Economic and Financial Committee's Financial Stability Table (EFC/FST) for the meetings this Committee held in April and September.

For the April 2007 EFC/FST meeting, the three Committees presented a common letter as input to the Lamfalussy review, and as a response to the second Inter-institutional Monitoring Group report. For the September 2007 EFC/FST the three Committees provided the FST with a report on uncooperative jurisdictions off-shore financial centres (OFC). The report included references to uncooperative jurisdictions identified by the Committees and databases set up by the Committees, which will be annually updated.

In addition to the above, the IWCFC, together with the BSC, also provided the EFC/FST with a report on financial conditions and financial stability in European financial conglomerates.

##### **2.5.3.2 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, and on the cross-sector changes to directives on acquisitions.

##### **2.5.3.3 Commodities**

In December 2007, CEBS and CESR received a joint Call for Advice on commodity and exotic derivatives, and related business<sup>39</sup>. On the basis of the technical advice already provided to the European Commission by the two committees, as well as the findings of the Call for Evidence issued by the Commission in December 2006., CEBS and CESR are mandated to conduct a market and regulatory failure analysis and to provide advice whether the MiFID and CAD treatment of firms providing investment services relating to commodity derivatives and exotic derivatives continue to support the intended aims of market and prudential regulation as well as their views on various options and combinations of options relating to the exemptions set out in MiFID and CAD.

The publication of the consultation paper is envisaged for May 2008. A public hearing for all interested parties will be organized in July 2008.

<sup>39</sup> Request for Joint CESR/CEBS Advice on Commodity Derivatives: [http://www.c-ebs.org/Advice/documents/CfA\\_commodityderivatives.pdf](http://www.c-ebs.org/Advice/documents/CfA_commodityderivatives.pdf)



## 2.5.4 Supervisory Culture / 3L3 Training

### 2.5.4.1 Movement of staff and joint training

The three Level 3 Committees are working together on the development of a common 3L3 training platform for supervisors, covering cross-sectoral issues. The work to develop proposals on the creation of training platform is carried out by a Steering Committee chaired by Michel Prada (Chairman of the French AMF) which brings together senior representatives from each of the 3L3 Committees' membership. A working group of similar composition has been set up to carry out the preparatory work.

This initiative forms part of the Committees' work to improve supervisory convergence. The members of the 3L3 Committees have agreed that increased use of staff exchanges and joint training would be useful in developing a common supervisory culture, and increasing regulatory and supervisory harmonisation/ convergence in Europe.

The ECOFIN conclusions of 4 December 2007 stated that the European Council welcomed "... the Level 3 Committees' efforts towards the development of tools with a view to overcoming or minimising differences in supervisory culture (joint training programmes and secondment schemes)" and underlined the importance placed on training as a means to deliver convergence.

The work undertaken by the 3L3 Steering Committee to develop proposals on how a 3L3 Training Platform could be organised, represents an important step forward in responding to this key request. As such, given the emphasis on the need for training to deliver convergence amongst supervisors, training will be limited at this stage to members of the three Committees.

The Steering Committee held two test seminars in 2007, to gain a better understanding of how to organise a 3L3 training seminar; each seminar was attended by 35-40 supervisors from across Europe successfully. These test seminars provided an opportunity to establish the demand amongst the 3L3 Committees Members, and to gain practical information on the costs that this might involve,

were the 3L3 Training Platform were to be developed. The first test seminar, on Impact Assessment, took place from 17-19 October 2007 in Eltville, Germany; it was organised jointly by the BaFin and the Bundesbank, with the technical assistance of CESR's ECONET expert group. The second seminar, on Operational Risk, took place on 5-6 November 2007 at CEBS's premises in London; it was organised by the UK FSA on behalf of the 3L3 platform. The feedback from attendees at both seminars was very positive and indicated a strong demand for this type of initiative.

### Next steps

A report will be prepared by the 3L3 Training Steering Committee, to be approved by the Committee's Chairs. This report will propose how the Training Platform could function, and establish potential governance structures, the budget that would be needed, and administrative practicalities which should be considered. Priorities for courses will be established as part of a 1-3 year forward plan.

During 2008, the 3L3 Platform will continue to offer further courses for its members on an interim basis, and with the organisational support offered by some members of the 3L3 Committees.

Two further test seminars are scheduled the first half of 2008: one on Credit Risk Transfer Modelling and risk management in April, and one on Risk Models in May. It is likely that an additional 3L3 training seminar on the Financial Conglomerates Directive will be held in the fourth quarter of 2008. In addition, in light of the success of the first seminar, it is likely that a re-run of the course on implementing the 3L3 Impact Assessment Guidelines will be organised during the course of this year.



## 2.5.5 The Three Level 3 Committees: comments on

### **Impact Assessment Guidelines**

On 24 May 2007, CESR, CEBS and CEIOPS launched a joint consultation paper on draft Impact Assessment Guidelines<sup>40</sup> to be used by the three Level 3 Committees. The consultation period ran until 24 August 2007. The guidelines are designed to provide the Committees' Expert Groups with a practical tool to assist them when using Impact Assessment ('IA') as part of their policy analysis and in the course of formulating recommendations.

