

**COMMITTEE OF EUROPEAN BANKING SUPERVISORS (CEBS) –
ESTABLISHMENT OF THE COMMITTEE AND FUTURE CHALLENGES**

Report to the EMAC by Mr José María Roldán, CEBS Chair, 26 April 2004

Ladies and Gentlemen,

First I would like to thank Ms Randzio-Plath and the EMAC for inviting me to this meeting. I would like to take this as an opportunity to inform you about the establishment of CEBS, our current activities as well as the challenges we have identified for our future work. I also want to talk about transparency and our views on CEBS' relationship with the European Parliament.

Touching briefly on this last point, I already mentioned in my meeting with Ms Randzio-Plath on 17 March, that CEBS considers it very important to establish close contacts with the European Parliament. This is consistent with CEBS general wish to be transparent in its work, since we do not consider it as appropriate to work behind closed doors and then to present final results. On the contrary, we think that early involvement and consultation of interested parties and relevant committees are very fruitful, and ensure that the outcome of CEBS' work appropriately covers the addressed issues.

Moreover, we believe that, in many aspects, level 1 legislation, in which the European Parliament plays a decisive role, and CEBS' work on level 2 and level 3 issues are closely related and that therefore, it could be beneficial for both CEBS and EMAC to regularly exchange views on relevant issues.

We do not intend to merely pay lip-service to our obligations to consult and to be transparent, but to enter into the spirit of them.

Establishment of CEBS

Taking into account that CEBS has only been established recently, I would like to recall the most important steps in this process, and also the most recent organisational decisions.

As you know, in December 2002 Finance Ministers took a political decision to extend the so-called Lamfalussy-framework, which had been developed for the securities sector, to all financial sectors in order to set up a regulatory framework that allows for quick reaction to market changes and easy adaptation of technical measures, while also promoting regulatory/supervisory co-operation and convergence of practices.

This implied that in analogy to the committees already established in the securities sector – the European Securities Committee (ECS) on level 2 and the Committee of European Securities Regulators (CESR) on level 3 – specific sectoral committees should be established each at levels 2 and 3 for banking and insurance (incl. pension

funds), and that a fourth committee at level 2 should be set up to deal with certain specific rules concerning financial conglomerates operating across sectors.

CEBS has three main tasks, which, although they formally result from its role as level 3 committee, to a large extent reflect the “natural” tasks of a committee of banking supervisors, namely:

- To advise the Commission on legislative/regulatory measures in the banking field, either at the Commission’s request or on its own initiative. In this respect, CEBS would have a particular role in preparing so-called “implementing measures” – the technical details to flesh out higher level legislation – for the Commission’s consideration.
- To contribute to the consistent implementation of Community Directives and to the convergence of Member States’ supervisory practices throughout the Community.
- To enhance supervisory co-operation, including the exchange of information.

CEBS is comprised of high level representatives from the banking supervisory authorities and central banks of the European Union.

Based on the ECOFIN report, on 5 November 2003, the European Commission adopted seven measures in order to implement the new structure. One of these measures, Commission Decision 2004/5/EC, established the Committee of European Banking Supervisors (CEBS) as the level 3 banking committee, to be operational by 1 January 2004.

However, formally establishing the Committee and, in particular, its supporting infrastructure is not something that can be achieved overnight. CEBS’ formal establishment was closely linked to the issue of location of the secretariats of the three level 3 committees, which was still pending at the time of the Commission’s Decision. Since we, i.e. supervisors and central banks, felt that we would have to ensure our appropriate representation on EU level, in particular with a view to urgent issues in the context of Basel II and IAS, we decided to set up CEBS in interim mode for the time being, allowing the committee to be up and running to the extent possible from 1 January 2004, with final structures coming into effect at a later stage, taking into account that this would require – particularly as regards the secretariat – a period of several months from the time that the location decision was taken.

