

The revised international capital framework – the Basel II - represents a paradigm shift in banking supervision. For decades banking supervision consisted of a series of administrative constraints, coupled with large discretionary powers attributed to the supervisory authority. Product and geographic markets were segmented by law or administrative provisions, the opening of branches had to be authorised in order to avoid excessive competition, price controls and quantitative constraints to credit growth were often in place, large loans had to be authorised on a case by case basis. Several of these constraints were still in place in Europe only 10 years ago.

## Introduction

- **Basel II and CEBS**
  - The new paradigm: risk-focused supervision
  - A window of opportunity for convergence in supervisory practices in the EU: the role of CEBS
  - Implementation of Basel and the Capital Requirements Directive
- **Four main challenges in EU implementation**
  - Consistency
  - Convergence in supervisory practices
  - Streamlining the supervisory process for cross-border groups
  - Effective consultations

With the Basel II, supervisory requirements have moved towards a growing reliance on the internal measures and safeguards developed by the banks themselves for controlling risks. The new framework is risk-focused. The new capital adequacy framework is expected to evolve with industry practices; it provides incentives for improving, refining and innovating in risk management. At the same time it is a window of opportunity for CEBS to promote convergence.

The new Capital Requirements Directive (CRD) lays a solid foundation for convergence of banking supervisory practices and supervisory co-operation in Europe. Furthermore it promotes a level playing field for the institutions operating within the EU.

The four main challenges CEBS is facing in its work on Basel II and the CRD implementation are:

- ensuring consistency in the implementation of the new framework in Member States;
- pursuing convergence in supervisory practices related to Basel II;
- shaping co-operation between home and host authorities in such a way as to streamline the supervisory process for cross-border groups; and
- shaping effective consultations, able to enhance the quality of the supervisory standards.

## CEBS - Role and tasks

- Established in Nov 2003, the first meeting Jan 2004
- High level representatives from the banking supervisory authorities and central banks of the European Union, including the European Central Bank
- 25 countries and 46 member organisations, observers from EEA\* countries, the European Commission and the Banking Supervision Committee of ESCB (European System for Central Banks)



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\* Iceland, Liechtenstein and Norway

CEBS is a young committee. The ECOFIN Council agreed in December 2003 to extend the Lamfalussy approach, which was originally developed for the securities' sector, to banking and insurance. The Commission's decision to establish CEBS followed in November 2003. CEBS has started operating in January 2004 and the operational structures have been fully up and running since October 2004. CEBS is part of a legal framework and it is the only committee that is formally charged with promoting convergence of banking supervisory practices and supervisory co-operation in Europe. CEBS is the only institutional committee within EU that brings together all the banking supervisory authorities and central banks of the 25 EU countries including the European Central Bank.

## CEBS - Role and tasks

- to advise the European Commission on banking policy issues, in particular for the preparation of draft measures for the implementation of European legislation
- to foster a common day to day implementation and application of Community legislation by issuing guidelines, recommendations and standards
- to promote supervisory co-operation and provide for the exchange of supervisory information

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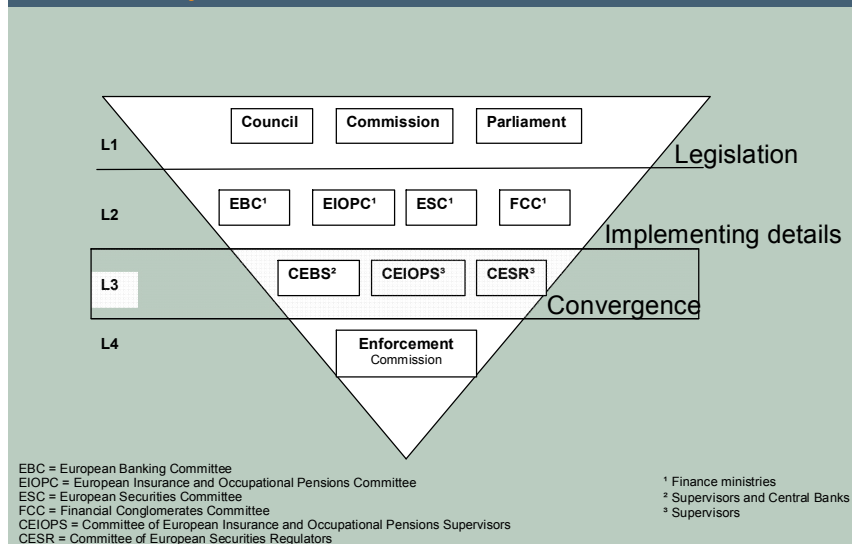
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According to its charter CEBS has three main tasks:

- providing advice to the Commission;
- ensuring consistent implementation of Community legislation in the banking field and convergence in supervisory practices;
- promoting supervisory co-operation and exchanges of information.

