

Annual Report 2005

CEBS

Committee
of European
Banking
Supervisors



Annual Report 2005 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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Tower 42 (level 18), 25 Old Broad Street, London, EC2N 1HQ
Telephone: +44 (0) 20 7382 1770 Fax: +44 (0) 20 7382 1771
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1. Chairs' statement

In January 2005, CEBS set itself an ambitious programme of work, focusing primarily on promoting consistent implementation of the new Capital Requirements Directive (CRD) and fostering convergence of supervisory practices across the EU. We are pleased to report that CEBS has been able to achieve even more in this area than was envisaged when the full magnitude of the Committee's workload started to emerge two years ago. This Annual Report provides an opportunity for us to thank all of the Committee's stakeholders, along with other interested parties who have contributed to its work. Without their cooperation, and without the extensive dialogue we have enjoyed with market participants, CEBS could not have achieved its goal of finalising guidelines that will promote convergence of day-to-day supervisory approaches.

This Annual Report, together with CEBS' published work programme, elucidates CEBS' methods and objectives and assists the European Institutions, the banking industry, and users of banking services in assessing how well CEBS is fulfilling its tasks.

In its second operational year, CEBS' programme was dominated once again by work related to the Capital Requirements Directive (CRD), which will implement the Basel II capital adequacy framework in the EU. The new framework harmonises capital requirements for banks and investment firms and encourages them to improve their risk management processes. The adoption of the CRD, together with the introduction of International Financial Reporting Standards (IFRS), provides CEBS with a unique opportunity to promote greater consistency in supervisory approaches across the EU.

In 2005, CEBS clarified its role and tasks, honed its tools, and established procedures for public consultation and interaction with market participants. CEBS published a series of consultation papers related to the CRD, and finalised its first set of guidelines: a common European framework for supervisory disclosure. This framework is intended to make supervisory practices more transparent, and should prove to be a powerful tool in achieving consistent implementation of EU legislation and convergence of supervisory practices across the EU.

CEBS has benefited greatly from an open and transparent consultation process. CEBS' Consultative Panel has helped in structuring procedures and in contributing to fruitful dialogue at the technical level. CEBS attaches great importance to the involvement of stakeholders in its work, and to the Committee's own commitment to transparency and accountability.

The European Commission's White Paper of the Commission on Financial Services Policy 2005-2010 advocates an evolutionary - as opposed to revolutionary - approach to improving supervisory structures. We fully support this approach. CEBS' objective is not to create additional levels of regulation, but rather to reflect the common understanding of European supervisors and to make life easier for those who have to follow EU requirements. The objective is efficient and cost-effective supervision and a level playing field. The direction of CEBS' work is now shifting from design

"The objective is efficient and cost-effective supervision and a level playing field"

to delivery: from the development of guidelines to the implementation and application of commonly agreed principles. The future focus of the Committee will be on monitoring the progress achieved in convergence of supervisory practices, and on revising and updating the guidelines in the light of practical experience. The real test of convergence will be its impact on the practical day-to-day supervision of cross-border banking groups, without neglecting level playing field issues for smaller institutions. These are the areas where CEBS' success will ultimately be judged.

Operational networks for the supervision of cross-border groups and cooperation between consolidating and host supervisors will assist in ensuring the effective application of CEBS' guidelines. This work is essential in ensuring that CEBS delivers in practice what it has set out in policy. The goal is to create a common European supervisory culture supported by common initiatives on staff training and short-term exchange of experts between authorities.

Another important focus will be intensified cooperation with our sister committees: the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the Committee of European Securities Regulators (CESR). All three Committees have agreed on a joint protocol for cooperation, accompanied by a programme for joint work on issues of cross-sectoral relevance.

Greater consistency and convergence of the approaches of financial supervisors will contribute to the effective functioning of the Single Market. CEBS wants to be a key player in this evolution.



José María Roldán
Chair 2004-05



Danièle Nouy
Chair

2. CEBS - convergence and cooperation

The implementation of the Financial Services Action Plan (FSAP) and the adoption of the Lamfalussy approach¹ have made a significant contribution to the development of the framework for financial regulation and supervision in the EU. The enormous wave of new community regulation is now nearing completion, and the focus is shifting to consistent implementation and application of EU legislation. The regulatory framework has been streamlined and new powers have been granted to the supervisory bodies known as Level 3 committees. Level 3 is expected to deliver convergence of supervisory practices, and to contribute to the level playing field in Europe.

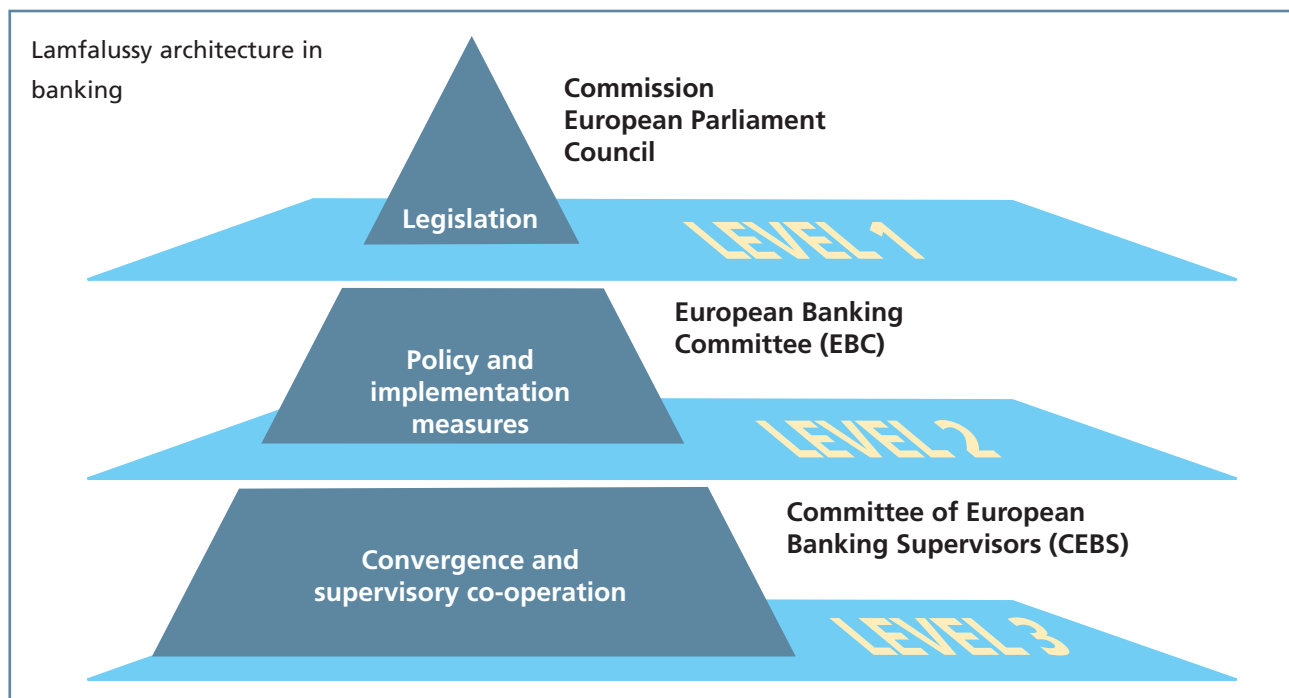
The content of rules and guidance and the role of supervisors in applying them have changed substantially in recent years, and will continue to evolve in the near future. In the banking sector, the Capital Requirements Directive (CRD) will introduce a new approach to prudential supervision, leaving more room for institutions' internal models and more scope for discretion on the part of competent authorities. CEBS' work in 2005 has

contributed significantly to defining common supervisory approaches in several areas, such as the transparency of national rules, supervision of cross-border groups, the supervisory review process, model validation and reporting.

This Annual Report provides an overview of CEBS work in 2005 and a glimpse of CEBS' plans for 2006.

2.1. Objectives

The declared aim of EU government leaders is to make Europe "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion."² This overall strategy has been translated into a number of specific targets in different policy areas. The growth of cross-border banking, consolidation, and the centralisation of key business functions are the main market trends affecting the environment in which CEBS is operating. These trends create a misalignment between the legal and operational structures of cross-border groups, and present challenges to the smooth



¹ See Annex A1.

² Lisbon Special European Council 23-24 March 2000

functioning of a decentralised supervisory framework and to the implementation of the concepts contained in EU banking Directives. At the same time, the vast majority of the 8,300 credit institutions and 2,000 investment firms in the EU operate only on a national or even a local scale. This diversity means that specific national rules and practices are still required.

CEBS' main objective³ is to promote cross-border supervisory cooperation. CEBS pursues this objective by identifying good international supervisory practices and encouraging its members to adopt them in a convergent and consistent manner. In particular, CEBS fosters common

“CEBS advocates a proportionate and cost-effective approach to the supervision of institutions of different sizes”

understanding among national supervisors by issuing standards, guidelines, and recommendations. Supervisory cooperation and the exchange of information on the conduct of day-to-day supervisory tasks is

encouraged through the establishment of operational networks of competent authorities, which are expected to translate the commonly agreed principles into practice. Good practices are identified via case studies and surveys conducted at the operational level of supervision.

Operational networks are intended to promote an efficient approach to the supervision of cross-border groups, avoiding unnecessary duplication of tasks. This should help streamline the supervisory process and limit the compliance burden on financial groups. The coordination of the operational networks under CEBS' umbrella should promote a level playing field across the EU.

CEBS advocates a proportionate and cost-effective approach to the supervision of institutions of different sizes. The benefits of convergence are not limited to large

cross-border banks and financial institutions. Local institutions increasingly find themselves competing with branches and subsidiaries of cross-border groups. They too will benefit from improvements in institutions' risk management systems and from convergence of supervisory practices proportionately to each institution's nature, scale, and complexity.

CEBS' activities to promote stability and sound risk-management practices are also expected to bring benefits to consumers and end-users of financial services. Both consumer protection and financial stability benefit when financial institutions' risks are better reflected in the amount of capital they to hold.

CEBS takes seriously its obligations for consultation, accountability, and transparency. As the boundaries between financial sectors become less distinct, greater attention will be paid to cross-sectoral aspects, and CEBS will intensify its dialogue and cooperation with the other Level 3 committees, CESR and CEIOPS.

CEBS will contribute to EU legislation mainly through its responses to requests for advice from the European Commission. Although Community legislation is built around traditional pre-Lamfalussy Directives, it is important that proper use be made of the possibilities provided by the Lamfalussy approach. In particular, calls for advice should be sufficiently broad in scope to allow CEBS to address all substantive issues and to conduct adequate consultations, information-gathering, and mapping of supervisory practices. CEBS hopes that the Commission will be mindful, in setting deadlines for each of these tasks, of the need to allow CEBS enough time to complete its work, and that it will strike an appropriate balance between the urgency of the task and the optimum outcome in terms of the quality of the work.

³ The precise role of CEBS is defined in the Commission Decision of 5 November 2003 establishing the Committee of European Banking Supervisors (2004/5/EC). The Decision assigns CEBS three main tasks: (1) 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; (2) to contribute to the consistent application and implementation of Community directives and to the convergence of Member States' supervisory practices throughout the Community; and (3) to enhance supervisory cooperation and the exchange of information between national supervisors, including the exchange of information concerning individual supervised institutions.



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

2.2. Tools

The Lamfalussy approach provides CEBS with a flexible and adaptable framework within which to pursue its objectives. Although CEBS' standards, guidelines, and recommendations are not legally binding, there is a high expectation that when CEBS members sign up to them, they will be followed in their national jurisdictions.

