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CEBS

2010

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Foreword by the Chair

Giovanni Carosio

It is with great pleasure that I present the annual report 2010 of the Committee of European Banking Supervisors, CEBS.

This annual report is a very special one, since it is CEBS' last annual report. As of 1 January 2011, all tasks and activities of CEBS have been taken over by the new European Banking Authority (EBA).

With the establishment of the EBA, the rather short life of CEBS has come to an end. CEBS activities started following a European Commission Decision of 5 November 2003, as part of what was known as the Lamfalussy process. On 1 January 2004, the Committee of European Banking Supervisors took up its duties, serving as 'an independent body for reflection, debate and advice in the field of banking regulation and supervision'.

Since then, CEBS has produced numerous Guidelines, Advices to the European Commission, Position Papers, Recommendations and Studies, all aimed at promoting supervisory convergence and cooperation in Europe. The implementation in the national environments of these products was based on a 'comply or explain' mechanism, which proved valuable, especially in the first years of CEBS' operations. Under the influence of

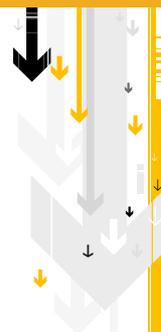
the evolving financial crisis and the lessons learned about supervisory cooperation in these challenging conditions, a more stringent and less voluntary mechanism of convergence was sought, which eventually led to the establishment of the European System of Financial Supervision and the EBA as part of it, with its enhanced powers, responsibilities, tasks and tools.

CEBS has done a lot of preparatory activities for the new organisation which had to be combined with work on regulatory repair and on assessment of the EU financial sector in the fragile financial environment. Special focus in 2010 was of course on the EU-wide stress testing exercise, culminated in the publication of the stress test results for the major EU banking groups in mid 2010.

There was also special emphasis on work done on the establishment of supervisory colleges and their functioning, which is a cornerstone of the new institutional framework. In particular, CEBS has issued Guidelines, aimed at strengthening cooperation among competent authorities for the supervision of cross-border groups in the process leading to a joint assessment and joint decision on the risk-based capital adequacy of the groups. This work represents an important step towards greater convergence of practices in the field of supervision of cross-border banking groups. As regards regulatory developments globally, a major achievement was the agreement on Basel III. CEBS' main contribution in this process was the impact assessment it undertook for EU banks and investment firms.

Looking back, CEBS has contributed greatly in its seven years of operation to building a more converged banking supervisory environment in Europe. Its work has laid the foundations for the European Banking Authority.

I would like to thank everyone who has helped in building this foundation.



2.

Overview of the work undertaken in 2010 and progress made

2.1

Progress in the institutional setting of supervision in Europe

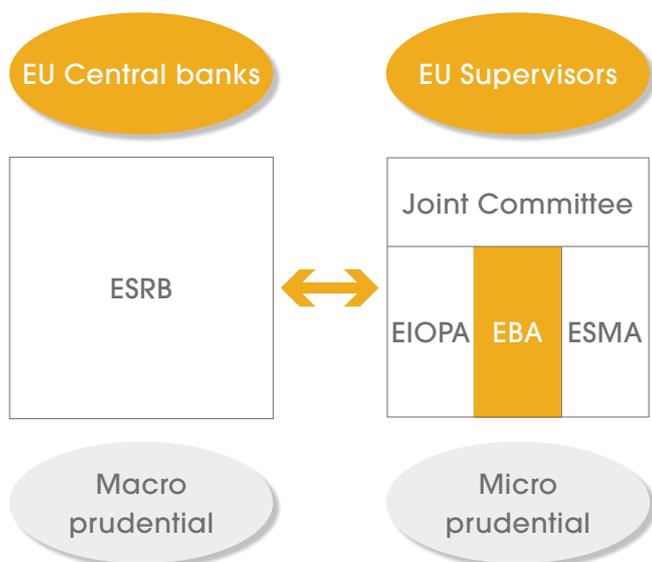
On 24 November 2010 the decision was taken to establish the new European Banking Authority, as legal successor to the Committee of European Banking Supervisors (CEBS). After having been in operations for seven years, CEBS ceased to exist at the end of 2010. The new European Banking Authority (EBA) was established as a European Union (EU) body with legal personality and administrative and financial autonomy and its own tasks and responsibilities. Its objective is to strengthen the supervision of cross-border banks operating in Europe and to promote a single EU rule book for supervised entities, thereby moving towards more integrated European supervision and a level playing field for all actors. In addition, the EBA was given new tasks relating to consumer protection and financial innovation, taking a leading role in promoting transparency, simplicity and fairness in the market for consumer financial products or services in Europe. It also took over all the existing tasks and responsibilities of CEBS.

This decision was the end of a process that started in 2008, when the Commission mandated a High Level Group chaired by Jacques de Larosiere to make recommendations on how to strengthen EU supervisory arrangements. In its report presented in February 2009, the group recommended reforms to the structure of supervision of the financial sector in the EU; these formed the basis for the European Commission's proposals for a legislative and institutional change in Europe.

More concretely, it was proposed that three new European supervisory authorities (ESAs) be established: the EBA for banking, the European Insurance and Occupational Pensions Authority (EIOPA) for insurance and pension supervision and the European Securities and Markets Authority (ESMA) for the supervision of the securities markets. These new Authorities would have their own tasks and responsibilities that would build upon the outcomes of the day-to-day supervision by national authorities of individual institutions and markets. A Joint Committee was also to be established to undertake activities of a cross-sector nature and promote effective coordination between the newly established authorities. In addition, a European Systemic Risk Board (ESRB) would be set up to identify and analyse evolving systemic risks and provide recommendations on measures to be taken to mitigate these risks. The ESRB would comprise senior representatives of the central banks and would be closely linked to the European Central Bank (ECB); the latter was to provide administrative and technical support to this new Board.

In June 2010 the European Council confirmed the establishment of the new ESAs, and in the second half of 2010 the new regulations were agreed upon between the European Commission, the European Council and the European Parliament. Diagram 2.1.a provides an overview of the new institutional structure.

Given these developments, CEBS staff, together with colleagues from the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), the Committee of European Securities Regulators (CESR) and the European Commission, undertook further and more intense preparatory work so as to have the ESAs up and running as of 1 January 2011. A migration plan was set-up and tasks and people were assigned. In a very short period of time the necessary actions were undertaken. On 1 January 2011, the EBA started its operations.

Diagram 2.1.a New Institutional Arrangements

2.2

CEBS' response to the crisis in the financial sector

2.2.1

Assessment of risks and vulnerabilities and EU-wide stress test

CEBS continued in 2010 to build up its micro-prudential oversight role, by conducting semi-annual bottom-up assessments of risks and vulnerabilities of the EU banking sector. In comparison with the 2009 analyses, more EU banks were involved and CEBS also stepped up the coordination of these analyses with those for the insurance and securities markets as undertaken by CEIOPS and CESR respectively. These analyses provided a valuable input to the policy debate in the EU on measures to be taken by supervisors and national authorities respectively, to cope with the consequences of the stressed financial markets.

Another key exercise CEBS undertook in this respect was the EU-wide stress testing exercise. This exercise was done at the request of the Economic and Financial Council (ECOFIN). It was the first time in Europe that the outcomes for such a large group of EU

banks were made public on an aggregate and bank-by-bank basis. The results were published at the end of June 2010.

2.2.2

Regulatory repair

In 2010, CEBS published a number of guidelines to deal with shortfalls in the regulatory framework identified in 2008 and 2009 as a result of the financial crisis.

Amongst the different guidelines that were published by CEBS, a key deliverable that received a lot of public attention was its Guideline on remuneration policies and practices that was published in December 2010 and became effective as of 1 January 2011. This guideline was aimed at aligning the incentives for remuneration for individuals within a bank with those of promoting appropriate risk behaviour on the part of these bank employees. Another important deliverable was the Internal Governance Guidebook, which is intended to strengthen banks' risk management practices.

CEBS was also involved in the transformation of the Basel III framework into the EU legislative framework of the Capital Requirements Directive (CRD) and advised the European Commission in this regard. Special attention here was devoted to the mandates in the EU legislation for the future EBA to develop further technical standards and to other, mostly regular, tasks for the EBA in the context of the implementation and application of Basel III in particular in Europe via the CRD.

Last but not least, CEBS actively contributed to the discussion on the revised global regulatory framework that was agreed upon by the Basel Committee of Banking Supervision (BCBS) at the end of 2010. In this context, CEBS performed the quantitative impact study to establish the effect of the Basel III proposals on EU banks, analysing the differential impacts of alternative rules and providing a basis for the overall calibration of the new framework

and for the transitional arrangements to be developed.

2.2.3

Input on enhancing crisis prevention and crisis management in Europe

On 12 July 2010, the European Commission made a legislative proposal for a revision of the Directive on Deposit Guarantee Schemes. It mainly concerned harmonisation and simplification of protected deposits, a faster payout, and an improved financing of schemes. Under this legislative proposal, the EBA was to be tasked with developing standards for the methods to be used by a deposit guarantee scheme for calculating risk-based contributions. The EBA was also to have the task of regularly testing the operational capabilities of the scheme, in order to assess whether they complied with the agreed operational requirements.

With respect to enhancing crisis prevention and crisis management in Europe, in October 2009 the European Commission launched a public consultation on its Communication entitled 'An EU Framework for Cross-Border Crisis Management in the Banking Sector'. CEBS responded to this consultation in January 2010. Considering the results of this public consultation, CEBS subsequently took the initiative to provide the European Commission in mid 2010 with further advice on specific issues relating to cross-border crisis management. This concentrated on a number of general principles that would apply to a minimum common EU toolbox for crisis prevention and resolution, followed by more detailed comments on the proposed tools that should be part of the minimum common toolbox, including the conditions for the use of these tools. It also elaborated on the issue of financing the implementation of the tools and dealt with Recovery and Resolution Plans.

2.3

The convergence of supervisory practices

Since its start, CEBS has worked on promoting convergence of banking supervisory practices and supervisory co-operation in Europe. The following areas in particular received special emphasis in 2010.

2.3.1

Colleges of supervisors

CEBS strengthened the co-operation between home and host supervisory authorities in a number of key areas. It increased the number of colleges it monitored and enhanced the role of colleges in coordinating supervisory activities and reaching common decisions. To accomplish this, it implemented an action plan 2010 for supervisory colleges, whereby CEBS staff were more involved than in previous years in the individual college meetings. To facilitate the set-up, operations and proper functioning of these colleges, guidelines were developed on the operational functioning of colleges and on the joint assessment of and joint decision on the capital adequacy within a college of a cross-border bank. CEBS also performed a peer review on colleges, leading to a peer review report published in October 2010.

2.3.2

Supervisory reporting

As regards supervisory reporting, CEBS' objective is to achieve a high level of harmonisation and strong convergence via its guidelines for harmonised risk reporting (COREP) and financial reporting (FINREP).

In 2010, further steps were undertaken to streamline the risk reporting in COREP and to address changes stemming from International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) as endorsed by the EU. CEBS also continued its efforts to provide the related XBRL (eXtensible Business

Reporting Language) taxonomies for COREP and FINREP, to be used on a voluntary basis by its members in the implementation of these reporting frameworks.

2.3.3

Training and staff exchanges

CEBS implemented an extensive training programme 2010, aimed at providing supervisory authorities with an effective platform for the exchange of views about their supervisory practices and at promoting common supervisory practices amongst members.

In total over 31 training events were organised among CEBS members and 14 were organised for members, together with the other two of the three Level 3 (3L3) Committees CEIOPS and CESR.

2.3.4

Supervisory disclosure

Since 2007, CEBS has had a common supervisory disclosure framework, which is accessible via the CEBS website and which provides an overview of national implementation of Community legislation.

In 2010, some amendments to this tool were agreed upon; they became effective in the course of the year.

2.4

Cooperation with third countries

In addition to interacting with other Committees and European institutions, CEBS actively followed the work of global standard-setters and co-operative organisations such as the BCBS, the Financial Stability Board (FSB), the International Accounting Standards Board (IASB) and the Joint Forum. CEBS is an observer at the BCBS and attends its meetings and some of its subgroups. Both on accounting and auditing topics, CEBS provided comment letters to the IASB and

the International Auditing and Assurance Standards Board (IAASB) on a regular basis.

The intensity of contacts and exchanges of information with supervisors from quite a number of third-country jurisdictions such as the US and with organisations such as the International Monetary Fund and the European Bank for Reconstruction and Development dramatically increased in 2010, especially in the context of the EU-wide stress testing exercise that CEBS undertook.

3.

CEBS's achievements in 2010

3.1

Functioning of Supervisory colleges

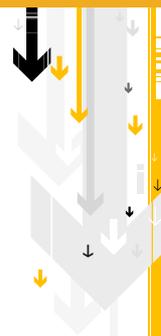
Co-operation between home and host supervisory authorities remained a high priority on the CEBS agenda in 2010. During 2010, CEBS increased the number of colleges it monitored and worked to enhance the role of colleges in coordinating supervisory activities and decisions and in exchanging information between relevant authorities. CEBS also stepped up its attendance at college meetings as an observer.

3.1.1

Action Plan 2010 for Supervisory Colleges

CEBS launched a two-fold Action Plan for Colleges in 2010. First of all, this plan set targets for a number of new colleges to be established during 2010. It also set further targets for the functioning of the colleges that were established during 2009.

For the establishment of new colleges, the targets were the same as those in 2009 and were directed at the 12 next largest EU cross-border banks in Europe. According to the plan, the supervisors of those banking groups were expected to establish a supervisory college and sign a written co-operation and coordination agreement by the end of 2010,



in so far as none was already in place. At the end of 2010, all targeted 12 supervisory colleges had been established, of which 11 had signed a written agreement or were in the final phase of the signature process. The CEBS Template for Written Co-operation and Coordination Agreements¹ was used as the basis for these colleges.

For the colleges established in 2009, the targets for 2010 involved producing a coordinated plan of college activities and, where applicable, producing a group risk assessment report². All of these 31 colleges submitted a coordinated plan of college activities. Most met the requirement to undertake a group risk assessment, in line with their submitted activity plans for 2010. The various group risk assessment reports were mostly finalised early in 2011, in line with the legal requirement in the CRD.

Table 3.1.1.a provides an overview of the colleges under the action plans 2009-2010.

3.1.2 CEBS involvement in colleges

In 2010, CEBS continued to attend college meetings as an observer. It attended almost 50 college meetings of the banking groups which it was monitoring in 2010. While at college meetings, CEBS secretariat staff presented the Committee's expectations of colleges, the two sets of college-related guidelines (see below) and information about the transition from CEBS to the EBA. This approach of attendance at colleges provided an excellent foundation for the new role of the CEBS successor body.

In line with the objective of promoting and facilitating the work of colleges, CEBS also developed a common methodology³ to be used by members of the supervisory colleges when assessing the equivalence of third countries' confidentiality provisions, in the light of the participation of such countries in the colleges' activities. This methodology comprises four key principles (definition

of confidential information, existence of professional secrecy obligations, use of confidential information, disclosure of confidential information), which encapsulate the standards of professional secrecy required by the CRD and the objectives thereof, and an additional criterion on the legal consequences of a breach of confidentiality.

NEXT STEPS:

In 2011 the EBA will increase its oversight of colleges through an Action Plan for Colleges 2011 which will focus on the legal requirements of Article 129(3) CRD as well as requiring updates of the EBA's monitoring process on colleges. The EBA will continue to participate in the most significant colleges as well as ensuring that a proportionate oversight approach is maintained with all European banking group colleges. The assessment of equivalence of a number of third countries' confidentiality provisions that started in 2010 will continue in 2011.

3.1.3 Guidelines for the operational functioning of colleges

The CRD II requires the establishment of supervisory colleges as an instrument for stronger coordination and cooperation, whereby competent authorities can reach an agreement on key supervisory tasks. The colleges are expected to facilitate the handling of ongoing supervision and also to play a role in both the preparation for and handling of emergency situations.

CEBS' Guidelines for the operational functioning of colleges (GL34)⁴, published in June 2010, are intended to complement the CRD provisions where additional guidance is necessary to avoid inconsistencies and promote convergence of practices across colleges.

1. Template for a Multilateral Co-operation and Co-ordination Agreement for the Supervision of the XI Group: http://www.eba.europa.eu/getdoc/aaafdb97-f131-4af6-96b5-34720c1b-d2ad/CEBS-2007-177-rev-4-_template-for-written-agreemen.aspx

2. The group qualifies to be bound to reach the joint decision described in Article 129(3) of the CRD.

3. Methodology for the assessment of the equivalence of Third Country Professional Secrecy Standards with the CRD for the purposes of EEA colleges: <http://www.eba.europa.eu/cebs/media/Publications/Other%20Publications/Others/2010/CEBS-2010-117-%283rd-country-equivalence-of-confidentiality-criteria%29.pdf>

4. GL34: <http://eba.europa.eu/documents/Publications/Standards---Guidelines/2010/Colleges/CollegeGuidelines.aspx>

3.1.1a Colleges of supervisors EU cross-border banking groups

Name of Banking Group	Colleges under 2009 Action Plan	Colleges set up under the 2010 Action Plan
ABN AMRO Bank NV		X
Allied Irish Banks Plc (AIB Group)	X	
Alpha Bank AE	X	
Banco Comercial Portugues SA	X	
Banco Popolare – Societa Cooperativa		X
Banco Santander SA	X	
Bank of Cyprus Group	X	
Barclays Group	X	
Bayern LB (Bayerische Landesbank)	X	
BNP Paribas	X	
BPCE		X
Commerzbank AG	X	
Credit Agricole Group	X	
Credit Mutuel		X
Danske Bank A/S	X	
Deutsche Bank AG	X	
Dexia	X	
DnB NOR		X
DZ Bank AG		X
EFG Eurobank Ergasias SA		X
Erste Group Bank	X	
HSBC Holdings Plc	X	
ING Groep NV	X	
Intesa Sanpaolo (ISP)	X	
KBC Groep N.V.	X	
Landesbank Berlin AG (LB Berlin)		X
Lloyds Banking Group Plc		X
Marfin Popular Bank Group Public Co Ltd		X
National Bank of Greece SA	X	
Nordea Bank AB	X	
OTP Bank NYRT	X	
Piraeus Bank		X
Rabobank Group	X	
Raiffeisen Zentralbank Oesterreich AG (RZB)	X	
SEB (Skandinaviska Enskilda Banken AB)	X	
Societe Generale	X	
Svenska Handelsbanken AB	X	
Swedbank AB	X	
The Governor and Company of the Bank of Ireland (Bank of Ireland)	X	
The Royal Bank of Scotland Group (RBS)	X	
Unicredit SpA (UCI)	X	
Volksbanken	X	
WGZ Banking Group		X

The GL34 are as practical as possible, and provide guidance for the different tasks to be performed by the supervisors involved within a college, starting with the process of setting up a college. Guidance is also provided in relation to:

- the organisation of the exchange of information among college members;
- communication with management of the supervised institutions;
- the voluntary sharing and delegation of tasks; and
- the adoption of joint decisions – on permission for the use of internal models and on the adequacy of own funds held by the group and its entities – provided for in the CRD.