CEBS started operating while the proposal for the CRD was being finalised and submitted to the Council and Parliament. CEBS focus is therefore mainly on level three, i.e. on implementation issues (convergence in supervisory practices and networking between authorities). There are more than 8,000 credit institutions in the enlarged EU and only 40 have significant cross-border business. When the whole framework is changing, in all Member States, there is a unique opportunity to promote convergence.

## Lamfalussy framework

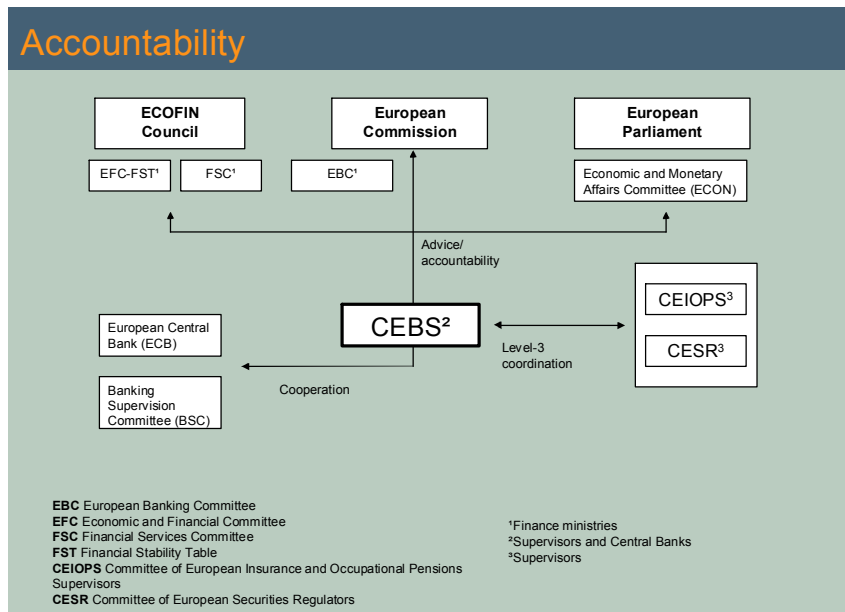


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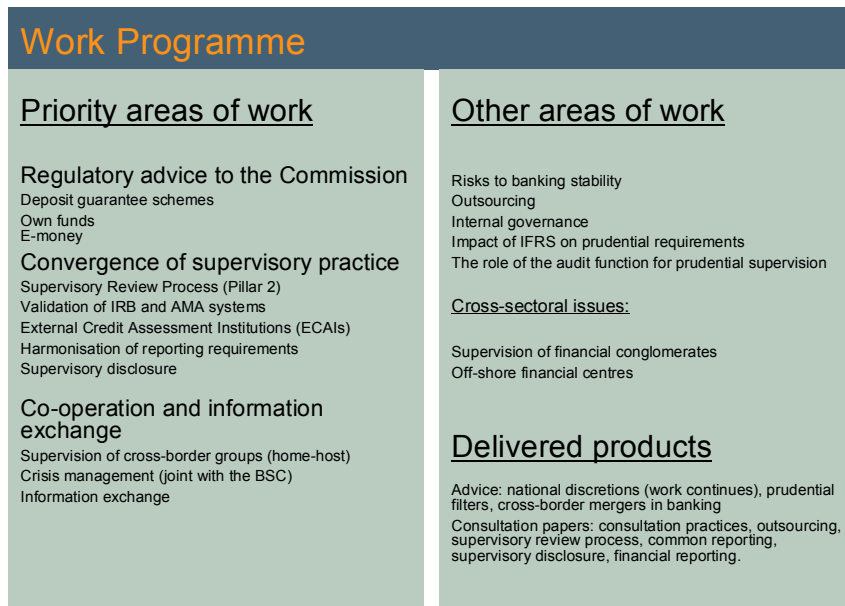
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CEBS is part of the legal Lamfalussy framework and sits in this framework on level three with its sister committees CESR in securities and CEIOPS in insurance. The original purpose of the framework was to improve European financial legislation and speed up the processes and make

them more flexible by giving new technical implementing powers to committees and mandate the level three to harmonise the supervisory practices.