In its initial period of activity, CEBS has focused mainly on developing guidelines that support consistent implementation of the CRD (in particular, through disclosure of choices made in national implementation) and that promote convergence of supervisory practices (for example, guidelines on Pillar 2, model validation, and ECAI recognition). CEBS' intention is not to produce an additional layer of EU rules, but rather to ensure greater commonality of national approaches in the practical day-to-day application of Community rules. CEBS will increasingly be called upon to address issues that emerge during the implementation of the CRD and related CEBS guidelines. CEBS will develop mechanisms to identify and find common answers to these issues. This work could be conducted through case studies and surveys focused on supervisory practices involving cross-border banking groups.

Peer group comparisons will be investigated for possible use in flagging common supervisory practices and identifying areas in which further convergence could be desirable. CEBS has already agreed on a common framework for supervisory disclosure which will facilitate consistent implementation of rules and guidance. These disclosures will bring some market and peer-group pressure to bear on authorities that cannot justify divergence from the common approach.

The Financial Services Committee (FSC) has proposed the delegation of tasks between supervisory authorities and of the use of mediation mechanisms - already envisaged by Community legislation in the securities sector - in the banking and insurance sectors. CEBS will investigate the concept of mediation to determine if it could be useful in the banking sector as a voluntary and non-binding mechanism for resolving disputes or finding consensus when supervisory approaches diverge.

2.3. Accountability

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

An important element of CEBS' accountability is ensuring that it communicates its views and shares its work in progress with the other Lamfalussy committees (CEIOPS and CESR), especially where overlaps already exist or where issues affect all three sectors. CEBS has taken steps to ensure smooth and effective cross-sectoral cooperation in developing, adopting, and issuing consistent standards, guidelines, and recommendations, wherever such convergence is judged appropriate. The overall aim is greater alignment across sectors in the regulation and supervision of financial institutions.

On 11 October 2005, the Chairs of the Lamfalussy committees addressed a meeting of the ECOFIN Council, speaking on progress and opportunities for better financial regulation. Henrik Bjerre-Nielsen, CEIOPS' Chair, discussed risk-based supervision; CESR' Chair, Arthur Docters van Leeuwen, focused on streamlining the supervisory process; and José María Roldán, CEBS' Chair, concluded with an address on common approaches to regulatory reporting.

In July 2005, CEBS presented its first progress report on supervisory convergence to the Financial Services Committee (FSC). The report reviews the various activities which CEBS has undertaken under the Lamfalussy approach to facilitate the consistent implementation and application of the CRD and convergence of day-to-day supervisory practices. Regular reporting on progress

"Some national differences will remain even after the CRD and CEBS guidelines have been fully implemented"

in fulfilling CEBS' mandate should help EU institutions to assess how the Lamfalussy arrangements work in practice, and to compare the results achieved with the expectations of stakeholders. CEBS' reports will also highlight issues and trade-offs encountered by the Committee in fostering supervisory convergence: for example, striking an appropriate balance between principles-based and rules-based guidance.

The European banking sector has already achieved a comparatively high level of harmonisation and convergence. When assessing the progress made, it is important to keep in mind that the more advanced the stage of convergence, the more difficult it becomes to achieve significant further improvements in a short timeframe, since the issues remaining are generally those which are the most difficult to resolve. The remaining national differences have not presented major obstacles to finalising CEBS guidelines, but to date CEBS has agreed on guidelines only in areas where members' national approaches are relatively similar. Some national differences will remain even after the CRD and CEBS guidelines have been fully implemented. In addition, many of the wishes and requests for national options or discretions in the CRD are driven by the banking industry, which is requesting maximum harmonisation at the same time that it is advocating that CEBS guidance should be principles-based.

In general CEBS has identified the following areas as potential obstacles to further convergence:

- (i) differences in the supervisory models used by competent authorities, which make the adoption of more common supervisory practices more laborious; and
- (ii) divergence in solutions adopted through the political process at Level 1 where, in order to reach agreement on a Directive, political compromises have been made to satisfy national requirements (e.g. national discretions under the CRD).

2.3.1. Consultation practices

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

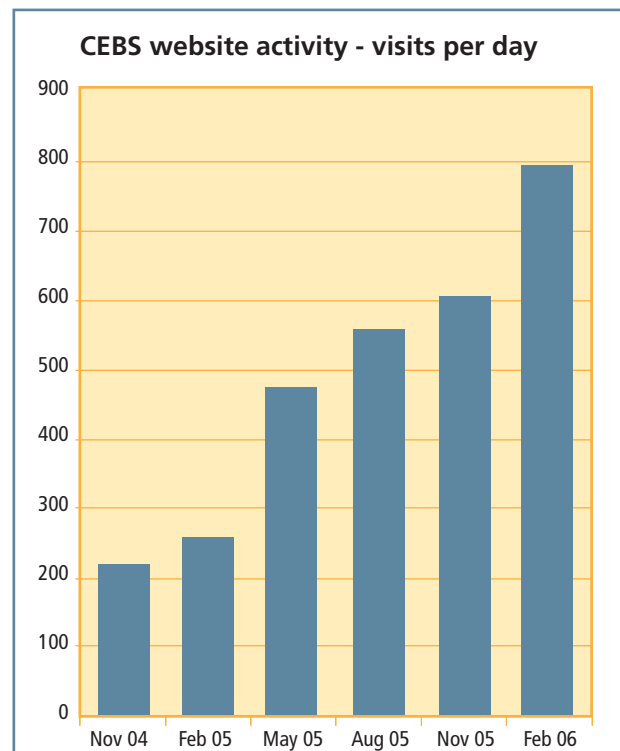
CEBS is required by its Charter to conduct public consultations with market participants, consumers and end-users before submitting advice to the Commission or publishing standards, guidelines, or recommendations. Public consultations assist the Committee in analysing regulatory issues, identifying possible 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' 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 the full range of interested parties, including market participants, consumers, other end-users, and their respective associations. However, the Committee may in exceptional circumstances choose to target a consultation exclusively at selected market participants and their associations. In such cases, the Consultative Panel assists CEBS in ensuring that the process is properly structured. CEBS normally allows

three months for responses to each formal consultation. CEBS conducts a second consultation if the responses to the first consultation reveal significant problems or result in very substantial changes from the original proposal on which the consultation was based. The second round of consultation normally lasts for one month.

In addition to the formal consultation process, CEBS uses other methods of dialogue and interaction with market participants and end-users to obtain input for its consultation papers. These methods may include panel discussions, hearings, technical workshops, questionnaires and informal contacts.

The Committee's communication strategy emphasises the importance of transmitting information to all interested parties. The CEBS website at www.c-eps.org serves as a primary mechanism for disseminating information to all interested parties. The content of the website is updated regularly. CEBS news and events e-mail alert mailing list has attracted more than 2,500 subscribers. The number of daily visits to the website has increased steadily and reached 800 on average at the beginning of 2006.



All the documents related to CEBS' role and tasks, including the Committee's Annual Report, work programme, consultation packages, press releases, guidelines, key speeches and other publications, have been posted on the website. During the period between from December 2005 to February 2006, a total of 13,091 separate visitors viewed www.c-ebs.org. 8,869 visitors returned to the site more than once. The most popular pages included CEBS' publications and press news. In addition to the public website, CEBS has opened a members' only area for internal use and exchange of information.

2.3.2. Consultative Panel

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

CEBS Consultative Panel:

- Expresses views on CEBS' work programme
- Comments on the way in which CEBS is exercising its role and, in particular, on the adequacy of consultation with market participants, consumers and end-users
- Assists CEBS in setting priorities
- Alerts CEBS to regulatory inconsistencies in the Single Market and suggests areas for Level 3 work
- Informs CEBS on major financial market developments

The Consultative Panel is composed of 19 members. Thirteen members are appointed by CEBS, based on the proposal of the Bureau which is in turn based on suggestions from CEBS members. The European Banking Industry Committee (EBIC) and the Forum of User Experts

in the Area of Financial Services (FIN-USE) each contribute two members, and the European Consumers' Organisation (BEUC) and the Union of Industrial and Employers' Confederations (UNICE) each contribute one member. The panel has appointed Mr. Freddy van den Spiegel, a representative of the banking industry, as its chair.

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

The panel held three meetings in 2005. The main focus of the panel was on national discretions and reporting requirements. With regard to national discretions the industry proposed mutual recognition as a solution in various areas. Mutual recognition can mean either acceptance by other supervisors of a decision taken on a localised issue or the application of a decision to both a parent undertaking and its subsidiaries. The panel requests that both be considered. The panel also called for the distorting national discretions to be phased out in the longer term.

On common reporting (COREP) the panel expressed its disappointment with the gap between industry's wishes and CEBS' proposed framework, and suggested moving to fully uniform reporting requirements, substantially streamlined in comparison to CEBS proposals. The panel urged CEBS to implement the framework as soon as possible and to commit itself to further reduction and full harmonisation of reporting templates. CEBS has responded by extending Supervisory Disclosure to include also reporting frameworks in order to monitor the use of common templates in member states.

The panel contributed actively to the preparation of several CEBS guidelines. Industry experts nominated by the panel

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

In relation to guidelines on the implementation, validation, and assessment of risk management and risk measurement systems, the panel noted that CEBS has done a great deal of work and that good progress has been made; but it also stressed that market participants and supervisors need to speed up the preparation and drafting of implementation details in order to ensure the convergence of the implementation process and provide clarity on areas where models need to be built and IT solutions implemented.

The panel discussed CEBS' plans and priorities for 2006 and suggested that CEBS focus on the implementation of the CRD and related CEBS guidelines. Later in 2006 CEBS' focus should turn to monitoring and assessing the arrangements at the operational level. The panel found the proposed CEBS 2006 work programme to be comprehensive and relevant.

Members of the Consultative Panel 2005:

Freddy van den Spiegel, Fortis (The Chair)

Hugo Banziger, Deutsche Bank

Albertus Bruggink, EBIC (Rabobank)

Riccardo de Lisa, FIN-USE

Richard Desmond, UNICE

Richard Gossage, Royal Bank of Scotland

Carl-Johan Granvik, Nordea

Siegfried Jaschinski, State Bank of Baden-Württemberg

Benoît Jolivet, FIN-USE

Michael Kemmer, EBIC (HVB Group)

Roman Maszczyk, PKO BP SA

José Maria Méndez, Spanish Federation of Savings Banks

João Salgueiro, Portuguese Banking Association

Frédéric Oudea, Société Générale

Herbert Pichler, Austrian Federal Economic Chamber

Franco Spinelli, Banca Bipop Carire

Anthimos Thomopoulos, National Bank of Greece

Manfred Westphal, BEUC

Klaus Willerslev-Olsen, Danish Bankers Association

3. Operational structure

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

CEBS' first Chair José María Roldán (Banco de España) was elected at the first meeting of CEBS, on January 29, 2004. Mr. Roldán stepped down as the Chair in January 2006 and CEBS' Vice Chair Danièle Nouy (Commission Bancaire) was elected the new Chair. Helmut Bauer (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin) took over as a Vice Chair. Mme Nouy and Mr. Bauer meet regularly with Andreas Ittner (Oesterreichische Nationalbank), Kerstin af Jochnick (Finansinspektionen) and Andrzej Reich (Narodowy Bank Polski), who have been nominated as members of CEBS' Bureau. The main role of the Bureau is to prepare and discuss matters of strategic importance; it also gives advice and assists the Chair and the Committee in budgetary and administrative matters. CEBS' Secretary General Andrea Enria (Banca d'Italia) is responsible for operational working procedures and planning in the Secretariat. The Secretariat supports the Committee and its expert groups, acts as a coordinator for consultations with members and market participants, coordinates cooperation with the Commission and other committees, and assists the Chair and the Vice Chair in their public relations activities and representation functions.

