

Minutes of the consultative panel meeting on 19 September 2005

Introduction

1. The Panel had an informal pre meeting to discuss their impressions on CEBS work and to discuss its own organisation.
2. The Panel chair then welcomed the CEBS chair, the secretary general and Mr. Patrick Pearson of the European Commission to the meeting. The minutes of the last meeting were approved.

The CRD and related CEBS work

3. The timeline of the Capital Requirements Directive (CRD) and the implementation work by CEBS were discussed¹. Though the discussion on the involvement of the Parliament in changes to the annexes through the comitology procedure had not yet been resolved, on all other issues a compromise solution appears to have been reached. The timeline would therefore not need to be amended. The USA supervisors were in the process of preparing a common view on their timeline for the implementation of Basel II.
4. It was noted that CEBS has done a lot of work and that good progress has been made, but also that market participants and supervisors would still need substantially more detail and additional work from CEBS during the next months to ensure a convergent implementation process on important subjects. There is a clear window of opportunity, but it will close. Especially in those areas where models need to be built and IT solutions implemented, early clarity on e.g. the kind of crises which needs to be built into stress testing models would be much appreciated. Panel members indicated, as a recurring theme in most of the days' discussion, that the focus of CEBS should remain on implementation issues of the CRD.
5. Panel members asked for clarification on the follow up to the policy work on implementation by CEBS. It was noted that supervisory disclosure will be a big help in ascertaining and aid in convergence of different implementations across the EU. That may, however, only surface after the implementation has been finalized. Some panel members would suggest that CEBS monitors the implementation process in the EU member states, and report on the

¹ This reflects the state of play as at the date of the meeting on the CRD.

progress (and convergent/divergent choices) made. Panel members indicated that the domestic implementation process of the directive might be difficult within the tight timeline set by Basel II/CRD in some countries, and asked CEBS to monitor this too.

6. Noting that the monitoring of legal implementation is of course the remit of the Commission, CEBS indicated it would consider the monitoring of the implementation of the detail prior to the supervisory disclosure effectuation. The Commission indicated they will organize meetings with the member states shortly after the CRD has been agreed, to ask how they will transpose the directive. CEBS will be around the table on the technical issues, and the Commission was looking on methods to involve the industry. Panel members indicated their concern about the late moment details become available, within the context of their already ongoing preparation work. CEBS agreed that early preparation in parallel will be necessary. It asked for assistance in prioritizing the issues which need to be resolved at short notice.
7. In relation to this, the national discretions were discussed. CEBS indicated that the CRD is a given, and as such the national discretions are there. Based on the ongoing convergence taking place, after the transposition process probably some discretions will prove to be barely used, while others will be used. Based on such future analysis, CEBS will at that point of time work further to converge on those discretions which might hamper the level playing field. CEBS will involve the panel at that time in its analysis and prioritisation process. For some discretions, the concept of mutual recognition might be helpful in avoiding distortions in the level playing field. There are however several legal issues, which are being investigated.
8. Some concerns were also voiced on the infiltration of the knowledge of CEBS work into domestic supervisory organisations, and CEBS was asked to focus its training efforts on this. Real value could thus be added behind the scenes. This might also facilitate the asked for early feedback by supervisors on preparatory work by institutions on e.g. the abovementioned models.
9. Panel members were supportive of the work of CEBS on the implementation of the supervisory cooperation networks in the home host paper (CP09), though of course comments can be made. Some panel members are dissatisfied with the progress made on a worldwide scale, especially on the cooperation with regard to model validation on subsidiaries and branches of EU institutions in smaller third countries. For other panel members, this was less of an issue, and they requested a continued focus on domestic and intra EU implementation.
10. With regard to model validation, panel members indicated that reactions will be sent with regard to the paper, and they indicated an interest in an intensified discussion with CEBS on the paper and the follow up. There are concerns on divergence in wording from the CRD with regard to operational risk. Also, panel members would request further clarity during the next months on various topics, e.g. which filters which can be used on external data (including the consequences of using such filters). Credit model

validation is an issue of prime priority, as is harmonisation of the (level of detail of the) application package required by all EU supervisors. On these topics industry best practice exists, which could be provided to CEBS by experts nominated by the panel. The panel indicates that the timeline would be short in order for the work to be taken into account in the models used following implementation, especially for the sophisticated models built by larger groups for their entire business. Later changes would be difficult to take into account and would lead to relatively large costs.