The three Level 3 Committees' commitment to developing an IA methodology for their own use reflects agreement reached by the European Institutions in December 2003 to implement the principles of better regulation in their legislative practices. In addition, the White Paper on Financial Services published at the beginning of 2006 (in Annex 2 COM (2005)629 of 05/12/2005) mentions explicitly that IA shall accompany any new Commission proposal. As such, the adoption by the three Level 3 Committees of their own IA Guidelines keeps the 3L3 Committees in line with approved EU practice.

#### **Key features of the IA methodology:**

The proposed IA methodology set out in the Guidelines is consistent with the European Commission's own IA guidelines. This means that it involves identifying problems relating to institutional objectives, identifying possible solutions (including leaving it to the market to solve), analysing their potential impacts, consulting with stakeholders on preferred policy options, and considering their feedback.

The 3L3 guidelines draw an important distinction between 'Screening IAs' (implemented at the first stages of policy development) and 'Full IAs' (used only when a screening IA is deemed insufficient for assessing the problem and identifying and evaluating policy options). This has been done in order to ensure that a proportionate and flexible approach to IA is adopted, which takes into account the distinct working practices of the 3L3 Committees.

### **Scope**

The expectation is that IA will apply to the work of the 3L3 Committees where the policy issues under consideration are likely to have significant structural and cost implications to consumers/investors and/or market participants. The scope of the Committees' IA work will take account of IA work to be conducted by the Commission or others. This is so as to avoid unnecessary duplication of effort and to ensure that the exercise adds value.

### **Procedure**

The proposed IA methodology does not represent a complete break with existing 3L3 Committee practices. Each Committee, in developing its advice and proposals, already considers the consequences of adopting a range of different policy options and consults extensively. Nevertheless, by adopting the proposed IA guidelines, the Committees will be putting these procedures on a more structured footing.

### **Testing via pilot studies**

Before finalising the IA guidelines, the three Committees conducted three pilot studies to establish that the guidelines could work effectively. CESR tested the guidelines in relation to the existing simplified prospectus work stream and CEBS tested the guidelines in relation to the large exposures work stream. CEIOPS is applying the methodology described in the guidelines in its work to deliver advice to the European Commission in the frame of the broad Solvency II project.

### **Next steps**

#### **Impact Assessment**

The IA guidelines were approved by the three Level 3 Committees during the first quarter of 2008.



## 2.5.6 3L3 Medium Term Work Plan and the 3L3

### Priorities going forward

#### Joint 3L3 priorities

The 3L3 Committees have identified and consulted in November 2007 in their 3L3 Medium Term Work Plan on a comprehensive list of cross-sector areas to work on for the next three years. From these, they have identified six key areas to focus their efforts, which are:

- (i) home-host cooperation, with a specific focus on setting up a common framework for the delegation of supervisory tasks;
- (ii) consistency issues in the regulatory and supervisory treatment of competing products, such as investment funds and insurance policies;
- (iii) the self-regulatory standards for - and possible coordinated regulatory approaches towards - credit rating agencies;
- (iv) consistency issues on internal governance requirements stemming from different directives;
- (v) financial conglomerates; and
- (vi) issues concerning the valuation of illiquid financial instruments, also in light of the weaknesses highlighted during the recent market turmoil.

Whilst work has commenced on all these areas, for some there are preliminary deliverables in 2008, although the full visible results on all topics are not envisaged until 2010.

In addition to the identified 3L3 work, as such and irrespective of the differing stages that each of the Committees have attained to date, the Committees will also continue to work, individually, coordinated, or jointly, as relevant, on areas identified in the December 2007 Council Conclusions of the Lamfalussy Process. The key priorities will be:

- (i) implementing and further strengthening of self-assessment and peer review mechanisms;
- (ii) identifying of possible obstacles stemming from differences in supervisory powers and objectives;
- (iii) exploring tools to further foster convergence and strengthen the national application of Level 3 guidelines, recommendations, and standards; and
- (iv) their work on developing convergence in day-to-day supervisory practice and supporting cooperation within colleges of supervisors.

The Committees will also develop their supervisory culture efforts, including providing individual sector and cross-sector training together with developing a 3L3 training platform, and facilitating staff exchanges.

The three Committees will further continue their cooperation in following the recent market turmoil, and coordinating their supervisory efforts where appropriate.

## 3. The process

### 3.1 Operational structure

The Committee of European Banking Supervisors (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's work is supported by a London-based Secretariat, which is staffed by secondments from the member authorities.

Danièle Nouy, Secretary General of the French Banking Commission, completed her two-year term as Chair of CEBS in January 2008, and Mrs. Kerstin af Jochnick, Director of Prudential Supervision at the Swedish Financial Supervisory Authority (Finansinspektionen) was elected as the third Chair of the Committee. Mr. Andrzej Reich, from the Polish Financial Supervision Authority, took over as Vice Chair following the resignation in July 2007 of Mr. Helmut Bauer of the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). CEBS recently expanded its Bureau, appointing two new members; Dr. Thomas Huertas, Director of the Banking Sector at the UK Financial Services Authority (FSA), and Mr. Giovanni Carosio, Deputy Director General at the Bank of Italy (Banca d'Italia). The other members of the Bureau are Messrs. Rudi Bonte, from the Belgian Banking, Finance and Insurance Commission (CBFA), and Jukka Vesala, from the Finnish FSA (Rahoitustarkastus).