The GL34 also provide guidance to supervisors within a college on taking due account of macro-prudential risks and on the planning and coordination of activities, not only in going concern, but also in emergency situations.

NEXT STEPS:

The implementation of GL34 will be monitored in 2011 through an implementation study.

In addition, and in line with Article 21 of Regulation No 1093/2010 establishing the EBA (EBA Regulation), the EBA has developed a central IT system to collect and share information within and across colleges.

3.1.4

Guidelines for the joint assessment and joint decision regarding the capital adequacy of cross-border groups

In December 2010, CEBS published the Guidelines for the joint assessment of the elements covered by the supervisory review and evaluation process and joint decision

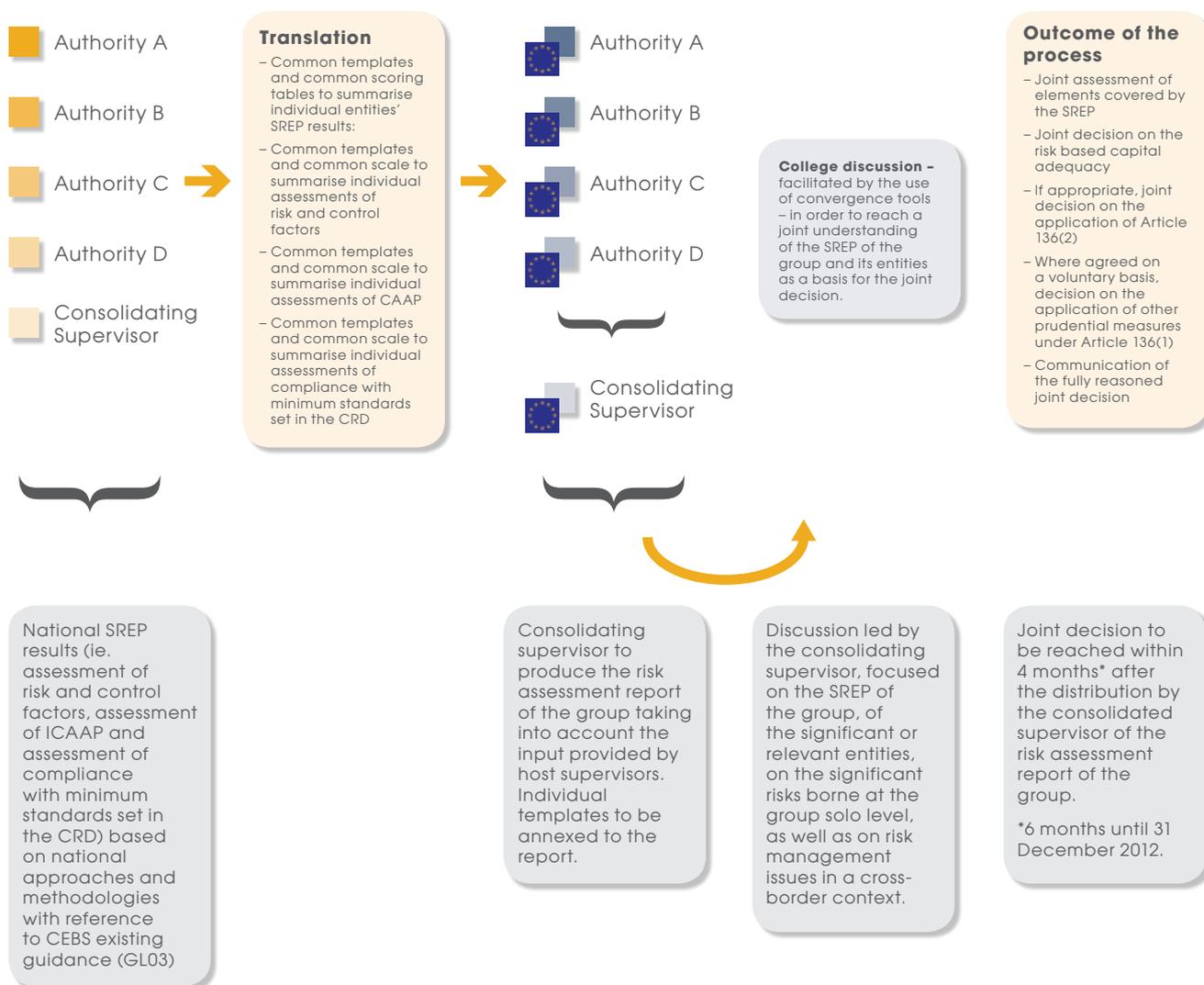
regarding the capital adequacy of cross-border groups (GL39)⁵ following a public consultation and field testing undertaken by a number of colleges of supervisors. These GL39 are very useful to EEA supervisory authorities co-operating in supervisory colleges to meet the requirements of CRD II. An overview of the process is provided in [diagram 3.1.4.a](#).

In particular, Article 129(3) of CRD II requires that the consolidating supervisor and supervisors of subsidiaries involved in the supervision of an EEA cross-border banking group do everything within their power to reach a joint decision on the application of the Pillar 2 provisions relating to the Internal Capital Adequacy Assessment Process (ICAAP) and to the Supervisory Review and Evaluation Process (SREP). The joint decision covers the adequacy of the consolidated level of own funds held by the group with respect to its financial situation and risk profile, as well as the required level of own funds above the regulatory minimum, applied to each entity within the group. These tasks are carried out within each college of supervisors established in accordance with the CRD and operating under the framework developed by CEBS.

GL39 presents practical ways to respond to the requirements in the CRD and will promote convergence of supervisory practices with regard to the joint decision process, while providing some necessary flexibility for individual colleges. The GL39 provide concrete guidance on how to cooperate in the risk assessment process and on how to apply the CRD provisions regarding ICAAP, SREP and the prudential measures subject to the joint decision process (Articles 123, 124 and 136(2) of the CRD). The GL39 also provide tools to facilitate discussions within the college, leading to a joint assessment and joint decision on the risk-based capital adequacy of the banking group in question.

⁵ GL39: <http://eba.europa.eu/cebs/media/Publications/Standards%20and%20Guidelines/2010/JRAD/Guidelines.pdf>

Diagram 3.1.4.a Overview of the process for the joint assessment and joint decision on risk-based capital adequacy



NEXT STEPS:

The EBA is strongly committed to making further progress in 2011 towards harmonisation of supervisory practices in the joint assessment and decision processes as well as promoting the effective and efficient functioning of colleges of supervisors. The focus is on the practical implementation of the GL39, with an advanced implementation study focusing not only on the aspects covered by the GL39, but also on understanding how joint decisions have been reached and formalised, including mitigating action plans, where relevant. Information from the implementation study together with the issues identified but not solved after the field testing in 2010 will feed into further work on the guidelines and preparation for the work on future technical standards.

3.2

Revised Guidelines on Stress Testing

Following the growing importance of stress testing as a risk management and supervisory tool, and taking into account lessons learnt from the financial crisis of 2008-2009, CEBS revised its Guidelines on stress testing (GL32)⁶.

The GL32 replace the earlier version published in 2006, draw on the experience that supervisors have obtained by reviewing institutions' stress tests in recent years, and take account of the revised principles for sound stress testing practices and supervision published by the BCBS⁷.

The GL32 address stress tests done by banks under the Pillar 2 component of the Basel II framework and highlight supervisory expectations of appropriate stress testing governance and infrastructure; they also cover the use of stress testing as an internal risk management tool.

In its GL32, CEBS emphasises the need for closer integration of stress testing into institutions' risk and strategic management framework, introduces a principle of complementarity of various stress tests run at various levels of organisations, ranging from simple portfolio-level stress tests to complex multi-scenario firm-wide stress tests addressing all material risks and entities. The GL32 are designed to assist institutions and supervisors in achieving robust, methodologically sound outputs that are effective in identifying risks and their potential mitigants under stressed conditions and their overall impact on an institution.

NEXT STEPS:

In 2011 the EBA will be monitoring the implementation of the GL32 by national authorities and institutions. The principles put forward in the GL32 also inform the EBA's work on EU-wide stress testing.

3.3

Implementation of CRD

3.3.1

High-level Principles for Remuneration Policies

In June 2010 CEBS published a report on the national implementation of its High-level Principles for Remuneration Policies that had been published in April 2009, addressed both to national authorities and institutions.

Two studies were undertaken by CEBS: a first study, focusing on national regulatory and supervisory actions and a second, assessing implementation by the institutions and supervisors. Both supervisors and institutions had made considerable progress in the field of remuneration; their efforts for change are continuous and genuine, with most countries adopting a regulatory approach for remuneration, supported by supervisory guidance. The most concrete changes observed in institutions relate to the governance mechanisms that must support the remuneration policies and practices. Deferral schemes for variable remuneration are also becoming more common. CEBS has used the findings of this report as a contribution to the ongoing implementation of its remuneration principles and in preparing guidelines on remuneration policy and practices as required by CRD III (see section 3.4.8).

3.3.2

Analysis on the Scope of Full Harmonisation in the CRD

In June 2010 the European Commission asked CEBS to become involved in the work on the European Commission's project to develop a single EU rule book for banking. More specifically, CEBS was requested to deliver an informal analysis of areas where the right to 'gold-plate' EU requirements should be retained. In addition, CEBS' views were sought on the specific areas of the CRD where full

⁶ GL23: http://eba.europa.eu/documents/Publications/Standards---Guidelines/2010/Stress-testing-guidelines/ST_Guidelines.aspx

⁷ See: <http://www.bis.org/publ/bcbs155.htm>

harmonisation would be best achieved by means of technical standards. CEBS provided its response to the European Commission in October 2010.

CEBS thereby indicated that it fully supports the initiative of the Commission to work towards a single rule book in the area of banking regulation in the EU and to foster further harmonisation of the application of EU legislation across Member States. CEBS presented an overview of the CRD provisions where individual Member States are currently 'gold-plating' and advised the European Commission that further work would be necessary to assess the individual approaches for their usefulness for the single European market, i.e. assessing whether a currently divergent national approach could be turned into a general rule or should rather be abandoned to achieve an EEA-wide harmonised approach.

Divergent implementation of the CRD is seen by cross-border banking groups as an impediment to taking full advantage of the single market. Certainly, the development of binding technical standards by the EBA and the further abandonment of options and national discretions will contribute to a single EU rule book, although CEBS would like to point out that even a fully harmonised rule book will not completely solve such issues (legal implementation vs. legal interpretation). Also, due care is necessary with regard to national provisions that have proved, or may in future prove, useful for financial stability in the relevant Member State(s).

NEXT STEPS:

For 2011, the EBA has planned a number of guidelines relating to the CRD including guidelines on i) remuneration (collection of quantitative information on remuneration and of information on employees in salary brackets of EUR 1

million and above), ii) operational risk (Advanced Measurement Approach (AMA) changes), iii) internal governance (internal governance guidebook) and iv) market risk (stressed value-at-risk (VAR) and incremental risk charge). Furthermore, the EBA intends to carry out an implementation study on the Guidelines on operational risk management in market related activities and a post-implementation review on compliance by competent authorities with Article 122(a) and the guidelines.

3.4

Convergence of supervisory policies

3.4.1

Regulatory capital

3.4.1.1

Guidelines on hybrid capital instruments

CRD II introduced explicit rules for the treatment of hybrid capital instruments and in particular requirements for their inclusion in institutions' original own funds. CEBS was mandated to elaborate guidelines for the convergence of supervisory practices in this area.

In December 2009, CEBS published its Implementation Guidelines for hybrid capital instruments. By setting out supplemental requirements for the inclusion of hybrid instruments in original own funds the quality of own funds is enhanced. The guidelines, which are focused on areas where CEBS sees the need for further guidance, are structured in five main parts covering permanence, flexibility of payments, loss absorbency, limits and Special Purpose Vehicles (SPVs).

NEXT STEPS:

In the light of current evolutions in the global regulatory framework with regard to the definition of capital instruments, both at international (BCBS proposals) and EU (legislative proposal to transpose into EU law the Basel III framework) levels, the EBA will engage in further work in the near future to review the eligibility criteria and requirements for hybrid capital instruments. This work is expected to be driven by the mandates to be provided to the EBA under the current legislative proposals.

3.4.1.2**Guidelines on instruments referred to in Article 57(a)**

CRD II also introduced explicit rules for the treatment of instruments eligible as capital and, in particular, requirements for their inclusion in institutions' original own funds without limits. CEBS was mandated to elaborate guidelines for the convergence of supervisory practices in this area too.

In June 2010, CEBS published its Implementation Guidelines on core capital instruments (instruments referred to in Article 57(a) of CRD II). On the basis of CRD II provisions, a set of 10 criteria have been developed that form the basis of the guidelines. The criteria cover the main features of capital instruments (definition of capital, permanence, flexibility of payments, loss absorbency) that may be included in original own funds without limits. The objective of the guidelines is to enhance the quality of core capital instruments but not to define the appropriate level of core capital.

In developing its guidelines, CEBS took into account the specificities of non-joint stock companies such as cooperatives and mutuals.

NEXT STEPS:

In the light of current evolutions in the global regulatory framework with regard to the definition of capital instruments, both at international (BCBS proposals) and EU (legislative proposal to transpose into EU law the Basel III framework) levels, the EBA will engage in further work in the near future to review the eligibility criteria and requirements for core capital instruments. This work is expected to be driven by the mandates to be provided to the EBA under the current legislative proposals.

3.4.2**Guidelines on liquidity cost benefit allocation**

In October 2010, CEBS published Guidelines on liquidity cost benefit allocation. The guidelines elaborate on the elements to be considered when establishing adequate liquidity cost benefit allocation mechanisms. They target a liquidity cost concept that includes not only direct funding costs, but also associated indirect costs such as liquidity contingency support. CEBS deemed it crucial that pricing mechanisms allow institutions to measure performance, assess new products and enhance the tools for asset/liability management. Such mechanisms also help align the risk-taking incentives of individual business lines with the liquidity risk exposures they create for the institution as a whole. The implementation date for the guidelines for CEBS members was 30 June 2011, with an expected implementation by institutions before 1 January 2012.

In February 2010, the European Commission consulted on further possible changes (CRD IV) to the Capital Requirements Directive (CRD), including proposals for two regulatory standards for liquidity risk based upon the proposals from the BCBS published in December 2009. CEBS responded to the EU Commission with a comment letter which was

published in April 2010. In December 2010, the BCBS issued the Basel III rules text, which includes the details of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

NEXT STEPS:

The EBA will be mandated to contribute to the final calibration of the standards.

3.4.3 Implementation Guidelines on large exposures

On 28 July 2010 CEBS published the Implementation Guidelines on Article 106(2) (c) and (d) of Directive 2006/48/EC, as amended by Directive 2009/111/EC, relating to the large exposures' regime. Article 106(2) (c) and (d) of the CRD provides exemptions from large exposures rules for certain short-term exposures arising from the provision of money transmission, and corresponding banking, clearing and settlement and custody activities. The guidelines provide further clarification of the criteria which must be met to qualify for these exemptions, in particular on 'type of services', the definition of client activity and the 'life-span' of exposures. CEBS' guidelines on the scope and eligibility conditions of the exemption provisions is important for safeguarding a level playing field for all institutions providing money transmission or financial instruments clearing, settlement and custody services.

The implementation date for these guidelines was 31 December 2010.

NEXT STEPS:

In 2011 the EBA, as CEBS' successor will perform an implementation study on these guidelines, whereby national authorities will be asked to indicate how the guidelines have been transposed into national supervisory rules.

3.4.4 Revised Guidelines on the management of concentration risk

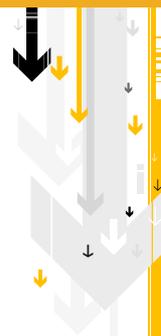
On 2 September 2010 CEBS published its Revised Guidelines on the management of concentration risk under the supervisory review process. These revised guidelines replaced the earlier version of the guidelines of 14 December 2006 and complemented the principles set out in the CEBS' Guidelines on the application of the supervisory review process (GL03). Building on the lessons drawn from the financial crisis, the revised guidelines follow a holistic approach which is intended to ensure sound overall concentration risk management, which means that institutions are expected to identify and assess all aspects of concentration risk, moving further away from the traditional analysis related only to intra-risk concentration within the credit risk.

The implementation date for these guidelines was 31 December 2010.

3.4.5 Internal governance Guidebook

In response to a request from the European Council's Economic and Financial Committee (EFC) to enhance guidelines to strengthen banks' risk management practices, CEBS addressed the most significant issues arising from the financial crisis in its High Level Principles on Risk Management, which were published in February 2010. These principles are intended to contribute to rebuilding the trust and reliability of the banking system by promoting effective internal governance arrangements, including a sound risk management framework, which is fundamental for the proper functioning of individual institutions and of the banking system they collectively form.