Within the Lamfalussy framework CEBS work will be closely monitored in order to check that it meets its objectives. CEBS not only reports to the Commission but is also accountable to the Council and the European Parliament. CEBS prepares notes and reports also to the Committees that sit under the Council, mainly EFC-FSC and its Financial Stability Table. CEBS has constant co-operation with the Central Bank structures. With the BSC CEBS has a joint working group on crisis management. The Inter-Institutional Monitoring Group will closely monitor level three work.

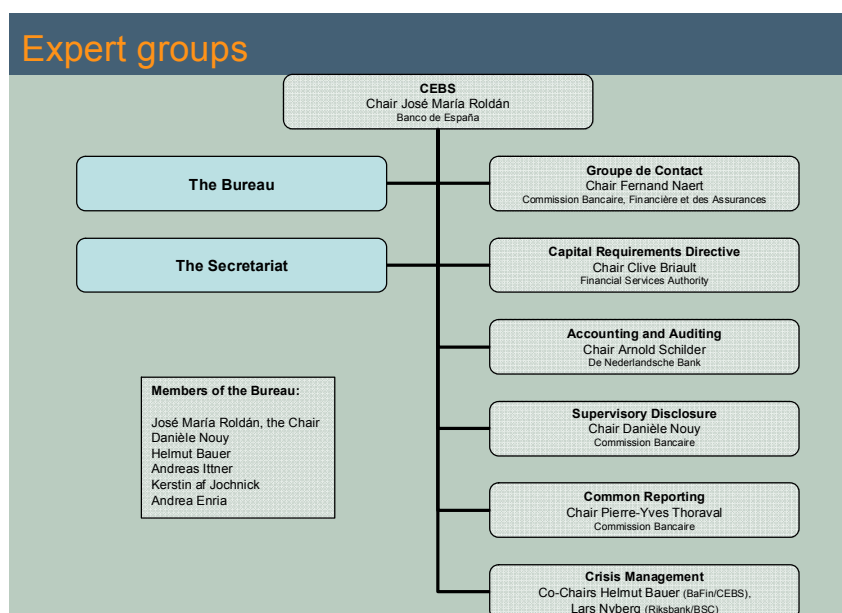


Each year CEBS publishes a work programme which identifies the priority areas on which CEBS will focus its attention. It is divided into three work areas, corresponding to the main tasks assigned to CEBS in the Commission’s Decision establishing CEBS and in the CEBS Charter: Advice to the Commission; Convergence of supervisory practices; and Co-operation 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 Consultative Panel.

The main focus of the Committee's work has been on ensuring consistent implementation of Community legislation, convergence of supervisory practices and an effective process for supervisory co-operation in an increasingly integrated market for financial services. The work programme includes several work streams initiated in 2004 in response to the strong demand for convergence of banking supervisory practices and in relation to the finalisation of the CRD.

A number of work streams and projects have been started outside the priority areas. These work streams were assigned to CEBS by third parties such as other European institutions, or were taken up by CEBS as part of its objective of pursuing convergence of supervisory practises. So far CEBS has delivered advice to the Commission on national discretions, prudential filters, and mergers and acquisitions.

CEBS has published consultation papers on consultation practices, outsourcing, supervisory review process, common reporting, supervisory disclosure and financial reporting. Currently CEBS is drafting guidelines on Pillar II, supervisory co-operation, model validation and on the process of recognition of rating agencies in prudential purposes.



CEBS has organised its work in several working groups. The main permanent working group is the Groupe de Contact with a long history of supervisory co-operation dating back to 1972. The other groups are all groups set up with a separate mandate. When the work in these groups are finalised and the mandates fulfilled the groups will be closed down.