11. The work on the supervisory review process (CP03 revised) was welcomed. Translation into practice, workshops and implementation action plans could further help ensure convergent implementation. Some further detail was requested on some of the building blocks. Larger groups are currently specifically looking at stress testing. They would ask CEBS to formulate convergent advice at short notice on e.g. the kind of crises and the general impact thereof on capital which would need to be taken into account in the context of stress testing.
12. CEBS welcomed the interest the panel has shown in the subject of COREP. The panel contribution shows, however, a substantial difference between what the industry would ask and what CEBS members can deliver at this stage in the convergence process. CEBS will try to incorporate panel ideas on reduction and basis information needed. Building on the panel's proposal, a core set of information is being developed, though with a slightly different angle. Additionally, several members need more information, fitting with their supervisory methods and for statistical purposes. CEBS is also pleased to be able to offer the XBRL format as a tool for common reporting. Panel members indicated that for proper implementation, they would need the CEBS work finalized around year end 2005. CEBS indicated it is working towards this goal, but that many difficult technical issues still need to be resolved. The Commission stated that the work already done is a big first step for CEBS, and a milestone in this area. The Commission would urge CEBS to formulate future targets in the longer term. Panel members referred to the costs each reporting format change brings. Panel members also requested to use IFRS definitions in the reporting framework where relevant and possible. CEBS asked for an indication whether early certainty or additional consultation would be preferred. The panel will come back on this issue.
13. Other issues which could be worked on by CEBS were mentioned. They include (from an end-users perspective) the convergent implementation and usage of the definition of 'default', of 'retail', and of 'guarantee'. From a banking industry perspective, subjects as further detail on the working methods of colleges, the 'partial use' concept, reporting under pillar 3 guidelines and clarity on the downturn LGD issue (whether it can still affect capital if it is not there and how to document this) were brought forward. Not all these issues, however, would need to be worked on at short notice. Panel members agreed that, also within the context of the 'regulatory pause' discussion, no new issues should be taken up outside of the scope of implementation. Liquidity and the 26th regime were mentioned as examples of issues which should not be taken on board. The panel will provide further input on exactly which facets are urgent, and which might be dealt with at a

later stage. The Commission and CEBS indicated that the work of CEBS should take into account the priorities for large banks, small institutions and end users equally. The panel members welcomed this approach.

Procedural issues

14. The role of the panel in providing input into future work was discussed, as were the current procedures. There was broad agreement on the various ways the co-operation between CEBS and the market participants is being structured. The panel and its experts will be involved mostly at early stages, to provide general input and to assist in arriving at mutually acceptable compromises, in addition to the general consultation process set out in CEBS' consultation practices. Those issues not formally consulted by CEBS (e.g. because the Commission organizes a simultaneous consultation procedure on the issue CEBS is advising upon) do indeed benefit from a short round of comments from panel members, but such should not in any way be perceived as a consultation. When CEBS is planning to ask for such comments, this should be indicated in advance, to allow for proper preparation. Feedback on comments received by CEBS from panel members and their experts could be improved.
15. Within the formal consultation procedures, 'targeted' consultations of institutions or associations with a specific interest should be a clear exception, as they detract from an open and transparent process. Also, some panel members have a problem with matching their own timelines and CEBS timelines. They often need certainty of details at short notice in the CRD implementation process, while the consultation procedures of CEBS provide for a longer timeline to ensure proper and full input. On e.g. the requested further clarity on stress testing, they would rather like further detail in two than in four months. CEBS stresses that some detail may indeed be provided at shorter notice, clarifying details, but that in the broader context, convergence does need time. Much progress can be made, but it does need a full discussion. CEBS has been set up to aid evolving convergence in supervisory culture and approaches, not to introduce revolutionary new approaches.
16. The plans of the level 3 Committees to further enhance the co-operation arrangements were welcomed. Work on the conglomerates issues will be welcomed, and another example of areas which might be worked on is the alignment of Solvency II with Basel II requirements. The Commission indicated that it is finalizing its position on level 3 arrangements for the conglomerates area, taking into account the formality of the comitology procedure, as well as the position of the level 3 Committees on practical working methodologies in this area. The panel urged an early start of the work.
17. The transparency on CEBS documents in general was welcomed, but this raises questions as to the lack of disclosure on the MoU on crisis management. Panel members indicated an interest in this. CEBS is, however, as such not a party to the agreement and respects the opinion of the signatories not to disclose the actual text. However, in its opinion, the press statement of the EFC gave a fair view of the document. Some panel

members also indicated that there might be a need to coordinate with the ECB on a possible exercise on system wide capital adequacy sufficiency to ensure the market that this is covered. The Commission referred to the reporting by the ESCB (with input from CEBS) to the various Council committees involved.

18. Finally, the problems with evaluating the impact of CEBS work and whether it has reached the goals set for it was discussed. CEBS is adding much, but how to determine what, when and how much is sufficient. There are different, and evolving, expectations of what CEBS can deliver. The IIMG is starting with its process in this respect. Panel members stress that the goals should not be sought outside the area of implementation. The panel was requested to act as a sounding board in this respect, and to provide the necessary input (a) on what market participants would like to see further from CEBS in order to get a good evolution, and (b) positive and negative feedback on work already done. The panel will discuss this at its next meeting.
19. The format of this third meeting appeared beneficial to all parties involved. The panel members discussed the various issues amongst themselves first, assisted by the secretariat, after which they could bring forward a joined point of view for discussion with the CEBS chair, the secretary general and with the Commission.

Follow up

20. CEBS and the panel will organize at short notice expert meetings on the main topics, including FINREP, COREP and AMA. These are not so much focused on the work which is already being consulted in these areas, but should aim to help CEBS determine those subjects where it might feasibly provide additional detail on the most urgent issues. The panel indicated that this would be a good idea, and offered to provide input and documentation (e.g. on the industry best practices available) on the most urgent areas. The input gathered could then be discussed at the October CEBS meeting, to discuss what can be done.
21. Future meetings of the full panel will be held on 5 December 2005, 8 March 2006, 1 June 2006, 18 October 2006 and 24 January 2007.