CEBS also undertook a large scale review of its governance rules as laid down in its guidelines. A draft 'Internal Governance Guidebook' was produced that includes the



CEBS High Level Principles on Remuneration and on Risk Management and that has taken into account the BCBS guidance on 'enhancing corporate governance for banking organisations', as well as the European Commission's Green Paper on corporate governance in financial institutions.

The Guidebook addresses in more detail the checks and balances in group structures, introduces a 'know-your-structure' principle and seeks to limit opaque activities using non-supervised structures. Regarding the management body, principles have been added on the composition, appointment and succession and on the qualifications of such a body, on the use of committees and on the identification and management of possible conflicts of interest. The Guidebook also strengthens the position of the chief risk officer and of the internal control function. Principles on information and communication systems and on business continuity management were added to cover the internal governance areas mentioned in Annex V of Directive 2006/48/EC.

NEXT STEPS:

In 2011, the Guidebook will be finalised by the EBA.

3.4.6 Revised Guidelines on the recognition of ECAIs

On 30 November 2010 CEBS published its revised Guidelines on the recognition of external credit assessment institutions (ECAIs), which were first published on 20 January 2006. To ensure consistency between the EU Regulation on Credit Rating Agencies (CRAs) and the CRD, the CRD was amended to avoid duplication of work and to reduce the burden of the recognition process where an ECAI is registered as a CRA at Community level. In this context, CEBS reviewed its Guidelines

on the recognition of ECAIs and made clear in the guidelines that, for CRAs which are registered under the Regulation on CRAs, the only criteria that should be assessed in the ECAIs' initial recognition process and on-going review are the technical criteria on 'Credibility and Market Acceptance' and 'Transparency and Disclosure' with respect to their individual credit assessments.

Drawing on the experience of CEBS members with the application of the guidelines, CEBS took this opportunity to review its common understanding of the technical criteria set out in Part 2 of Annex VI of the CRD, and has slightly amended its understanding of the requirements on 'Credibility and Market Acceptance' and 'Transparency and Disclosure' with respect to individual credit assessments.

3.4.7 Advice on the non-eligibility of entities only producing credit scores for ECAI recognition

On 17 December 2010 CEBS published its advice to the European Commission on the non-eligibility of entities only producing credit scores for ECAI recognition. This advice included a proposal for an amendment to Directive 2006/48/EC to introduce a requirement that an ECAI has to be registered in accordance with Regulation (EC) No 1060/2009 on Credit Rating Agencies of 16 September 2009 as a precondition for being recognised as an eligible ECAI for capital requirement purposes, the only possible exception being central banks. The proposal prevents the direct use of credit scores (as if they were credit ratings) for regulatory purposes, in particular their use in the calculation of capital requirements of financial institutions; it does not prevent financial institutions from using credit scores in their internal risk management or as an input into their internal models under the IRB approach.

The aim was primarily to ensure consistency between ECAI recognition under the CRD and the above-mentioned Regulation.

3.4.8

Guidelines on remuneration

CEBS had already published its High-level Principles for Remuneration Policies in 2009. In 2010, CEBS undertook two studies (see section 3.3.1), published in June 2010.

The findings also contributed towards the preparation of guidelines on remuneration policies and practices that CEBS was required to elaborate under CRD III. These guidelines are intended to facilitate the compliance of the remuneration principles laid down in Article 22 of the revised CRD. As a fundamental principle, the guidelines require institutions to align their remuneration policies and practices with their organisational structure and to promote sound and effective risk management. The guidelines were published in December, with 1 January 2011 as their implementation date.

NEXT STEPS:

The EBA intends to carry out an implementation study in the fourth quarter of 2011.

3.4.9

Guidelines on securitisation

On 31 December 2010 CEBS published Guidelines on the application of Article 122(a) of the CRD. Article 122(a) lays down new requirements to be fulfilled by credit institutions when acting in a particular capacity, such as originator or sponsor, and also when investing in securitisations. These include retention on an on-going basis of a material net economic interest of not less than 5% (so called 'skin in the game'), due diligence and disclosure.

In particular, guidance is provided on the implementation of the retention clause by the originator, the sponsor or original lender and on the due diligence and risk management practices credit institutions are asked to follow when investing in securitisation positions.

Besides fostering a common understanding amongst the competent authorities across the EEA on the implementation and application of Article 122(a), the current guidelines provide clarity as well as greater transparency for market participants, in order to help credit institutions comply with the relevant requirements of the CRD. In particular, CEBS provided an updated framework for competent authorities to apply an additional risk weight for infringements of the provisions of Article 122(a).

NEXT STEPS:

The EBA will carry out a post-implementation review in 2011 and report annually to the European Commission about the compliance by competent authorities with Article 122(a) and the guidelines. Furthermore the guidelines are to be replaced by regulatory technical standards by 1 January 2014.

3.4.10

Guidelines on operational risk management in market-related activities

CEBS had already consulted on the draft guidelines in 2009. The guidelines have been redrafted, taking into account the comments received. Given the significance of the changes made it was decided to consult on the guidelines a second time. Subsequently, in October 2010 CEBS published its Guidelines on the management of operational risk in market-related activities. The guidelines are intended to improve internal governance, in particular internal control and reporting procedures as well as the management of operational risks in this business area.

The management body needs to be fully aware of operational risks affecting market-related activities. Institutions need to create a front-office culture designed to mitigate operational risks, as well as control functions with the appropriate skill, authority and incentive to challenge the traders' activities and that give high consideration to the prevention of fraudulent activities in market-related activities. Improving the internal governance arrangements reduces the operational risk exposure resulting from weak processes, systems or fraud in this business area.

The implementation date for these guidelines on market-related activities was 30 June 2011.

3.4.11

Guidelines on the AMA changes

CEBS started the consultation on the draft Guidelines on Advanced Measurement Approach (AMA) changes in 2010. After the initial approval of these AMA models, which are used to calculate the capital requirement for operational risks, institutions further developed their models or adapted them to changes in their operational risk profile. An AMA model, including its internal risk model, risk management and control policies and procedures should, at all times, be tailored to the specific characteristics of the institution, so that the latter's actual operational risk profile is effectively covered. Changes to the AMA can have a considerable impact on the quality and reliability of the AMA and the institution's capital requirements. It is therefore necessary to involve the competent authority prior to the implementation of any changes. The guidelines are intended to clarify the related procedures. Institutions need to develop an internal policy for AMA changes, including criteria to assess the severity of changes. Depending on the severity of a change, different processes and communication requirements are defined, ranging from at least an annual notification to an approval process.

NEXT STEPS:

The EBA aims to publish the final guidelines after involvement of the Banking Stakeholder Group. In the latest proposals to amend the CRD, it is suggested that the EBA should develop standards to specify the criteria for assessing the materiality of extensions and changes to the AMA. To this end, the EBA will analyse the implementation of the guidelines by supervisors and institutions and in particular the criteria used by institutions to assess the severity of model changes.

3.4.12

Guidelines on revised article 3 of Directive 2006/48/EC

The previous Article 3 of Directive 2006/48/EC allowed Member States to provide for special prudential regimes for credit institutions which had been permanently affiliated to a central body since 15 December 1977, provided that those regimes had been introduced into national law by 15 December 1979. Those time limits prevented Member States that have acceded to the European Union since 1980, from introducing or maintaining such special prudential regimes for similarly affiliated credit institutions which were set up on their territories. To ensure equal conditions for competition, Article 3 was revised and the time limits were removed as of 31 December 2010. As of that date all Member States could provide for the special prudential regime.

The main aim of the CEBS' guidelines of 18 November 2010 was to enhance the convergence of the supervisory practices on the application of Article 3 across Member States. To achieve this objective, the guidelines provide clarity on the interpretation and guidance on the application of several aspects of Article 3, inter alia to ensure that Groups, as defined in the Article, are accorded equal treatment vis-à-vis credit

institutions with a significant number of branches.

Member States making use of the amended Article 3 have to transpose the guidelines into their national legal/policy framework and apply them, at the very latest, six months after their publication date. If Member States decided to make use of the amended Article 3 after 31 December 2010, the guidelines had to be applied at the very latest at the same time as the revised Article 3 was transposed into national legislation.

3.5

EU-wide stress testing and assessment of risks and vulnerabilities of the EU banking sector

In 2010 CEBS continued building up its micro-prudential oversight role, by conducting semi-annual bottom-up assessments of risks and vulnerabilities, banks' mitigative actions, and supervisory responses to these vulnerabilities for a sample of the largest EU cross-border banking groups. The results of these assessments, which are based on the work carried out by the respective colleges of supervisors and which are aggregated by CEBS, provide a supervisory contribution to the overall EU policy debate at the Economic and Financial Committee – Financial Stability Table (EFC-FST), building the foundation for a micro-prudential contribution to the assessment of the systemic risks in the EU banking sector, which will be one of the key tasks of the EBA under the new European System of Financial Supervisors.

The introduction in 2010 of the Guidelines for the joint assessment of the elements covered by the supervisory review and evaluation process and the joint decision regarding the capital adequacy of cross-border groups has allowed CEBS to take the first steps towards integration of its regular bottom-up assessments of risk and vulnerabilities into college activities in the field of joint risk assessments and joint decisions on risk-based

capital adequacy, effectively integrating the risk assessment methodologies and definitions used in both processes.

One of the most important elements in the CEBS risk assessment toolkit was the EU-wide stress tests, which CEBS has been carrying out since 2009. In 2010, following the request from the ECOFIN, CEBS conducted its second round of EU-wide stress tests in cooperation with the European Commission and the ECB.

The 2010 stress test was carried out on a sample of 91 European banks. The objective was to provide policy information for assessing the resilience of the EU banking system to possible adverse macro-economic developments and to assess the ability of banks participating in the exercise to absorb assumed shocks in credit and market risk, including sovereign risks. The exercise was conducted in a bottom-up fashion, where participating banks and supervisors applied commonly agreed macro-economic scenarios (benchmark and adverse) and commonly agreed assumptions to internal risk parameters using internal risk models, which better reflects the specificities and risk profiles of participating institutions.

The results of the stress test were published on 23 July 2010 by CEBS, both on an aggregate and on an individual institution basis⁸. More specifically, banks participating in the exercises provided information on their respective capital positions and loss estimates under an adverse scenario, as well as detailed information on their exposures to EU/EEA sovereign and local government debt. This more granular level of disclosures accompanying the release of the results of the stress test was welcomed by the analyst community, as it filled a gap by providing a consistent set of data on sovereign exposures of individual banks amidst growing concerns over the EU sovereign debt market.

⁸. See: <http://eba.europa.eu/EU-wide-stress-testing/2010/2010-EU-wide-stress-test-results.aspx>

NEXT STEPS:

One of the responsibilities of the EBA is to ensure the orderly functioning and integrity of financial markets and the stability of the financial system in the EU. To this end, the EBA is mandated to monitor and assess market developments as well as to identify trends, potential risks and vulnerabilities stemming from the micro-prudential level. In 2011, the EBA will be further strengthening its oversight capabilities by continuing to improve its regular bottom-up micro-prudential assessment of risk and vulnerabilities for major EU cross-border banking groups, by further integrating these assessments into college processes and by using information from the joint risk assessments done by colleges for the purposes of the joint decisions on risk-based capital adequacy (Article 129.3 of the CRD). The EBA will also invest in the development of a set of risk monitoring tools, in particular a set of key risk indicators based on the data reported to the EBA by national supervisory authorities, and the building of risk dashboards in cooperation with other authorities of the European System of Financial Supervision.

Another responsibility is to undertake, on a regular basis, an EU-wide stress test. This is another primary supervisory tool used by the EBA to analyse risks and vulnerabilities and is carried out in cooperation with the ESRB, in accordance with Articles 21 and 32 of the EBA Regulation.

3.6

European quantitative impact study of Basel III

In 2010, CEBS conducted a comprehensive European quantitative impact study (EU-QIS) to analyse the impact of the new requirements intended to raise the quality

and level of the capital base, enhance risk capture, contain excessive leverage and introduce new liquidity standards for the global banking system, collectively referred to as 'Basel III'. These new requirements were originally proposed in July and December 2009 by the BCBS, agreed upon by the Group of Governors and Heads of Supervision (GHOS), its oversight body, at its 12 September 2010 meeting and finally endorsed by the G20 Leaders at their November summit in Seoul. This study will therefore be used as a key input by the European Commission for the impact assessment that will accompany the CRD IV legislative proposals. A total of 246 banks from member countries participated in the study and were requested to submit consolidated data as of 31 December 2009. The estimates presented assume full implementation of the final Basel III package, based on data as of 31 December 2009 and, unless noted otherwise, do not take into account any transitional arrangements such as a phase-in of deductions and grandfathering arrangements. No assumptions have been made about banks' future profitability or behavioural responses. For this reason the EU-QIS results are not comparable to industry estimates, which tend to be based on forecasts and consider management actions to mitigate the impact, and incorporate estimates where information is not publicly available.

Box 3.6.a Key Results of the EU-QIS

Including the effect of all changes to the definition of capital and risk-weighted assets, as well as assuming full implementation, the common equity Tier 1 (CET1) ratio for Group 1 banks (Group 1 banks are those that have Tier 1 capital in excess of EUR 3 billion, are well diversified, and are internationally active. All other banks are considered to be Group 2 banks) would be 4.9%, on average

(Group 2: 7.1%). The Tier 1 capital ratio of Group 1 banks would decline on average from 10.3% to 5.6%, while the total capital ratio would decrease from 14.0% to 8.1%. The decline in capital ratios would be less pronounced for Group 2 banks. The Tier 1 capital ratio would decrease from 10.3% to 7.6% and the total capital ratio would decline from 13.1% to 10.3%.

Calculated on the same basis, the estimated capital shortfall for Group 1 banks in the EU-QIS sample would be between EUR 53 billion for the CET1 minimum requirement of 4.5% and EUR 263 billion for a CET1 target level of 7.0% (including the capital conservation buffer), had the Basel III requirements been in place at the end of 2009. The amount of additional CET1 capital required for Group 2 banks in the EU-QIS sample is estimated at EUR 9 billion in order to reach the CET1 minimum of 4.5%. For a CET1 target level of 7%, Group 2 banks would need EUR 28 billion.

The weighted average leverage ratio using the new definition of Tier 1 capital and the measure of exposure agreed by the GHOS would be 2.5% for Group 1 banks and 3.5% for Group 2 banks.

The new liquidity standards would result in an average liquidity coverage ratio of 67% for Group 1 banks and 87% for Group 2 banks. The average net stable funding ratio would be 91% and 94%, respectively.

3.7

Financial information

3.7.1

Accounting and auditing developments

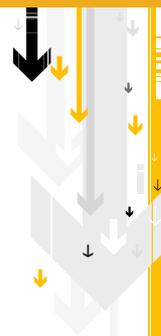
In 2010, CEBS continued to devote significant resources to the monitoring of accounting and auditing developments. Although CEBS

has followed developments in these areas since its establishment, both topics have received increased attention as the global financial crisis has unfurled. To the extent that accounting and auditing are contributing to the soundness of banks and to the stability of the financial system, it is paramount to ensure the appropriateness of any revisions to accounting and auditing standards from a prudential perspective.

3.7.1.1

Monitoring of Accounting Developments

The global financial crisis and various G20 recommendations issued in that context led the International Accounting Standards Board (IASB) to review a number of important aspects of the accounting framework and standards. Most importantly from CEBS' perspective, the IASB embarked on a comprehensive review of the standard dealing with accounting for financial instruments (IAS 39). After issuing IFRS 9 in November 2009, which presents the IASB's conclusions on the first phase of its review of IAS 39, dealing more specifically with the classification and measurement of financial assets, in 2010 the IASB issued proposals for the accounting of financial liabilities, in particular as regards the use of the fair value option (Exposure Draft ED/2010/4 Fair Value Option for Financial Liabilities). In July 2010 CEBS commented on this Exposure Draft and expressed concerns about the usefulness (or lack thereof) of recognising in profit or loss the effect of changes of own credit risk in financial liabilities measured at fair value. CEBS also addressed the asymmetric treatment of financial assets and liabilities, in particular regarding the specific topic of bifurcation; CEBS supported the decision to keep bifurcation for financial liabilities but added that there was no analytical or practical reason to retain this requirement only for financial liabilities.



In the meantime, the IASB also continued its deliberations on the second and third phase of the project, covering impairment and hedge accounting respectively. This led to the publication in November 2009 of Exposure Draft ED/2009/12 Financial Instruments: Amortised Cost and Impairment (and – together with the US Financial Accounting Standards Board (FASB) – of a supplement to ED/2009/12 in January 2011) and in December 2010 to the publication of Exposure Draft ED/2009/13 with proposals on hedge accounting⁹.

In its June 2010 comment letter, CEBS expressed broad support for the IASB's proposed move towards an impairment approach based on the concept of expected loss. This move is considered to be an improvement on the incurred loss approach used in the current IAS 39, mainly because the proposed impairment model better reflects the economic substance of bank lending activities, and in particular allows for earlier recognition of credit risk. However, CEBS also identified a number of areas in the Exposure Draft that give rise to concerns, including:

- the objective;
- the potential for procyclicality; and
- the model's significant operational complexities.

From a convergence perspective, CEBS also expressed a concern that the Financial Accounting Standards Board (FASB), which had issued its own Exposure Draft on financial instruments in May 2010, is moving in a different direction. CEBS therefore called for a level playing field, albeit not at the expense of the quality of the final IFRS standard.