At the end of January 2004, Finance Ministers finally agreed on the location of the level 3 committees: CESR should remain in Paris while CEBS and CEIOPS should be located in London and Frankfurt respectively. Therefore, we were able to formalise many aspects of the committee already at the first CEBS meeting on 31 January 2004. Besides the election of myself as Chair and Ms Danièle Nouy (Commission Bancaire, France) as Vice-Chair, the Committee also agreed on a composition of a so-called “Bureau” which appropriately reflects the structure of CEBS. 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. I think that the Bureau has a key role to play in the functioning of the Committee, particularly given the size of the Committee – which is around 50 including the new EU countries. For a period of three years, the members of the Bureau will be Mr Andreas Ittner (Austria, Oesterreichische Nationalbank), Mr Helmut Bauer (Germany, Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin) and Ms Kerstin af Jochnick (Sweden, Finansinspektionen).

In the meantime, we also agreed on an excellent Secretary General in the person of Andrea Enria (Banca d'Italia), who was Secretary of the European System of Central Bank's Banking Supervision Committee until last year and is now Head of Division of the Financial Supervision Division of the ECB. Andrea Enria is currently in the process of setting up the permanent secretariat, which will formally take up its activities in the Autumn of 2004. Until then, the CEBS Secretariat will continue to be provided by what we call an interim virtual secretariat, i.e. secretariat staff provided by member institutions and working part-time for CEBS from their respective home authorities.

In this context I would like to mention that CEBS members agreed at the last meeting that the Secretariat of the Groupe de Contact, a long-standing group of banking supervisors from the EEA, which has been transformed into the main working group of CEBS, will be integrated into the CEBS Secretariat; so far, it has been provided by the UK Financial Services Authority. This decision was based on the consideration that it would be beneficial for both the parent Committee as well as the working group to share a common platform, which would facilitate co-ordination and information flows. Two additional working groups, one on Basel II and the other one on accounting and auditing, have also been established. This demonstrates that in the short and medium term CEBS' work priorities are focused on precisely these two areas, Basel II and IAS, taking into account their heavy impact on the framework of both banks' activities and prudential supervision. I will come back to these challenges later.

We welcome the excellent progress made in the process for adopting the Directive proposal to establish the new financial services committee organisational structure. As soon as the Council follows the European Parliament, the Lamfalussy process will be fully implemented in the banking sector. CEBS will then be in the position – where this is foreseen in a directive – to advise the Commission also on level 2 implementing measures. The use of level 2 procedures will allow for quick adaptation of technical measures to market changes and new developments within the framework laid down by the European Parliament and the Council.

However, I think that it should be noted that even though CEBS has formally been created by a Commission decision in order to establish the level 3 banking committee in the Lamfalussy framework, CEBS is an independent committee and “self-existing”, which means that banking supervisors and central banks could co-operate and work on issues of common interest also on the basis of their own initiative – or in other words: CEBS would still have value even without Lamfalussy.

Recent Areas of Work

I think it would be not be (very) exaggerated to say that these organisational issues could already fill the agenda of our meetings. Nevertheless, besides discussing these organisational issues, CEBS has already made significant progress in several substantial issues. At our second meeting on 31 March, we reached agreement on two papers:

- A draft statement of CEBS' consultation practices: As I have already said, CEBS considers it as important to be open and transparent in its operations and will thus consult extensively with market participants, consumers and end-users of banking services. Consultation will allow us to benefit from the expertise of market participants, consumers and end-users in identifying, assessing and analysing regulatory issues and possible solutions; to promote understanding of the Committee's work and its role; and, ultimately, to build consensus where possible between all interested and affected parties on what regulation or supervisory practice is appropriate. In order to meet these aims, we envisage a flexible and proportionate approach to consultation, which can be adapted according to the significance of an issue, although always adopting a transparent approach. CEBS will also establish a consultative panel.
- The other paper is a set of draft high-level principles on outsourcing, addressed both to institutions and to supervisory authorities, which is based on widespread current practices and the common policy elements that have been elaborated to date in various Member States. This issue is of particular relevance, not only from a banking sector stability perspective (e.g. necessary to ensure that institutions do not outsource strategic and core management responsibilities), but also with a view to ensuring a level playing field for credit institutions.

In the next days, CEBS will release both papers on its website (www.c-eps.org) for public consultation.] I think that this is a major achievement given the short amount of time that we have been in existence, and results from our good co-operation already at an early stage, and also the help of the Groupe de Contact. We hope to receive a high number of comments on our consultation papers, and both papers will be reviewed after the end of the consultation period in relation to the received responses. We will also publish a summary of these responses and a reasoned explanation addressing all major points raised. It goes without further saying that we would appreciate to receive also the views of the European Parliament on relevant consultation papers.