CEBS work in 2005 was organised under six expert groups or task forces focusing on different work streams, and one joint task force with the ESCB's Banking Supervision Committee (BSC).

The operational structure of CEBS has been under review, as a consequence of the shift in the focus of CEBS' work from the preparation of consultation papers to the finalisation and implementation of guidelines. In 2006, CEBS will work with three permanent expert groups: the Groupe de Contact, the Expert Group on the Capital Requirements, and the Expert Group on Financial Information. The joint CEBS-BSC Task Force on Crisis Management will continue its work until the completion of the mandate.

The Expert Group on Common Reporting and the Task Force on Supervisory Disclosure have fulfilled their tasks and have been dissolved. The Steering Group on QIS 5, which is in charge of developing the EU study on the quantitative impact of the new regulatory framework for capital requirements, will be dissolved once that exercise has been completed.

CEBS Expert Groups 2005

Groupe de Contact (GdC)

Chair Fernand Naert
Commission Bancaire, Financière et des Assurances
(Belgium)

Expert Group on the Capital Requirements Directive (EGCRD)

Chair Clive Briault
Financial Services Authority (UK)

Expert Group on Common Reporting (COREP)

Chair Pierre Yves Thoraval
Commission Bancaire (France)

Expert Group on Accounting and Auditing (EGAA)

Chair Arnold Schilder
De Nederlandsche Bank (Netherlands)

Supervisory Disclosure Task Force (SDTF)

Chair Danièle Nouy
Commission Bancaire (France)

Steering Group on QIS 5 (SGQIS)

Chair Gerhard Hofmann
Deutsche Bundesbank (Germany)

Joint Task Force on Crisis Management (TFCM)

Co-Chairs Helmut Bauer, BaFin (Germany);
Lars Nyberg, Riksbank (Sweden)

Groupe de Contact

According to its Charter, CEBS relies predominantly on the Group de Contact (GdC) as its main working group. The GdC has traditionally focused on supervisory practices and the exchange of confidential and non-confidential information between competent authorities. The members of the GdC are representatives from the competent supervisory authorities and central banks with operational involvement in banking supervision.

The mandate of the GdC has been refocused to take into account the shift in CEBS' priorities. The GdC will support the development and functioning of operational networks for cooperation and enhance convergence of supervisory practices as well as exchange of information between EU banking supervisors.

Expert Group on the Capital Requirements

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

Expert Group on Financial Information

The Expert Group on Accounting and Auditing (EGAA) has been renamed the Expert Group on Financial Information (EGFI) and has been entrusted with additional tasks concerning the implementation, maintenance, and possible further development of the common reporting frameworks (FINREP and COREP). The EGFI's tasks will consist of assisting CEBS in carrying out its work programme in the area of financial information, including accounting, auditing, and supervisory reporting issues, and in particular providing a forum for discussion from a supervisory perspective on the implications of developments in the area of financial information and reporting back to CEBS on these issues.

The Expert Group on Financial Information is responsible for maintaining CEBS guidelines and standards in the area of financial information including the common frameworks for supervisory reporting - FINREP and COREP - and the related XBRL taxonomies. It will monitor their implementation and, where appropriate, propose and issue updates.

Establishment of task forces

From time to time CEBS may have to establish ad hoc task forces, charged with a specific task and dissolved as soon as that task is accomplished. In particular, CEBS may use task forces to deal with issues requiring a specific technical expertise, or when the workload of permanent expert groups does not allow them to pursue an issue. The establishment of a task force will be decided at CEBS level.

Joint Task Force on Crisis Management

The Task Force on Crisis Management, which was established jointly with the ESCB's Banking Supervision Committee (BSC), seeks to improve cooperative arrangements for managing potential banking and financial crises. The Task Force is developing guidance for dealing with financial crises - whether triggered by individual institutions, banking groups, developments in money and financial markets or market infrastructures, or external causes - that may have a systemic cross-border impact. The Task Force will also contribute to the proper functioning of cross-border operational networks that provide for timely exchange of information and cooperation between banking supervisors and central banks in financial crises.

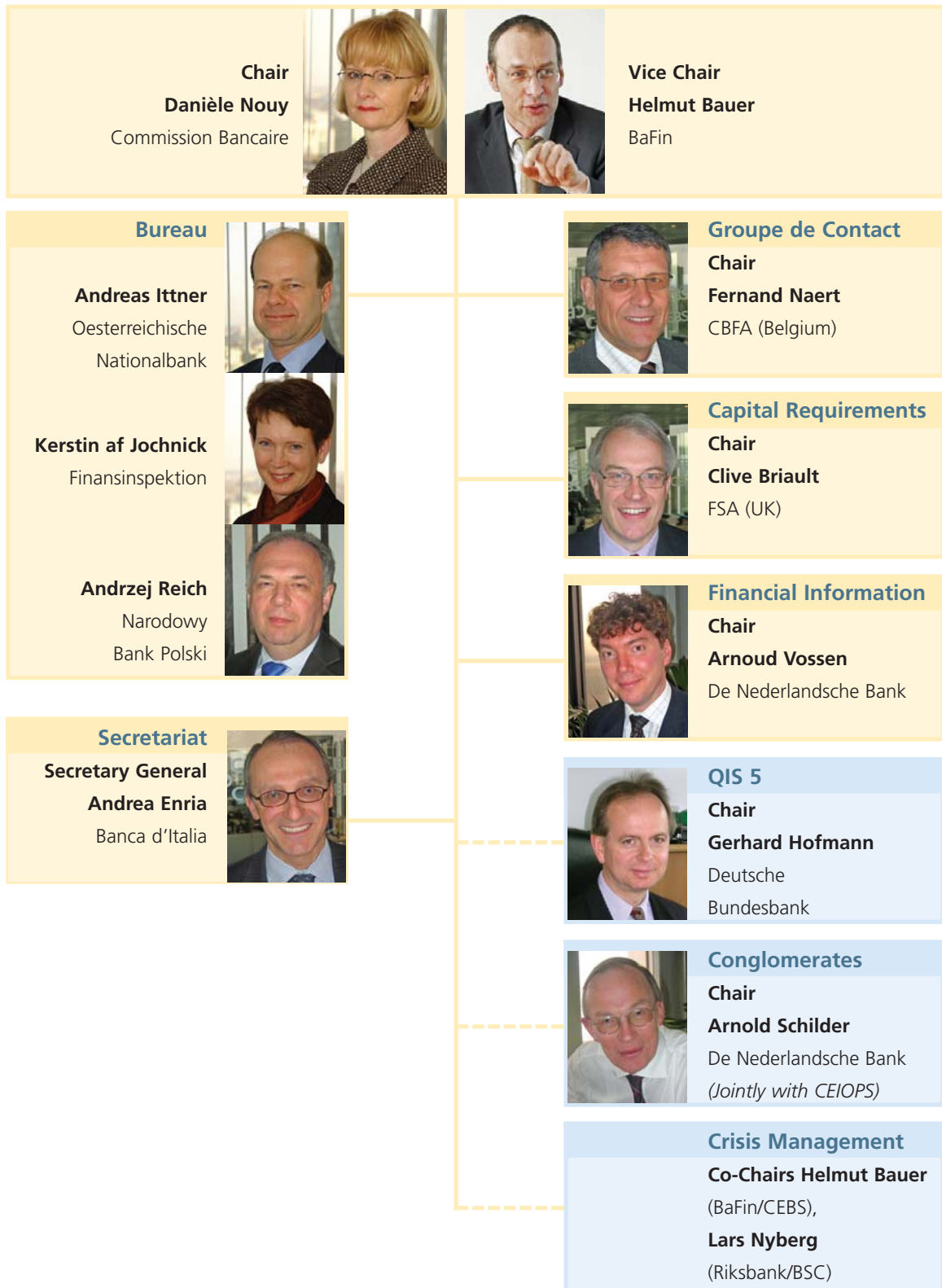
Steering Group on QIS 5

The Basel Committee on Banking Supervision is reviewing the calibration of the revised capital framework (Basel II) in spring 2006. In order to ensure that the envisaged review is based on the most recent and accurate data, and to evaluate the impact of the new proposals for the recognition of double default and trading book-related issues, the Basel Committee has undertaken a fifth Quantitative Impact Study (QIS 5). Data were collected from a sample of banks between October and December 2005, and the analysis started in early 2006.

CEBS has been working in close cooperation with the Basel Committee to develop a QIS 5 at the EU level. To that end, CEBS has set up a steering group which will:

- (i) plan the organisation of technical support to members; in particular to those CEBS members that are not members of the Basel Committee;

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- (ii) propose amendments to the Basel QIS 5 workbook and related instructions to cover specific EU needs; and
- (iii) analyse the results and prepare a draft report for the EU, which will be submitted to the Commission and the European Banking Committee (EBC) as input for the discussion of possible changes to the Capital Requirements Directive.

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

Operational and administrative support to CEBS is provided by the CEBS Secretariat. The Secretariat has been organised as CEBS Secretariat Limited, a 'company limited by guarantee' under English law. All EU members and observers from other EEA countries contribute to the budget of CEBS Secretariat Limited, according to a formula based on the number of votes held by each jurisdiction in Council meetings. The total administrative and operational expenses of the Secretariat in 2005 amounted to £ 1.4 million. The Annual Report of CEBS Secretariat Limited, along with its financial statement, is attached to this report (Annex A5.)



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

Cooperation with third parties

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

CEBS opened an EU-US dialogue with a visit to the United States in January 2005, followed by a visit by a delegation from the US Congress in February. In the course of CEBS' visit to New York and Washington, CEBS representatives had an opportunity to meet with US banking supervisors and regulators to discuss matters of mutual interest. A follow-up meeting has been planned for 2006. The US Secretary of the Treasury, John Snow, met with CEBS' Bureau members in London on 9 June 2005. That visit indicated the strong interest of US authorities in European supervisory arrangements.

CEBS representatives have participated in several Basel II implementation seminars and conferences outside the EU at which CEBS products were presented. CEBS' work has raised international interest as the first practical supervisory guidance on implementation of the new capital framework.

The CEBS Secretariat (front row from left): Laetitia Mouquot, Andrea Enria, Karin Zartl; (back row from left) Jouko Marttila, Guy Haas, Alison Smith, Roel Theissen, Michelle Humphries, Alan Houmann and Thomas Dietz.