## The first challenge

### Consistent implementation

- The issue
  - Complex framework: risk of differences in national implementation
  - Additional layers of regulation at the national level (“gold-plating”)
  - National discretions
  - Lack of visibility for the common EU rules and practices
- CEBS response:
  - Allowing for meaningful comparisons of national implementation: the draft guidelines on supervisory disclosure
  - Reducing the scope for national discretions, also in relation to their expected impact

The first challenge for CEBS is consistent implementation of legislation. There is a widespread perception that notwithstanding the huge effort in harmonisation, common rules have often been implemented in slightly different ways in national rulebooks and this may have prevented the Single Market to deliver its full benefits. Institutions operating on a cross-border basis have to comply with a set of slightly different requirements on supposedly harmonised supervisory tools, with the result that compliance costs increase – and are perceived by regulated entities as dead-weight costs.

Besides differences in the transposition of common provisions, there is also the concern that Member States could adopt layers of regulatory additions that go beyond the provisions of the Directive - the so-called “goldplating” – so that the benefits of a harmonisation become less evident and the costs of cross border compliance increase.

Additionally there is the issue related to national options and discretions. There are still around 80 choices that are left to Member States and the use of these options and discretions may hamper to some extent the homogeneity of the regulatory framework in the Single Market.

Finally, there is the issue of visibility of the EU layer of common rules and practices. There is quite a lot of attention devoted to Community legislation when it is being discussed and finalised. But after this stage, the set of rules banks have to comply with in the Single market remains a collection of national rulebooks. In particular, the visibility of a common EU milieu vanishes as soon as we move into the concrete provisions banks have to comply with.

CEBS is trying to tackle these issues by setting up of a framework - called Supervisory Disclosure - to allow for meaningful comparisons of the choices made at the national level in the implementation of the CRD. The disclosure of information should allow for a proper discussion of differences, provide European Institutions with information as to the scope for divergent implementations and market participants with a tool for exercising pressure towards more consistent choices, if they are considered necessary. As disclosure of information by banks is expected to support market discipline, supervisory disclosure is expected to act as a disciplinary device towards consistent implementation of the CRD.

## Supervisory Disclosure

- Supervisors are required to publish (CRD Art. 144):
  - Rules and guidance
  - How options and national discretions are exercised
  - Supervisory review and evaluation
  - Statistical data on national banking sectors
- Easy access and meaningful comparison ⇒ peer group pressure
  - Internet access via CEBS website [www.c-eps.org](http://www.c-eps.org)
  - Links to national websites
  - Comparable information
  - Common language - English

CEBS is drafting guidelines on supervisory disclosure. The framework proposed by CEBS will be organised on a set of tables, containing both qualitative and quantitative information, and organised in four sections corresponding to the four areas indicated in Article 144 of the Directive. It adopts a user-friendly approach using the same ways to disclose, via the Internet: CEBS website will be the point of entry, giving an overview at European level and will provide links to national websites where the detailed information will be accessible. This two tier structure should allow for easy comparability in CEBS website and for access to detailed information at the national level, in clones websites, with similar structure in order to favour easy consultation and navigation. The use of Internet has also been considered as the best way to avoid any unnecessary bureaucratic burden for supervisors. The reliance on common formats and the use of a common language, English, should support meaningful comparisons.

## National Discretions

- The advice to the Commission: cutting down on numbers
- The dialogue with the industry: identifying high impact discretions and options
- The work on supervisory convergence
- Discipline via supervisory disclosure

### Open question:

- Effectiveness of market pressure and soft tools

With regard to national discretions, CEBS is following a strategy based on four steps. First, CEBS proposed to delete 23 discretions and almost all the proposals were accepted in the text approved by the Council. The second step brought into the picture the Consultative Panel, which is composed of representatives from the industry and end-users of financial services, in order to have additional

input. In particular, the Panel was asked to identify those options and national discretions that could have a significant impact on the conduct of cross-border business and on level playing field. In a third step CEBS will assess whether a consensus could be found to deleting the discretion. As most national discretions are contained in the annexes to the CRD, this would still be possible without burdensome legislative revisions via co-decision, as changes could be introduced via comitology procedure. If deleting the option or discretion would not be possible, efforts should be made to reduce its impact via convergence in the practices adopted in exercising it.

If all the efforts turned out not to be successful, there would still be a fourth channel for exercising pressure towards consistent implementation: the supervisory disclosure framework. It will provide an overview of how each option and discretion is exercised at the national level, with detailed information accessible on national websites. This should allow reviewing the progress made and should put interested parties in a position to exercise further pressure for consistent implementation.