CEBS also took part, as an observer, in the Expert Advisory Panel (EAP) the IASB set up, in response to the comments received from stakeholders, to operationalise the proposed Expected Cash Flow (ECF)¹⁰ method. CEBS specifically contributed to the

EAP by providing input on the interaction of the ECF approach with Basel II, on the uncertainty inherent in cash-flow estimates and on disclosures. As part of its continuing monitoring efforts CEBS also commented, in April 2010, on the supplement to the Impairment Exposure Draft issued in January. Generally, CEBS monitored all developments regarding impairment with careful consideration of possible effects the proposals may have in terms of procyclicality, building on the findings of the work carried out in 2009¹¹. An important factor for CEBS' support is that the proposed impairment model better reflects the economic substance of bank lending activities, and, in particular, allows for earlier recognition of credit risk, thus reducing procyclicality. At the same time, CEBS expressed a preference for an approach that would incorporate management's previous experience on credit risk, encompassing (ideally) a full economic cycle as through-the-cycle (TTC) estimates are considered to be more consistent with the way banks manage their credit risk.

Given the importance of convergence in the area of financial instruments, CEBS also reviewed and commented on the FASB's proposal on financial instruments accounting. The comments expressed concerns that, despite the collaboration between the two Boards, the proposals put forward by the IASB and the FASB on financial instruments are fundamentally different in many respects, not only as regards impairment as mentioned above. Most significantly, CEBS noted its belief that financial instruments should be accounted for using a mixed attribute measurement model and not an (almost) full fair value measurement model, as has been proposed by the FASB. The letter also noted that the FASB's (almost) full fair value model could in fact reduce comparability and increase complexity, given the absence of active markets for many financial instruments and also the additional difficulties regarding

⁹. While these proposals are not covered explicitly in this report, as the CEBS/EBA contribution was provided in March 2011, it should be noted that they only covered so-called micro-hedging activities. While the EBA in its comment letter supported many aspects of the ED, it also raised a number of important concerns (e.g. why certain risk components are ineligible for hedge accounting, application of the new effectiveness criteria). Most importantly, the EBA regrets that the proposals do not deal with macro-hedging, given its critical importance for the banking industry.

¹⁰. ED/2009/12 specifies that the estimates for cash-flow inputs are expected values. It goes on to say that hence estimates of the amounts and timing of cash flows are therefore probability-weighted possible outcomes. One of the EAP's tasks was to provide guidance on how this should be applied in practice.

¹¹. See section 4.3.1.1 of CEBS' 2009 Annual Report: <http://eba.europa.eu/documents/Publications/Other-Publications/AnnualReport/AR2009.aspx>

the measurement of fair value for complex or illiquid instruments.

Over and above the monitoring of the developments in the area of financial instruments, CEBS contributed to most of the due process papers issued by the IASB.

The list below provides an overview of all the IASB due process documents CEBS commented on in the course of 2010:¹²

- Exposure Draft ED/2009/6 Management Commentary (March);
- Exposure Draft ED/2009/12 Financial Instruments: Amortised Cost and Impairment (June);
- Exposure Draft ED/2010/2 Conceptual Framework – The Reporting Entity (July);
- Exposure Draft ED/2010/4 Fair Value Option for Financial Liabilities (July);
- Exposure Draft ED/2010/3 Defined Benefit Plans – Proposed Amendments to IAS 19 (September);
- Exposure Draft ED/2010/5 Presentation of Items of Other Comprehensive Income – Proposed amendments to IAS 1 (September);
- Exposure Draft ED/2010/7 Measurement Uncertainty Analysis Disclosure for Fair Value Measurements (September);
- FASB Proposed Accounting Standards Update Accounting for Financial Instruments and Revision to the Accounting for Derivative Instruments and Hedging Activities (September);
- Exposure Draft ED/2010/6 Revenue from Contracts with Customers (October);
- Exposure Draft ED/2010/8 Insurance Contracts (November); and
- Exposure Draft ED/2010/9 Leases (December).

NEXT STEPS:

The EBA will continue to monitor developments regarding the proposals on financial instruments accounting and other relevant proposals and will assess their effect from a prudential point of view. As part of these efforts the EBA has in the meantime already commented on further due process papers including the impairment supplement and the hedge accounting proposals.

3.7.1.2

Monitoring of auditing developments

CEBS has a strong interest in promoting sound and high-quality audit practices to support the high-quality corporate reporting which is a crucial element of market confidence and discipline. It therefore monitors audit developments and regularly comments on exposure drafts and consultation papers published by the International Auditing and Assurance Standards Board (IAASB), in so far as relevant for financial institutions and competent supervisory authorities. CEBS also follows up on developments on auditing within the EU¹³.

In July 2010 CEBS commented on the Monitoring Group's Review of the International Federation of Accountants (IFAC) Reforms consultation paper. CEBS appreciates the efforts of the Monitoring Group, as they improve the independence of the audit standard setting process in relation to the profession and the effectiveness of the Public Interest Oversight Board. A sound policy-setting process helps ensure a high quality of audit standards.

In November 2010 CEBS also commented on the Exposure Draft ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, and ISA 610

¹². All comment letters submitted to the IASB can be accessed on the CEBS website: <http://eba.europa.eu/getdoc/c0fa3f2c-0710-4c07-b5e5-eeaa554f1d1d/Accounting.aspx>

¹³. See also chapter.... on the work of the Joint Committee.

(Revised), Using the Work of Internal Auditors. The relationship of external auditors with internal auditors is a topic of importance to the competent authorities, as the annual reports are a significant source of information used in banking supervision. Institutions are required to implement adequate internal control procedures, including a permanent internal audit function. In its comment letter CEBS expressed broad support for the framework, which clarifies how external auditors should interact with the internal audit function and how use is made of the work undertaken by internal audit. However, CEBS would not encourage direct assistance of external auditors by internal audit, which should be restricted to areas of low inherent audit risk and audit procedures requiring no or very little judgement.

The list below provides an overview of documents on auditing published in 2010 on which CEBS provided a comment:¹⁴

- IAASB, Exposure Draft: ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, and ISA 610 (Revised), Using the Work of Internal Auditors;
- Exposure draft: International Auditing Practice Statements, Proposals Relating to the Withdrawal of Existing IAPs and Clarification of the Status and Authority of New IAPs and Proposed IAPS 1000, Special Considerations in Auditing Complex Financial Instruments;
- Monitoring Group: Review of the IFAC Reforms consultation paper; and
- European Commission, Green Paper on Audit: Lessons learnt from the Crisis.

3.7.2 Supervisory reporting

In 2010, CEBS continued its efforts to achieve a higher level of harmonisation and convergence in regular supervisory reporting

requirements. CEBS developed and consulted on a supervisory reporting model based on uniform reporting formats and common data definitions and the related XBRL taxonomies.

3.7.2.1 Revision of COREP

In January 2010 CEBS published the revised framework on Common Reporting (COREP) which had been amended to incorporate changes in the CRD. Revised COREP requirements became applicable on 31 December 2010.

Additionally, CEBS made significant efforts to further streamline and harmonise reporting requirements for supervised institutions in Europe and published a consultation paper in June 2010. Proposals for uniform reporting formats were informed by the findings of a commonality study which was conducted by CEBS on the basis of the implementation of COREP by individual Member States. A user test survey was carried out among experts in the field of off-site analysis and on-site supervision to establish the usefulness of the data collected and gather suggestions for further improvements to the framework.

Since the publication of these CEBS proposals for uniform reporting formats for consultation in June 2010, a recent CRD proposal is for the EBA to develop draft implementing technical standards to introduce, within the European Union, uniform formats (with associated instructions), frequencies and dates of reporting by 1 January 2013.

NEXT STEPS:

With a view to the expected mandate to develop technical standards for the revised CRD by 1 January 2013, the EBA will publish draft papers on the revised reporting frameworks for consultation in 2011. In addition, the EBA will have to provide uniform IT solutions, as required under the CRD.

¹⁴ All comment letters submitted to the IASB can be accessed on the CEBS website: <http://www.eba.europa.eu/getdoc/7ca773e5-6208-4427-8818-d420baa7be06/Auditing.aspx> and <http://eba.europa.eu/cebs/media/Publications/Other%20Publications/Comment%20letters%20by%20CEBS/Responses%20to%20the%20EU%20Commission/3L3-Committees-Joint-Letter-on-the-EU-COM-Green-Paper-on-Audit-Policy.pdf>

3.7.2.2

Revision of FINREP

In December 2009 CEBS published revised guidelines on financial reporting (FINREP rev2) to incorporate changes to IFRS. In 2010 CEBS continued to monitor developments in accounting standards and assess their impact on the FINREP framework. In particular, the IASB project on IAS 39 replacement and the proposal on IAS 1 that were scheduled to be agreed in 2010 were intended to be incorporated into the framework. However, the IASB only finalised those aspects of the project to replace IAS 39 Financial Instruments dealing with classification and measurement of financial instruments in IFRS 9 (phase I of the revision process). Draft proposals on impairment (phase II) and hedge accounting (phase III) are expected in 2011. The final IFRS 9 will also be subject to an endorsement process at EU level. Irrespective of these developments, CEBS continued its efforts to revise the FINREP framework to take into account the increasing need for harmonised supervisory reporting, not least with a view to facilitating the work of the future EBA.

NEXT STEPS:

FINREP is being revised with a view to including the revised disclosures as a consequence of the IFRS amendments to its technical standards which are expected by 1 January 2013, in line with recent CRD proposals. This revision will, to the greatest extent possible, take into account all relevant IFRS amendments with the same application date, provided they are endorsed at EU level.

3.7.3

Assessing and enhancing transparency

3.7.3.1

Assessment of disclosures in the Annual Reports

As has been the case since the start of the global financial crisis, in 2010 too CEBS assessed a sample of banks' audited annual report disclosures. The 2010 review reflects continued interest in the way banks communicate the impact of the crisis on their activities and financial situation. A similar report analysing the disclosures provided under Pillar 3 was published in parallel (and is discussed in further detail below).

The report¹⁵ provides the findings of CEBS' assessment of the 2009 year-end disclosures of a sample of 24 European (mainly EU) banks – and, in certain specific areas, of non-European banks.

Overall, the findings reveal that the Good Practices¹⁶ developed by CEBS in 2008, which made up a large part of the benchmark used for the analysis, have been covered in a rather satisfactory manner. This is notably the case for the disclosures on business models and risk management and to some extent for the disclosures on activities directly affected by the sub-prime crisis (exposures, results and the impact on institutions' financial position), even if there is room for improvement in this latter area, for instance as regards granularity, explanation of evolution between periods and comparability.

As in last year's report, CEBS also identified particular areas where (some) banks' disclosures leave room for improvement. These include:

- Disclosures on fair values;
- Disclosures on impairment, especially as regards the methodologies relating to collective impairment;

¹⁵ The full report 'Assessment of banks' transparency in their 2009 audited annual reports' can be accessed at: http://eba.europa.eu/documents/Publications/Other-Publications/Others/2010/Transparency_2009AR.aspx

¹⁶ The 'CEBS report on banks' transparency on activities and products affected by the recent market turmoil' can be accessed at: http://www.eba.europa.eu/getdoc/f01aab21-c2ce-4-b4a-83d8-406c79e32d36/20080618a_transparency.aspx

- Disclosures on reclassifications;
- Disclosures on consolidation or non-consolidation, especially as regards the risks and rewards tests; and
- Disclosures on other activities under stress.

CEBS' assessment also covered disclosures on remuneration issues and highlighted this as an area where improvements could be made, in particular regarding quantitative disclosures on remuneration schemes for staff whose professional activities have a material impact on the risk profile of a bank. The report also discusses findings about the presentation and structure of disclosures, which are intended to assist banks in improving the quality of their disclosures. More generally though, the improvement of the disclosure quality led CEBS to identify, in all areas, examples of best practice disclosures.

3.7.3.2

Assessment of Pillar 3 disclosures

As a follow-up to its 2009 report, in 2010 CEBS carried out a second assessment of banks' Pillar 3 disclosures. The 2010 analysis covered the same 24 banks and highlighted improvements in the Pillar 3 disclosures of 2009 compared to those of 2008.

The findings of this analysis noted that banks have followed a number of best practices promoted by CEBS, and while detailed information has been provided on the minimum capital requirements and on their exposure to counterparty credit risk and operational risk, there are specific areas where further improvements could be made. These include especially the degree of compliance with the CRD in respect of the level of detailed information on the composition of own funds; quantitative back-testing information for credit risk; information on credit risk mitigation techniques supplemented by appropriate quantitative information on their impacts; and the valuation methodology used and detailed quantitative information on credit derivative instruments.

CEBS also observed some variation in the presentation and the content of Pillar 3 disclosures that raise comparability issues for users.

NEXT STEPS:

In 2011 the EBA will again assess Pillar 3 disclosures, putting greater emphasis on the main weaknesses identified in the second exercise and on the coverage of new areas, for instance remuneration.

3.8

Cross-sector work

The joint work of the 3L3 (CESR, CEBS and CEIOPS) focused on achieving convergence between the financial sectors of securities markets, credit institutions (banks), and the insurance and pensions markets. The inter-linkages of these sectors called for close co-operation among the 3L3 in order to ensure a European level playing field, consistency in legislative implementation, cost effectiveness and proper assessment of cross-sector risks. In 2005, the 3L3 formalised this co-operation by signing a joint protocol on co-operation. In December 2008, this protocol was updated to reflect the 3L3 experiences of joint work completed, and to take into account the latest developments, such as the Lamfalussy review and the effects of the financial crisis.

3.8.1

3L3 input in preparing new European financial supervisory framework

In 2010, the 3L3 Chairs and Secretariats regularly met and dealt with all activities described in the 3L3 work programme, where their priority was their supervisory response to the reform of the EU financial supervisory architecture and the preparation of the 3L3 for their transition to the new ESAs.

In this respect, the 3L3 actively followed and co-ordinated, where necessary, developments

in relation to the proposals setting up the ESAs. The 3L3 Chairs and their respective Secretary Generals and Secretariats regularly convened conference calls, exchanged briefings and met in person in advance of meetings with the EU institutions. On 18 June 2010, the 3L3 submitted a detailed note to the EU institutions involved in the trilogue discussions, outlining their specific concerns on the basic questions of the clear assignment of responsibilities to the ESAs, their accountability and their independence. The note considered five main issues:

- The independence of the ESAs – independent financing of the Authorities, selection of the Chairperson and the Executive Director, composition of the Board of Supervisors, Board of Appeal and Peer Review;
- Crisis situation and emergency measures;
- Enhanced 3L3 cooperation through the 'Joint Committee';
- Collection of information and cooperation with the ESRB; and
- Operational issues linked to the transition.

Several meetings were held during 2010 with the European Commissioner for Internal Market and Services, Michel Barnier, the Chairwoman of the European Parliament's Committee on Economic and Monetary Affairs (ECON), Sharon Bowles, and the President of the ECB, Jean-Claude Trichet.

Throughout 2010, the 3L3 attended meetings of the European Council's Financial Services Committee (FSC) and were invited to attend most meetings of the EFC in order to discuss issues such as financial market developments, crisis management (e.g. stress testing) and international regulatory dialogue.

NEXT STEPS:

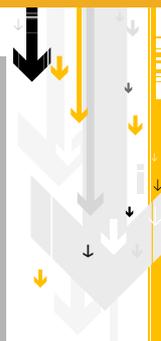
Given the landmark institutional change, namely the creation of the three new ESAs, ESMA, EBA and EIOPA, all of which came into being on 1 January 2011, the three ESAs' coordination has now been formalised in the new Joint Committee of the ESAs.

3.8.2

3L3 Task Force on Cross-Sector Risks

Identifying cross-sectoral risks will help the 3L3, their members and the EU institutions in ensuring the stability of European financial markets. Following the ECOFIN Council conclusions in May 2008, the European Commission's decisions establishing each of the 3L3, and the request to the 3L3 to respond to financial stability concerns of a cross-sectoral nature, the 3L3 set up a 3L3 Task Force on Cross-Sectoral Risks, which has been tasked with enhancing the 3L3 sectoral risk assessments by capturing cross-sectoral issues and identifying contagion channels. In April 2010, the Task Force, which is chaired by Jukka Vesala, Deputy Director General of the Finnish FSA, delivered to the EFC-FST the second of two pilot reports.

These developments show, at an early stage, the 3L3's ability to capture cross-sectoral risks relevant to the risk assessments of the 3L3: common risks across sectors, and especially risks which are contagious from one sector to another and endogenous risks where regulatory action in one sector may have significant risk implications for another sector. The work is intended to capture contagion risks between individual institutions and sectors from a supervisory cross-sectoral viewpoint, and brings a micro-prudential focus to the overall assessment of financial stability. The second pilot report of April 2010 dealt with the following risks: interdependence and feedback loops between the financial



sector and the real economy; cross-sector holdings and exposures; market sentiment spill-over; and changes in asset prices and deleveraging. In September 2010, the 3L3 provided the EFC with a report. Whilst the report noted improvements in the macro-economic conditions and that successful government support measures had had a positive effect on financial institutions, it also highlighted the following risks: spill-over risks of sovereign debt problems for financial markets and institutions, risks associated with banks' funding position, a new deterioration in assets markets, a shift and/or changed shape of the yield curve, 'retailisation' of certain complex products, business model and profitability-related risks, and finally business model and profitability-related risks.

NEXT STEPS:

The ESAs will continue the work started by the 3L3 on cross-sectoral risk identification and assessment under the Joint Committee of the ESAs and, in conjunction with the sectoral risk assessments done by each of the ESAs, will contribute to the overall assessment of the systemic risk, which is the shared responsibility.

3.8.3

Anti-Money Laundering Task Force

The 3L3 Anti-Money Laundering Task Force (AMLTF) was established in the second half of 2006 by CESR, CEBS and CEIOPS, with the aim of achieving convergence in national implementation of the Third Money Laundering Directive (3rd MLD) across the different sectors of European financial markets and with a view to providing supervisory input into anti-money laundering (AML) issues.