4. Progress made in 2005

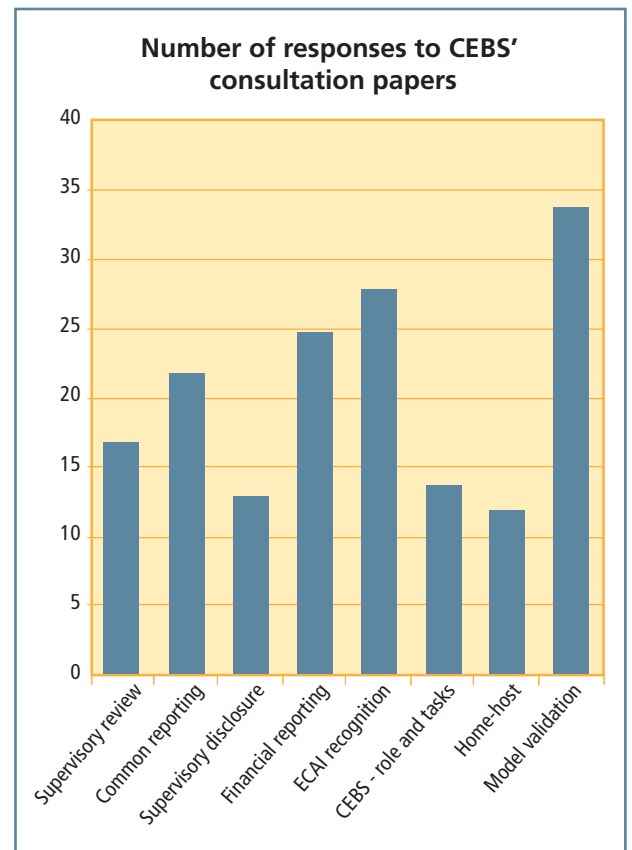
The projected work programme of CEBS was adhered to closely in 2005, with most products being delivered within the time schedule that was published with the work programme.

Technical advice to the Commission was also delivered within the deadlines set by the Commission. Those deadlines were very tight, ranging from 12 to 19 weeks. As a result, CEBS was unable to conduct public consultations on these documents in accordance with its normal consultation practices (see below). CEBS relied instead on its Consultative Panel, and in one case on an online questionnaire, to receive input from interested parties. An important factor in the decision to proceed without normal consultation procedures was that the advice provided was on framework legislation, and the Commission would conduct consultations on the same subjects.

In order to ensure proper coordination with the Commission on future calls for advice, CEBS has proposed distinguishing between consultations that touch upon general principles or provide political guidance for Community legislation, for which CEBS might be asked to provide supervisory input without necessarily consulting market participants; and more technical advice, for which CEBS should be given sufficient time to conduct extensive public consultations.

The work on convergence of supervisory practices proceeded according to schedule. Eight consultation papers were issued in 2005:

- supervisory review process (Pillar 2 - second consultation covering internal governance issues)
- common reporting of the solvency ratio
- supervisory disclosure
- financial reporting
- recognition of external credit assessment institutions (ECAIs)
- role and tasks of CEBS
- cooperation between consolidating and host supervisors
- validation of internal approaches for credit and operational risks



All of the CRD and IFRS-related guidelines submitted for public consultation were finalised between October 2005 and March 2006.

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

The consultation paper on cooperation between consolidating supervisors and host authorities was issued later than expected, in order to include a section on model validation (as requested by the Consultative Panel) and to conduct 'road testing' of the arrangements on a sample of cross-border groups.

4.1. Advice to the Commission

In May 2005, CEBS provided the Commission with its technical advice for the Commission's review of Article 16 of the Consolidated Banking Directive (2000/12/EC). The purpose of the advice was to ensure that prudential controls do not improperly curb cross-border mergers and acquisitions in the Single Market. CEBS pointed out that measures should be taken to supplement Articles 7 and 16 of the Directive with indicative criteria to be applied when assessing the suitability of a person for the purposes of those articles. The criteria must be illustrative and non-exhaustive, because no specific criteria can cover the full range of cases and there are differences in what the wider law will allow in each country. The establishment of the criteria listed as requirements in the Directive does not preclude efforts by the competent authorities to pursue further convergence at Level 3.

The Commission asked if it would be possible to agree on mutual recognition for "suitable shareholders," that is, if it was possible for competent authorities of all other Member States to rely on the assessment already made by a competent authority of any one EU Member State that a particular qualifying shareholder is 'suitable.' In some cases, this requirement could apply to the indirect or ultimate shareholders instead of direct shareholders. CEBS suggested introducing mutual recognition of the decisions by other Member States that a qualifying shareholder is not 'suitable' for the purposes of that test. Measures should also be introduced to require competent authorities to regard the fact that a qualifying shareholder is suitable for the purposes of Article 7 in another Member State as an important factor when applying the first step of the suitability test under Article 16.

On 1 July 2005, CEBS provided the Commission with technical advice on the implementation of Article 8 of the E-Money Directive (2000/46/EC), and specifically on the possibility of granting waivers for hybrid issuers of electronic money. CEBS issued a public questionnaire and concluded that there appears to be no need to adjust the legal framework. This conclusion reflects a purely

supervisory perspective; a review of the thresholds may be appropriate from a different standpoint.

Several reactions received in the process of preparing CEBS advice indicated a strong interest in developing a common European position on whether telecommunication operators and other hybrid issuers of e-money should fall within the scope of European electronic money legislation, and on common guidelines or a common prudential regime that would apply to them. The overall objective of harmonisation in this area is to promote a level playing field between electronic money institutions that are regulated under the Directive and other service providers that may issue electronic money as a non-core part of their business.

On 30 September 2005, CEBS provided technical advice on issues arising from the Commission's review of the Directive on Deposit Guarantee Schemes (94/19/EC). CEBS favoured keeping the current regime, which leaves open the choice between ex-ante and ex-post funding. While retaining the status quo may be only a second-best solution on theoretical grounds, it has been functioning reasonably well in practice. Although deposit guarantee schemes are also a consumer protection tool and are closely linked to local market conditions, CEBS considers that maintaining the alignment between supervisory responsibilities and deposit guarantee schemes should be regarded as a fundamental goal. The issue of systemically relevant branches should be addressed mainly through reinforced cooperation or ad hoc agreements.

During 2005, CEBS also conducted follow-up work on the advice delivered to the Commission in 2004 as reported in the CEBS Annual Report 2004. In the area of national discretions, CEBS has continued to work on identifying areas in which supervisory convergence could be pursued. The request of market participants to consider recourse to the notion of mutual recognition in the area of national discretions is being investigated. With reference to the use of prudential filters to avoid unintended effects of the new accounting standards on regulatory capital, CEBS reviewed the implementation of the guidance at the national level.

4.2. Common frameworks for supervisory reporting

On 16 December 2005, CEBS published final guidelines establishing a standardised framework for consolidated financial reporting for credit institutions (FINREP). The framework has been designed for banks that use IFRS for their published consolidated financial statements and that have to provide similar information in the periodic reports they are required to submit to their supervisory authorities. It will enable institutions to use the same standardised data formats and data definitions for prudential reporting in all countries where the framework will be applied.

CEBS accommodated most of the concerns expressed by industry in the public consultation on FINREP: the volume of data requested was reduced by 48 percent and the framework has been linked as much as possible with the common framework for reporting the solvency ratio.

Concurrently with FINREP, CEBS developed guidelines on a common framework (COREP) to be used by credit institutions and investment firms when reporting their solvency ratio to supervisory authorities under the CRD.⁴ Banking supervisors use these data to assess institutions' risks in relation to their capital adequacy. The framework contains common definitions and a common taxonomy, which should reduce the compliance burden on cross-border institutions and improve the exchange of information between supervisory authorities. Banking groups operating on a cross-border basis within the Single Market will no longer be required to prepare and submit their supervisory reports using different national formats.

The public consultation on COREP revealed widespread concerns that the reporting framework could be excessively detailed. CEBS responded by reducing the amount of data required in the framework by 70 percent from what was originally proposed.

While some obstacles to attaining full convergence and harmonisation of prudential reporting requirements remain, the COREP framework constitutes an important step in that direction. A survey conducted among members revealed that more than 80 percent of EU supervisors will adopt the use of the core data in the COREP framework. Some flexibility will remain concerning the use of supplementary information.

Each national supervisor remains free to decide on technical aspects involved in implementing the supervisory reporting. However, CEBS considers that XBRL (Extensible Business Reporting Language) can be a helpful tool in constructing a harmonised European reporting system. CEBS is developing an XBRL taxonomy, which will be made available without cost to national authorities and supervised institutions.

CEBS will follow closely the implementation of the frameworks and will report on their effects on convergence of supervisory reporting in the EU.

⁴ CEBS published final COREP guidelines on 13 January 2006.

Common reporting (CP04)

Consultation period ended 30 April 2005

22 responses

In general, responses critical

Final guidelines published 13 January 2006

Support for:

- common framework in principle highly acceptable;
- core information should be sufficient for solvency ratio;
- contributes to level playing field only if common component wide enough and national flexibility limited;

General concerns:

- framework too extensive and too detailed;
- concern about supervisors asking for more information on top of common framework;
- national discretions on detailed part of the framework;
- harmonisation might not be achieved as requested;
- certain templates are difficult for banks to supply;
- COREP and FINREP not aligned;

In response CEBS:

- reduced the volume of required data by 70 percent from the original proposal;
- agreed that national authorities may allow a certain degree of flexibility in their roll-out plans for the new framework, especially with regard to the IT challenges facing the industry;
- committed to develop an XBRL taxonomy, which will be made available free of charge to national authorities and supervised institutions;
- decided to monitor the implementation of the framework closely and will report on how it affects the convergence of supervisory practices in Europe.

Financial reporting framework (CP06)

Consultation period ended 8 July 2005

25 responses

In general responses welcome initiative, although with some reservations

Final guidelines published 16 December 2005

Support for:

- Standardised reporting in principle highly acceptable;
- Level playing field achieved only if common component wide enough and national flexibility limited;

General concerns:

- Framework too extensive and too detailed;
- COREP and FINREP not aligned;
- FINREP not consistent with IFRS, goes beyond already extensive IFRS requirements

In response CEBS:

- reduced the volume of data requested almost by half;
- linked the framework as much as possible with the common framework for reporting the solvency ratio (COREP);
- acknowledged that some supervisors do not collect financial information by means of periodic prudential reports and do not plan to apply the framework to supervised credit institutions; however, once it is applied, supervisors should, at a minimum, require the core information;
- initiated to develop an XBRL taxonomy, which will be made available without cost to national authorities and supervised credit institutions;
- decided to monitor the implementation of the framework by member states, and will adapt the framework as necessary to address issues that arise from the practical aspects of implementation or from new developments in IAS/IFRS or prudential supervision

The screenshot shows the CEBS website interface. The main content area is titled 'Options and national discretions' and includes a 'Demo version' notice. Below this, there is a section for 'Tables of information:' which lists two categories: 'COMPARATIVE TABLES TO SHOW OPTIONS AND NATIONAL DISCRETIONS' and 'MUTUAL RECOGNITION TABLES OF A MEMBER STATE IN RESPECT OF...'. The second category is expanded to show a table with the following data:

	B	C	D	E	F	G
1	Dir. 2000/12 (unless indicated 93/5)	Denomination	Description	AT	BE	CY
2	Article 57 (last para.)	Inclusion of interim profits*	Member States may permit the inclusion of interim profits before a formal decision has been taken on the accounts, subject to conditions.			
3	Article 58	Waiver on certain deductions*	Shares in another credit institution, financial institution, insurance or reinsurance undertaking may not be deducted if held temporarily for the purposes of a financial assistance operation designed to reorganise and save the entity.			
4	Article 59	Alternatives to deductions*	As an alternative to deductions of participations and capital instruments held in other financial institutions, credit institutions may be allowed to apply, with the necessary changes, any of the methodologies set out in the Annex 1 to the Conglomerates Directive.			
	Article 60	Deductions for stand-alone requirements	For the purposes of the calculation of their stand alone requirements, institutions may be not required to deduct holdings and			

4.3. Supervisory disclosure framework

A demonstration of the functionality of the supervisory disclosure framework is available on the CEBS website at www.c-eps.org/SD/SDTF.htm.

