

13 February 2008

CEBS Work programme for 2008

1. Progress in 2007

1. CEBS faced a substantial increase in workload in the course of 2007. The bulk of the activity focused in three areas:
 - *Functioning of the Lamfalussy arrangements.* CEBS finalised the implementation of the Financial Services Committee's (FSC) recommendations to improve the working of the Lamfalussy arrangements (so-called Francq recommendations). A lot of effort was put to actively contribute to the review of the Lamfalussy arrangements: based on an independent assessment conducted through an online survey, CEBS developed its own evaluation of the working of the arrangements, putting forward concrete proposals to further improve its ability to deliver convergence in day-to-day supervisory practices and intensify supervisory cooperation.
 - *Technical advice to the Commission.* Differently from previous years, the advisory tasks absorbed an increasingly large portion of CEBS resources. CEBS addressed requests from the Commission in a number of very delicate and complex areas, including the definition of regulatory capital, the large exposures regime and the supervision liquidity risk.
 - *Cooperation and convergence in supervisory practices.* Following the issuance of 12 guidelines, mostly related to the application of the Capital requirements Directive (CRD), CEBS moved to the actual delivery of convergence in practices and in tightening the networking between national supervisors, within colleges and at CEBS level.
2. CEBS' efforts proceeded very much in line with the work programme for 2007. The attached table (Annex 1) shows the planned timeline for the projects against the realised delivery of CEBS' products. Overall, CEBS has been able to keep up with its ambitious plans. Some delays were registered in some areas, but all the deliverables mentioned in the work programme for 2007 will be finalised by year end (or in January 2008). The only exception concerns the work on liquidity risk, where the turmoil triggered by the crisis in the US subprime market suggested further analysis to draw lessons from market developments.
3. Some delays occurred in areas in which CEBS decided to conduct wider consultations than originally envisaged (e.g., advice on the prudential treatment of commodities business and firms), where CEBS sought alignment with other Level 3 Committees (e.g., peer

review), or where the dialogue with market participants highlighted the need to extend the scope of the work (e.g. in the project on operational networking, where the banking groups included in the sample submitted a list of practical issues to be addressed). CEBS changes its timeline also for the work on internal governance, where it was decided not to issue new consolidated guidelines and rely instead on the guidance already developed by the Basel Committee on Banking Supervision. The final results of this work are being embodied in the Electronic Guidebook, which will be finalised on schedule. A slight delay is envisaged also in the finalisation of the advice on equivalence of third countries' supervision, which depends on the availability of information from other jurisdictions. The assessment on CEBS progress was completed ahead of schedule.

4. Additional work, not originally envisaged in the work programme for 2007, has been conducted (i) to put forward proposals to improve the working of the Lamfalussy arrangements, (ii) to respond to a further request from the Commission to develop a benchmark for convergence in the treatment of hybrid instruments as regulatory capital, (iii) to start work on a new request for technical advice on the options and national discretions of the CRD, and (iv) to analyse the lessons to be drawn from the market turmoil spurred by the US subprime crisis.

2. Context and overview of work programme for 2008

5. The work programme for 2008 envisages a further shift away from own initiative work, as the number and relevance of projects related to requests from European institutions is significantly increasing. Requests to CEBS centre on three main areas of work:
 - *technical advice on CRD-related issues*, including the finalisation of the advice on own funds, large exposures, liquidity, national discretions and the work on the impact of the CRD in the economic cycle;
 - *follow-up work from the conclusions of the Lamfalussy review*, to:
 - implement improvements to working processes and decision making mechanisms,
 - step up the ability to deliver convergence in day-to-day practices and support cooperation within colleges of supervisors,
 - achieve further progress in the area of supervisory reporting,
 - strengthen efforts to develop a common European supervisory culture, and
 - identify possible obstacles stemming from differences in powers (including sanctioning powers) of national authorities and from laws and regulation potentially hindering information exchanges;

