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Internal Market and Services DG

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Banking and financial conglomerates

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Brussels,
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Danièle Nouy,
Chairman of the Committee of European
Banking Supervisors
Tower 42,
25 Old Broad Street,
London EC2N 1HQ,
United Kingdom

Danièle
Dear Ms Nouy,

Subject: Call for Advice No. 4(b) to CEBS on the review of the definition of own funds

I am very pleased to send to you a further specification to the Commission's fourth official call for technical advice from the Committee of European Banking Supervisors (CEBS).

In June 2005, the European Commission issued a call for technical advice to CEBS, specifying four areas in which specific advice was requested in relation to the review of own funds:

- A. A survey of the implementation of current rules on own funds across Member States
- B. An analysis of the capital instruments recently created by industry
- C. The development of guiding principles behind own funds
- D. A quantitative analysis of the types of capital held by credit institutions within the Member States

The Commission requested that CEBS provide items (A) & (B) by August 2006. The original call for advice specified that work should also begin as soon as possible on items (C) and (D), but that the exact timing for the submission of these items would be reviewed and further specified in spring 2006.

In your letter of June 23rd 2006 which accompanies the submission of parts (A) & (B) above, you indicate the views of CEBS members of the importance of working in parallel with the Basel Committee on Banking Supervision in relation to the own funds review. The Commission services have taken this into consideration, and consequently it is our conclusion that it would be most appropriate to defer further specifications in relation to part (C) of the technical advice. We will therefore revert to CEBS on how to most appropriately address part (C) of the technical advice at a future date.

Commission européenne, B-1049 Bruxelles / Europese Commissie, B-1049 Brussel - Belgium. Telephone: (32-2) 299 11 11.

http://ec.europa.eu/internal_market/
H1\own funds\cebs call for advice\call no.2

In relation to part (D) of the technical advice, the Commission services are of the view that there is considerable merit in undertaking this part of the work at this stage, and that doing so will not in any way compromise future developments in this area. On the contrary, the technical advice in relation to part (D) will form an important foundation for future discussions. For this reason, I am attaching to this document a further and more detailed specification for part (D) of the technical advice, including a timetable for submission.

As ever, we greatly value the input of CEBS to the own funds review and we are grateful for the submission of the first two pieces of technical advice on own funds which we are currently analysing.

I am attaching to this letter a copy of our call for advice 4(b).

Yours sincerely,



Patrick PEARSON
Head of Unit

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Brussels, xxxx 2006

CALL FOR TECHNICAL ADVICE No. 4 (b) FROM THE COMMITTEE OF EUROPEAN BANKING SUPERVISORS (CEBS)

Subject: *Definition of Own Funds*

1. Background

In recognition of the importance of ensuring a common definition of own funds, the recast Banking Directive specifically refers to member states' progress in achieving convergence in this area.¹ On the basis of the progress achieved, the relevant Directives² provide for the submission of a proposal from the European Commission by January 1st 2009 to amend the own funds legislation. The Basel Committee on Banking Supervision (Basel Committee) has also committed to a long term review of the definition of own funds.

In June 2005, the European Commission issued a call for technical advice to CEBS, specifying four areas in which specific advice was requested in relation to the review of own funds:

- A. A survey of the implementation of current rules on own funds across Member States
- B. An analysis of the capital instruments recently created by industry
- C. The development of guiding principles behind own funds
- D. A quantitative analysis of the types of capital held by credit institutions within the Member States

The Commission requested that CEBS provide items (A) & (B) by August 2006. The original call for advice specified that work should also begin as soon as possible on items (C) and (D), but that the exact timing for the submission of these items would be reviewed and further specified in spring 2006.

The purpose of this document is to further specify the technical advice requested under (D) above only, and to indicate an appropriate timing for the submission of this part of the technical advice.

¹ Article 62 of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast)

² See also Article 12 of Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast)

2. Specific call for technical advice

(D) A quantitative analysis of the types of capital held by credit institutions and investment firms within the Member States

The original mandate:

In order that the Working Group can understand the quantitative impact on credit institutions across member states of any substantial changes to the own funds rules, it will be useful to ascertain the approximate breakdown of the different types of capital currently held in Europe.

CEBS is therefore asked to conduct a quantitative analysis of the types of capital held by credit institutions within Member States. The degree of depth and detail necessary for this analysis is for CEBS to decide but should be balanced with the need to assess in a sufficiently confident manner the effect of any proposed substantial changes.

Further specification:

The quantitative analysis should be delivered in three stages:

- (i) A framework should be developed indicating clearly each denomination of own funds and deductions, and all of the types of instruments (categorising to the detail of single capital instruments) that are permitted within each denomination of own funds and deductions. This framework will form a taxonomy within which every instrument and every deduction currently included in regulatory capital calculations across member states will be included. It is crucial that this framework be prepared to as granular a level as possible, to permit a thorough and meaningful analysis of the types of capital held by credit institutions within the Member States

Where member states treat the same instrument or deduction in different ways or under different categories, the taxonomy should duplicate the entries for the instrument indicating all of the possible categorisations in which the instrument is classified by different member states. The taxonomy should also include line items for prudential filters to indicate the gross and net figures from the application of filters. In this regard, both CEBS filters and any other 'filters' or adjustments should be clearly identifiable. The taxonomy should include all instruments and deductions included in own funds calculations at consolidated; sub-consolidated and national level. The framework should be based on the existing legislation and practice.

The Commission would welcome submission of this taxonomy (without data) by 31st October 2006.

- (ii) Using the taxonomy developed under (i), the quantitative analysis should populate this taxonomy with real data from the half year period to 30th June 2006 and full year to 31st December 2006. The data should be broken down at consolidated; sub-consolidated and national level. The figures should show figures gross and net of prudential filters, clearly indicating which prudential filters are used by each member state.

The Commission would welcome the submission of this quantitative analysis in the format of the taxonomy developed at (i) as follows:

- submission of the data from 30th June 2006 by 31st January 2007; and
- submission of the data from 31st December 2006 by May 31st 2007.