In the course of 2010, the AMLTF met four times under the new chairmanship of Uldis Cerps (Finansinspektionen, Sweden). In the course of 2010, the AMLTF investigated

supervisory practices related to the 3rd MLD by way of questionnaires sent to all its AMLTF members on a) Beneficial Owners and b) Simplified Due Diligence (SDD), with a view to assessing whether any differences in implementation practice noted might result in different outcomes for AML, and its supervision throughout the EU. Reflecting current developments in European AML legislation and practice as a result of the recently introduced Payment Services Directive (PSD), the AMLTF also undertook a stock-take exercise of supervisory practices in relation to Agents of Payments Services Institutions (PSIs) money remittance payment services. Furthermore, the AMLTF has undertaken preparatory work for a home/host supervisory protocol between involved AML supervisors of a PSI and its agents and branches. During this preparatory stage, the AMLTF found that the Protocol would provide for a practical and pragmatic framework for involved home and host supervisors of a PSI to assist in supervision relating to the anti-money laundering obligations under the 3rd MLD and the PSD. During 2010, AMLTF Members also discussed the Financial Action Task Force/OECD lists of non-cooperative and high-risk jurisdictions published in February 2010, and their own supervisory approach to SDD and reliance on third parties vis-à-vis the jurisdictions named on those two lists.

NEXT STEPS:

In light of the establishment of the ESAs, the Joint Committee of the ESAs will establish a Sub-Committee on AML to take over and finalise all AMLTF work streams initiated in the course of 2010, namely: a) to assess implications for money laundering risk and AML supervision, in respect of differences in supervisory implementation practices noted in the 3rd MLD (based on the 2010 work on Beneficial Owners and SDD), and possibly develop

guidance; b) to develop a supervisory protocol between involved AML supervisors of PSIs and their agents and branches; and c) to assess implications for AML supervision, and the possible development of a supervisory protocol, in relation to the new 2nd E-money Directive.

3.8.4

3L3 work on Financial Conglomerates

The Joint Committee on Financial Conglomerates (JCFC) met four times in 2010 under the chairmanship of Thomas Schmitz-Lippert (Bafin, Germany) from mid 2010, and Patrick Brady (IFRSA, Ireland) until mid 2010.

The JCFC provided input for the European Commission's proposals for the quick review of the Financial Conglomerates Directive (FICOD), known as FICOD I, and the fundamental review of this Directive, FICOD II, throughout 2010. For example, in July 2010 the JCFC sent a letter to the European Commission to advise a seamless transition from the current Insurance Groups Directive towards Solvency II, by proposing that the definition of a holding company in the Solvency II text be amended so that there could also be both sector-specific (banking and insurance) supervision and supplementary supervision of the conglomerate's parent entity under the new insurance regulation. Oral reports were provided by the JCFC to the European Financial Conglomerates Committee (EFCC) at the two meetings they held in 2010. The JCFC also made recommendations to the European Commission on Omnibus I in relation to financial conglomerate supervision.

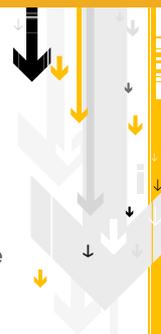
The JCFC published and submitted its annual list of financial conglomerates, as at 1 June 2010, based on 2010 year-end figures reported by the undertakings, so that Member States could meet the reporting requirements in Article 4(2) of the FICOD. The JCFC noted

that the ongoing dynamics in the financial sector were reflected by several mergers of previously identified conglomerates, as well as new conglomerates created, and the restructuring of existing conglomerates such that they no longer fall under the scope of the FICOD.

Further to its 2009 advice to the European Commission on the review of the FICOD on definitions, scope and internal control requirements, and how these areas and their implementation within the existing legislative framework may impact on the fulfilment of the objectives of the FICOD, supervisors felt it was necessary to immediately start working on one topic, namely participations, so as to strive for more convergence between Member States, even before the review of the FICOD. Accordingly, the JCFC established a Participations Working Group to concentrate on identification of financial conglomerates and specifically to address how to include participations in the calculation (durable link, indirect participations) and, once identified, how to include participations in day-to-day supervision (for example risk concentration and intra-group transactions and what kind of information could reasonably be obtained in the case of non-controlled participations).

By the end of 2010, the JCFC's Participations Working Group had prepared draft guidance on the concept of a durable link in respect of how to include participations in the calculations when identifying a financial conglomerate.

The JCFC also monitored the financial conglomerates dimension of CEBS and CEIOPS sector work on colleges, to ensure FICOD consistency. At each of the JCFC's 2010 plenary meetings, JCFC members discussed their practical experience of discussion of the FICOD requirements within a college and the CEBS Secretariat also conducted a survey amongst the JCFC membership. The JCFC noted inter alia their



preference not to duplicate sector colleges. The CEBS Secretariat conducted an analysis of the status of college discussions to date on FICOD requirements, which noted that improvements could be made as not all groups have colleges, and that those that do meet discuss the FICOD dimensions to varying degrees. Accordingly, the JCFC drafted recommendations on supplementary FICOD requirements for supervisory colleges of financial conglomerates that could be added to the already existing sectoral guidelines. These seven recommendations were endorsed and published on 21 December 2010, by CEBS and CEIOPS. They include the setting up, for every financial conglomerate, of a platform for discussing FICOD issues within the existing college structure. The platform is either to be established at banking level, for a banking-led financial conglomerate, or at insurance level, for an insurance-led financial conglomerate.

NEXT STEPS:

The ESAs will continue the work on financial conglomerates in the Joint Committee's Sub-Committee on Financial Conglomerates, including publishing the list of identified Financial Conglomerates, in accordance with the legal requirements following the Omnibus I Directive. Draft guidance on the identification and supervision of participations will be published for consultation and work on advice to the European Commission on FICOD II will continue; templates will continue to be developed for colleges on cross-sectoral aspects and guidance and technical standards on specific FICOD requirements will be prepared.

3.8.5

Internal governance

In January 2010, the 3L3 Task Force on Internal Governance, chaired by Gabriel Bernardino (Insurance and Pensions Funds Supervisory Authority, Portugal), published a report on a cross-sectoral stock-take and analysis of internal governance requirements and sent this to the European Commission. The report sought to identify areas for possible harmonisation of the differing regulations of the three financial services sectors. The report identified no areas of a high priority for harmonisation, although for some areas a low or medium priority was identified. A Call for Evidence was published together with the report, with the aim of obtaining the industries' views on the need for harmonisation.

On 9 February 2010, the European Commission's Company Law, Corporate Governance and Financial Crime Unit convened a meeting with representatives of 3L3 to discuss the 3L3 work on internal governance and the European Commission's work on corporate governance. In June 2010, the European Commission published its Green Paper on Corporate Governance and Remuneration policies. At the beginning of September 2010, CEBS¹⁷ and CEIOPS sent their respective sector responses to the European Commission. The European Commission held a meeting with the 3L3 on 16 September 2010 to discuss its Green Paper on Corporate Governance and Remuneration issues, in particular regarding the responses received from CEBS and CEIOPS. The European Commission received more than 200 responses to its Green Paper, and invited 3L3 to discuss more specific issues raised by respondents and how they could be dealt with as part of the proposed regulation.

On 13 October 2010, the European Commission published its Green Paper on Audit Policy. The 3L3 prepared a common 3L3 cover letter for their responses to this Green

¹⁷ [http://www.c-eps.org/documents/Publications/Other-Publications/Comment-letters-by-CEBS/Other-Areas/2010-08-31-\(CEBS-response-to-EU-Commissions-green-.aspx](http://www.c-eps.org/documents/Publications/Other-Publications/Comment-letters-by-CEBS/Other-Areas/2010-08-31-(CEBS-response-to-EU-Commissions-green-.aspx)

Paper which included, as an Annex, more detailed comments from each of the 3L3.

NEXT STEPS:

The Joint Committee of the ESAs may undertake further work comparing the Markets in Financial Instruments Directive (MiFID), CRD and Solvency II, in the light of the European Commission's work on corporate governance and audit.

NEXT STEPS:

In light of the establishment of the three ESAs and in accordance with the decision of the September 2010 EFC, the future Joint Committee will continue the practice of the 3L3, to provide an annual report to the political level on related developments regarding non-cooperative jurisdictions in the EU financial sector.

3.8.6

Joint work on non-cooperative jurisdictions

In order to assist the EU political institutions in preparing the meetings of the Financial Stability Board (FSB) and G20 held in the first half of 2010, the 3L3 asked its members for an update on their experience with cooperative jurisdictions within their members' regulatory/supervisory competencies. The 3L3 summarised the results that were provided for the EFC-FST meeting on 9 April 2010.

For the EFC-FST meeting on 20-21 September 2010, in line with the 2004 political request of the EFC, the 3L3 also submitted a report based on 3L3 members' responses collected over the summer. The report noted developments as well as remaining and deepening issues that 3L3 members from the three sectors experienced in 2010.

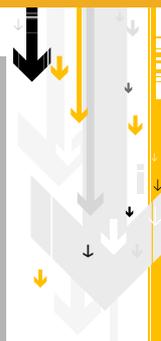
The 3L3 noted that part of the G20 agenda relates to tax concerns which go beyond the 3L3 supervisory competencies, though they continue to support the strong momentum in the G20/FSB agenda for reforms to repair, strengthen the resilience and improve the functioning of financial systems for the future.

3.8.7

3L3 Joint Task Force on Packaged Retail Investment Products

A 3L3 Task Force on Packaged Retail Investment Products (PRIPs) was set up in February 2010 to formulate a common 3L3 position on the scope of PRIPs and the appropriate principles for pre-contractual product disclosures and selling practices. The Task Force was chaired by Anneli Tuominen (Finanssivalvonta, Finland) and was composed of an equal number of representatives from CESR and CEIOPS, as well as of experts from CEBS on structured deposits and of observers from the European Commission. Five meetings were held between 9 April 2010 and 10 September 2010. On 6 October 2010, a report was submitted to the European Commission, under a joint 3L3 Chairs cover letter, and was published on the websites of the 3L3 on 12 October 2010. The Task Force sought, wherever possible, to form consensual views on the key aspects of PRIPs. However, where this was not possible, alternative positions were expressed.

The European Commission published a Consultation Paper on its proposed legal framework for PRIPs' scope and product disclosure on 26 November 2010.



NEXT STEPS:

The Task Force may take up further work within the framework of the Joint Committee of the ESAs in the second half of 2011 with a view to providing advice in response to the European Commission's legislative proposals on product disclosure.

3.8.8 Fostering Convergence through 3L3 Training

In 2010, the 3L3 Task Force on training, which brings together senior representatives from each of the 3L3 and their members, continued to foster convergence amongst supervisors by reaching a higher level of co-operation on cross-sector training. These cross-sector seminars supplement the sector training seminars which each of the 3L3 organises.

The three major areas of co-operation during 2010 were: organising cross-sector seminars, planning the annual 3L3 Training Programme, and reviewing the 3L3 Manual on Training Processes.

Organising cross-sector seminars: The Task Force and the 3L3 Secretariats made a joint effort in developing, monitoring and assessing the 3L3 training programme. Along with other projects of the 3L3, cross-sector training benefited from a second year of financial support from the European Commission in 2010. Following the analysis of the learning outcomes provided in the feedback received on the training, the Task Force concluded that the further involvement of the 3L3 Secretariats in the implementation of training and a closer co-ordination with the hosts would be beneficial in the future.

Planning the annual 2011 Training Programme: The 3L3 Secretariats co-operated in the development of a common questionnaire to assess the demand for training needs in 2011 and to identify volunteers to host and organise seminars. For the first time, the online

questionnaire facilitated a co-ordinated response by single regulators who are members of the 3L3. The feedback provided was used by the Task Force as a basis for planning the 3L3 training programme for the following year.

Reviewing the 3L3 Manual on Training Processes: Given the transformation of the 3L3 into ESAs as of 1 January 2011, the Task Force started reviewing its manual on training, developed in 2009, in order to reflect the budgetary procedures of the ESAs and to make it more user friendly.

The 3L3 maintained the number of cross-sectoral seminars in 2010: The 3L3 developed a cross-sector training programme to ensure cross-sector convergence, together with the essential support of the members who volunteered to host and organise seminars. An overview is given in [table 3.8.8.a](#).

The effort devoted to training staff of EU supervisory and regulatory authorities on a cross-sector basis during 2010 facilitated the training of over 350 supervisors, which means further strengthening of the common supervisory culture.

NEXT STEPS:

The Task Force, within the framework of the Joint Committee of the ESAs, will continue the training programme for 2011 and will finalise the ESAs' Manual on Training, as well as strengthen cooperation in supervisory training.

Table 3.8.8.a Overview of 3L3 training programmes

No.	Name of the seminar	Date & Location	Host	Number of participants
1	Corporate governance	26 February, Lisbon	CNVM	35
2	Assessment of IT systems and applications in financial institutions	1-3 March, Eltville (Frankfurt)	BaFin	29
3	Negotiating skills for European supervisors	4-5 March, Eltville	BuBa (ESE)	14
4	Seminar on risk management for financial conglomerates	18-19 March, Amsterdam	DNB & Duisenberg School of Finance	28
5	Negotiating skills for European supervisors.	6-7 May, Eltville	BuBa (ESE)	10
6	Assessment of IT systems and applications in financial institutions	9-11 June, Eltville	BaFin	28
7	Understanding the impact of Lehman's default on market participants	17-18 June, Paris	AMF	26
8	Internal model validation – banking and insurance sector	24-25 June, Rome	Banca d'Italia & ISVAP	47
9	Negotiating skills for European supervisors	15-16 July, Eltville	BuBa (ESE)	12
10	Negotiating skills for European supervisors	27-28 September, Eltville	BuBa (ESE)	9
11	Clearing and settlement – recent developments and challenges	29-30 September, Frankfurt	BuBa & BaFin	24
12	Negotiating skills for European supervisors	21-22 October, Eltville	BuBa (ESE)	9
13	The new European System of Financial Supervision	6-7 December, Paris	CESR Secretariat	55
14	Supervisory colleges	9-10 December, Berlin	BaFin & Ministry of Finance	30

3.9

Common supervisory culture

CEBS regards the establishment of a common supervisory culture as an essential tool for enhancing the convergence of regulatory and supervisory practices over time. A common supervisory culture is achieved through established peer pressure and supervisory disclosure mechanisms, as well as through the development of common training programmes and staff exchanges.

3.9.1

Training

In 2010, sector courses at CEBS level for member authorities were organised through a special network, the CEBS Supervisory Culture Network, established to promote training, secondments and staff-exchanges. The network follows up tasks relating to these issues.

CEBS training is needed to ensure the national application of CEBS guidelines, recommendations and standards. The CEBS training programme seeks to minimise differences in supervisory practice and promote cooperation and convergence among European supervisors, building upon the values of a common supervisory culture. The majority of training courses were organised by selected member supervisory authorities. In total, 31 CEBS training courses were organised by CEBS members in 2010. [Table 3.9.1.a](#) gives an overview. On average, each seminar attracted about 15-20 participants.

3.9.2

Supervisory disclosure

The CEBS common supervisory disclosure framework has been implemented since 2007. In January 2010, CEBS published its Revised Guidelines on Supervisory Disclosure in order to extend the framework to other areas of Community legislation, as found in the CRD. This was implemented in the course of 2010 and is accessible on the internet, both on the CEBS website¹⁸ and on national websites¹⁹.

The revised supervisory disclosure framework contains new templates for Mergers & Acquisitions; Securitisation; Credit Risk Mitigation; National Discretions relating to the whole of Directives 2006/48/EC and 2006/49/EC and national discretions relating to large exposures in the CRD II; and Pillar 2 (Supervisory Review Process) and the application of Pillar 3. The new templates demonstrate a harmonised presentation of the relevant supervisory disclosure data. These new templates are now populated and will include disclosures on guidelines relating to securitisation exposures and on the national discretions on large exposures which were included in the national discretions template. These disclosures were only made at end January 2011.

NEXT STEPS:

The common framework contributes significantly to the consistent implementation of Community legislation across the EU in line with the European Council's conclusions on this matter. During 2011, the EBA will continue to monitor the implementation of the extended common supervisory disclosure framework and will be preparing for the transformation of the guidelines into binding technical standards in 2012.

¹⁸. <http://www.c-eps.org/Supervisory-Disclosure.aspx>

¹⁹. Article 144 of the CRD requires competent authorities to provide information on their supervisory and regulatory systems and states that the disclosures shall be published in a common format and made accessible in a single electronic location.

Table 3.9.1.a Overview CEBS training programmes

No.	Name of the seminar	Date & Location	Host
1	Interest rate risk and asset liability management in banks	24-26 March, Vienna	Deutsche Bundesbank and Oesterreichische Nationalbank
2	English and communication skills for supervisory home host co-operation	15-17 March, Bratislava	National Bank of Slovakia
3	Risk assessment systems	16-19 March, Rome	Bank of Italy
4	Case studies on the development and review of Internal Rating Models	24-26 March, Eltville	Bundesbank
5	Importance of the liquidity risk management for the stability of individual bank	12-14 April, Eltville	Bundesbank
6	IFRS versus Basel II for banks	28-30 April, Vienna	Deutsche Bundesbank and Oesterreichische Nationalbank
7	Interest rate risk and asset-liability-management in banks	28-30 April, Frankfurt	Deutsche Bundesbank and Oesterreichische Nationalbank
8	International meetings skills	26-29 April, Heemskerk	De Nederlandsche Bank
9	ICAAP and stress testing in banks	28-30 April, Eltville	Deutsche Bundesbank and Oesterreichische Nationalbank
10	Negotiation skills for European supervisors	6-7 May, Eltville	Deutsche Bundesbank
11	Stress testing	19-21 May, London	CEBS-FSI
12	Internal governance within the banking industry	20-21 May, Malta	Malta Financial Services Authority
13	Advanced international meetings skills	21-24 June, Heemskerk	De Nederlandsche Bank
14	ICAAP and stress testing in banks	12-14 July, Eltville	Deutsche Bundesbank and Oesterreichische Nationalbank
15	Risk Models in financial institutions	5-6 July, Eltville	Deutsche Bundesbank
16	Interest rate risk and asset liability management in banks	14-16 July, Eltville	Deutsche Bundesbank
17	Securitisation	22-24 September, Paris	Autorité de Contrôle Prudentiel
18	Introduction to hedge funds	20-21 September, Paris	Autorité de Contrôle Prudentiel
19	Basel II ICAAP and stress testing	15-17 September, Vienna	Oesterreichische Nationalbank
20	Supervisory colleges	15 September, Rome	Bank of Italy
21	International meetings skills	20-23 September, Heemskerk	De Nederlandsche Bank
22	Liquidity risk management	20-22 September, Eltville	Deutsche Bundesbank
23	Market risk management	11-13 October, Paris	Autorité de Contrôle Prudentiel
24	Operational risk management and supervision	29-30 September, Warsaw	Komisja Nadzoru Finansowego (Polish Supervision Authority)
25	On-site inspections	20-22 October, Eltville	Deutsche Bundesbank
26	Pillar 2 and SREP	20-22 October, Madrid	Bank of Spain
27	Interest rate risk and asset-liability-management	17-19 November, Vienna	Oesterreichische Nationalbank
28	IFRS and Basel II	3-5 November, Eltville	Deutsche Bundesbank
29	Case studies and IRB Model	10-12 November, Eltville	Deutsche Bundesbank
30	Procyclicality	18 November, Rome	Bank of Italy
31	ICAAP and stress testing	10-12 November, Eltville	Deutsche Bundesbank and Oesterreichische Nationalbank

3.10

Review panel

The proper functioning of supervisory colleges is a cornerstone in the promotion of harmonised supervisory practises. It is a topic on which CEBS has done a lot of work and that has received a lot of attention in recent years. It was therefore decided that this was an appropriate topic for a peer review. The focus of the review was on the methods employed by supervisory authorities in the setting up and operation of supervisory colleges and the identification of good practices.