CEBS's Secretary General, Andrea Enria (Banca d'Italia), is responsible for operational working procedures and planning in the Secretariat. Mr. Arnoud Vossen, from De Nederlandsche Bank, joined the Secretariat as Deputy Secretary General in January 2008.

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 2007 was organised under eight expert groups and task forces focusing on different work streams, and four joint task forces with the ESCB's BSC and 3L3 Committees.

The operational structure of CEBS was reviewed as a consequence of the shift in the focus of CEBS's work from the preparation of consultation papers to the finalisation and implementation of guidelines. In 2007, CEBS continued working with its three permanent expert groups: the Groupe de Contact (GdC), the Expert Group on Capital Requirements (EGCR), and the Expert Group on Financial Information (EGFI). Throughout the year, there have been several changes in the chairmanship of Expert Groups. The Convergence Task Force and the Joint CEBS-BSC Task Force on Crisis Management (TFCM) were dismantled in 2007, upon completion of their mandated work.

### 3.1.1 CEBS expert groups and task forces in 2007

	<b>Groupe de Contact (GdC)</b> Chair Jukka Vesala Rahoitustarkastus (Finland) <sup>41</sup>		<b>Expert Group on the Capital Requirements (EGCR)</b> Chair Thomas Huertas Financial Services Authority (United Kingdom)
	<b>Expert Group on Financial Information (EGFI)</b> Chair Arnoud Vossen De Nederlandsche Bank (The Netherlands)		<b>Review Panel (Peer Review)</b> Chair Andrzej Reich Polish Financial Supervision Authority (Poland)
	<b>Joint CEBS-CEIOPS Interim Working Committee on Financial Conglomerates (IWCFc)</b> Chair Arnold Schilder (CEBS), De Nederlandsche Bank (The Netherlands) Vice Chair Patrick Brady (CEIOPS), Financial Regulator (Ireland)		<b>Joint Task Force on the Impact of the new Capital Framework (TFICF)</b> Workstream A: Erich Loeper, Deutsche Bundesbank (Germany)  Workstream B: Mauro Grande, European Central Bank (ECB)
	<b>Joint Anti Money Laundering Task Force (AMLTF)</b> Chair Andrea Enria, Secretary General, CEBS		<b>3L3 Steering Committee on Training</b> Chair Michel Prada (CESR), French Securities Markets Authority, (France)
	<b>Convergence Task Force (CoTF)</b> Chair Thomas Huertas Financial Services Authority (UK)		

41 Previous Chairs of Expert Groups in 2007: Helmut Bauer, Bundesanstalt für Finanzdienstleistungsaufsicht-BaFin, Germany (GdC and TFCM); Kerstin af Jochnick, Finansinspektionen, Sweden (EGCR); Thomas Huertas, Financial Services Authority, United Kingdom (CoTF); Lars Nyberg, Riksbank, Sweden (TFCM); Gerhard Hofmann, Deutsche Bundesbank, Germany (TFICF); and Michel Flamée, Commission Bancaire, Financiere et des Assurance, Belgium (Vice Chair of IWCFc)

### **3.1.1.1 Groupe de Contact**

The Groupe de Contact (GdC) assists CEBS in carrying out its work programme in the areas of operational networking, the exchange of information, and promoting convergence in practical implementation issues. In particular, it:

- Supports CEBS in promoting consistent implementation of community legislation and convergence in prudential supervisory practices. This is complemented by the development of real-life case studies on the use of supervisory methodologies and procedures;
- Steers the development and the efficient functioning of networks for convergence and cooperation between EU banking supervisors, the promotion of the efficient functioning of supervisory colleges along with general home-host cooperation, and the prompt identification and solution of issues arising in the supervision of cross-border groups;
- Ensures intensive exchanges of information on supervisory policies and practices and regular confidential discussions (including case studies and risk assessments) on specific institutions or groups and other relevant issues;
- Monitors the operation of the supervisory colleges. The GdC develops practical tools for achieving convergence in supervisory policies and practices and maintaining CEBS guidelines and standards in these areas, including supervisory review (Pillar 2) and supervisory cooperation, by monitoring their implementation and proposing amendments to guidelines where appropriate;
- Assists CEBS in providing advice to the Commission on draft EU legislation and other Commission initiatives in the areas of supervision and supervisory cooperation.

The GdC contributed to CEBS's responses to the European Commission's Calls for Advice on liquidity risk management. The GdC also worked on the Call for Advice on the extent to which the US and Swiss supervisory regime achieve the objectives of consolidated and supplementary supervision, as provided for in the CRD and the FCD, and thus whether

EU supervisors can rely on equivalent consolidated supervision in those countries in relation to EU subsidiaries and branches. The response to this Call for Advice was prepared jointly with the IWCFC. The GdC has also worked on other issues such as enhancing the functioning of the colleges of supervisors, delegation, crisis management, Pillar 2, passporting, cross-border mergers, and acquisitions.

### **3.1.1.2 Expert Group on Capital Requirements**

In 2007, the work of the Expert Group on the Capital Requirements (EGCR) was marked by the preparation of CEBS's responses to the European Commission's Calls for Advice on Large Exposures, Own Funds, Commodities Business, and Options and National Discretions. As members begin shifting from transposition and implementation of the CRD to its practical application, the convergence networks on credit risk and operational risk (NOVI-O and NOVI-C) are expected to gain in significance as forums for information exchange, the identification of implementation issues, and the development of common approaches. The focus of the EGCR, in turn, is expected to shift from monitoring supervisory and industry practices related to the capital requirements to a more proactive approach and the development of common supervisory policies.

