

## **Minutes of the Consultative Panel meeting on 5 December 2005**

### **Introduction**

1. The Panel had an informal session to prepare the discussion on selected issues such as the implementation of the Capital Requirements Directive (the CRD), implications of US delay on Basel II implementation, consultation process and expert meeting with CEBS.
2. The Panel chair then welcomed the CEBS Chair José María Roldán, and Mr. Patrick Pearson of the European Commission to the meeting. The minutes of the last meeting were approved. The minutes of the September meeting have been posted on CEBS' website (<http://www.c-ebs.org/CPL03.pdf>).

### **The CRD implementation**

3. The Panel members expressed their concerns about the US delay of Basel II framework and possible implications of QIS 5 results in Europe. Adjustments in recalibration of models might be needed if QIS 5 will show considerable increase in volatility in capital levels. The Panel emphasises the importance of industry experts' input in possible recalibration work.
4. The US delay will cause problems for international banks operating subsidiaries under different capital regimes on both sides of the Atlantic (e.g. EU banks with an important retail subsidiary in the USA). It was reminded that supervisors should help find practical solutions to problems that might arise in the co-operation between home and host supervisors, in implementation issues and in the disclosure of rules and guidance. The CRD is law and will be implemented in the EU. A delay in Europe is not an option, nor does the US situation appear to hamper preparations for Basel II in other countries. The problems in the US seem only temporary, but a worrying sign is the lack of unity between US authorities and the absence of clear support for Basel II from the big US banks.
5. All ongoing CEBS consultations were shortly discussed. CEBS has received criticism about the proposed guidelines being too detailed and too prescriptive. At the same time some banks have argued for more detailed guidance. The Panel supports more principle based approach and welcomes the continuous dialogue with CEBS. The technical meetings with experts designated by the Panel have represented a useful step forward, but there is a need to fine tune the whole process to guarantee sufficient and timely participation from both sides. The Panel feels the need to differentiate between expert meetings and ordinary consultation process. Experts are

put at the disposal of CEBS, and should be involved in a constructive debate to find solutions. This would motivate the experts to participate in future meetings. It was noted that CEBS should never be surprised when receiving a negative comment and the industry should never be surprised when they see that some comments have not been taken on board.

6. The Commission informed the Panel about its CRD Transposition Group and the way it will start monitoring the implementation of the Directive. CEBS will be involved the exercise. It will collect and publish Frequently Asked Questions (FAQ) section on the internet. The organisational set up will be shortly discussed with the ECB and CEBS, as well as with the industry.
7. The Panel discussed a table document regarding the finalisation of guidelines on validation (CP10) and Pillar 2 (CP03). Both guidelines require additional work. Validation paper will have three main new parts: Assignment of exposures (purchased receivables, securitisation and equity exposures); AMA quantitative guidelines; downturn LGDs. Pillar 2 guidelines will through a separate consultation process be complemented with additional and more detailed parts on concentration risk, interest rate risk in the banking book, and stress testing. Also, CEBS is contemplating providing information on e.g. ICAAP implementation to non complex banks and investment firms.
8. The Panel indicates a strong preference for a fast track procedure in finalising both existing and new parts of the guidelines instead of adopting a full public consultation process because of the need for legal certainty given the short time available. In addition to a reduced public consultation process, CEBS could use complementary consultation methods such as expert meetings, questionnaires and public hearings to gather the views of market participants.
9. The Panel fully supports technical expert meetings with CEBS and is prepared to provide representatives for future meetings. Attention was asked for the preparation time necessary for panel experts to be able to attend.

## **Reporting requirements**

10. On common reporting (COREP) the Panel expressed its disappointment that the gap between industry's wishes and CEBS delivery remained large. CEBS has approved the general framework and after intensive dialogue with the industry the number of cells included in the requirements has dropped from 70.000 in the first consultative paper to 18.000 in the latest version. Preliminary documents obtained from Canadian and US supervisors show that they are also preparing a reporting framework for the solvency ratio including approximately 20.000 cells.
11. The Panel urges CEBS to finalise the framework as soon as possible and is asking for a short term commitment of CEBS to come to fully harmonised reporting templates, based on "better regulation". CEBS is considering a proposal by the industry to carve out some templates for a limited period to allow institutions to update and fine-tune their IT-systems. This is especially

of importance on credit risk mitigation, as such information is currently not gathered for subsidiaries, and would require substantial investments. The carve out would also allow for continuing the discussion about the content, and to avoid that banks develop soft wares which afterwards become obsolete. This issue will need to be solved pragmatically at short notice, as the COREP framework should be ready in early 2006 if the guidelines are to be implemented in time.

12. It was emphasised by the Commission and CEBS that COREP is a major achievement for CEBS as for the first time the EU will have harmonised reporting although the amount of reported data may still vary from country to country. CEBS is aiming for a flexible and reasonable implementation. The Panel expects the application of the framework to be reviewed after two years. The Panel applauds the work already done and welcomes the core templates, but would prefer a further reduction of the 'additional' templates, as well as a gradual progress to a real common minimum and maximum set of reporting requirements, supporting common supervisory methods in the EU, taking the possibility of a further reduction of administrative burdens into account.

### **CEBS Work Programme 2006**

13. The panel discussed CEBS' plans and priorities for 2006. The main priorities for CEBS are the implementation of its guidelines that have been consulted in 2005 and supervisory convergence. The work programme was found to be comprehensive and relevant. Some concerns were raised about the amount of work. Later in 2006 CEBS' focus will turn to monitoring and assessing its work on the operational level. The work programme emphasizes operational networking on day-to-day supervision of cross-border groups. CEBS work will primarily be evaluated on the merits of convergence in supervisory practices. The panel would invite a clearer quantitative indication of what can be expected, which would facilitate any assessment better than the current qualitative indicators.

14. A crucial point will be the identification of relevant issues emerging in the implementation of the CRD and in the operational application of CEBS guidelines. The Panel was invited to give further input via written procedure.

### **Strategy issues**

15. The role of the Consultative Panel was discussed. The Chairs of the Panel and CEBS will encourage members to participate actively in Panel's work. The Panel's input in CEBS' work has been seen very beneficial.
16. The Panel was given a short introduction on issues covering better regulation. Is there a risk (or reality) of overregulation and administrative burden and what could be the role of CEBS in that respect? Direct and indirect regulatory cost in Austria has increased at a rate of 140 % in 2001-2004. Implementation of IAS/IFRS and the CRD will push the cost even higher. The Panel supports better regulation if it means a regulatory pause.

There should be an obligation for regulators to provide more realistic impact analysis and cost-benefit analysis before proposing new regulations.

17. Austria will hold the rotating Presidency of the EU from 1 January until 30 June 2006. Better regulation will be on Austrian agenda but key priorities for financial services are yet to be determined.
18. The Panel had a short discussion on co-operation between CEBS, CESR and CEIOPS (3L3). Joint Protocol on co-operation was signed in Brussels on 24 November to mark the intensified dialogue between the Committees. Concrete work has started on conglomerates supervision where CEBS and CEIOPS have a leading role in the intermediate phase before the Commission makes a final decision on how to organise level 3 work on conglomerates. Other areas of immediate work are alignment of work on internal governance guidance (CRD/MiFID) and outsourcing (CEBS level3/CESR level2). The panel requested attention for the alignment of Solvency II and Basel II.
19. The next meeting of the Consultative Panel will be held on 8 March 2006 in London. The June meeting of the Panel has been rescheduled to 31 May 2006, and will be held in Vienna.