Are market pressure and soft tools via supervisory disclosure and CEBS' efforts on national discretion sufficient to deliver a broadly consistent regulatory framework? This is a valid question, but once decisions are taken by consensus within CEBS, members are also taking a commitment to implement them and make them work in practice, via intensified co-operation and cross-fertilisation of approaches. These are the first concrete steps towards common European supervisory culture.

**The second challenge**

**Convergence in practices**

- The issue
  - Potentially different approaches to the supervisory review process (Pillar 2)
  - Very technical aspects of the new framework: possibility of different criteria being used in supervisory assessment of internal measures of risk
  - Compliance burden for cross-border groups, especially in relation to supervisory reporting
- CEBS response:
  - Guidelines for the supervisory review process
  - Common quantitative and qualitative criteria for the validation of internal approaches for credit and operational risk
  - Common reporting requirements

As Basel II enters into the detail of supervisory practices the emphasis needs to be shifted from consistency in wording towards convergence in day-to-day practices for the operational implementation of the new framework. Three aspects are particularly important for cross-border implementation:

- Pillar 2, the supervisory review process, which will define the process for the supervisory assessment of the approaches adopted by banks and investment firms to define the appropriate capital levels; This is the area in which more leeway is left to discretionary evaluations of supervisory authorities, thus opening room for potentially different approaches adopted by national supervisors;
- The validation of internal approaches for credit and operational risk (IRB and AMA). This is a very technical area, which calls for both quantitative and qualitative criteria for assessing the systems adopted by banks, again calling for convergence in supervisory practices;
- More generally, the concern that slightly different requirements would impose excessive compliance costs for cross-border groups. This concern has been raised in particular with reference to reporting requirements: banks complained that partly different information was requested, according to different reporting templates, for the solvency ratio under Basel I, also asking banks to transmit the relevant information to different authorities by relying on different technology

platforms. This is perceived as a cost imposed on the industry just because of the lack of co-ordination between competent authorities.

CEBS' response to these concerns has focused on the elaboration of common approaches to the supervisory review process, to the validation of IRB and AMA approaches and to the proposal of a common reporting framework for the solvency ratio and standardised framework for reporting of financial data.

## Supervisory Review Process

Objectives of Pillar 2 are to:

- Ensure institutions have adequate capital to support all risks in their business
- Encourage institutions to manage risk
- Foster an active dialogue between institutions and supervisors
- Covers the relationship between:
  - *Supervisor's SREP* (the Supervisory Review and Evaluation Process);  
and
  - *Institution' ICAAP* (the Internal Capital Adequacy Assessment Process).

The underlying aim of the Pillar 2 processes is to enhance the link between an institution's risk profile, risk management and capital. Institutions themselves should develop sound risk management processes and assess, measure and aggregate their risks. Through an adequate assessment process, institutions are expected to cover all the key elements of capital planning and management and determine an adequate amount of capital to set against those risks.

CEBS' impression is that there is a good understanding among market participants that the financial institution itself should be in charge of the Internal Capital Adequacy Assessment Process (ICAAP). It will be the responsibility of the institution to define, develop and manage its own process. The task of the supervisor is to review and evaluate it and the soundness of the internal processes within which it is used.

## Supervisory Review Process

- First consultation paper:
  - ICAAP the responsibility of the institution
  - Dialogue between the institution and the supervisory authority in the ICAAP/SREP process
  - Proportionality
- Second consultation paper
  - Interaction between ICAAP and SREP
  - Internal governance
  - Guidance for small institutions
- Further work on specific issues (concentration risk, stress testing, interest rate risk in the banking book)

CEBS has already issued a first consultation paper on Pillar 2 in 2004, receiving a rather positive feedback. The three core principles developed in that paper were:

- (i) a clear statement that the Internal Capital Adequacy Assessment Process (ICAAP) is the responsibility of the supervised institution;
- (ii) the definition of the Supervisory Review and Evaluation Process (SREP) as a challenge to the internal assessment put forward by the bank, thus starting a necessary dialogue between the institution and the supervisory authority;
- (iii) the principle of proportionality, according to which the intensity and depth of the dialogue should be proportionate to the systemic importance, nature, scale and complexity of the institution.