### **3.1.1.3 Expert Group on Financial Information**

The Expert Group on Financial Information (EGFI) assists CEBS in its work in the area of financial information, including accounting, auditing, supervisory reporting issues, and public disclosure and transparency issues. In particular, it:

- assists CEBS in providing advice to the Commission on draft EU legislation and other Commission initiatives on financial information;
- monitors and assesses developments in the area of financial information at the EU and international level, and prepares CEBS input, proposals, and comments on these developments as necessary;
- provides a forum for discussion on the supervisory implications of developments in the area of financial information, and reports back to CEBS on these issues; and

- maintains 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) by monitoring their implementation and proposing updates where appropriate.

#### **3.1.1.4 Review Panel**

In March 2007 the Convergence Task Force (CoTF) was mandated to deliver a proposal for a peer review mechanism for CEBS. After the CoTF was dismantled, in September 2007, a new expert group has been established: the Review Panel, chaired by the CEBS Vice-Chair. The Review Panel is expected to help monitor the implementation of the supervisory provisions set out in Community legislation and CEBS guidelines, to monitor convergence of supervisory practices with the goal of encouraging their timely and consistent day-to-day implementation, and to help foster supervisory convergence in the EEA. A test of the peer review mechanism was scheduled for the first six months of 2008, so as to be able to report on it at the FSC meeting scheduled for October 2008. This schedule is also consistent with the draft Council conclusions<sup>42</sup> on the 2007 Lamfalussy review, which invite the Level 3 Committees to explore the possibilities for strengthening the national application of their guidelines, without changing their legally non-binding nature, by mid-2008. The first exercise is on the implementation of validation of advanced approaches under the CRD (CRD and AMA - Guidelines 10), with a home/host perspective.

#### **3.1.2 Establishment of Task Forces**

From time to time, CEBS establishes ad hoc task forces, charged with a specific task and dissolved as soon as that task is accomplished. CEBS may use task forces to deal with issues requiring a specific technical expertise, or when the workload of the 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 of the Task Forces are currently active and were established as a joint initiative with other Committees.

#### **3.1.2.1 Convergence Task Force**

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 (the Francq report) and the other work set out in the ECOFIN conclusions. The tasks assigned to the Convergence Task Force (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 a common European supervisory culture, especially through common training and staff exchanges;
- preparing an overview 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;
- proposing CEBS approaches to assessing the economic impact of draft advice to the Commission and of CEBS guidelines; and
- conducting a feasibility study on the development of a peer review mechanism for CEBS which fits with other CEBS tools in this area.

The CoTF has fulfilled its tasks and was dissolved in the second half of 2007.

42 See Revised Draft Council conclusions dated 26 November 2007 and attached road-map.

### **3.1.2.2 Joint Task Force on the Impact of the New Capital Framework**

The Joint Task Force on the Impact of the New Capital Framework (TFICF) was established jointly with the ESCB's BSC to monitor the minimum capital requirements under the new regulatory framework introduced by the CRD. Its main objective is to assess the adequacy of the overall level and volatility of required capital throughout the economic cycle. In contrast with the fifth Quantitative Impact Study (QIS5), which was conducted between the end of 2005 and early 2006 based on ad hoc collected data, this new monitoring exercise will be based on banks' actual post-implementation reporting data and will cover a longer data period in order to deliver a more accurate analysis. The tasks assigned to the TFICF include:

- defining the dataset to be used;
- organising the data collection process and discussing related technical issues such as data formats, the frequency and timing of reporting, and appropriate aggregation methodologies. Data collection will be based on existing national reporting implementations of the Guidelines on Common Reporting, thereby minimising the collection of ad hoc data. Future additional data requirements, if any, should be discussed further 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; and
- monitoring whether the CRD has significant effects on the economic cycle, in accordance with Article 156 of Directive 2006/48/EC.

### **3.1.3 3L3 Structures**

#### **3.1.3.1 Interim Working Committee on Financial Conglomerates**

The 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. The IWCFC is a high-level committee, interacting directly with the Commission and other stakeholders and interested parties on conglomerates issues. As mentioned in section 2.5., where the work of the IWCFC is discussed in greater detail, it focuses 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, equivalence of third country supervision, and issues related to the identification of conglomerates, intra-group transactions, and cooperation and coordination requirements.

#### **3.1.3.2 3L3 Steering Committee**

In order to implement the recommendations of the ECOFIN Conclusions of 5 May 2006, which call for the development of an EU supervisory culture through the training of staff, the three Level 3 Committees established the joint 3L3 Steering Committee in March 2007. The 3L3 Steering Committee, which is composed of members of the three Committees, was mandated to develop options for the design of a joint European framework for training in financial supervision, with a primarily cross-sector scope and consistent with sector specific needs, under the responsibility of the three Committees. It has been working out the governance structure and the logistical and financial arrangements for a common training framework (Training Platform), identifying training needs, and exploring partnerships with academic institutions, standards for qualification of trainees, and possible certification of the training sessions.