On the basis the CEBS peer review methodology, the functioning of colleges has been assessed against a set of reference documents, more specifically the relevant provisions of the CRD, the CEBS-CEIOPS 10 common principles for colleges of supervisors of January 2009, the 'Template for the Multilateral Cooperation and Coordination Agreement for the Supervision of the XY Group', and the 'Guidelines for cooperation between consolidating supervisors and host supervisors'. Against this background, the Review Panel prepared a questionnaire which was completed, as a self-assessment, by the competent authorities from a sample composed of 17 supervisory colleges. The factual results of this self-assessment phase were endorsed by the Review Panel in April 2010. The subsequent peer review report was published on 18 October²⁰. It presents the outcome of the review performed by the Review Panel between 26 April and 8 June 2010, together with a series of good practices for improving the functioning of colleges.

The report examined in particular information exchange, risk assessment, and planning and coordination of supervisory activities, with a view to determining whether specific milestones had been passed or not in these three areas. Whereas all colleges under review were up and running and had thus

passed a number of milestones, some colleges had not passed all the milestones and some were more advanced than others.

With regard to information exchange, the peer review confirmed that a majority of the colleges apply the requirements, though it also revealed a great variety in terms of interactivity, frequency, timeliness, scope and means of exchange of information across colleges. A number of good practices also emerged, such as web platforms, which ensure a timely, regular and multilateral exchange of information among college members.

Concerning the assessment of risks to be performed by the colleges, the peer review identified variations in the process of carrying out risk assessments. The Review Panel noted that approximately one third of the colleges had anticipated the implementation of the JRAD guidelines²¹. A number of good practices were also identified, such as meetings or workshops of risk expert groups, joint inspections on specific risks and/or ICAAP, presentation of the ICAAP to the college by the group's top management, use of CEBS' sectoral risk assessment, CEBS' stress test and CEBS' liquidity identity card.

The planning and coordination of the college activities appeared to be a challenging task and an area for improvement. The Review Panel found that the exchange of supervisory plans and in particular common planning needed to be developed further. A regular update of supervisory plans has been identified as a good practice. Joint inspections appeared to be widespread, both consolidating and host supervisors taking the initiative to organise joint examinations and inviting other supervisors to participate in these activities. The good practice of common reporting of joint inspections should be further developed.

The Review Panel concluded that coordination and cooperation within

²⁰. <http://www.eba.europa.eu/documents/Review-Panel/Peer-Review-Report-on-the-functioning-of-colleges.aspx>

²¹. Guidelines for the joint assessment of the elements covered by the supervisory review and evaluation process (SREP) and the joint decision regarding the capital adequacy of cross-border groups (GL39): <http://eba.europa.eu/cebs/media/Publications/Standards%20and%20Guidelines/2010/JRAD/Guidelines.pdf>

supervisory colleges is an evolutionary process and a joint responsibility of all the members of a supervisory college, under the leadership of the consolidating supervisor, if the required coordination and cooperation are to be achieved. Although supervisory authorities have made considerable progress in creating effective colleges, much remains to be done to fill the college form with life so that risks are commonly identified, assessed and mitigated. One of the tasks facing CEBS/EBA is to foster this development.

3.11

Mediation mechanism

Mediation is a procedure in which, at the request of the parties to a dispute, a neutral intermediary – the mediator – endeavours to assist the parties with a view to reaching a mutually satisfactory, legally non-binding settlement. In the context of CEBS, mediation was a peer mechanism meant to be used specifically to help resolve supervisory disputes that arose in a cross-border context. The objective was to support the application of pre-existing co-operation tools among supervisors, such as CEBS Guidelines on validation and on home/host co-operation.

In order to ensure as much cross-sector consistency as possible, the CEBS mediation mechanism drew on the mediation mechanism originally developed by CESR, and CEIOPS followed the same approach. The CEBS mechanism was nevertheless tailored to take account of banking and prudential supervision concerns. The basic principles and key features of the mechanism underwent public consultation and the final Mediation Protocol²² was published on 25 September 2007. In 2010, no specific mediation was undertaken by CEBS.

NEXT STEPS:

Article 19 of the EBA Regulation provides for a legally binding settlement of disagreements by the EBA, and sets out precise conditions and process. This process for solving disagreements among competent authorities is to apply in cases specified in sectoral legislation (for the EBA, this is mainly Directives 2006/48 and 2006/49, collectively known as the CRD), where no agreement between the competent authorities involved has been reached within a given time period. The EBA will revise the existing Protocol to bring it in line with the provisions of the EBA Regulation. Article 20 of the EBA Regulation similarly provides for settlement of disagreements between competent authorities that are of a cross-sectoral nature. Identical provisions to Article 19 and 20 above are in place in the regulations establishing the other ESAs (ESMA and EIOPA).

4

Looking ahead: from CEBS to EBA

4.1

Introduction

During the second half of 2010, negotiations took place between the European Parliament, the European Council and the European Commission on the establishment of the EBA. On 24 November 2010 the decision was taken to establish the EBA, as legal successor to CEBS. The EBA was established as an EU body with legal personality. It has administrative and financial autonomy and was assigned its own tasks and responsibilities, with a view to strengthening the supervision of cross-border operating banks in Europe and promoting a single EU rule book for supervised entities.

²² Guidelines for the joint assessment of the elements covered by the supervisory review and evaluation process (SREP) and the joint decision regarding the capital adequacy of cross-border groups (GL39): <http://eba.europa.eu/cebs/media/Publications/Standards%20and%20Guidelines/2010/JRAD/Guidelines.pdf>

In addition, the EBA was given new tasks relating to consumer protection and financial innovation, taking a leading role in promoting transparency, simplicity and fairness in the market for consumer financial products or services in Europe. It also took over all the existing tasks and responsibilities of CEBS and will continue CEBS' ongoing work and projects, where appropriate.

The time available in which to accomplish this changeover from CEBS to the EBA was extremely short. To prepare the operational change-over, and steered by the CEBS Bureau, a project organisation was established that operated in close coordination with the European Commission and with CEIOPS and CESR, which faced a similar change process. As a first priority, the financial and human resources were secured and a governance and organisational structure developed that built upon the existing CEBS structures, enabling a smooth change-over from the old to the new organisation. Next, procedures were established to enable the new organisation to operate as of 1 January 2011 as a EU body with legal personality. These procedures ensured that as of day one the operations, finances and human resource management in particular would be in accordance with the EU Financial and Staff Regulations. A multi-year work programme was also established, including the new tasks entrusted to the EBA as well as a multi-year growth-strategy for the new organisation as it moves towards its steady-state situation, expected in about three years. The work programme for 2011 can be found in [Appendix 5.5](#).

An organisation chart was also developed, centred around the three pillars that bring together the main tasks of the EBA: Regulation (including consumer protection), Oversight and Operations. These tasks are outlined in greater detail below. The organisation chart of the EBA can be found in [Appendix 5.3](#).

4.2

Regulatory powers and tasks

The EBA's regulatory tasks are mainly aimed at promoting the establishment of a common EU rule book in banking. Whereas CEBS has developed non-binding guidelines and recommendations that are to be implemented by the national authorities on a 'comply or explain' basis, the EBA has the powers to develop technical standards which, once adopted, will have the form of a EU regulation or EU decision and be directly applicable and enforceable in all EU Member States. The EBA will also have the task of investigating possible breaches in the use of these standards and more general of EU banking legislation. In addition, the EBA will continue to develop non-binding guidelines and recommendations. The guidelines as developed by CEBS remain applicable after 1 January 2011.

4.3

Tasks related to consumer protection and financial innovation

The EBA is also tasked to take a leading role in consumer protection issues, as well as in the assessment of innovative financial products, promoting transparency, simplicity and fairness in the market for consumer financial products or services in Europe. On consumer protection, its tasks are more specifically to collect, analyse and report on consumer trends, to review and coordinate financial literacy and education initiatives by the national authorities, to develop EU-wide training standards and to promote common disclosure rules towards consumers. With regard to financial innovation, the EBA is tasked to monitor new and existing financial activities and products, with a view to developing guidelines and recommendations that promote the safety and soundness of markets and the convergence of regulatory practice.

4.4

Supervisory powers and tasks

The EBA's oversight tasks are especially focused on EU banking groups which operate across borders. As also outlined in section 3.1, the colleges of supervisors are among the main features in this context. Every EU cross-border bank with at least one subsidiary or at least two significant branches should have a college. In 2009, CEBS started with an action plan to establish colleges. In 2010, CEBS' focus was to ensure that colleges were functioning for the main cross-border banks in Europe and that guidelines were developed for joint risk assessments; these could be performed for the first time under the umbrella of the EBA. Already in 2010, CEBS staff participated on a voluntary basis in a number of these colleges. With the establishment of the EBA, EBA staff participate in all EU colleges and can put topics on the agenda; the EBA also has a mediation role where participating national supervisors are not able to agree on a common assessment or reach a joint decision. In addition, the oversight tasks include assessments by the EBA of the vulnerabilities of the EU banking sector as a whole, in which context the EBA has a more advanced spectrum of tools available than CEBS had.

4.5

Operational and IT tasks

The EBA's operational tasks include all tasks necessary to function as an EU agency. A special emphasis here needs to be put on the development of adequate IT systems. Given the new institutional set-up of the EU supervisory architecture, there is a regular information exchange between the EBA and the ESRB. To facilitate such a data-exchange and with a view to the regular information exchange between the national authorities and the EBA for its own information needs, at the beginning of 2010 a project was started to develop an interconnected and secure

IT platform that would be able to receive reporting data about individual banks from the national supervisory authorities, store this data in an EU-wide data warehouse and produce, on a regular basis, supervisory reports, including key risk indicators as the components for a risk dashboard on individual banks. This project was co-financed by the European Commission. The IT project started in January 2010 with a feasibility study which was undertaken by an external consultancy firm. The outcome was that a solution involving one of the national supervisory authorities operating as a service provider to CEBS and later the EBA was the optimal way forward.

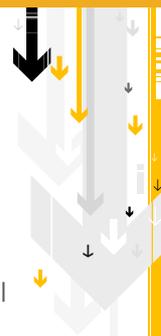
After a subsequent selection process that was carried out in the first half of 2010, the Banque de France was selected as the service provider. The systems development started in mid 2010. The first subsystems have been delivered and are in operation. Other subsystems will be delivered in phases in the course of 2011 and 2012.

Besides the development of a reporting system and data warehouse, a secure e-mail environment was also created and an IT collaboration tool developed for use by colleges of supervisors. As of mid 2011, an EU-wide computerised financial information register is under development. The objective is to deliver an EU-wide list of all financial institutions in Europe that have been licensed by national supervisory authorities, to be published periodically by the EBA.

4.6

Human resource planning

As soon as the legislative texts with the future tasks were sufficiently stable, a detailed analysis was made by CEBS of the new tasks of the EBA and the amount of personnel necessary to perform them. An initial analysis showed that about 120 full-time equivalents (FTE) would be necessary in 2013.



In accordance with the provisions of the EBA Regulation, the basic approach in the change-over of personnel to the new organisation was that CEBS staff could continue as EBA staff if they wished and provided they met certain legal and more formal requirements as laid down in the EU Staff Regulations. Consequently, every individual was mapped from his or her CEBS function to an equivalent EBA function. When the EBA was established, almost all CEBS staff took up the option to continue under an EBA contract. As a consequence, the EBA was able to start work on 1 January 2011 with about 30 FTE.

It is anticipated that the EBA's workforce will gradually increase in line with the increased number of activities envisaged. The planned development in 2011–2013 is presented in [chart 4.6.a](#).

Chart 4.6.a Development in staff numbers



4.7

Changes in the governance structure

A lot of preparatory work also took place with respect to the establishment in early 2011 of the governing bodies of the EBA, as laid down in the EBA Regulation. Special guidance was prepared with respect to the appointment of members to the EBA Board of Supervisors and

the selection processes for the Chairperson, the Executive Director and the members of the EBA Management Board by the Board of Supervisors.

The chair of CEBS, **Giovanni Carosio**, stepped down as chair on 31 December 2010. The CEBS vice-chair, **Thomas Huertas**, acted as Chair of the organisation in transition until the new EBA Chairperson was appointed and confirmed by the European Parliament. **Andrea Enria** was elected as the first Chairperson of the EBA on 12 January 2011, was confirmed by the European Parliament on 3 February 2011 and took up his duties on 1 March 2011. In addition, on 12 January 2011, members elected Thomas Huertas as the alternate to the Chairperson of the EBA.

The new EBA Board of Supervisors became operational on 1 January 2011, the date the EBA became effective. Members of the EBA Board are the heads of the national public authorities responsible for the supervision of credit institutions. Compared to CEBS, this meant a more senior representation of the authorities at the table. In addition, the European Commission, the ECB, the newly established ESRB and representatives from both EIOPA and ESMA became members of the EBA Board of Supervisors, although without voting rights. If the competent national authority is not a central bank, it may bring in a representative from the Member State's central bank, though that person would not have voting rights. Representatives of authorities from EEA member states that were admitted as observers under CEBS continue to participate within the EBA structure as observers.

The EBA Board of Supervisors elected the members of the Management Board, six in total, from amongst its members.

After 1 January 2011, the CEBS secretary general, **Arnoud Vossen**, continued as acting secretary general for the EBA. In addition, **Olivier Salles** from the European Commission

became interim executive director and signatory for the EBA. On 2 March 2011, the election took place for the first Executive Director of the EBA and **Adam Farkas** was elected. He started in office on 16 April 2011.

Besides the planning for these basic governing bodies, CEBS also planned the change-over of the CEBS working groups into an EBA working group structure. The objective here was to continue operations that started in 2010 under CEBS and were due to end under the EBA umbrella, but also to develop a more streamlined organisation to address the large number of deliverables expected from the EBA, many of which will depend on the combined efforts of EBA staff and staff from the national supervisory authorities, working together via standing committees and working groups. Principles were developed for the effective operation of these groups, as well as mandates for their activities and detailed work plans. The member organisation change-over was completed in the course of the first quarter of 2011.

4.8

Budgeting

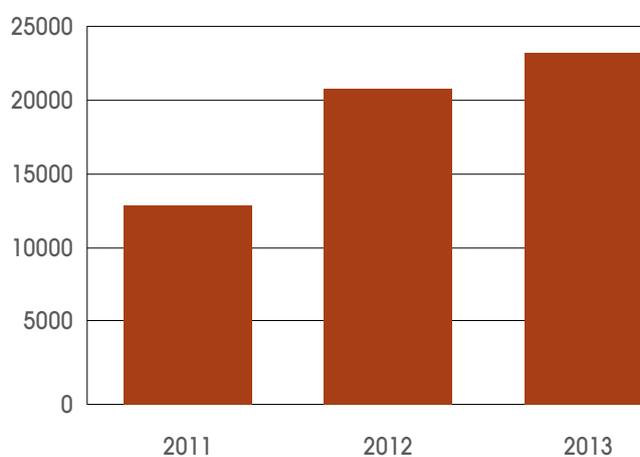
During 2010, discussions took place with the European Commission on the budget necessary for the EBA. Based upon the tasks as envisaged in the original European Commission proposal for an EBA Regulation in 2010, preliminary draft budgets had already been drafted by the European Commission together with CEBS in 2010 for the first three years of operation of the EBA. In the final negotiations between the European Commission, the European Council and the European Parliament, a number of extra tasks for the EBA were agreed upon that required amendment of the draft budgets.

The budget for the EBA, the European Commission's share of which forms part of the budget of the European Commission as a whole, was finally approved at the end of

December 2010, just a few days before the new organisation became operational. As a consequence, CEBS and the European Commission staff also developed contingency measures for financing the costs of the EBA in case the budget was not accepted. These did not need to be activated, however, thanks to the last-minute approval of the EU Budget by the Member States.

Overview of the budget development 2011-2013 is given in [chart 4.8.a](#).

Chart 4.8.a Development of the EBA budget (in thousands of euro)



CEBS also secured the financing of the EBA budget, based upon the requirements as laid down in the EBA Regulation. The EBA is funded from obligatory contributions from the national public authorities, subsidies from the European Commission and/or any fees paid by the industry to the Authority in the cases specified in the relevant instruments of EU Law. Given the absence of such a specification in law, in practice, only the first two types of funding are available, and so for the initial operations of the EBA it was agreed that Member States would fund 60% of the budget and the European Commission 40%. Members were invoiced in December 2010 and the European Commission released its contribution by the time the EBA started operations.