- *follow up actions to the money and credit market turmoil followed to the US subprime crisis*, including work to enhance transparency, review the role of external ratings, improve valuation standards on valuations of financial instruments, assess the prudential framework for the “originate to distribute” business model (including securitisation, structured products, structured investment vehicles, liquidity lines, etc.)
6. Additional areas of own initiative work at Level 3 have been defined with the support of the Consultative Panel, which has participated jointly with CEBS Bureau in an exercise aimed at ranking all issues CEBS could deal with in 2008 according to their importance and urgency. The key priorities for CEBS work at Level 3 are in three areas:
 - *Operational networking*: after the test phase the project needs to be refocused and sharpened in its ability to support further progress in the working of colleges of supervisors and to address practical issues emerging in the supervision of cross-border groups
 - *Supervision of liquidity risk*: besides the response to the Commission’s call for advice, CEBS is committed to develop principles for the supervision of liquidity risk, also on the basis of the lessons learned from the liquidity squeeze of the late summer 2007;
 - *Pillar 2 implementation issues*: the focus of this work will be on the diversification benefits arising from internal economic capital models (ECMs), based on assessments conducted by joint examination teams on a sample of EU groups, and on the level of application for Internal Capital Adequacy Assessment Programmes (ICAAPs).
 7. It is worthwhile reminding that this work programme focuses on the projects conducted by CEBS only, while the work streams conducted jointly with our sister Committees CESR and CEIOPS are presented in a separate work programme. The two documents should be read together, in order to have a complete picture of the challenging tasks ahead of CEBS.
 8. In developing its initiatives, CEBS intends to further consolidate the dialogue with interested parties. Following the feedback received in the online survey on CEBS progress, CEBS intends to improve the technical dialogue, also through the establishment of groups of market participants to interact with supervisory experts at early stages of the work in several areas. The support of the Consultative Panel in structuring an open consultation process and a fruitful dialogue at the technical level is gratefully acknowledged.

3. Projects for 2008

9. CEBS’ projects are grouped under three main headings, in line with the main tasks defined in CEBS Charter: (1) regulatory advice and other externally driven work; (2) work to support convergence in supervisory practices, also with a view to enhance the cost efficiency of prudential supervision; and (3) co-operation and information

exchange issues. The issues referred to as “priority” will be treated as especially important. Of course, also issues not labelled as “priority” would be expected to be completed according to the indicated timeline, but the Committee would first choose to postpone work in these areas if it or its members face major time and resources constraints.

I. Regulatory advice and other externally driven work

(1) Liquidity

10. Following the completion of the stock take on liquidity risk regimes across the EEA, CEBS is asked to provide the Commission with technical advice on a number of issues: collateral management, concentration of liquidity sources, distinction between banking and trading book, relation between liquidity funding risk and liquidity market risk, use of internal methodologies, impact of payment and settlement systems design. CEBS will also closely liaise with the parallel work stream on liquidity supervision at the Basel Committee and the Banking Supervision Committee.

Expert Group:	Groupe de Contact
Deliverable:	Technical advice to the Commission
Timeline:	Draft advice to be delivered by June 2008, subsequent public consultation and final advice to be delivered by October 2008

(2) Own Funds

11. The Commission invited CEBS to develop a proposal for common criteria for the inclusion of hybrid capital instruments into tier 1.

Expert Group:	Expert Group on Capital Requirements (EGCR)
Deliverable:	Technical advice to the Commission
Timeline:	Draft advice to be delivered by December 2007, subsequent public consultation and final advice to be delivered by March 2008.

(3) Large exposures

After having finalised the first part of its advice on the purpose and metrics of a large exposures regime, CEBS is expected to deliver its response to the second part of the second call for advice from the Commission, which focuses on a number of issues, including credit risk management and credit risk mitigation, indirect concentration risk, intra-group exposures and other group issues, feasibility of a “one size fits all”

approach, appropriateness of rules for trading book, reporting and interpretations of definitions.

Expert Group:	Expert Group on Capital Requirements (EGCR)
Deliverable:	Technical advice to the Commission
Timeline:	Draft advice to be delivered by December 2007, subsequent public consultation and final advice to be delivered by March 2008.

(4) National discretions

12. CEBS has been requested by the Commission to conduct an in-depth technical analysis on the exercise of options and national discretions identified in its supervisory disclosure framework. The main goal is to achieve further harmonization by reducing the number of national discretions in the CRD.