### 3.1.3.3 Anti Money Laundering Task Force

Following discussions at the Commission's Committee for Prevention of Money Laundering and Terrorist Financing (CPMLTF), CEBS and its sister Level 3 Committees were invited to work on supervisory issues relating to the implementation of Directive 2005/60/EC (the Third Anti-Money Laundering Directive). The joint 3L3 Anti Money Laundering Task Force (AMLT) was established by CEBS, CESR and CEIOPS in November 2006, with a mandate

focused on convergence in supervisory practices for risk-based approaches to customer due diligence. As mentioned in section 2.5.1.3, where the work of the AMLTF is discussed in greater detail, the AMLTF focuses on practical supervisory issues arising in the implementation of the Third Anti-Money Laundering Directive and related legislation. It also provides a forum for networking and the exchange of experiences between supervisory authorities.

### 3.1.4 Bureau members



**Kerstin af Jochnick**

Finansinspektion

**Andrzej Reich**

Narodowy Bank Polski



**Jukka Vesala**

Rahoitustarkastus

**Rudi Bonte**

Belgian Banking, Finance and Insurance Commission



**Thomas Huertas**

Financial Services Authority

**Giovanni Carosio**

Banca d'Italia



### 3.1.5 The Secretariat

CEBS seeks to conduct its work by consensus of its members. In particular, 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. When a decision is taken by qualified majority, dissenting opinions and recommendations of individual members are recorded. Decisions taken by qualified majority are not legally binding in areas where national authorities are competent.

Operational and administrative support to CEBS is provided by the CEBS Secretariat. The Secretariat is 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 2007 amounted to £2,017,000. The Annual Report of CEBS Secretariat Limited, along with its financial statement, is attached to this annual report (Annex 4.5).

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



*The CEBS Secretariat (from left to right): Corinne Kaufman, Sophie Vuarlot-Dignac, Wolfgang Strohbach, Jacobo Varela, Birgit Hoepfner, Andrea Enria, Andrea Deák, Arnoud Vossen, Valerio Novembre, Vera Luz, Alison Smith, Guy Haas, Michelle Humphries, Cecile Meys, Oleg Shmeljov, Gregoire Chevassut.*

## 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 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. Consultation also enhances the openness and transparency of CEBS's 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 specifically 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 response to each formal consultation. CEBS will conduct a second consultation if the responses to the first consultation reveal significant problems or result in 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 include panel discussions, public

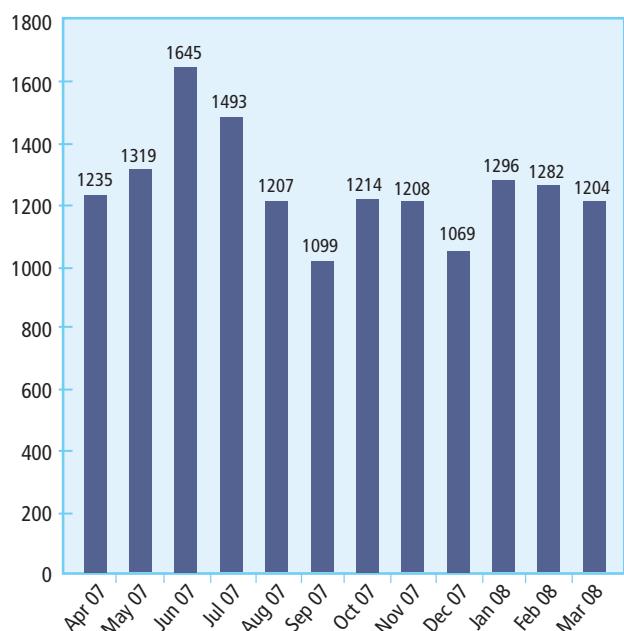
hearings, technical workshops, questionnaires, informal contacts, and meetings with expert groups composed of industry experts appointed by the Consultative Panel.

CEBS recently established five Industry Expert Groups for technical dialogues in various areas of work.

CEBS holds annual meetings with the European industry associations in Brussels, and receives invitations to the general assembly meetings and round table discussions to discuss major topics of common interest and challenges in banking supervision.

The Committee's communication strategy emphasises the importance of transmitting information to all interested parties. The CEBS website at [www.c-ebs.org](http://www.c-ebs.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, through the e-mail alert mailing list, has attracted more than 4000 subscribers. The number of daily visits to the website has increased steadily and reached over 1235 on average during the course of 2007.

**CEBS website activity  
average number of visits per day**



All of the documents related to CEBS's role and tasks - including the Committee's Annual Report, work programme, consultation papers, press releases, guidelines, key speeches and presentations, and other publications - have been posted on its website. During the period from 1 April 2007 to 31 March 2008, a total of 65,919 separate visitors viewed [www.c-ebs.org](http://www.c-ebs.org). 18,438 visitors returned to the site more than once. The most popular pages included CEBS's standards and guidelines, consultation papers, the supervisory disclosures site, and press news. In addition to the public website, CEBS has a members-only area for internal use (members and observers) and exchange of information.



### **3.2.2 Consultative Panel**

The Consultative Panel (the Panel) is an external advisory board of CEBS. It acts as a sounding board on strategic issues assists in the performance of CEBS's 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 Panel is composed of 21 members. Fourteen members of the Panel are appointed by CEBS on proposal of the Bureau, based on the suggestions of CEBS members; the European Banking Industry Committee (EBIC) and FIN-USE each nominate two members; one member is appointed on a joint nomination by the International Swaps and Derivatives Association (ISDA), the London Investment Banking Association (LIBA), and the International Capital Market Association (ICMA) and the European Consumers' Organization (BEUC) and the Union of Industrial and Employers' Confederations (UNICE) each nominate one member. In October 2007, the Panel re-appointed Mr. Freddy van den Spiegel (Fortis Bank) as its Chair for a second three-year term.