Article 144 of the CRD, which requires competent authorities to provide information on their supervisory and regulatory systems, specifically requires that these disclosures be published in a common format and made accessible in a single electronic location. Accordingly, CEBS has developed a common European supervisory disclosure framework, which will be adopted by both CEBS and the national authorities in charge of the supervision of credit institutions and investment firms. The framework is based on a common format, consisting of a series of simple and similar information tables in standard formats.

The framework is intended to make supervisory practices more transparent. This need for transparency is all the more pressing in the context of the increasing integration of financial markets in Europe, which requires consistent implementation of EU legislation and convergence of supervisory practices across Europe. Supervisory disclosure fosters sound governance and is a powerful tool for promoting convergence of supervisory practices.

The framework will make it easier to compare national texts that implement the CRD, and to compare the ways in which Member States exercise the options and national discretions available to them in the CRD. In addition, the framework will enable institutions to compare the criteria and methodologies that supervisors use in evaluating and reviewing them. Finally, it will provide aggregate statistical data on key aspects of the implementation of the CRD.

Disclosures will be accessible via the Internet, using both the CEBS website and national websites, which will be linked to each other.

A demonstration of the full functionality of the framework is available on the CEBS website at www.c-eps.org/SD/SDTF.htm. The information on the CEBS website will be displayed in English and information on the national websites of non English-speaking countries will also be available in English, on a best-efforts basis.

Supervisory Disclosure (CP05)

Consultation period ended 24 June 2005

13 responses

Responses very positive

Final guidelines published 1 November 2005

Support for:

- Level of details and the scope of information provided
- User-friendly framework
- Single point of entry via CEBS for meaningful comparison and national clones for more detailed information
- Powerful tool for convergence - brings external pressure from the industry

In response CEBS:

- made minor technical modifications to the framework;
- approved the final guidelines to be implemented by national competent authorities

4.4. Supervisory Review Process

CEBS' consultation on implementing the supervisory review process, the so-called Pillar 2 of the revised international capital framework (Basel II), laid out a general overview of the approach that will be taken to implementing Pillar 2 and the corresponding provisions of the CRD. Two rounds of consultation were conducted before publishing the final guidelines.⁵ The guidelines were based on a combination of accepted best practices and the development of new

agreed sound practices relating to the new elements of Basel II and the CRD.

The emphasis in the supervisory review process is on dialogue and interaction between the institution's internal capital adequacy assessment (ICAAP) and the supervisor's review and evaluation (SREP). The supervisory review processes have been set out in detail in order to ensure transparency and promote convergence of supervisory practices.

CEBS guidelines stress that an institution's management bears primary responsibility for developing and managing its risk management processes and ensuring that it holds sufficient capital to meet both regulatory and internal capital targets. The task of the supervisory authority is to review and assess the institution's internal processes and, if needed, to take appropriate supervisory measures, which may include the requirement to hold regulatory capital in excess of the minimum Pillar-1 requirements.

The CRD makes it clear that all institutions should have an in-house system for capital adequacy assessment, whether they are large or small, complex or less complex, credit institutions or investment firms. At the same time, the guidelines stress that the intensity and detail of the dialogue should be proportional to the systemic importance, nature, scale and complexity of the institution. Proportionality has been a key demand from the industry and it has been addressed by CEBS.

The response to the public consultation was generally quite positive, but concerns were raised about the degree of detail and the prescriptive nature of the guidance. Some respondents argued that guidance should be more principles-based, but at the same time other banks requested more detailed guidelines.

CEBS noted that its guidelines should be read in conjunction with the guidelines on supervisory cooperation on cross-border groups, as they will shed more light on how interaction between home and host supervisors in the supervisory review process will work in practice.

⁵ CEBS published final Supervisory Review Process guidelines on 25 January 2006.

Supervisory Review Process (CP03 revised)

Consultation period ended 21 October 2005

17 responses

In general, responses quite positive

Final guidelines published 25 January 2006

Support for:

- internal capital adequacy assessment process (ICAAP) the responsibility of the institution;
- dialogue between the institution and the supervisory authority in the process;
- the concept of proportionality

General concerns:

- detail and levels of prescription criticised;
- scope of application – some respondents think that the guidelines go beyond the CRD;
- flexibility decreased from the first paper;
- too much emphasis on capital;
- supervisory review should not be a box-ticking exercise

In response CEBS:

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

4.5. Validation of AMA and IRB approaches

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

The accuracy of the resulting capital requirements depends on the precision of the estimated risk parameters.

Supervisory authorities must review how an institution estimates these parameters and grant it permission to use the advanced approaches for regulatory purposes only if they are satisfied that it meets certain minimum requirements. The use of the more risk-sensitive approaches requires institutions to meet higher risk management standards than are required under the less risk-sensitive approaches.

Article 129, section 2 of the CRD grants new responsibilities and powers to the 'consolidating supervisor,' including a role in considering applications from cross-border groups to use the IRB and AMA approaches. In particular, all competent authorities included in the supervision of a parent entity and its subsidiaries are directed to work together to decide whether to grant the permission sought and to determine the terms and conditions, if any, to which the permission should be subject. If within six months a joint decision is not reached, the consolidating supervisor will take the responsibility of making its own decision for the whole group.

CEBS published two consultation papers on the implementation, validation and assessment of advanced credit and operational risk approaches. The papers reflect a common understanding of what supervisors should take into account when dealing with an application from an institution to use the IRB or AMA approaches for regulatory purposes. CEBS' objectives were to streamline

the approval process, especially for cross-border groups, and to contribute to a level-playing field for institutions using the more advanced risk measurement approaches. The guidelines should also encourage the use of advanced risk management systems by institutions and provide a framework for convergence of practices.

The comments received during the consultation highlighted several areas of concern. Criticism focused on the internal governance requirements and on the degree of detail of the guidelines and their prescriptive nature. Several respondents urged CEBS to make sure that final guidelines would be consistent with CEBS guidance on the supervisory review process (Pillar 2). Some banks asked for more detailed guidance on admissible procedures for determining the probability of default in low-default portfolios, and, in particular, for guidance on specific business lines that are characterised by low default rates. Others asked for guidance on the use of predefined forms in the self-assessment that is part of the application process. Some respondents thought that the proposed guidance was excessively conservative and that it imposed requirements that went beyond the scope of the CRD. Concerns were also expressed on behalf of institutions that developed their models before final supervisory guidance was issued.

In response to the industry comments, CEBS made several changes to the guidelines. CEBS also elaborated on a number of topics in the second round of consultation, to fill gaps in the initial paper. These included guidance on the assignment of exposures to the equity exposure class, the securitisation exposure class, and purchased receivables, as well as guidance on economic downturn LGDs and on quantitative aspects of AMA.

Model validation and approval (CP10)

The first consultation period ended 30 October 2005 and second 16 February 2006

34 responses

In general comments critical but dispersed

Final guidelines published 4 April 2006

Support for:

- Supervisory cooperation and convergence to contribute to level playing field;
- Harmonisation of the validation process for future applications;
- Guidance on credit risk and operational risk are both relevant and important for industry;
- The scope is wide enough

General concerns:

- Level of detail represents a sum of different supervisory practices, not convergence;
- Guidance comes late;
- The degree of details is too large and prescriptive; instead it should be principles-based (especially with regard to internal governance);
- Guidance not always consistent with Pillar 2 (CP03);
- Small banks ask for more detailed guidance;
- More emphasis on proportionality;
- Some requirements go beyond the scope of the CRD

In response CEBS:

- amended the guidelines to include 40-50 % of the changes proposed by the respondents;
- introduced a good faith clause in the revised paper to provide some flexibility to institutions that developed their models before final supervisory guidance was issued;
- streamlined the internal governance parts of the guidelines;
- changed several provisions in the paper to be read as illustrative examples instead of formal guidance;

4.6. External Credit Assessment Institutions (ECAIs)

The CRD allows institutions to use ratings generated by eligible External Credit Assessment Institutions (ECAI) in assessing the credit risk of counterparties and in calculating capital requirements under the standardised approach. Competent authorities are to recognise an ECAI as eligible only if they are satisfied that the ECAI's assessment methodology complies with requirements relating to its objectivity, independence, and ongoing review and transparency; and that the resulting credit assessments meet requirements of credibility and transparency.

In 2005, CEBS developed draft guidelines for a common approach to the recognition of ECAIs.⁶ The guidelines establish common procedures for recognising both local and cross-border ECAIs. These procedures include a 'joint assessment process' which will streamline the recognition of cross-border ECAIs. CEBS members have begun work on the first joint assessments of cross-border ECAI applications.

The guidelines provide a common understanding of the criteria for recognition contained in the CRD, and a common approach to 'mapping' the credit assessments of recognised ECAIs to the credit quality steps in the CRD.

CEBS work in this area benefited from two rounds of public consultation and an extensive dialogue with market participants. CEBS also participated as an observer in the work of the Committee of European Securities Regulators (CESR), which provided technical advice on credit rating agencies to the European Commission in March 2005.

ECAI recognition (CP07)

Consultation period ended 30 September 2005

21 responses

In general, responses quite positive

Final guidelines published 20 January 2006

Support for:

- Joint assessment process to reduce administrative costs on both sides
- International consistency and level playing field for banks and ECAIs

General concerns:

- Consistent decision making process, not just a joint assessment
- Possible barriers to entry

In response CEBS:

- issued an addendum to the CP07 launched in November 2005 to cover the mapping of credit assessments of Collective Investment Undertakings (CIUs) and of securitisation positions to the CRD risk weights;
- assured that supervisors do not intend to create barriers to enter the market; the main concern is to allow banks to use external ratings which are robust enough to base the calculation of the regulatory capital requirements;
- committed to promote international consistency taken into account that approaches are slightly different

⁶ CEBS published final guidelines on ECAI recognition on 20 January 2006.

4.7. Supervisory cooperation and information exchange

Supervisory cooperation

Over a period of several years, European banking supervisors have developed and put into practice arrangements for cooperation and information-sharing between consolidating and host supervisors within the legal framework of the responsibilities laid down in the EU Directives. These arrangements have worked well up to this point, with the consolidating supervisor and the host supervisors each having a specific role to play in ensuring the effective supervision of cross-border European financial groups. However, the introduction of a revised capital adequacy framework, and the evolving structure of banking groups and systems across the EU, have made it necessary to refine these arrangements in order to strengthen existing coordination and cooperation between supervisors.

In 2005, CEBS developed draft guidelines on supervisory cooperation between consolidating supervisors and host supervisors.⁷ The guidelines set out a practical framework designed to promote efficient, coherent, and cost- and resource-effective cross-border supervision for the benefit of both supervisory authorities and the supervised institutions. Increased cooperation between supervisors through operational networks cutting across consolidating supervisors and host supervisors will lead to a higher degree of commonality in supervisory standards, which should further improve supervisory efficiency. Cooperation should also promote convergence of supervisory practices, by fostering a better understanding of each others' methods and approaches.

The starting point for CEBS' guidelines is the legal text - primarily Articles 129, 131 and 132 of the CRD - which sets the statutory framework for an enhanced collaborative approach to the supervision of cross-border banking groups. In accordance with the requirements of the Directive, this approach will be based on information sharing, including, where necessary, consultation on supervisory action (Article 132), on joint model validation under the lead of the

consolidating supervisor (Article 129), and more generally on written arrangements for coordination and cooperation between home and host supervisors (Article 131). These and other CRD requirements have been fleshed out for practical application by the supervisory authorities, the prime audience for the guidelines.

