



May 2010

Minutes of the seventeenth Consultative Panel meeting on 18 February 2010, in London

Agenda item 1 - Opening of the meeting

1. The seventeenth meeting of the Consultative Panel (CPL) was held at the Committee of European Banking Supervisors (CEBS) premises in London, UK.
2. Mr. Giovanni Carosio, Chairman of CEBS, and Mr. Hugo Banziger (Deutsche Bank), Chair of the Consultative Panel, welcomed the new members¹ of the Consultative Panel who have been appointed in January 2010 as a result of the revision of Panel's membership (in accordance with Panel's [Charter](#), paragraph 6).

Agenda item 2 - Transition to the EBA

3. Arnoud Vossen, Secretary General of CEBS, briefly updated the Panel members on the developments leading to the establishment of the future European Banking Authority (EBA). Reference to the provisions of the Omnibus Directive was made, especially to the articles linked to the Capital Requirements Directive (CRD). Panel members expressed their broad support for the establishment of the EBA and for the additional tasks it would perform in the future (especially the development of draft binding technical standards). In addition, CPL members stressed the importance of a consistent implementation of those standards by the national supervisors. Thus, the establishment of an Implementation Review Group as a separate and sufficiently staffed department in the future EBA organisation structure was proposed. Moreover, the Panel called CEBS's attention to possible inconsistencies that may arise in the future when the binding technical standards are translated into different EU languages.

¹ Mr. Tonny Thierry Andersen (Danske Bank), Mr. Mark Harding (Barclays), Mrs. Tamar Joulia-Paris (ING Group), Mr. Ulf Riese (Handelsbanken Group), and Mr. Gerhard Hofmann (Association of German Co-operative Banks) are the new Panel members since January 2010.

4. Finally, the Panel requested CEBS to be sufficiently involved in the supervision of market infrastructures (especially CCPs), and to consumer protection issues. In this context, Mr. Vossen informed the Panel that CEBS has recently established a Task Force on CCPs, while work on Package Retail Investment Products (PRIIPs) is jointly undertaken by the 3 Level 3 Committees (CESR, CEBS, CEIOPS).

Agenda item 3 - EU developments; update from the European Commission

5. No representative from the European Commission participated in the meeting.

Agenda item 4 – EU Commission’s consultation on crisis management

6. Following the submission of its response to [the Commission's Communication on an EU Framework for Cross-Border Crisis Management in the Banking Sector](#), CEBS plans to perform further work on this area under a tight timeline in an effort to provide input to the discussions that are currently taken place at the Commission. In this context, input from Panel members was requested, especially on the tools proposed by CEBS (common minimum toolbox) as well as on the necessary conditions for the use of these tools. In general, the Panel members were quite skeptical on the tools proposed by CEBS and questioned their practical enforcement and effectiveness. The CPL members expressed their belief that more benefits may arise from industry-oriented solutions, for instance subordinated and senior debt of a bank that could be used in a crisis situation. One option would also be the use of contingent capital. They also called for a harmonized insolvency framework around Europe.
7. Panel members expressed their willingness to provide further input in this area and it was agreed to continue the dialogue and to be actively involved in CEBS’s work. It was thought that the most appropriate way to have detailed input on board was the establishment of an industry expert group on cross-border crisis management.

Agenda item 5 – CEBS’s QIS on the BCBS proposals to strengthen the capital framework

8. Mr Carosio presented the EU QIS exercise that is conducted by CEBS in parallel with the BCBS’s impact assessment. The EU exercise, which relies on the same methodology as the Basel one, uses an extended sample in order to include a number of other institutions to which the CRD applies and institutions from countries that are not represented in the BCBS. The Panel’s involvement in this exercise was discussed. In this context, Mr. Carosio welcomed industry’s input in assessing the impact of the new measures on various aspects/lines of market activity. The most appropriate time for this involvement still needs to be discussed and decided.
9. In addition, CPL members expressed their concerns as regards the timeline of this exercise, and stressed three main points that need to be addressed by CEBS: i) data requirements arising from the EU QIS exercise needs to be kept as close as

possible to the ones coming from the BCBS one, ii) there is the risk of an unlevel playing field generated by the fact that US doesn't intend to fully apply the new trading book requirements, putting Europe in competitive disadvantage, and iii) the new Basel rules on securitization hamper the securitization market.

10. In order to support the third argument and help CEBS to further analyse industry's concerns, Mr. Banziger proposed to submit to CEBS a paper, jointly drafted by a group of Panel members, demonstrating the negative effects of the new Basel rules in securitization market.