The members and observers of the Panel should have significant experience in the field of banking, have a European track record, and share the objectives of the European Union. Panel members are appointed in a personal capacity, and both members and observers 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 2007, focusing mainly on CRD and Basel II implementation issues, the recent financial market turmoil, and operational networking.

The Panel applied pressure for proper activation of the supervisory disclosure framework, especially for the provision of information on the application of options and national discretions. The Panel urged CEBS to implement the framework and to commit itself to further reduction and full harmonisation of reporting templates. CEBS has responded by extending the Supervisory Disclosure framework to include reporting frameworks, in order to monitor the use of common templates in Member States.

The Panel supported the project on operational networking, while highlighting initial concerns on the possible burden that it may generate for the selected groups. The Panel expressed its appreciation for the reports published in 2007 on capital, large exposures, commodities business, and prudential filters.

The Panel contributed to identifying priorities for CEBS work in the preparation of the work programme for 2008.



Panel members supported CEBS's work on and urged the Committee to enhance cooperation on Basel II implementation details with non-EU countries, especially the United States and some Asian countries. The discussion centred on national discretions, and in particular on the timing of efforts to eliminate them. There was also discussion on how to improve consultation and dialogue with the industry, based on the outcome of the CEBS self assessment survey. The Panel suggested setting up industry expert groups (IEG). CEBS responded by establishing groups for technical dialogue in five areas of CEBS's 2008 work programme and longer term priorities: liquidity risk management, national discretions, reporting, valuation and recognition of illiquid assets, and Pillar 3. The tasks of the IEG are to identify problems, analyse issues, and find practical solutions.

The Panel contributed actively to the preparation of several CEBS guidelines, commented on consultation papers, and sent representatives to the numerous public hearings organised by CEBS. Industry experts nominated by the Panel participated in technical workshops and experts meetings on issues related to COREP, large exposures and capital, Pillar 2, and commodities business. The cooperative arrangements for the supervision of cross-border groups were discussed in all of the meetings of the Panel.

The October 2007 Panel meeting focused on the recent credit and liquidity market turmoil. The Panel was asked for input from the industry point of view on CEBS Lessons Learned from the Financial Markets Crisis. The purpose of the paper was to summarise lessons learned and propose remediation steps for the attention of CEBS based on the developments of the financial markets crisis up to February 2008.

## Members of the Consultative Panel in 2007:

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

**Hugo Banziger**, Deutsche Bank

**Michel Bilger**, EBIC (Credit Agricole S.A)

**Peter Knutsson**, FIN-USE

**Richard Desmond**, UNICE

**Stephen Sanders**, Royal Bank of Scotland

**Nils-Fredrik Nyblaeus**, Skandinaviska Enskilda Banken (SEB)

**Christian Lajoie**, BNP Paribas

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

**Benoît Jolivet**, FIN-USE

**Michael Kemmer**, EBIC (BayernLB)

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

**Mariusz Zygierewicz**, Polish Banking Association

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

**João Salgueiro**, Portuguese Banking Association

**Herbert Pichler**, Austrian Federal Economic Chamber

**Demetrios Lefakis**, National Bank of Greece

**Manfred Westphal**, BEUC

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

**Andrew Cross**, Credit-Suisse

**Davide Alfonsi**, San Paolo IMI

**Wilfred Wilms**, FBE (observer)

**Anders Karlsson**, ESBG (observer)

**Volker Heegemann**, EASB (observer)

**Walburga Hemetsberger**, EAPP (observer)

43 Previous Panel Members still at the beginning of 2008: Albertus Bruggink, EBIC (Rabobank); Riccardo de Lisa,(FIN-USE); Richard Gossage, (Royal Bank of Scotland); Carl-Johan Granvik, (Nordea); Dirk Wilhelm Schuh, EBIC (Eurohypo); Anthimos Thomopoulos, National Bank of Greece.

### 3.3 Accountability

CEBS ensures accountability on several different levels and through different forums. Public consultation supports accountability by enhancing transparency. 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 participates regularly in the meetings of the EBC, where progress made in the preparation of regulatory advice is discussed. CEBS also reports 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 on an oral presentation from the Chair of CEBS.

In June 2007, CEBS presented its third progress report on supervisory convergence (<http://www.c-ebs.org/documents/FSCreport2007June.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. It also reports on progress made in fostering supervisory cooperation and convergence. It gives a detailed update on the implementation of the Francq recommendations and more generally on the working of supervisory arrangements in the EU. Regular reporting on progress in fulfilling CEBS's 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's reports also highlight the 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.

The EFC-FST asks CEBS to prepare regular updates on risks to banking and regulatory hedging of such risks. As mentioned in Section 2.5, 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 2 October 2007, the Chair of CEBS was invited to a hearing<sup>44</sup> of the Committee on Economic and Monetary Affairs (ECON) of the European Parliament. The Chair reported on the progress made by CEBS, on its major work streams, and on the opportunities for better financial regulation in the EU. Special attention was devoted to reviewing the working arrangements of the Lamfalussy architecture. This review went well beyond CEBS, touching on all levels of the framework, including rule-making at Level 1 and 2 and enforcement at Level 4 and it went beyond banking, to the securities, insurance and pension sectors. The outcome of the Lamfalussy review plays a major importance in our future work.