Following the comments received in the consultation, CEBS has developed further work to be published in a second version of the paper. In particular, internal governance is identified as an important part of an institution's ICAAP and the revised draft guidelines will include a section explaining what supervisors will expect to see when they evaluate the adequacy of an institution's internal governance of its risk management processes. The new paper will also further flesh out the respective roles and responsibilities of supervisory authorities and institutions, and the interaction between the ICAAP and the SREP, in order to make the dialogue clear and consistent. Further work is being started on specific risk factors, such as concentration risk and interest rate risk in the banking book, also with a view to developing common principles. In general, the approach adopted is not prescriptive and focused on processes; it aims at reaching more clarity and commonality in the approaches that will be followed by supervisors, without putting forward specific requirements.

There is no suggestion that traditional measures, which meet the needs of institutions, should be replaced. All institutions however are encouraged to actively consider whether they have adequate processes in place. The ICAAP must be embedded in the institution's business and organisational processes and should not be added-on simply to "tick a box" that supervisory expectations have been formally met.

The Supervisory Review and Evaluation Process (SREP) is the task the supervisor should perform when assessing if the quality of the ICAAP is sufficient in relation to the risk exposure and the control environment. Furthermore the Governance structure within the institution must be adequate to the size, complexity and the kind of business that is performed. It is for the supervisor to assess if the board of directors have assumed their responsibility when designing the control environment within the institution. Within the framework of the SRP the risks in the Pillar II will be addressed.

The new way of working will require a close dialogue between an institution and its supervisors. The dialogue should cover all aspects of business risk and control risk and include internal governance, systems and controls and risk management and how they allocate capital against risk.

## Validation

### Validation

- Development of quantitative and qualitative requirements for discrimination and calibration of rating systems, estimates of PDs, LGDs, EADs and AMA parameters.
- Minimum standards for the review of the methodologies applied by credit institutions and investment firms.

With regard to validation, CEBS' work is being focused on the definition of common quantitative and qualitative criteria for discrimination and calibration of rating systems, estimates of the probabilities of default, losses given default, exposures at default and AMA parameters. Furthermore, CEBS is developing minimum standards for the review of the methodologies applied by credit institutions and investment firms. Again, CEBS is not aiming at detailed guidance, de facto setting up new requirements; the objective is clarifying what supervisor expects. Informal contacts with industry experts on operational risks have shown that the draft guidance is broadly in line with what is already recognised in the market as best practices.

## Reporting requirements

### Common reporting of the solvency ratio and financial data

- Common templates and technology platform, to achieve:
  - Level playing field
  - Less administrative burden for cross-border groups (while limiting the burden for small, local banks)
  - Easier exchanges of information between supervisors

### Open questions:

- Degree of detail in CEBS' guidelines: how to strike the right balance?
- Overall reporting burden

Reporting is an example of an area where CEBS is making concrete progress in making practices converge. Institutions have argued that when they go cross border they have to report to a number of different supervisors according to different formats. This has a significant impact on their compliance cost.

Implementation of the new international accounting standards (IFRS) and the CRD provides the EU with a unique opportunity to harmonise the framework for supervisory reporting, as all authorities and institutions need to adjust to new reporting requirements. CEBS has taken the initiative to develop a common framework for reporting of the solvency ratio and similarly standardised framework for reporting of financial data to minimise administrative burden for institutions and save compliance costs.

The proposed technical solution does not affect existing reporting systems. The recommended solution that takes full advantage of the data model's functionality is the XML-based XBRL-protocol. CEBS has completed the public consultation on common reporting of the solvency ratio and received comments from the market participants. CEBS will now analyse carefully all comments and improve the framework where appropriate.

In parallel CEBS has been working on a proposal for common financial reporting. CEBS intention is the same as with capital reporting. It is the first time European supervisors have presented a common system that could be used in all countries. The advantage and cost reduction will probably be most visible for bank groups with subsidiaries and branches in many countries.

One of the open questions is the optimal degree of detail in CEBS' guidelines. The approach CEBS has been following so far is based on flexible guidance, avoiding prescriptive principles that may turn out to be a straightjacket. This seems consistent with the evolutionary nature of both Basel II and the Lamfalussy approach, which allow adapting the approaches as long as risk management practices are refined. What is crucial, though, is to set up some way for reviewing the concrete application of the guidelines and assessing whether there remain differences that would be better ironed out.