Let me just briefly mention some of the other issues discussed at CEBS' March meeting:

- A set of guidelines on information exchange between supervisory authorities, which will be fine-tuned within the next weeks;

- The work programme for convergence of supervisory practices;
- The review of capital requirements, with a particular focus on the areas of national discretion foreseen in the draft Directive, cross-border issues and validation of Internal Ratings Based (IRB) models and Advanced Measurement Approaches (AMA) for operational risk;
- Accounting, auditing and reporting issues;
- Organisational restructuring in cross-border banking.

Future challenges

I would now like to turn from the past to the present and to the challenges for CEBS' future work.

Basel II

One of the main challenges for CEBS in the forthcoming years is certainly Basel II, more precisely the finalisation of the proposals to transform Basel II into European legislation and in parallel, work on its consistent implementation in the Member States. In particular, we think that it is important that the issue of cross-border banking supervision in the context of Basel II is appropriately addressed by the new directive. In this context I would like to put emphasis on the fact that supervisors are fully aware of the concerns of the industry in this respect, which are mostly related to processes that especially internationally active banks will face in the validation and approval for advanced risk measurement models (IRB and AMA) and to the supervisory review process (Pillar 2). Thus, it is clear that we have to develop smooth procedures and to avoid unnecessary burden, while at the same time it has to be guaranteed that supervisors are able to fulfil their responsibilities and to ensure the appropriateness of the institutions' capital requirements.

We think that these objectives could be met most appropriately by re-enforcing the role of the consolidated supervisor on one hand and obliging supervisors (and central banks) to ensure the effectiveness of the consolidated supervision via CEBS. In particular, CEBS' role could be to define a common approach and common rules, as regards procedures as well as the substance, to avoid a fragmentation of the single market and to ensure local level playing field. Thus, in order to clarify its responsibilities, we think that CEBS should be explicitly mentioned in the EU legislation to transpose Basel II, and we would appreciate to receive support from the European Parliament in this respect.

Besides, CEBS is currently in the process of finalizing principles on the supervisory review process (Pillar 2), which will be subject to consultation in the forthcoming months.

The issue of Basel II/RBCD is also discussed with a view to streamlining reporting requirements, since from our point of view the need for change will provide a unique window of opportunity to move towards greater conformity.

Accounting

Accounting issues, from a supervisory perspective, are the second big challenge CEBS is faced with. The application of International Accounting Standards (IAS) in the EU will offer opportunities for international banks to use the same accounting approaches across their different entities worldwide and thus reduce costs, while also enhancing comparability for the users of accounts.

However, it would be dangerous to overlook the prudential perspective. Central banks and supervisors have a legitimate interest in accounting standards which promote appropriate prudent valuation, which are consistent with sound risk management and asset valuation, and which enhance transparency. Accounting rules and practices impact on financial stability and affect the ease with which supervisory authorities can fulfil their objectives in this respect. While the concerns of supervisors in relation to IAS were not appropriately considered by accountants (IASB) in the last years, I have to acknowledge that over the last weeks, the quality and intensity of dialogue has significantly increased. However, I think that we should be even more ambitious in this respect: From my perspective, there should be no contradiction between proper accounting techniques and sound risk management techniques (i.e. macro-hedging).

In addition, it should be noted that IAS could have a major impact on certain prudential requirements, for example to the extent that they read across to the definition of capital within the context of banks' solvency ratios.

Therefore, CEBS has already established a designated working group (Expert Group on Accounting and Auditing) which looks into these issues in more detail.

Ladies and Gentlemen,

I hope that with this short overview of CEBS' establishment and its most important activities I was able to provide you with some interesting information. If you consider it as useful and accordable with your time schedule, I would appreciate to further deepen our contacts into a co-operative and constructive relationship, e.g. by providing you with an update of CEBS' work on a more regular basis.

Thank you for your attention, and I would be happy to answer any questions you may have on CEBS issues or any other subjects you may wish to raise.