Expert Group	Expert Group on Capital Requirements (EGCR)
Deliverable:	Technical Advice to Commission
Timeline:	Draft advice to be delivered by May 2008, subsequent public consultation and final advice to be delivered by October 2008.

(5) Analysis of the effects of the CRD in the economic cycle

13. CEBS and the Banking Supervision Committee (BSC) will jointly analyze the evolution of the minimum required capital under the CRD and its impact on the economic cycle, in accordance with the mandate included in article 156 to contribute to the biennial report of the Commission to the Parliament and the Council foreseen for end 2008.

Expert Group	Joint Task Force on the Impact of the new Capital Framework
Deliverable:	Report on the impact of CRD in the economic cycle.
Timeline:	September 2008

(6) Supervisory reporting

14. In line with the recommendations of the FSC and the Council conclusions, CEBS will conduct a number of projects to improve the commonality of the reporting frameworks and plan the development of EU-wide reporting, so as to reduce the reporting burden for credit institutions and investment firms.

Expert Group:	Expert Group on Financial Information (EGFI)
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	Standardising data collection procedures
Deliverable:	Amendment to the CEBS Guidelines on remittance dates and reporting frequencies
Timeline:	June 2008

	Commonality of the FINREP framework and analysis the real use of the templates in off-site supervision
Deliverable:	Streamlining of FINREP guidelines
Timeline:	September 2008

	Simplification of reporting procedures for cross-border groups
Deliverable:	Technical analysis of simplified reporting procedures for cross-border groups
Timeline:	September 2008

	Analysis of the use of the COREP templates in the off-site supervisory analysis
Deliverable:	User test of COREP, with possible proposals for amendments of the guidelines
Timeline:	December 2008

(7) Transparency of securitisation activities and structured products under the CRD

15. As a follow-up to the recent market turmoil, CEBS has been requested to examine together with other EU and international fora whether public disclosure of securitisation operations, structured products and illiquid assets under the CRD is sufficient. More specifically the ECOFIN Council invited CEBS to prepare in the short run an analysis of the level of transparency of banks' exposures to structured products.

Expert Group:	Expert Group on Financial Information
Deliverable:	Report on adequacy of market transparency for securitisation activities and illiquid assets
Timeline:	June 2008

(8) Valuation and risk management

16. As a further response to the recent market turmoil, supervisors, accounting standard setters and other relevant authorities are requested to carry out further work on standards to ensure reliable

valuation of assets, particularly of those assets where markets are potentially illiquid in time of stress, while ensuring compatibility with international financial reporting standards.

Expert Group:	Expert Group on Financial Information (in liaison with EGCR)
Deliverable:	Agreement between supervisors, accounting standard setters and other relevant authorities on common approach
Timeline:	June 2008

(9) Equivalence of Third Countries supervision

17. The Commission mandated CEBS (and the joint CEBS-CEIOPS Interim Working Committee on Financial Conglomerates - IWCF) to review the 2004 general guidance on the equivalence of US and Swiss consolidated banking (and conglomerates) supervision.

Expert Group:	Groupe de Contact and IWCF
Deliverable:	Advice on equivalence of Swiss and US consolidated and supplementary supervision
Timeline:	January 2008

(10) Supervisory and sanctioning powers

18. Following the Council conclusion on the Lamfalussy review, CEBS will be asked to support the Commission in an analysis of differences in supervisory powers, also in the area of sanctions. The stock take will be conducted at CEBS level and coordinated with CESR and CEIOPS.

Expert Group:	Review Panel
Deliverable:	Stock-taking exercise of supervisory and sanctioning powers across member states
Timeline:	end of 2008

(11) Delegation of tasks

19. Following up to the recommendations of the Francq report and to the Council Conclusions on the Lamfalussy review, CEBS will explore further areas where delegation of tasks would be cost efficient, through case studies and liaison with the industry. It will also look at the rationale behind the legal obstacles identified to both delegation of tasks and responsibilities and will try to distil principles that can then be used in the joint 3L3 work on the subject.