The second issue refers to the overall reporting burden. An approach pursuing minimum harmonisation of reporting requirements would probably appear slimmer and more efficient; but it would not properly serve the needs of cross-border groups: items that are requested only in few countries would not be included in the framework and banks reporting in such countries would still have to do so according to different formats and templates. On the other hand, including in the framework the items requested by all authorities risks inflating the framework, thus conveying the impression that convergence is achieved at the expenses of efficiency. If not all the sections of the overall framework are going to be activated by each Member State, the impression of excessive burden could prove to be wrong. But there is a need to check how the process develops and to avoid that convergence is eventually associated to higher compliance costs.

## The third challenge

### Streamlining the supervisory process

- The issue
  - Misalignment between legal and operational structure of cross-border groups
  - Possible impact on compliance costs, if supervisory controls are duplicated or even conflicting
  - Role of the consolidating supervisor in the proposed CRD
- CEBS response:
  - Enhanced co-operation and exchange of information between home and host authorities
  - Clear *ex ante* agreements on the division of labour and interaction between the authorities involved in the supervision of a group (notion of *significance*)
  - Guidance on the approval process for validation of IRB and AMA
  - Road testing

The restructuring of large groups has produced an increased misalignment between the legal and operational structure of supervision: organisational choices are often made at the firm level, with some functions that are performed at firm-wide level, for all the entities of the group, and others that are outsourced to external providers. This is the third challenge: how to streamline the supervisory process and co-operation between supervisors.

The restructuring of the banking industry and centralisation of different group functions to different parts of the group creates a serious challenge to a risk-focused supervision, as supervisory responsibilities are allocated on the basis of the country of residence of the legal entity, but the monitoring of the risks incurred by such entity may well require access to information that is outside the jurisdiction of the supervisor. This aspect could give rise to higher compliance costs, if supervisory tasks end up to be duplicated by several authorities involved in the supervision of a cross-border group. In the absence of convergence in supervisory practices, this could even determine conflicting supervisory requirements.

The provisions introduced in the proposed CRD reflect awareness of this issue. By enhancing the tasks of the consolidated supervisor a co-ordination mechanism between competent authorities is being established, which should minimise the scope for duplications and additional compliance costs. But all these provisions, and in particular those asking for a joint decision for the approval of the validation of IRB and AMA approaches, call for the definition of supervisory guidelines, which better define the respective tasks of all the parties involved.

The response on these issues is the issuance of principles governing the co-operation and the two-way exchange of information between home and host authorities. The draft guidelines are being prepared with the objective of defining a clear framework of the basis of which more specific, tailor-made agreements could be defined by the authorities involved in the supervision of specific cross-border groups. The intention is to provide a framework which should allow a rather easy and clear division of labour between all the authorities involved, with a common understanding of who should activate a process, which information should as a rule be channelled and when, how different steps in a risk assessment process should be shaped, and the like.

An important point is the recognition that the degree of involvement and co-operation should be defined according to the significance of an entity, with respect both to the group business and to the local markets in which it operates. A very important chapter will discuss the specific issues that need to be addressed to ensure a smooth approval process for the validation of IRB and AMA approaches, following the innovative provisions that have been introduced in the proposed CRD, according to which all the authorities are required to come to a joint determination and if within a certain time frame this does not happen the consolidating supervisor has to take a deliberation.

## Streamlining the supervisory process

### Open questions:

- Delegation of tasks/responsibilities
- Conflicting views (e.g., significance, distribution of capital)
- Crisis management

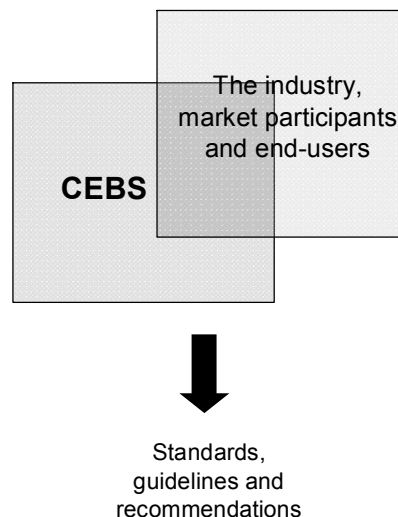
Also in this case CEBS faces the issue of the optimal degree of detail. Very specific criteria could convey the impression of a rather complex bureaucratic apparatus, while high level principles could fail to reduce the potential for duplication and conflicts. A more specific and intriguing question concerns the possibility, envisaged in the Directive, to delegate supervisory responsibilities to the home/consolidating supervisor. This provision was already present in the Consolidated Banking Directive, but it has been activated very seldom if ever.