Cooperation between consolidating and host supervisor (CP09)

Consultation period ended 8 November 2005

12 responses

In general the responses positive and supportive

Final guidelines published 25 January 2006

Support for:

- Enhanced cooperation;
- Guiding role of the consolidating supervisor

General concerns:

- The role of the consolidating supervisor should be further enhanced;
- Support for the lead supervisor model;
- Guidelines should be extended to cover third countries;
- Procedure if supervisors disagree?

In response CEBS:

- was unable to change the guidelines in order to respond to the general concerns since they predominantly depend from the legal framework;
- expressed once again its commitment for a close co-operation between supervisors;
- encouraged its members to apply the guidelines also in the contact with third country supervisors to the largest degree possible;
- committed via its members to continue to play an active role in the work of the Basel Committee's Accord Implementation Group (AIG), which is seeking to promote supervisory cooperation at the global level
- has confidence that as a result of its commitment to convergence conflicts between supervisors will be exceptional

⁷ CEBS published final supervisory cooperation guidelines on 25 January 2006.

Crisis management

In 2003, EU central banks and banking supervisors agreed on a Memorandum of Understanding on cooperation in crisis situations, drafted by the Banking Supervision Committee (BSC) of the ESCB. In 2005, a similar MoU was signed between supervisors, central banks, and finance ministries. An exercise conducted by the BSC on the basis of the 2003 MoU identified areas for further work, in particular the need for more refined principles for cooperation and exchanges of information in cases involving cross-border and systemic problems. CEBS is working jointly with the BSC on additional crisis-management recommendations, convergence of supervisory practices, and the development of effective operational network mechanisms for crisis management. The work is based on the MoUs, as well as on the new provisions in the CRD. An internal report was drafted in 2005, and will be finalised after taking into account any issues emerging as a result of an EU-wide simulation exercise in the second quarter of 2006. A press release on the contents of the final report will be issued in due course.

Information exchange

The exchange of information between supervisors, covering both supervisory experiences and supervisory policies and practices, is essential for establishing practical convergence, and is therefore an important element in CEBS' work. Such information exchange normally will take place mostly between supervisors involved in supervising a banking group, or in operational networks on specific subjects.

CEBS is developing improved processes for such exchanges, as one element of its work on convergence of supervisory practices. For example, information exchange proposals are included in CEBS' guidelines on supervisory disclosure, in its guidelines on home-host cooperation, and in its work on crisis management. CEBS work in this area is based on the principle, under the CRD, that the primary responsibility for exchanging information concerning specific credit institutions rests with the supervisors directly concerned. CEBS provides guidance on how to address such responsibilities, and supports networks which perform supplementary information exchange.

In 2005, CEBS carried out an initial assessment of the implementation of CEBS' Guidelines on Prudential Filters for Regulatory Capital, which were developed in response to a call for advice from the European Commission. The introduction of IAS/IFRS has been a source of concern to supervisory authorities, notably because of concerns that these standards could jeopardise the criteria that regulatory own funds have to fulfil. CEBS subsequently undertook an analysis of a sample of institutions' financial data to determine whether these supervisory concerns are justified and to what extent the Guidelines on prudential filters are effective. CEBS has published a summary report on the quantitative impact of the introduction of IFRS on banks' financial statements and regulatory own funds, and the effects of applying the Guidelines on Prudential Filters for Regulatory Capital. The analysis of the aggregate sample data confirmed that the Guidelines neutralise the negative impact on credit institutions' regulatory own funds that IAS/IFRS were observed to have at transition.

In 2004, CEBS analysed the gap between the work already under way and expectations for supervisory exchange of information when the CRD enters into force, and announced plans to conduct work on this subject in 2005. Although most areas appeared to be covered by existing work, the analysis identified some areas in which additional work would be useful or existing work could be extended. This included exchanging information on general lessons drawn from practical experiences, and sharing information with all supervisors who would benefit from it, and not just the supervisors who are involved in the supervision of a specific institution or group. Many of these areas have been addressed in 2005, either in the guidelines discussed above, or in the expanded focus of CEBS working structures.

Cooperation across financial sectors

With the integration of banking, securities, and insurance business within EU financial institutions and markets, supervisory cooperation across financial sectors has become increasingly important. Various stakeholders, including the European Institutions (the Council, the

European Parliament, and the Commission), national members of the three Lamfalussy Committees, and market participants have all expressed the opinion that work done in each sector should be consistent with the work in the other financial sectors.

Cooperation between CEBS, CEIOPS and CESR (the Lamfalussy Committees) is based on ongoing dialogue and meetings between the Chairs and the Secretariats. As a result of this dialogue, the Committees have drawn up a list of items of common interest and identified areas in which the work of the Committees needs to be aligned. The outcomes of this work do not necessarily need to be identical, but they should be consistent, and differences in outcomes need to be justified by differences in objectives.

The first areas of common work were identified at a meeting of the Secretariats on 8 February 2005 in London. On **outsourcing** of business activities, the differences between CESR's and CEBS' proposals and possible solutions have been mapped, so that the final CEBS' standards should be aligned with rules and guidance being prepared in the securities sector. After finalisation of the consultation on revised proposals, CEBS' standards will thus reflect the final Level 2 measures on Markets in Financial Instruments Directive (MiFID).

CEBS, CEIOPS, and CESR conducted a joint stock-taking exercise in 2005 to identify remaining supervisory issues posed by **off-shore financial centres**. The results of the exercise were presented to the Financial Stability Table of the Economic and Financial Committee (EFC-FST). The problems identified by the exercise related mainly to information exchange and cooperation with the OFCs. The Committees pointed out that these problems arise not only with OFCs but also with some on-shore jurisdictions. International initiatives have led to significant improvements, but additional tools, such as technical assistance to OFCs and internal governance requirements for financial institutions ('know your structure') could be applied more effectively in order to limit the risks from institutions' involvement in OFCs.

On 24 November 2005, in Brussels, the Committees signed a **joint protocol** to foster cooperation and coordination in

the areas of regulation, policy, information exchange, and other tasks in which they have a common interest. The purpose of the joint protocol is to enhance cooperation by formalising the relationship between the Committees. It was signed on the occasion of a joint seminar on cross-sector cooperation in financial regulation and supervision, attended by members of the three Committees, their Secretariats, representatives of the International Institutions and some non-EU supervisors, and industry representatives from the consultative panels of the three Committees.

The practical objectives of the joint protocol are:

- (i) to share information, in order to ensure that approaches developed in each sector are compatible;
- (ii) to exchange experiences which can facilitate supervisory cooperation;
- (iii) to produce joint work or reports to relevant EU Institutions and Committees;
- (iv) to reduce supervisory burdens and streamline processes; and
- (v) to ensure that the basic functioning of the three Committees develops along parallel lines.



The Chairs of Lamfalussy committees José María Roldán (CEBS), Henrik Bjerre-Nielsen (CEIOPS) and Arthur Docters van Leeuwen (CESR) signing a joint protocol in Brussels on 24 November 2005.

5. Areas of ongoing work

Each year, CEBS publishes a work programme which identifies the priority areas on which CEBS will focus its attention in the coming year. The programme is divided into three work areas, corresponding to the main tasks assigned to CEBS in the Commission's Decision establishing CEBS and in the CEBS Charter:

- (i) Advice to the Commission,
- (ii) Convergence of supervisory practices, and
- (iii) Cooperation and information exchange.

Under each work area, the work programme lists the individual work streams identified as high priority for the coming year. The priorities are defined with the assistance of the Consultation Panel.

The main focus of the Committee's work in 2006 will be on implementation of the CRD and related CEBS' guidelines, and on the creation of operational networks and cooperation between supervisors to enhance the efficient and effective supervision of cross-border banking groups.

The Work Programme is published on the CEBS website, in order to raise awareness of the work that CEBS is undertaking. In order to facilitate the participation of interested parties, a timeline for CEBS work streams is published with the work programme. The timeline is updated as needed to indicate when CEBS output is scheduled to be submitted to consultation and finalised throughout the year. Publication of the work programme and its timeline is intended to foster better participation in the consultation process and to promote an open dialogue with the industry and end-users of financial services.

5.1. Advice to the Commission

In 2006, CEBS will work on at least on two areas of technical advice, at the request of the Commission:

- CEBS has been asked to deliver, by August 2006, the results of its stock-taking on the implementation of the CRD's provisions on own funds in Member States, as along with a survey of innovative capital instruments

issued by market participants. CEBS has also been asked to begin work on a set of guiding principles for own funds, and on a quantitative analysis of the types of capital currently held by credit institutions across the EU. CEBS believes this work should run in parallel with the work being undertaken by the Basel Committee on the same topic.

- The Commission has also submitted a call for advice on the review of the rules on large exposures.

CEBS may receive follow-up requests for advice on the prudential controls on mergers and acquisitions, on the equivalence of third-country supervision of banking groups, and on deposit guarantee schemes, as part of the Commission's review of Community legislation in these areas.

The Commission has also indicated that a call for advice on liquidity issues and on the application of the CRD to certain types of commodity firms could be issued in 2006. The mandates for these contributions are still to be defined.

5.2. Convergence and supervisory cooperation

CEBS has now published most of the guidelines related to the implementation of the CRD and IFRS. When all of these guidelines have been finalised, CEBS will compile a compendium or Guidebook of standards, guidelines, advice, and other CEBS work. This Guidebook will be aimed at both supervisors and market participants, with the

“Over time, as market and supervisory best practices emerge, CEBS will continue to monitor and update its guidelines”

principal objective of promoting consistent implementation of EU legislation and convergence of supervisory practices. It will provide consistent terminology and definitions, and should be viewed as a common layer of EU technical guidance, not as an additional layer of regulation.

The Guidebook will have a flexible, Internet-based structure that can be updated easily. This flexibility is

essential, since CEBS recognises the need to maintain and update its products, specifically the Supervisory Disclosure and Supervisory Reporting frameworks. Over time, as market and supervisory best practices emerge, CEBS will continue to monitor and update its guidelines.

Although CEBS' main focus will continue to be on CRD implementation and IFRS-related issues, work on convergence of supervisory practices in other areas may be warranted in the medium term. One possible area of work could be the practical process of licensing credit institutions: i.e. the administration and assessment of 'fit and proper' tests.

5.2.1. Monitoring implementation

The CRD requires competent authorities to disclose information on their implementation of the Directive, on their exercise of options and discretions available in Community legislation, and other relevant information. These disclosures should be sufficient to allow a meaningful comparison of approaches adopted in different Member States. The Supervisory Disclosure framework will be an important tool for identifying such differences. CEBS will closely monitor implementation of the CRD, with a view to highlighting possible issues to be addressed.

CEBS will pursue greater convergence in the interpretation, implementation, and application of the CRD through discussion of queries received from members, industry, the Commission, and its own CRD Transposition Group. CEBS has created a Frequently Asked Questions (FAQ) section on its website devoted to implementation issues. A survey of implementation issues will be conducted to prepare for an assessment of the progress made in 2007.

Case-studies on supervisory cooperation and practices involving cross-border banking groups can provide valuable information about supervisory processes and market practices. Findings on best, sound, and deficient practices will be published as reports and surveys.

CEBS has identified a number of obstacles that still limit information exchange, and plans to address some of them in 2006. Some of the issues are related to working

processes, while others are related to legal constraints such as secrecy and data protection interpretations and practices across the EU. CEBS will continue to work on the structure of information exchange in 2006 and plans to have an improved structure in place by the date of implementation of the CRD.