Expert Group:	Groupe de Contact
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Deliverable	Report
Timeline:	June 2008, before initiating joint work at 3L3 level

(12) Strengthening the application of Level 3 guidelines, recommendations and standards

20. The Council conclusions on the Lamfalussy review recommend that CEBS and its sister committees to explore the possibilities to strengthen the national application of guidelines, recommendations and standards of Level 3 Committees, without changing their legally non-binding nature. CEBS will start focusing on an effective use of peer review mechanisms. Further proposals may follow at a later stage, in close liaison with CESR and CEIOPS.

Expert Group:	Review Panel
Deliverable:	Test of peer review on the sections on home-host cooperation of the Guidelines on validation (GL10).
Timeline:	June 2008 (and possible follow up work in the second half of 2008)

(13) Improvements of working procedures and decision making mechanisms

21. In line with the conclusions of the ECOFIN, CEBS will propose amendments to its' Charter to allow wider use for Quality Majority Voting (QMV) and introduce comply or explain mechanisms. This work will be closely coordinated with CEIOPS and CESR.

Expert Group:	CEBS Secretariat and Review Panel
Deliverable:	Proposed amendments to the CEBS Charter
Timeline:	June 2008

II. CEBS own initiative work on supervisory convergence

(1) Supervision of liquidity risk (priority issue)

22. In parallel with the preparation of the Advice to the Commission on the same subject, CEBS decided to explore the possibility to achieve further convergence by developing high level principles for the use of internal methodologies in the supervision of liquidity risk, also based on an analysis of the lessons to be learned from the recent market turmoil.

Expert Group:	Groupe de Contact
Deliverable:	High level principles for the supervision of liquidity risk

Timeline:	December 2008
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(2) Pillar 2 implementation issues: economic capital models, diversification benefits and capital allocation (priority issue)

23. CEBS will concentrate on emerging practices in economic capital modelling (ECM) and aspects such as diversification benefits and capital allocation. The project will start with undertaking joint examinations of ECM in a sample of cross-border groups, which will lead to the development of common high-level assessment criteria and to common supervisory principles for the recognition of diversification benefits.

a) Assessment of ECMs in a sample of banking groups

Expert Group:	Joint examination teams
Deliverable:	Supervisory assessments of ECMs in a sample of cross border groups (confidential; recipient: consolidating supervisor)
Timeline:	February to October 2008
Deliverable:	Global report to CEBS on emerging issues in ECMs
Timeline:	December 2008

b) Guidance on supervisory approach for diversification benefits arising from internal models

Expert Group:	Groupe de Contact
Deliverable:	Technical annex to CEBS guidelines on Pillar 2 or range of practices paper
Timeline:	December 2008

c) Statement of range of practices and high level criteria for assessing ECMs used in ICAAP in the context of the Supervisory Review and Evaluation Process (SREP)

Expert Group:	Groupe de Contact
Deliverable:	Range of practices paper
Timeline:	December 2008

d) Assessing risk sensitive capital allocation arrangements within groups

Expert Group:	Groupe de Contact
Deliverable:	Range of practices paper
Timeline:	December 2008

e) Level of application of ICAAPs

Expert Group:	Groupe de Contact
Deliverable:	Range of practices paper
Timeline:	December 2008

(4) CRD implementation issues: list of central counterparties

24. Following up on a request of the Operational Network Platform, CEBS will explore the possibility to set up a comprehensive, EU-wide list of central counterparties and to develop common principles for their assessment.

Expert Group:	Expert Group on Capital Requirements (EGCR)
Deliverables:	EU-wide list of eligible central counterparties; common principles for assessment of CCP
Timeline:	February 2008

(7) CRD implementation issues: CRD transposition group's (CRDTG) queries (joint effort with the Commission)

25. The CRDTG agreed to continue collecting questions on the implementation of the CRD in the course of 2008.

Expert Groups:	Expert Group on Capital Requirements, Groupe de Contact and Expert Group on Financial Information (according to topic)
Deliverables:	Answers to technical supervisory questions, to be posted on the dedicated website of CEBS and Commission
Timeline:	until December 2008

(8) Operational Risk

26. CEBS will review emerging practices of institutions in the implementations of Advanced Measurement Approaches (AMA) for operational risk, focusing particularly on cross-border aspects, level of application, risk sensitive capital allocation within groups and diversification.