Second, there might be case in which home and host authorities maintain different views, for instance with reference to the significance of a group component or to the optimal distribution of capital within a group. Different views are very likely when home-host issues are addressed at a general and abstract level, but when concrete issues are addressed it is much easier to come to a shared view, especially when there is a habit to co-operate and rely on each other's assessment. However, the possibility cannot be ruled out that in some cases different positions have to be reconciled. In such cases, it is the legal attribution of responsibilities that has to determine the final decision.

Finally, home-host issues may emerge also in crisis situations, in which the distribution of responsibilities could be less precisely defined, in light of the constructive ambiguity that dominates the arrangements for crisis management and the role exercised by other authorities, including central banks, deposit guarantee schemes and, in extreme cases, finance ministries.

## The fourth challenge: effective consultation

- Consultation with the industry, market participants and end-users
- Objectives: transparency, benefit from expertise of market participants and end-users, dialogue and interaction
- Tools: public consultation on CEBS products, Consultative panel
- Consultative Panel composed of 19 members with main task of acting as a sounding board in strategic issues



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The practice of extensive public consultations is still relatively new in banking supervision, although already the market risk amendment to Basel I and then the new Basel II framework have been the object of repeated consultation rounds, at both the global and the European level.

Conducting consultation on supervisory practices is even less customary and to some extent different than a consultation on draft legislative text. In particular, when consulting on very technical matters, it is essential to establish a dialogue with the right counterparties, those who are in charge of operational functions and are in a position to provide input on best market practices. Posting a draft text on the website asking for comments is probably not always the best way for involving the right practitioners in the consultations. In many cases, it is necessary to have input at an early stage, when CEBS' experts are starting to form their views on an issue.

CEBS is trying to establish a multilayered dialogue, discussing strategic issues with the Consultative Panel, organising workshops with technical experts and conducting regular dialogue with industry associations at both the European and the national level.

Another open question is how to involve in the consultation also representatives of the interests of end-users of financial services. Their interest in prudential requirements is only indirect, insofar as the new requirements reduce the likelihood of solvency problems or affect the ability of some categories of potential customers to access the financial services they need. But assessing these indirect effects is already difficult enough for authorities and institutions with a wide availability of data. It is not easy for end-users to appropriately feed their input in the process. But eventually they should be the party that should take advantage by more integrated markets for financial services within the EU and their input would be extremely valuable.

## 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 actors, 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.

Currently end-users are represented in CEBS' Consultative Panel which has 19 members. According to its Charter the role of the Panel is to:

- Express views on the work programme of CEBS
- Provide comments on the way in which CEBS is exercising its role and, in particular, the adequacy of the consultation with the market participants, consumers and end-users
- Assist CEBS in the definition of priorities
- Alert CEBS on regulatory inconsistencies in the Single Market and suggest areas for Level 3 work
- Inform CEBS on major financial market developments.

The Panel has its own chairman and the Secretariat of CEBS provides support to the Panel. The broad competences in the panel should contribute in a constructive way to CEBS' work on convergence as well as in its advisory role to the Commission. CEBS can also use the Panel members' wide contacts when organising work shops, expert meetings and other more unofficial type of interaction with the industry.

## Future Work

### Next steps on consistent implementation and convergence of practices:

- Compendium or guidebook of standards, guidelines, advice and other work of CEBS
- For supervisors and market participants
- Flexible, internet based structure, easy to update
- Consistent terminology, definitions
- Common European approach and "supervisory culture"

A lot of work is under way to ensure a smooth implementation of Basel II and convergence of supervisory practices in wider sense. CEBS is not trying to build up new constructions of detailed requirements, but to provide a flexible guidance to make supervision work in practice, in a harmonised manner throughout the Single Market.

Next steps on consistent implementation and convergence of practices will include a compiling of compendium or guidebook of standards, guidelines, advice and other work of CEBS to give a clear formula of common approach to all supervisors and market participants. This guidebook will be flexible, internet based structure that is easy to update. It contains consistent terminology and definitions for everyone to check.

The aim is to create common European approach to banking supervision which could be described as a "common supervisory culture". At a later stage this will also include exchanges of staff and common training.