Dialogue with the Consultative Panel should help in identifying convergence issues that need to be addressed at CEBS level. CEBS might also consider relying on ad hoc networks of experts from national supervisory authorities and, if needed, might develop questionnaires to collect additional input. CEBS will also follow closely the adoption of its guidelines on reporting frameworks and prepare progress reports on those areas not covered by the CRD.

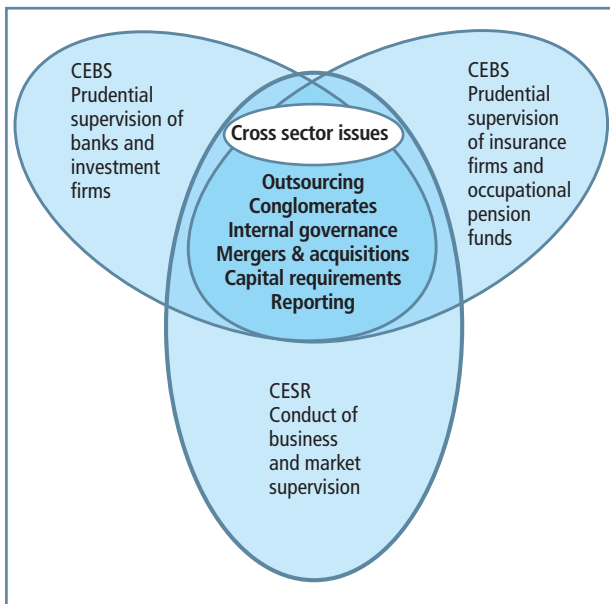
The development of these tools will reaffirm the pragmatic approach of CEBS and its focus on practical convergence issues. These tools are intended to assist both institutions and supervisors without imposing any additional burden on institutions. Benchmarking and peer-group reviews will foster consistency in supervisory practices across the EU while preserving the necessary degree of flexibility and proportionality in the assessment of individual institution-specific arrangements.

5.2.2. Cross-sector cooperation

Following the joint protocol they signed in November 2005, CEBS, CEIOPS, and CESR have published a common cross-sector work programme for 2006. The work programme seeks to make supervisory cooperation across financial sectors more transparent, with a clear identification of the priorities identified jointly by the three Committees. The Committees will work together on issues such as the implementation of the Financial Conglomerates Directive. CEBS and CEIOPS have already initiated work in this area, proceeding informally with the establishment of an Interim Working Committee on Financial Conglomerates (IWCF).

Joint work will also include mapping and comparison of projects that aim at streamlining processes and developing

consistent approaches across financial sectors. The Committees will also compare their work on regulatory approaches and on cooperative arrangements between the various supervisors and between competent authorities in a home and host environment. The Committees will seek input from relevant market participants to take stock of potential inconsistencies in reporting requirements stemming from EU-Directives, taking into account IFRS requirements. On internal governance, an analytical report on overlaps and areas of possible further work will be prepared and shared with the markets.



5.2.3. Common supervisory culture

CEBS assigns a high priority to initiatives aimed at fostering the convergence of supervisory practices and the emergence of a common European supervisory culture. Efforts were made in the course of 2005 to develop CEBS-sponsored training programmes relating to implementation of the CRD and to open up training programmes organised at the national level to all member organisations.

CEBS is also supporting programmes for the exchange of staff between member organisations, as a means of promoting greater commonality of approaches in day-to-day supervision. These efforts will intensify when the guidelines have been put into practice.

Continuing effort will be required to maintain and update CEBS products. Human and technical resources will need to be allocated to maintaining the solvency reporting and financial reporting frameworks and updating taxonomies. The supervisory disclosure framework will be another area in which continuing technical maintenance and updating of content will be required. This work will require training and a common understanding of CEBS objectives.

Staff training and short-term exchanges of experts between authorities will enhance understanding of CEBS' work and objectives and contribute to creating a common European supervisory culture. The first training initiative aimed at promoting a common culture - a seminar on credit risk organised jointly with the Financial Stability Institute (FSI) - was conducted in 2005. The seminar was aimed at helping participants gain a comprehensive view of the internal ratings-based approaches under the CRD. This first effort of CEBS to bring together front-line supervisors for a discussion of common operational approaches was positively received, and two further initiatives will be pursued in 2006.

Annex A1

Lamfalussy Framework

The role of CEBS as an independent Level 3 committee is based on the framework proposed by the “Committee of Wise Men on the Regulation of European Securities Markets” chaired by Baron Alexandre Lamfalussy. The Committee of Wise Men was set up by the Economic and Finance Ministers of the EU (ECOFIN) in July 2000, with a mandate to assess current conditions for the implementation of the regulation of securities markets in the EU and to propose scenarios for adapting current practices in order to ensure greater convergence and cooperation in day-to-day implementation of EU-wide regulation.

The “Final Report of the Committee of Wise Men on the Regulation of European Securities Markets” commonly referred to as the “Lamfalussy report” was published on 17 February 2001. The report identified several shortcomings in the existing system for adopting legislation relating to securities regulation. The system was found to be too slow and too rigid, it tended to produce ambiguous legal texts, and it failed to distinguish between framework principles and practical day-to-day implementing rules. A number of regulatory reforms were proposed to address the shortcomings of the existing system.

These proposals were based on a new, four-level regulatory structure designed to make the decision-making procedures for securities market legislation faster and more flexible, while still ensuring the uniform application of Community law. This approach also envisaged the creation of a new committee structure for regulation and supervision of securities markets.

The Lamfalussy report recommended increasing the use of regulations and fast-track implementation procedures wherever possible, enhancing supervisory and regulatory convergence, semi-annual monitoring of the effectiveness of the four-level regulatory procedure, and conducting a full and open review of the regulatory process in 2004. The Lamfalussy approach did not alter existing legal and advisory structures, but clarified the roles and

responsibilities of the various players in order to provide better advice to legislative authorities and promote more efficient cooperation among national authorities.

The Lamfalussy report was endorsed by the ECOFIN Council in March 2001. In its final report in 2002, the EFC’s recommendation was “to apply the Lamfalussy framework to all financial sectors with arrangements in line with those already implemented for securities, based on existing inter-institutional arrangements, whilst also recognizing sectoral specificities.” The EFC proposed the creation of three separate sectoral committees, for banking, insurance and securities, at each of Levels 2 and 3. A fourth committee at Level 2 was proposed to deal with financial conglomerates that operate across sectors.

The ECOFIN Council endorsed the final EFC report in December 2002 and invited the Commission “to establish the Level 2 committees in an advisory capacity only, and the Level 3 committees as soon as possible”. The Level 3 committees were set up by Commission Decision of 5 November 2003.

The Directive establishing the new financial services committee structure was adopted in 9 March 2005, with the Banking Advisory Committee (BAC) being replaced by the European Banking Committee (EBC). The EBC is composed of high-level representatives of the Member States; its chair and the secretariat are provided by the Commission. In order to ensure close cooperation with CEBS, the CEBS Chair is invited to participate at EBC meetings as an observer. In its advisory function, the EBC will be consulted by the Commission on policy issues relating to banking activities and on proposals in this field. The EBC will also assist the Commission in preparing mandates for technical advice by the CEBS on draft implementing measures.

The main features of the Lamfalussy approach:

Level 1: Framework principles

Framework principles, Directives or regulations, are adopted using 'normal' legislative procedures. The Commission's proposals are followed by public consultation; measures are adopted under the 'co-decision' procedure by the Council and the European Parliament. The Level 1 process must also specify the nature and extent of the detailed technical implementing measures to be adopted at Level 2.

Level 2: Implementing Measures

After consulting with the EBC the Commission requests advice from CEBS. CEBS consults and prepares its advice and submits it to the Commission. The Commission reviews the advice and submits a proposal to the EBC. If a qualified majority of the EBC supports the proposal, the Commission enacts the proposal as legislation; otherwise the proposal is submitted to the Council in accordance with the standard regulatory procedure. The proposal passes unless there is a blocking (two-thirds) majority in the Council. The Parliament can issue a Resolution if it considers that the proposed measures are ultra vires. The EC Treaty¹ and the Council decision of 1999² do not grant any call-back right to the European Parliament, but the Commission has committed itself³ to take the Parliament's position into utmost account.

Level 3: Cooperation and convergence

In addition to their advisory function, Level 3 Committees are charged with improving cooperation between supervisors and ensuring common and convergent implementation of legislation in the Member States. To achieve this goal, CEBS develops common approaches and disseminates good supervisory practices.

Level 4: Enforcement

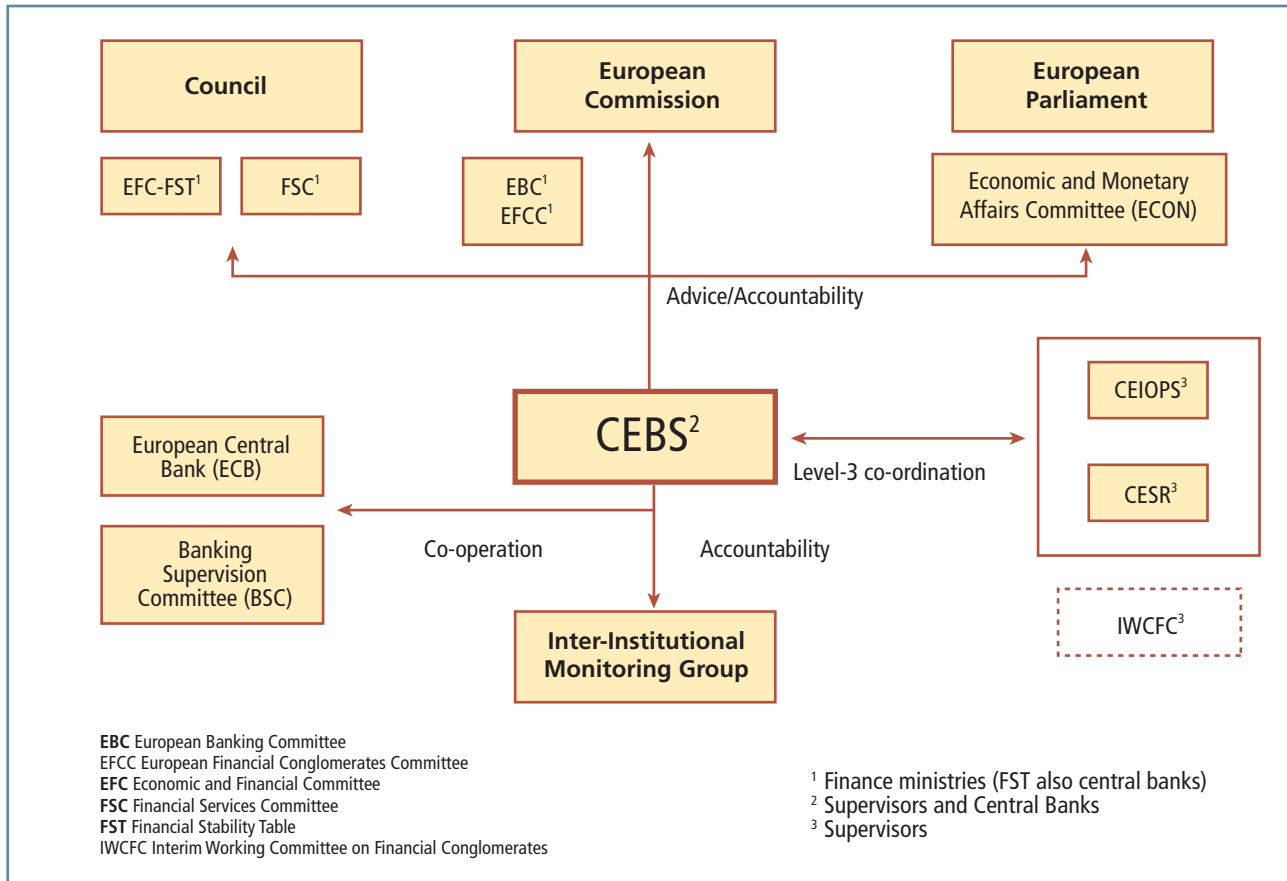
Enforcement of Community law is exercised through vigorous action by the Commission and enhanced cooperation between Member States, regulators and the private sector.