The other major topic of the ECON hearing was current market developments.

The CEBS Chair also reported on the project on operational networking, as well as to key areas of CEBS advice.

<sup>44</sup> Speech given by Mme Danièle Nouy at the ECON hearing: [http://www.c-ebs.org/speeches/documents/20071002speechatECON\\_DanieleNouy.pdf](http://www.c-ebs.org/speeches/documents/20071002speechatECON_DanieleNouy.pdf)

## 4. Annexes

### 4.1 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*

## 4.2 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 practices 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.

## 4.3 CEBS Members and Observers

	Institution	Name
	CEBS - Chairman	Mme Danièle Nouy
Austria	Financial Market Authority Oesterreichische Nationalbank	Helmut Ettl Andreas Ittner
Belgium	Banking, Finance & Insurance Commission (CBFA) National Bank of Belgium (NBB)	Rudi Bonte Jo Swyngedouw
Bulgaria	Bulgarian National Bank	Rumen Simeonov
Cyprus	Central Bank of Cyprus	Costas S.Poullis
Czech Republic	Czech National Bank	Leos Pytr
Denmark	Finanstilsynet Danmarks Nationalbank	Flemming Nytoft Rasmussen Jens Lundager
Estonia	Financial Supervision Authority Estonian Bank/Eesti Pank	Andres Kurgpold Jaak Tors
Finland	Rahoitustarkastus (Financial Supervision Authority) Suomen Pankki (Bank of Finland)	Jukka Vesala Kimmo Virolainen
France	Commission Bancaire Banque de France	Didier Elbaum
Germany	Bundesanstalt fur Finanzdienstleistungsaufsicht (BaFin) Deutsche Bundesbank	Thomas Schmitz-Lippert Erich Loeper
Greece	Bank of Greece	Panagiotis Kyriakopoulos
Hungary	Pénzügyi Szervezetek Állami Felügyelete (Hungarian Financial Supervisory Authority) Magyar Nemzeti Bank	Mihály Erd_s Julia Király
Ireland	Financial Regulator and Central Bank of Ireland	Mary Burke Allan Kearns
Italy	Banca d'Italia	Giovanni Carosio
Latvia	Finansu un kapitāla tirgus komisija (Financial and Capital Market Commission) Latvijas Banka (Bank of Latvia)	Jānis Placis Vita Pilsumā

Lithuania	Lietuvos bankas (Bank of Lithuania)	Filomena Jaseviciene
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/Klaas Knot
Poland	National Bank of Poland Polish Financial Supervision Authority	Andrzej Reich Stanislaw Kluza
Portugal	Banco de Portugal	Pedro Duarte Neves Adelaide Cavaleiro
Romania	National Bank of Romania	Adrian Cosmescu
Slovakia	Narodna Banka Slovenska	Pavel Ferianc
Slovenia	Banka Slovenije	Bozo Jasovic
Spain	Banco de Espana	José María Roldán/ Fernando Vargas
Sweden	Finansinspektionen Sveriges Riksbank	Kerstin af Jochnick Göran Lind
UK	Financial Services Authority	Thomas Huertas
	Bank of England	Mark Walsh
EU	European Central Bank	Mauro Grande

### Observers

Iceland	Financial Supervisory Authority Central Bank of Iceland	Jonas Fr. Jonsson Jonas Thordarson
Liechtenstein	Financial Market Authority (FMA)	René Melliger
Norway	Kredittilsynet Norges Bank	Bjørn Skogstad Aamo Arild Lund
	European Commission	Patrick Pearson
	Banking Supervision Committee	Peter Praet

## 4.4 Consultation and Transparency on Guidelines

<b>Number</b>	<b>Final title of Guidelines or Consultation Papers</b>	<b>End of Public Consultation</b>	<b>Consultation Period</b>	<b>Date of current document</b>
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 (and CP02 revised)	Guidelines on Outsourcing	1st consultation: 31 July 2004	3 months	14 December 2006
		2nd consultation 6 July 2006	3 months	
CP03 (and CP03 revised)	Guidelines on 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
		19 December 2007	4 months	
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 24 July 2007
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 2006
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	25 September 2007
CP14	First part of its advice to the European Commission on large exposures	15 August 2007	2 months	6 November 2007
CP15	Consultation Paper on risks arising from commodities business and from firms carrying out commodities business	15 June 2007	6 weeks	10 October 2007
CP16	Consultation Paper on the second part of its technical advice on large exposures	7 December 2007	10 weeks	3 April 2008
CP17	Consultation Paper on its proposals for a common EU definition of Tier 1 hybrids	7 December 2007	10 weeks	3 April 2008

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

	For the year to 31 December 2007 £'000	23 June to 31 December 2006 £'000
<b>Revenues</b>		
Contributions from members	1,228	1,088
Other income	203	209
Interest	66	67
<b>Total Revenue</b>	<b>1,497</b>	<b>1,364</b>
<b>Expenses</b>		
Secondment fees	840	814
Premises	447	403
Professional fees	49	39
Communication costs	38	24
Depreciation	215	165
Computer and IT development	80	56
Travel	132	93
Salaries and employee benefits	91	83
Lease tax	-	-
Meetings	96	28
Office supplies	20	17
Miscellaneous	9	7
<b>Total expenses</b>	<b>2,017</b>	<b>1,729</b>
<b>Excess of revenues over expenses before taxes</b>	<b>(520)</b>	<b>(365)</b>

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

Computer equipment	-	7
Improvements to premises	66	-

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 2007 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.