4.9

Closure of CEBS Secretariat Ltd

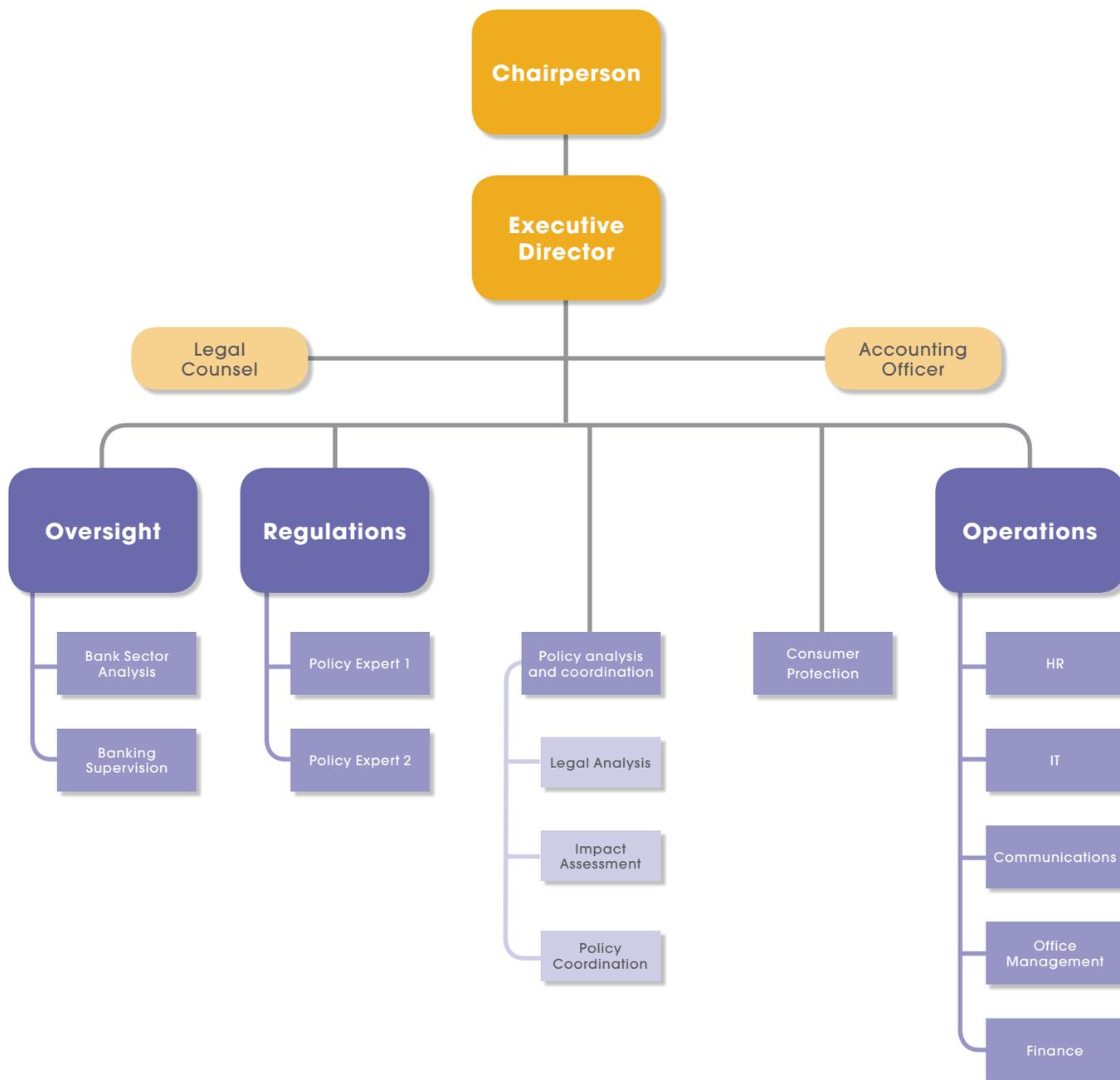
The Regulation establishing the EBA also indicates that '...the new Authority shall be considered the legal successor of CEBS ...' and that as of 1 January 2011 '... all assets and liabilities and all pending operations of CEBS shall be automatically transferred to the Authority ...'. In a legal advice, it was confirmed that these provisions in the EBA Regulation take precedence over English law, but that some legal formalities are still necessary in the UK to transfer licenses and registrations, to notify third parties and to strike off and dissolve CEBS Secretariat Ltd.

As a consequence, CEBS Secretariat Ltd has remained in existence after the 1 January 2011 to prepare a statement of its closing asset and liability position, as indicated in the EBA Regulation. As of 17 June 2011, the closing accounts have been approved by its members.

As a subsequent step, CEBS Secretariat Ltd will be struck off the register of companies and dissolved. This procedure is now under way.

Appendix 5.1

EBA organisation chart



Appendix 5.2

Members and observers end 2010

Country	Institution	Representative
Members		
Austria	Finanzmarktaufsicht (Financial Market Authority)	Helmut Ettl
	Oesterreichische Nationalbank (Central Bank of the Republic of Austria)	Andreas Ittner
Belgium	Commission Bancaire, Financiere et des Assurances (Banking, Finance & Insurance Commission)	Rudi Bonte
	Banque Nationale de Belgique (National Bank of Belgium)	Jo Swyngedouw
Bulgaria	Българска народна банка (Bulgarian National Bank)	Rumen Simeonov
Cyprus	Κεντρική Τράπεζα της Κύπρου (Central Bank of Cyprus)	Costas S. Poullis
Czech Republic	Ceska Narodni Banka (Czech National Bank)	David Rozumek
Denmark	Finanstilsynet (Danish Financial Supervisory Authority)	Flemming Nytoft Rasmussen
	Danmarks Nationalbank (National Bank of Denmark)	Jens Lundager
Estonia	Finantsinspektsioon (Financial Supervision Authority)	Andres Kurgpold
	Eesti Pank (Estonian Bank)	Jaak Tors
Finland	Finanssivalvonta (Finnish Financial Supervisory Authority)	Jukka Vesala
	Suomen Pankki (Bank of Finland)	Kimmo Virolainen
France	Banque de France (Bank of France)	Cyril Roux
		Didier Elbaum
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority)	Thomas Schmitz-Lippert
	Deutsche Bundesbank (Central Bank of the Federal Republic of Germany)	Erich Loeper
Greece	Τράπεζα της Ελλάδος (Bank of Greece)	Ioannis Gousios
Hungary	Pénzügyi Szervezetek Állami Felügyelete (Hungarian Financial Supervisory Authority)	Karoly Szasz
	Magyar Nemzeti Bank (Central Bank of Hungary)	Julia Kiraly
Ireland	Central Bank and Financial Services Authority of Ireland	Jonathan McMahon
Italy	Banca d'Italia (Bank of Italy)	Giovanni Carosio
Latvia	Finansu un Kapitāla Tirgus Komisija (Financial and Capital Market Commission)	Janis Placis
	Latvijas Banka (Bank of Latvia)	Vita Pilsuma
Lithuania	Lietuvos Bankas (Bank of Lithuania)	Filomena Jaseviciene

Country	Institution	Representative
Luxembourg	Commission de Surveillance du Secteur Financier (Commission for the Supervision of Financial Sector)	Claude Simon
	Banque Centrale du Luxembourg (Central Bank of Luxembourg)	Norbert Goffinet
Malta	Malta Financial Services Authority	Karol Gabarretta
	Central Bank of Malta	Anthony Cortis
Netherlands	De Nederlandsche Bank (National Bank of the Netherlands)	Henk Brouwer
		Anthony Kruizinga
Poland	Komisja Nadzoru Finansowego (Polish Financial Supervision Authority)	Stanislaw Kluza
	Narodowy Bank Polski (National Bank of Poland)	Andrzej Reich
Portugal	Banco de Portugal (Bank of Portugal)	Pedro Duarte Neves
		Adelaide Cavaleiro
Romania	Banca Națională a României (National Bank of Romania)	Adrian Cosmescu
Slovakia	Narodna Banka Slovenska (National Bank of Slovakia)	Vladimir Dvoracek
Slovenia	Banka Slovenije (Bank of Slovenia)	Matej Krumberger
Spain	Banco de España (Bank of Spain)	Jose Maria Roldan
		Fernando Vargas
Sweden	Finansinspektionen (Swedish Financial Supervisory Authority)	Uldis Cerps
	Sveriges Riksbank (Central Bank of Sweden)	Goran Lind
UK	Financial Services Authority	Thomas Huertas
	Bank of England	Victoria Saporta
EU	European Central Bank	Mauro Grande
Observers		
Iceland	Fjármálaeftirlitið (Financial Supervisory Authority)	Jonas Fr. Jonsson
	Seðlabanki Íslands (Central Bank of Iceland)	Jonas Thordarson
Liechtenstein	Finanzmarktaufsicht Liechtenstein (Financial Market Authority)	Rolf Brüggemann
Norway	Finanstilsynet (Financial Supervisory Authority of Norway)	Bjorn Skogstad Aamo
	Norges Bank (Central Bank of Norway)	Sindre Weme
EU	European Commission	Mario Nava
	Banking Supervision Committee	Peter Praet

Appendix 5.3

CEBS organisation 2010

CEBS took up its duties on 1 January 2004, serving as an independent body for reflection, debate and advice to the Commission and contributing to the common and uniform implementation of Community legislation and its consistent application by supervisory authorities in the field of banking regulation and supervision.

CEBS acted by its plenary composed of high level representatives from the banking supervisory authorities and central banks of the European Union. This plenary function is supported by the CEBS Bureau consisting of the Chairman and Vice Chair, as well as four other CEBS members. The more specific role of the Bureau is to prepare and discuss matters of strategic importance and agenda topics for the CEBS meetings and to provide advice and to assist the Chair and the Committee in budgetary and administrative matters.

In 2010, **Mr Giovanni Carosio** from the Bank of Italy continued to act as Chairman of CEBS. **Mr Thomas Huertas** from the UK FSA continued as Vice Chair of CEBS. The other members of the CEBS Bureau were **Mr Thomas**

Schmitz-Lippert from the German Federal Financial Supervisory Authority (Bafin), **Mr Fernando Vargas** from the Bank of Spain, **Mr Henk Brouwer** from the Central Bank of the Netherlands and **Mr Pavel Ferianc** from the National Bank of Slovakia.

The operational and administrative support for the work of CEBS is provided by a London-based Secretariat, whose staff come from member and / or observer authorities. The Secretariat is organised as CEBS Secretariat Ltd, a company limited by guarantee under English law. The Secretariat's main tasks include coordination of CEBS' work streams, working groups and panels, preparation and coordination of minutes, working documents and consultation papers and support to the Chairman in his public relations activities and representational functions.

Mr Arnoud Vossen from the Central Bank of the Netherlands continued in 2010 as Secretary General of CEBS Secretariat Ltd. **Mr Piers Haben** was appointed as deputy secretary general, succeeding **Mr Patrick Amis**.



Appendix 5.4

Consultation and transparency on guidelines 2010

Number	Title	End of Public Consultation	Consultation Period	Date of current document
CP01 (and CP01 revised)	Public statement of consultation practices	Saturday, July 31, 2004	3 months	Tuesday, April 29, 2008
		Tuesday, June 19, 2007	3 months	
CP02 (and CP02 revised)	Guidelines on outsourcing	Saturday, July 31, 2004	3 months	Thursday, December 14, 2006
		Thursday, July 06, 2006	3 months	
CP03 (and CP03 revised)	Guidelines in Application of the Supervisory Review Process under Pillar 2	Tuesday, August 31, 2004	3 months	Wednesday, January 25, 2006
		Friday, October 21, 2005	4 months	
CP04 (and CP04 revised)	Guidelines on Common reporting (COREP)	Saturday, April 30, 2005	3 months	Wednesday, January 06, 2010
		Wednesday, December 19, 2007	4 months	
CP05	Supervisory Disclosure Framework	Friday, June 24, 2005	3 months	Tuesday, November 01, 2005
CP06 (and CP06 revised and revised2)	Financial Reporting Framework (FINREP)	Friday, July 08, 2005	3 months	Tuesday, December 15, 2009
		Sunday, May 20, 2007	1 month	
		Wednesday, June 10, 2009	3 months	
CP07	External Credit Assessment Institutions (ECAI) Recognition	Friday, September 30, 2005	3 months	Friday, January 20, 2006
CP08	The role and tasks of CEBS	Friday, October 28, 2005	3 months	Friday, October 28, 2005
CP09	Cooperation between consolidation and host supervisors	Tuesday, November 08, 2005	4 months	Wednesday, January 25, 2006
CP10 (and CP10 revised)	Model Validation and Approval	Sunday, October 30, 2005	3.5 months	Tuesday, April 04, 2006
		Thursday, February 16, 2006	1 month	
CP11 (a and b)	a) Concentration Risk and b) Interest Rate Risk in the Banking Book (IRRBB) under Supervisory Review Process	Friday, June 23, 2006	3 months	14 December 2006 3 October 2006
CP12	Stress testing under the Supervisory Review Process	Saturday, September 30, 2006	3 months	Thursday, December 14, 2006
CP13	Establishment of a mediation mechanism	Tuesday, June 19, 2007	3 months	Tuesday, September 25, 2007
CP14	CEBS advice to the European Commission on large exposures – first part	Wednesday, August 15, 2007	2 months	Tuesday, November 06, 2007
CP15	Risks arising from commodity business and from firms carrying out commodities activities	Friday, July 27, 2007	6 weeks	Wednesday, October 10, 2007
CP16	CEBS technical advice to the European Commission on large exposures – second part	Tuesday, January 15, 2008	11 weeks	Thursday, April 03, 2008

Number	Title	End of Public Consultation	Consultation Period	Date of current document
CP17	Common EU definition of Tier 1 hybrids	Friday, February 22, 2008	10 weeks	Thursday, April 03, 2008
CP18	CEBS technical advice to the European Commission on options and national discretions	Friday, August 15, 2008	3 months	Friday, October 17, 2008
CP19	CEBS technical advice to the European Commission on liquidity risk management (second part)	Friday, August 01, 2008	6 weeks	Thursday, September 18, 2008
CP20	Technical aspects of diversification under Pillar 2	Friday, October 31, 2008	4 months	TBA
CP21	Compendium of Supplementary Guidelines on implementation issues of operational risk	Tuesday, March 31, 2009	3 months	Tuesday, September 08, 2009
CP22	Passport Notifications	Monday, May 11, 2009	3 months	Thursday, August 27, 2009
CP23	High-level principles for Remuneration Policies	Friday, April 03, 2009	1 month	Monday, April 20, 2009
CP24	High-level principles for risk management	Friday, July 10, 2009	3 months	Tuesday, February 16, 2010
CP25	Guidelines on operational risk mitigation techniques	Thursday, July 09, 2009	3 months	Tuesday, December 22, 2009
CP26	Implementation guidelines on the revised large exposures regime	Friday, September 11, 2009	3 months	Friday, December 11, 2009
	Guidelines on common reporting of large exposures regime			
CP27	Implementation guidelines on hybrid capital instruments	Wednesday, September 23, 2009	3 months	Thursday, December 10, 2009
CP28	Guidelines on liquidity buffers	Saturday, October 31, 2009	4 months	Wednesday, December 09, 2009
CP29	Extension of CEBS supervisory disclosure framework	Friday, October 16, 2009	1 month	Thursday, January 28, 2010
CP30	Disclosure guidelines reflecting the lessons learnt from the financial crisis	Friday, January 15, 2010	3 months	Monday, April 26, 2010
CP31	Guidelines on concentration risk	Wednesday, March 31, 2010	3 months	Thursday, September 02, 2010
CP32	Revised Guidelines on stress testing	Wednesday, March 31, 2010	3 months	Thursday, August 26, 2010
CP33	Implementation guidelines on instruments referred to in Article 57(a) of the CRD	Wednesday, March 31, 2010	3 months	Monday, June 14, 2010
CP34	Guidelines for the operational functioning of colleges	Wednesday, March 31, 2010	3 months	Tuesday, June 15, 2010
CP35	Guidelines on the management of operational risk in market-related activities	Wednesday, March 31, 2010	3 months	Tuesday, October 12, 2010
CP36	Guidelines on liquidity cost benefit allocation	Thursday, June 10, 2010	3 months	Wednesday, October 27, 2010

Number	Title	End of Public Consultation	Consultation Period	Date of current document
CP37	Revised guidelines on the recognition of ECAs	Friday, April 09, 2010	1 month	Tuesday, November 30, 2010
CP38	Implementation guidelines on Article 106(2) (c) and (d) of Directive 2006/48/EC recast	Thursday, May 06, 2010	2 months	Wednesday, July 28, 2010
CP39	Guidelines on joint assessment and joint decision regarding the capital adequacy of cross border groups	Friday, July 09, 2010	3 months	Wednesday, December 22, 2010
CP40	Guidelines on the application of Article 122a of the Capital Requirements Directive (CRD)	Friday, October 01, 2010	3 months	Friday, December 31, 2010
CP41	Guidelines on revised Article 3 of the Directive 2006/48/EC	Friday, August 27, 2010	6 weeks	Friday, December 31, 2010
CP42	Guidelines on Remuneration Policies and Practices	Monday, November 08, 2010	1 month	Friday, December 10, 2010
CP43	Advice to the European Commission on the non-eligibility of entities producing only credit scores for ECAI recognition	Saturday, November 13, 2010	1 month	Friday, December 17, 2010
CP44	Guidebook on Internal Governance	Friday, January 14, 2011	3 months	TBA
CP45	Guidelines on AMA changes	Tuesday, March 15, 2011	3 months	TBA
CP46	Guidelines on the collection of bank remuneration data	Friday, September 02, 2011	5 weeks	TBA
CP47	Guidelines on remuneration data collection exercise regarding high earners	Friday, September 02, 2011	5 weeks	TBA

Appendix 5.5

Work programme 2011

We hereby outline the work plan for the European Banking Authority (EBA) in 2011.