Agenda item 6 - Rating backtesting in a cyclical context

11. The paper that was presented by Silvio Cuneo (Intesa Sanpaolo) links to the conclusions and action points of the October 2009 meeting and it is the result of the work that was undertaken by a group of Panel members. Four possible options were identified for revising the backtesting framework. Mr. Banziger welcomed the work done, but also stressed the importance of identifying the reasons why the rating systems used by the industry are so different and cyclical. It was finally proposed to relate the results of this work to the upcoming Basel proposals tackling pro-cyclicality and to perform follow-up work on this area, if need be.

Agenda item 7 – CEBS's risk assessment and stress testing

12. CEBS Chair updated the Panel on the 2nd stress testing exercise that CEBS currently performs (final results to be communicated to June EFC meeting). Panel members welcomed this work, but also expressed their concerns as to the timing of the exercise (in parallel with the EU QIS one) which causes difficulties to the participating banks to meet timely and efficiently the requirements of both exercises. Clarification on whether the drawbacks of the first exercise have been considered and addressed was also sought. Finally it was proposed the sample of banks participating in the exercise to be extended so as to include also small and medium size banks.

13. CEBS stated that the decision on the timing of the exercise was taken at a higher level. In addition, a "lessons learned exercise" was performed at the last quarter of 2009 - following the end of the first EU wide stress test - in an effort to improve the template and the scenarios used. Thus, it is expected that the results of the second exercise would be more homogenous. It was also agreed CEBS to consider the timing and the inclusion of small and medium size banks in a future EU wide stress testing exercise.

Agenda item 8 (i) – CEBS's draft guidelines on concentration risk

14. Panel members felt that the current draft guidelines are very ambitious and could be read as isolated requirements for concentration risks. They indicated that indeed concentration risk is an important risk factor that needs to be identified separately by banks, but argued that the remedial actions needed under Pillar II should not be seen too much in isolation, but integrated in the whole risk

management framework and overall ICAAP/SREP process. As such, the current paper would be more suitable in their view as a practices paper, rather than as prescriptive guidelines.

15. The Panel agreed to prepare a note in which they would outline how guidelines for concentration risk could fit in the related overall rule book (CRD-requirements, high level principles on risk management, existing Pillar II guidelines etc) and in which they would provide concrete comments to the CEBS's paper (CP32).

Agenda item 8 (ii) – CEBS's draft guidelines on stress testing

16. Panel members welcomed CEBS's draft guidelines on stress testing. Specific reference was made on the reverse stress testing approach that was seen as a very positive element that adds a different perspective to the overall evaluation of the institution's viability.

17. Panel also welcomed the idea of stress tests performed based on scenarios developed by supervisors, however the involvement of banks' management board to the development of the methodology of the stress tests was questioned, since it was regarded as more appropriate to have the management board involved in the policy-setting rather than in the methodology.

Agenda item 8 (iii) – CEBS's draft guidelines on instruments referred in Article 57a

18. The paper was welcomed by the Panel. No detailed discussions on this issue.

Agenda item 8 (iv) – CEBS 's draft guidelines on the operation of colleges of supervisors

19. The draft guidelines were welcomed by the CPL members who found that the paper reflects the improvement achieved the last years in the function of colleges of supervisors.

Agenda item 8 (v) – CEBS's draft guidelines on management of operational risk in market-related activities

20. The paper was welcomed by the Panel, though some comments were raised on the fact that the operational risk is quite overestimated, since it doesn't lead to significant losses. Also specific comments were made on the practical application of principle 2 and on principle 8 which was seen as an example of good practices followed, but not as a principle.

Agenda item 8 (vi) – CEBS's draft disclosure guidelines; lessons learnt from the financial crisis

21. This issue was briefly touched upon.

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22. Packaged Retail Investment Products (PRIPs) – FIN-USE representative, Mr. McAteer welcomed the work on this area and called the 3 Level 3 Committees to work on a horizontal regulatory approach that would replace the current sectoral ones.
23. Revision of CEBS guidelines on interest rate risk arising from non-trading activities – Mr. Vossen announced CEBS's intention to work further on this issue and invited Panel members to nominate representatives to an industry expert group to be established shortly.

Participants

24. The following members and observers of the Panel were present: Hugo Banziger, Christian Lajoie, Andrew Cross, Silvio Cuneo (alternate to Davide Alfonsi) , Herbert Pichler, João Salgueiro, Mark Harding, Georgios Pitas (alternate to Demetrios Lefakis), Michel Bilger, Mick McAteer, Richard Desmond, Rolf Marquardt (alternate to Ulf Riese), Tonny Thierry Andersen, Nicolas Jeanmart, Sandra Hafner, Volker Heegemann, Wilfred Wilms.