1 EC Treaty, Article 202, 1 February 2003.

2 Council decision 468/1999, Article 5, 28 June 1999.

3 "Implementation of financial services legislation in the context of the Lamfalussy Report" - intervention by Romano Prodi President of the European Commission to the European Parliament's plenary session Strasbourg, 5 February 2002.

CEBS and the supervisory framework in the EU



II

(Acts whose publication is not obligatory)

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 ⁽¹⁾ and 2001/528/EC ⁽²⁾ 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 ⁽³⁾.
- (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.

⁽¹⁾ OJ L 191, 13.7.2001, p. 43.

⁽²⁾ OJ L 191, 13.7.2001, p. 45.

⁽³⁾ 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

Charter of the Commission of European Banking Supervisors (CEBS)

Having regard to:

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE 1 - MEMBERS OF THE COMMITTEE

- 1.1 Each Member State of the European Union will designate a senior representative from the national competent supervisory authority in the banking field to participate in the meetings of the Committee. This representative will be the voting member. In addition, each Member State will designate as a non-voting member a senior representative of the national

central bank when the national central bank is not the competent authority. In the case that the national central bank is the competent authority, the Member State may designate a second representative from this institution. The European Central Bank will also designate a senior representative as a non-voting member.

- 1.2 Applying the same rules as in 1.1, the competent supervisory authorities in the banking field from countries of the European Economic Area, which are not members of the European Union, will designate senior representatives to participate in the meetings as observers. These observers will fully participate in the meetings without, however, participating in decision making.
- 1.3 Upon signing of the Accession Treaty, observership will be granted to the acceding countries, until they become members of the European Union.
- 1.4 The European Commission as well as the Chairs of the Banking Supervision Committee of the ESCB (BSC) and of the Groupe de Contact (GdC) will also have observer status in the meetings. Where a common interest to work together appears, the Committee may accept additional observers to participate in meetings.
- 1.5 The members of the Committee should keep the national members of the European Banking Committee informed about its discussions and, where necessary, make all appropriate national arrangements to be in a position to speak for all competent national authorities that have an interest in the discussed matter.
- 1.6 Where relevant to its work, the Committee may invite external experts.

ARTICLE 2 - CHAIR

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

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

- 2.2 The Chair organises and chairs the meeting of the Committee and executes all other functions delegated to the Chair by the Committee. The Chair is responsible for public relations and the representation of the Committee externally. The Chair is also responsible for the supervision of the Secretariat. After consultation with the Vice Chair, the Chair decides on the agenda of the meetings. The Chair may delegate some of its functions to the Vice Chair.
- 2.3 In addition to the Chair and Vice Chair and also for a period of two years, the Committee may elect up to three members to form the Bureau. These members shall reflect the composition of the Committee. The role of the Bureau is to advise and assist the Chair, e.g. in the preparation of meetings and in its administrative functions and to monitor the budget in close co-operation with the Chair and the Vice Chair. Notwithstanding the above, the first Bureau will be elected for a period of three years.

ARTICLE 3 - OPERATIONAL LINKS WITH THE EUROPEAN COMMISSION

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

ARTICLE 4 - TASKS

- 4.1 The Committee will advise the European Commission on banking policy issues, in particular in the preparation of draft measures for the implementation of European legislation (defined as "level 2 measures" in the Lamfalussy Report). The Committee may provide this advice either at the European Commission's request or on its own initiative.

- 4.2 The Committee will respond within a time-limit, which the Commission may lay down according to the urgency of the matter, to the mandates given by the European Commission in respect of the preparation of implementing measures.
- 4.3 The Committee will foster and review common and uniform day to day implementation and consistent application of Community legislation. It may issue guidelines, recommendations and standards, relating to this and to other matters, that the members will introduce in their regulatory/supervisory practices on a voluntary basis. It may also conduct surveys of regulatory/supervisory practices within the single market.
- 4.4 The Committee will develop effective operational network mechanisms to facilitate the exchange of information in normal times and at times of stress and to enhance day-to-day consistent supervision and enforcement in the Single banking Market.
- 4.5 The Committee will observe and assess the evolution of banking markets and the global tendencies in banking regulation in respect of their impact on the regulation of the Single Market for financial services. In this respect, the Committee will particularly take account of the work of the BSC.
- 4.6 The Committee will provide a platform for an exchange of supervisory information, in order to facilitate the performance of member's tasks, subject to the relevant confidentiality provisions stated in the EU legislation. In exceptional circumstances and at the explicit request of an individual member, those members, who represent the competent supervisory authority and further institutions which have a material operational and practical involvement in banking supervision (in principle, the institutions represented in the Groupe de Contact), may meet in restricted session in order to discuss strictly confidential micro-prudential matters, without prejudice to existing agreements for exchange of information. Banking supervisors of EEA member countries who are observers of the CEBS may also join a restricted session.

ARTICLE 5 - WORKING PROCEDURES

- 5.1 The Committee will meet at least three times a year. Additional meetings may be convened if and when appropriate.
- 5.2 All decisions will be taken by the members of the Committee which may delegate decisions to the Chair.
- 5.3 In its working and/or deliberation and/or decisions, the Committee will respect the national and EU legislation regarding secrecy and confidentiality.
- 5.4 The Committee will rely predominantly on the Groupe de Contact, which will be its main working group and which will report to it. The Committee will endorse the Charter of the Groupe de Contact and its work programme.
- 5.5 In addition, the Committee may establish expert groups, chaired by a committee member (or under the member's supervision), working with a given mandate and to be disbanded upon completion of the mandated work. The composition of such expert groups should be flexible in order to involve other relevant authorities where necessary. The Committee may also establish permanent groups, working within specific terms of reference.
- 5.6 For the execution of its tasks as set out in Article 4 above, the Committee will aim to work by consensus of its members. Decisions are taken by consensus, unless when giving advice to the Commission. In that case, the Committee will strive for consensus, and, if no consensus can be reached, decisions will be taken by qualified majority, whereby each Member country has the same number of voting rights as in the Council as stated in the Nice Treaty. When a decision is taken by qualified majority, the Committee should identify and elaborate the opinion of individual members. With this aim, the different opinions of the members should be recorded. Decisions taken by qualified majority are not legally binding in areas where national authorities are competent.
- 5.7 Unless otherwise stated, the principles under 5.6 will also apply in all remaining matters.
- 5.8 The Committee will ensure that in undertaking its work, it acts in conformity with the conceptual framework of overarching principles identified in the Ecofin Council Conclusions of 2002 and the Commission Decision establishing the Committee.

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

ARTICLE 6 - ACCOUNTABILITY AND INSTITUTIONAL LINKS

- 6.1 The Committee will submit an Annual Report to the European Commission which will also be sent to the European Parliament and the Council.
- 6.2 The Chair of the Committee will report periodically to the European Parliament and/or when requested by the Council, and shall maintain strong links with the European Banking Committee.
- 6.3 The Chair of the Committee may participate as an observer in the meetings of other committees and groups, both at the European as well as at the international level, on request and when relevant for the work of the Committee. On behalf of the Committee, the Chair may address these committees with matters of common interest. The Chairs of the respective committees may also be invited to participate as observers in the Committee.
- 6.4 The Chair of the Committee shall aim to ensure adequate cooperation, e.g. by holding periodical meetings with the Chairs of the BSC, the CESR, the CEIOPS and of any other level 3 committee which will be established to discuss cross-sectoral issues of common interest.

ARTICLE 7 - SECRETARIAT

- 7.1 The Secretary General shall be appointed by the Committee after being proposed by the Chair for a period of three years. The Chair shall propose the Secretary General after consultation with the Vice-

Chair and the Bureau. This contract is renewable. Other permanent or seconded staff are appointed on a personal basis by the Chairman after consulting with the Vice Chair and the Secretary General.

- 7.2 In general, the seconded staff of the Secretariat will be provided by the voting members of the Committee; it will work under the responsibility of the Chair in close co-operation with the Vice-Chair. The Secretariat shall prepare and maintain the minutes of the meetings, assist the Committee and the expert groups in their functions and, finally, execute all other functions assigned to it by the Committee or the Chair.
- 7.3 The Secretariat will act as a co-ordinator for all consultations and assist the Chair and the Vice Chair in their public relations activities and representation functions; it will also coordinate the co-operation with the European Commission and other Level 3-committees.

ARTICLE 8 - BUDGET

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

ARTICLE 9 - FINAL PROVISIONS

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

CEBS Work Programme 2006

	1st Quarter 2006 CEBS meetings 18.1. 22.3.		2nd Quarter 1.-2.6.	3rd Quarter 27.9.	4th Quarter 13.12.
1. ADVICE TO THE COMMISSION					
Own funds definition - stock take					
Large Exposures - stock take					
QIS 5					
2. FINALISATION OF CEBS' PRODUCTS					
Home-host guidelines					
Crisis management (joint with BSC)					
Pillar 2 (revised incl. internal governance)					
Pillar 2 additions (incl. risk buckets)					
Model validation (revised)					
ECAIs					
Outsourcing standards					
3. IMPLEMENTATION AND CONVERGENCE MONITORING OF CEBS' PRODUCTS					
Case studies					
Reviews of national implementation					
Supervisory guidance for IFRS					
4. MAINTENANCE OF CEBS' PRODUCTS					
Integrated compendium of guidelines					
Reporting frameworks (database/taxonomy)					
Supervisory disclosure framework (updates)					
5. OPERATIONAL NETWORKING*					
Home-host cooperation					
Surveys of market practices					
Information exchange					
Common staff training					

Key:

Technical work  Public consultation  Feedback and revision of products 

*2006 will be a set up phase for CEBS' operational networks and supervisory cooperation. Concrete deliverables will follow later.

CEBS Secretariat Limited Revenue and Expenses

	For the year to 31 December 2005	23 June to 31 December 2004
	£'000	£'000
Revenues		
Contributions from members	1,588	1,525
Other income	201	82
Interest	72	15
Total revenues	1,861	1,622
Expenses		
Secondment fees	721	374
Premises	373	127
Professional fees	87	112
Communication costs	6	71
Depreciation	164	41
Computer and IT development	47	28
Travel	85	25
Salaries and employee benefits	75	19
Lease tax	-	15
Meetings	21	14
Office supplies	13	9
Miscellaneous	15	2
Total expenses	1,607	837
Excess of revenues over expenses before taxes	254	785

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

Fit out the CEBS offices	-	650
Computer equipment	3	192
Office equipment and furniture	9	174

The full financial statements can be found on the CEBS web-site www.c-eps.org

The following statement is required under s240 of the UK Companies Act 1985 where a company publishes accounts which are not in the format required by the Act.

The above financial statements are not the statutory accounts of CEBS Secretariat Limited. The statutory accounts of CEBS Secretariat Limited for the period ended 31 December 2005 have been delivered to the Registrar of Companies and CEBS Secretariat Limited has received an audit report which was unqualified and did not contain any statements under sections 237(2) and (3) of the Companies Act 1985