## 4.6 Accomplished Timeline for 2007

CEBS Work Programme 2007	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												further work because of turmoil
<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												further work due to new Call for Advice
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												More time to address issues raised by the industry platform
(iii) Survey on pillar 2												
Analysis on delegation of tasks												
Crisis management												
Memorandum of Understandings (MoUs)												
Third country relations												
<b>4. Maintenance of CEBS products</b>												
Framework for Supervisory Disclosure (FSD)												
Common reporting frameworks												
Internal governance												
Electronic guidebook												
<b>5. Monitoring of progress</b>												
Assessment of CEBS' progress for 2007												
Assessment of convergence in reporting												

Key: \* 1st deliverable

Planned  
Accomplished

## 4.7 List of abbreviations and terms used

<b>AMA</b>	Advanced Measurement Approach	<b>EFC-FST</b>	Economic and Financial Committee - Financial Stability Table
<b>AMLTF</b>	Anti Money Laundering Task Force	<b>EFCC</b>	European Financial Conglomerates Committee
<b>BCBS</b>	Basel Committee on Banking Supervision	<b>EFRAG</b>	European Financial Reporting Advisory Group
<b>BSC</b>	Banking Supervision Committee	<b>ESBC</b>	European System of Central Banks
<b>BEUC</b>	European Consumers' Organization	<b>ESBG</b>	European Savings Banks Group
<b>CAD</b>	Capital Adequacy Directive (2006/49/EC)	<b>EU</b>	European Union
<b>CEBS</b>	Committee of European Banking Supervisors	<b>EBC</b>	European Banking Committee
<b>3L3</b>	three "Level-3 Committees" or "Lamfalussy Committees" (CEIOPS, CEBS, and CESR)	<b>EBIC</b>	European Banking Industry Committee
<b>CEIOPS</b>	Committee of European Insurance and Occupational Pensions Supervisors	<b>ECAIs</b>	External Credit Assessment Institutions
<b>CESR</b>	Committee of European Securities Regulators	<b>EFCC</b>	European Financial Conglomerates Committee
<b>CDD</b>	Customer Due Diligence	<b>EGCR</b>	Expert Group on Capital Requirements
<b>CfA</b>	Call for Advice	<b>EGFI</b>	Expert Group on Financial Information
<b>Commission</b>	European Commission	<b>FINREP</b>	Standardised framework for consolidated financial reporting for credit institutions (Financial Reporting)
<b>COREP</b>	Guidelines on Common Reporting	<b>FIN-USE</b>	Forum of Users of Financial Services
<b>CRDTG</b>	Capital Requirements Directive Transposition Group	<b>FSC</b>	Financial Services Committee
<b>CP</b>	Consultation Paper(s)	<b>FCD</b>	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)
<b>CPMLTF</b>	Committee for Prevention of Money Laundering and Terrorist Financing	<b>FSI</b>	Financial Stability Institute
<b>CRD</b>	Capital Requirements Directive (refers collectively to both 2006/48/EC and 2006/49/EC).	<b>GdC</b>	Groupe de Contact
<b>CoTF</b>	Convergence Task Force	<b>IAS</b>	International Accounting Standards
<b>EACB</b>	European Association of Cooperative Banks	<b>IASB</b>	International Accounting Standards Board
<b>EBF</b>	European Banking Federation	<b>IAASB</b>	International Auditing and Assurance Standards Board
<b>ECOFIN</b>	Economic and Financial Council	<b>IASC</b>	International Accounting Standards Committee
<b>ECON</b>	Committee on Economic and Monetary Affairs (Committee of the European Parliament)		
<b>EEA</b>	European Economic Area		
<b>EFC</b>	Economic and Financial Committee		

<b>IFRS</b> International Financial Reporting Standards	No. L 145 of 30 April 2004
<b>ICAAP</b> Internal Capital Adequacy Assessment Process	<b>MoU</b> Memorandum of Understanding
<b>ICMA</b> International Capital Market Association	<b>NOVI C</b> Network on Validation issues / Credit risk
<b>IIMG</b> Inter-institutional Monitoring Group	<b>NOVI O</b> Network on Validation issues / Operational risk
<b>ISDA</b> International Swaps and Derivatives Association	<b>OFCs</b> Off-Shore Financial Centres
<b>IWCFC</b> Interim Working Committee on Financial Conglomerates	<b>QIS</b> Quantitative Impact Study/Studies
<b>KYC</b> Know Your Customer	<b>Panel</b> CEBS Consultative Panel
<b>LE</b> Large Exposures	<b>SON</b> Subgroup on Operational Networking
<b>LIBA</b> London Investment Banking Association	<b>SRP</b> Supervisory Review Process
<b>MEP</b> Member of Parliament	<b>TFCM</b> Joint Task Force on Crisis Management
<b>MiFID</b> 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	<b>UNICE</b> Union of Industrial and Employers' Confederations <b>XBRL</b> Extensible Business Reporting Language





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