As of 2011, the EBA will prioritise its work according to the requirements in the Regulation establishing the EBA and the requirements laid down in the sectoral directives. Important own initiative work, especially work already started before 2010, will also be prioritised for 2011.

The EBA tasks are presented, linked to the main organisational clusters of the EBA, which are Regulation, Oversight and Operations.

Besides the more regular tasks of the EBA, especially in 2011, a number of activities will need to be undertaken in areas which are new. In this context, the work program also covers the following topics:

- a. The requirement to produce technical standards and guidelines, including in relation to e-money and payment services.
- b. The requirement to produce a risk dashboard, risk assessments and undertake stress testing as well as perform effective College oversight.
- c. The requirement for the EBA to have regard to consumer protection and to issue warnings and/or temporarily prohibit or restrict certain financial activities.
- d. The requirement to lead in promoting transparency, simplicity and fairness in the market for consumer financial products.
- e. The requirement to take decisions towards individual institutions in specific cases of breach of EU law, settlement of disagreements and emergency situations.
- f. Data collection, centralised information storage and enhanced legal powers.
- g. Crisis management capacity.

In 2010, the highest priority given to CEBS' activities was in relation to the regulatory and supervisory consequences of the crisis, to CEBS' deliverables connected to changes in Basel II and the CRD and to the work, linked to changes in the institutional supervisory arrangements from CEBS to the EBA by the end of 2010. Some of these deliverables continue in 2011 but new priorities will be driven by the EBA Regulation.

Below the key outputs expected for the EBA are summarised.

2011 Prioritisation

The topics the EBA will need to work on in 2011 are prioritised based on the Regulation that came into force on 1/1/2011. This work plan continues the prioritisation scheme used previously in planning and executing its activities but clearly aligns itself to the expectations as set out in the Regulation. To this end, a distinction is made between the following priorities:

- Priority 1: these activities are key and need to be delivered within the agreed upon time schedule. Normally they are based on externally provided mandates or are continuations of deliverables started in 2010. Resources will firstly be allocated to these priority 1 activities.
- Priority 2: these activities are important for the EBA to deliver but could to some extent be postponed, if necessary.
- Priority 3: these activities will only be undertaken in as far they do not conflict with the resources needed for priority 1 and 2 activities.

Given the changing developments in the financial markets, priorities can be changed in the course of the year. Also note that the priorities assigned clearly refer to deliverables expected in 2011. For example, some new tasks will be in the development phase in 2011 but will grow in importance going forward.

Priority I

Priority I tasks have been identified according to the basis above, many of which are externally driven and which results in a large number of priority ones.

Key priority one tasks

To assist in focusing the resources of the EBA staff on those areas that will require specific attention in 2011, the following three key areas have been identified that relate to the three clusters for the EBA Board of supervisors to agree as absolutely top priority for the EBA in 2011, notwithstanding the more detailed list of priority 1 issues also covered in this section.

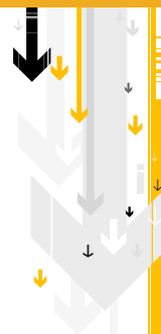
- The Regulation cluster will focus primarily on setting all the relevant work streams in place to ensure the **effective implementation of CRD IV**. This will include a variety of work streams such as technical standards for reporting, monitoring and assessing the liquidity regime, and contributing to work on capital buffers but the EBA staff will focus their resources on achieving this outcome as the absolutely top priority.
- The Oversight cluster will focus on developing an effective system for assessing risk in the EU banking system with a specific focus on improving the **EBA's stress testing programme in 2011**. In turn this will need to be supported by effective collection of risk indicators, and the production of risk reports but the stress testing programme will take absolute priority.

- The Operations cluster will have to undertake a range of tasks to ensure the effective running of the new organisation. However, as an absolute priority it will have a specific focus on ensuring that a centralised **EU banking database** is put in place. This will require managing the IT project with the IT provider to ensure the infrastructure will be put in place and will also be dependent on effective collection of data from EBA members.

Within the context of the absolute priorities identified above, the more granular set of priorities is detailed below.

Regulation cluster

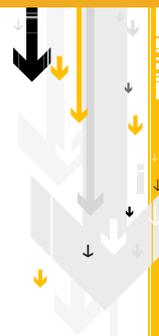
- **Technical Standards related to the CRD**. In 2011 work will have to be initiated on the review of a substantial number of existing guidelines that will need to be transformed into Technical Standards (TS) by 1 January 2014, as mandated by the Omnibus Directive and the proposals in CRDIV. These include: on hybrids instruments; securitisation retention clauses; some aspects of the Large Exposures regime; ECAI assessment; uniform formats and frequencies for liquidity risk reporting, including IT solutions; the joint decision process for the identification of liquidity subgroups; the specification of requirements for the LCR; criteria to determine the appropriate ratios between fixed and the variable remuneration; specification of the classes of instruments eligible as part of variable remuneration. Also for a number of new areas, e.g. linked to the implementation of Basel III, the EBA will have to develop TS. For this set of TS it is essential that the work is planned from 2011 to 2014 and that for a number of these deliverables the work starts already in 2011 to allow for the necessary time for its development and adoption by the EU institutions.



- **CRD guidelines.** The EBA will also take over from CEBS the current work on several sets of guidelines as mandated in the CRD review III which are required by the end of 2011 (e.g. on specific aspects of the trading book) and expects to receive mandates in the context of the CRD review IV to implement Basel III.
- **Remuneration.** Follow up work related to the implementation of CRD III and to the publication of guidelines on remuneration. In addition, the EBA will need to tackle the issue of developing reporting and benchmarking criteria.
- **Policy analysis & coordination.** As a priority, the EBA will establish its position and role vis a vis the EBC, FSC, EFC, EU Commission, EU Parliament and ESRB and will undertake the effective preparation of its management board and Board of Supervisors meetings.
- **Joint Committee work under an EBA chair.** The ESA Regulation requires a separate and dedicated secretariat for the Joint Committee of the ESAs. Within the EBA, this secretariat will be within Regulation. Based upon the rotational scheme for chairing the Joint Committee, the EBA chairperson will be chairing the Joint Committee for its first year of operations. As such, this chairperson will also be the second vice-chairperson of the ESRB. On substance, the Joint Committee will need to commence work on some of the Omnibus proposals for the cross sector directives, as a priority. In particular, in relation to the Financial Conglomerates Directive (FCD), both the Omnibus Directive and the EC's revisions for the FCD will require the Joint Committee to maintain and publish a List of Financial conglomerates and their Coordinators. Also the ESAs will undertake their coordinated risk assessment exercise and will produce a number of regular reports (e.g. on non-cooperative jurisdictions).

Oversight cluster

- **Technical Standards in reporting frameworks.** One of the top priorities for the EBA in 2011 is its work on reporting frameworks. This entails not only the continuation of the revision of the COREP and FINREP but also (and foremost) the Regulation requires that the EBA develops Technical Standards (TS). In 2011 many resources will be put onto the revision necessitated as a result of CRD IV, and ESRB/EBA data needs. In preparation for the implementation of CRD IV, CEBS/EBA has starting working on a uniform liquidity reporting framework, which will read over to 2011 and 2012. As regards FINREP, changes due to IFRS amendments (in particular those arising from IFRS 9 and IAS 1) will have to be incorporated as soon as possible in order to allow for an implementation of the revised reporting as of early 2013
- **Risk dashboard.** The Regulation requires the EBA to develop a Risk Dashboard to identify and measure systemic risk including, but not limited to, work with the ESRB on systemic risk measures.
- **Risk assessments.** The Regulation requires the EBA to, at least on an annual basis, provide risk assessments to the European Parliament, the Council, the Commission and the ESRB of trends, potential risks and vulnerabilities in the area of its competence. The EBA will build on existing risk assessments and work with the other ESAs and the ESRB to further develop its risk assessments. The key steps in this process are outlined in the work programme.
- **Stress testing.** The regulation spells out several requirements in terms of stress testing which will mean that EU wide stress testing will be mandatory for the EBA, due mid 2011.
- **Home host support.** The Regulation requires the EBA to promote and monitor



the effective functioning of Colleges and to this end the EBA will make substantive efforts to enhance the functioning of colleges of supervisors and the EBA effective oversight of college activities. This will be largely achieved by means of following up and monitoring by the EBA staff of the implementation of college related guidelines issued in 2010 (Guidelines for operational functioning of colleges and JRAD guidelines).

Operations cluster

To undertake the range of substantive issues outlined in this note, there are a range of procedural issues which need to be addressed in 2011. These include but are not limited to:

- **Transitional set up and governance.** The first year will be focused on defining the EBA's role on the new tasks and on assuring that the new governance structure operates well.
- **Staffing.** Ensuring that the executive team and the core staffing complement is built up will be a priority in 2011.
- **Budgeting.** The transfer to the Commissions' budgeting procedure is a significant task and involves new accounting staff at the EBA as well as installation of a new accounting system, ABAC.
- **Training.** The EBA has developed a training programme for 2011 focusing on its members which will receive priority in 2011.
- **IT.** The EBA has already set in train an ongoing work programme to implement its new IT system, which will receive priority in 2011.
- **Procurement processes.** Procurement processes are being set in train for several important expenditures, notably in the EBA's planning for future premises, which will absorb significant resources in 2011.

- **Legal.** The EBA will need to develop capacity to fulfil its new legal powers, including responding to potential breaches of EU law, but also in terms of its own compliance with EU Commission rules etc.

Priority II Issues

Regulation cluster

- **CRD implementation.** The EBA will continue to work on guidelines for the harmonised implementation of the current CRD across Member States (e.g. on specific aspects of the Large Exposures regime, and Operational Risk management) and the respective implementation studies. However, as the preparation of these guidelines is done under CEBS/EBA own initiative a lower priority can be assigned and work can be initiated at a later time, depending on the available resources.
- **Anti Money Laundering.** In respect to cross sector work on Anti Money Laundering some good practices/guidelines in relation to the 3rd Money Laundering Directive (3rd MLD) will be developed. Some cross sectoral proposals in the Omnibus suggest that the ESAs "may" propose Technical Standards on 3rd Country Equivalence for the 3rd MLD could be assigned a lower priority and a longer frame to be assessed, and where appropriate, developed.
- **Financial Conglomerates Directive.** Some cross sectoral proposals in the Omnibus suggest that the ESAs "may" propose guidelines and "may" develop Technical Standards in the Financial Conglomerates Directive (FCD). Further the proposed revisions to the FCD, FICOD1 scheduled for adoption in 2012, also include proposals for the ESAs to develop guidelines, i.e. on colleges, Pillar 2 for financial conglomerates. In 2011, the EC also intends to ask several Calls for Advice to the Joint Committee of the ESAs in respect to its fundamental review of the FCD.

- Further development of **technical annexes** to the guidelines on interest rate risk in the banking book will continue in 2011.
- **Monitoring of accounting standard-setting processes** will remain important for the EBA reflecting its interaction with the work on reporting.
- **Transparency assessments** (in particular Pillar 3). The EBA will reassess banks Pillar 3 disclosures based on the 2010 report.
- **Consumer protection**
New initiatives are being planned/ considered in this area, which might potentially involve the EBA or assign tasks to it, such as the expected proposal for a Directive on Responsible Mortgage Lending and Borrowing (due in February 2011) and an expected legislative initiative on access to a basic bank payment account (due in the early part of 2011). Also, the Joint Committee will also have to carry follow up work to the 3L3 Committee work on Packaged Retail Investment Products (PRIPs).

Oversight cluster

- **Regulations on Pillar 3 and supervisory disclosure** will be priority II in 2011 as planning starts for the development of standards.
- **Follow up college work.** Whilst monitoring is priority work, additional supporting measures will be priority II in 2011. This includes the development of collaboration tool for colleges to facilitate and monitor effective college functioning as well as preparatory work for TS due in 2014.

Priority III Issues

Regulations cluster

- **Implementation studies** will generally be prioritised as III.
- **Payments systems/e-money.** The EBA will begin to investigate ways in which it can

fulfil the requirements in the regulation regarding its responsibility for payments systems and e-money initiatives but it is unlikely there will be specific deliverables from this work in 2011.

- **Other TS.** The development of a significant number of TS on other (and very often new) topics (e.g. on authorisation requirements, model validation) could also commence at a later stage given that their development it is not a requirement of the Omnibus Directive and no concrete deadline is provided.
- **Guidelines on business and strategic risk.** Areas where the EBA is not required to undertake work include business and strategic risk and will be priority III in 2011.
- **Consumer protection.** Further initiatives are being planned by the EC in the area of consumer protection in relation to banking, on which the EBA might be asked to provide advice/views or be assigned other tasks. These initiatives include the launching of a self-regulatory regime in the area of transparency and comparability of bank fees and the EC dialogue with the various stakeholders on tying and/or mixed bundling of financial products.

Oversight cluster

- **Formal guidelines on supervisory stress testing** have been postponed for now but will be held under review in 2011.

Appendix 5.6

Financial statements

Revenue and Expenses	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
Revenues		
Contributions from members	3,453	2,754
Other income	57	154
Action Grant	881	89
Interest	13	17
Total Revenue	4,404	3,014
Expenses		
Secondment fees	1,833	1,360
Project expenses	665	89
Premises	686	545
Professional fees	83	69
Communication costs	77	66
Depreciation	184	174
Computer and IT development	78	78
Travel	207	152
Salaries and employee benefits	362	145
Meetings	81	49
Office supplies	32	27
Miscellaneous	58	34
Total expenses	4,346	2,788
Excess of revenues over expenses before taxes	58	226
Members contributions were used during the period to fund the expenses above and to pay for the following fixed assets:		
Improvements to premises	207	38

The above is a summary of information derived from the company's annual accounts and are not the company's statutory accounts. The statutory accounts for the year ended 31 December 2010 have been delivered to the Registrar of Companies and received an audit report which was unqualified and did not contain statements under s498(2) and (3) of the Companies Act 2006.

As required by Company Law in Great Britain the following statement is required:

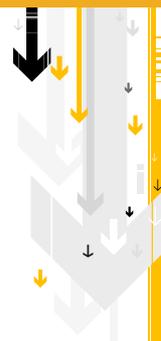
Financial Statement of CEBS Secretariat Ltd.

Appendix 5.7

List of abbreviations

3L3 or Level-3	Three "Level-3 Committees" or "Lamfalussy Committees" (CESR, CEBS and CEIOPS)	CRD III	Directive of the European Parliament and of the Council amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for resecuritisations, and the supervisory review of remuneration policies
AMA	Advanced Measurement Approach	CRD IV	Proposal for a Directive of the European Parliament and of the Council amending Directives 2006/48/EC and 2006/49/EC as regards liquidity standards, definition of capital, leverage ratio, counterparty credit risk, counter-cyclical measures including through-the-cycle provisioning for expected credit losses, systemically important financial institutions and single rule book in banking
AMLTF	Anti Money Laundering Task Force	DGS	Deposit Guarantee Schemes
BCBS	Basel Committee on Banking Supervision	EBA	European Banking Authority
BIA	Basic Indicator Approach	EC or Commission	European Commission
BSC	Banking Supervision Committee	ECOFIN	Economic and Financial Council
CCP	Central Counterparty	EEA	European Economic Area
CEBS	Committee of European Banking Supervisors	EFC	Economic and Financial Committee
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors	EFC-FST	Economic and Financial Committee – Financial Stability Table
CESR	Committee of European Securities Regulators	EGFI	Expert Group on Financial Information
COREP	Guidelines on Common Reporting	EGPR	Expert Group on Prudential Regulation
CRD	Capital Requirements Directive (refers collectively to both 2006/48/EC and 2006/49/EC)		
CRD II	Commission Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements and crisis management		

EIOPA	European Insurance and Occupational Pensions Authority	FSB	Financial Stability Board
EIOPC	European Insurance and Occupational Pensions Committee	FSC	Financial Services Committee
ESAs	European Supervisory Authorities	GdC	Groupe de Contact
ESCB	European System of Central Banks	GL03	CEBS guidelines on the Application of the Supervisory Review Process under Pillar 2
ESFS	European System of Financial Supervisors	GL10	CEBS Guidelines on the implementation, validation and assessment of Advanced Measurement (AMA) and Internal Ratings Based (IRB) Approaches
ESMA	European Securities and Markets Authority	IA	Impact Assessment
ESRB	European Systemic Risk Board	IAIS	International Association of Insurance Supervisors
EU	European Union	IAS	International Accounting Standards
FASB	Financial Accounting Standards Board	IASB	International Accounting Standards Board
FCAG	Financial Crisis Advisory Group	IASCF	International Accounting Standards Committee Foundation
FCD	Financial Conglomerates Directive (Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council, OJ L 35 of 11.2.2003)	IASs	International Accounting Standards
FINREP	Standardised framework for consolidated financial reporting for credit institutions (Financial Reporting)	ICAAP	Internal Capital Adequacy Assessment Process
		IEG	Industry Expert Group
		IESBA	International Ethics Standards Board for Accountants



IFRS	International Financial Reporting Standards	SON	Sub-group on Operational Networking
IRB	Internal Ratings Based Approach	SREP	Supervisory Review and Evaluation Process
IWCFC	Interim Working Committee on Financial Conglomerates	TFIC	Task Force on Internal Governance
JCFC	Joint Committee on Financial Conglomerates	TSA	Standardised Approach
Liquidity ID	Liquidity Identity Card	UBO	Ultimate Beneficial Owners
MIFID	Markets in Financial Instruments Directive (Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, OJ No. L 145 of 30 April 2004)	UCITS	Undertakings for Collective Investment in Transferable Securities
		XBRL	Extensible Business Reporting Language
ORTM	Other Risk Transfer Mechanisms		
Panel	CEBS Consultative Panel		
PEPs	Politically Exposed Persons		
PRIPs	Packaged Retail Investment Products		
RCCP	Recommendations for Central Counterparties		
RP	Review Panel		
RSSS	Recommendations for Securities Settlement Systems		





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