Expert Group:	Expert Group on Capital Requirements (EGCR)
Deliverables:	Range of practices papers
Timeline:	December 2008

(9) Monitoring of minimum capital requirements under CRD

27. CEBS and the BSC will jointly prepare a first preliminary report on the evolution of the minimum capital requirements under the CRD, based on data at June 2008.

Expert Group:	Joint Task Force on the Impact of the new Capital Framework
Deliverables:	Preliminary report
Timeline:	December 2008

(10) Impact assessment (priority issue)

28. The draft 3L3 impact assessment (IA) guidelines are being reviewed by the 3L3 Committees to take into account the feedback received in the public consultation and also the experience gathered on the use of the draft guidelines on the pilot exercises. CEBS will contribute with an analysis based on the IA conducted on the large exposures review.

Expert Group:	Secretariat
Deliverables:	Discussion note on the use of IA
Timeline:	June 2008

(11) Monitoring on accounting and auditing developments

29. CEBS will continue to monitor and evaluate the developments in the area of international accounting and auditing standards and, if deemed necessary, provide input to the standard-setting process.

Expert Group:	Expert Group on Financial Information (EGFI)
Deliverables:	Comment letters to IASB/IAASB
Timeline:	To meet deadlines by IASB/IAASB

(13) Convergence of Pillar 3 implementation

30. CEBS will further investigate possible practical solutions for the application of the disclosure requirements to significant subsidiaries. CEBS will also aim to address other relevant issues identified in its report on the implementation of Pillar 3 in the EU.

Expert Group:	Expert Group on Financial Information (EGFI)
Deliverable:	Q&As on CRD implementation issues
Timeline:	June 2008

(14) Maintenance of reporting frameworks

31. CEBS will continue the maintenance of the reporting frameworks, answering implementation questions and updating the guidelines when there are significant changes in the underlying regulations (IAS/IFRS, CRD). In addition, CEBS will develop a proposal to harmonise the versioning of the Guidelines among national authorities.

Expert Group	Expert Group on Financial Information (EGFI)
Deliverables:	Proposal for harmonising versioning policy; implementation of questions; amendments to guidelines (if needed)
Timeline:	Ongoing

(15) Supervisory disclosure (priority issue)

32. CEBS will consider the need for technical improvements to the working of the framework for supervisory disclosure and will address possible consistency issues. CEBS will also start preparing the extension of the framework to other areas of Community legislation and Level 3 tools, in line with the Council conclusions.

Expert Group:	Secretariat
Deliverables:	Report
Timeline:	December 2008

(16) Passport notifications

33. CEBS will look at ways to harmonize of passport notification of investment services conducted by credit institutions.

Expert Group:	Groupe de Contact (GdC)
Deliverables:	Standards for passport notifications (in line with approaches being developed in securities and insurance field)
Timeline:	December 2008

III. Co-operation and information exchange issues

(1) Operational Networking (priority issue)

34. Following the test phase for the project, CEBS will further expand it to cover a wider set of cross-border groups and a greater range of issues. The project will continue to develop a bottom-up approach to tackle practical issues and reach convergence and monitor the coherence of the practices of the different colleges of supervisors. CEBS will also respond to the request of the ECOFIN to study the possibilities to introduce a common set of operational guidelines for the colleges of supervisors.

Expert Group:	Groupe de Contact
Deliverables:	Range of practices papers, Q&As on implementation issues
Timeline:	ongoing

Expert Group:	Groupe de Contact/SON
Deliverables:	Study on possible operational guidelines for colleges of supervisors
Timeline:	June 2008

(2) Cooperation in crisis situations (priority issue)

35. CEBS will focus its attention on practical arrangements for crisis management, with a particular focus on the improving practices and infrastructures for information exchange and practical arrangements to support supervisory cooperation.

Expert Group:	Groupe de Contact
Deliverables:	Range of practices paper and issues paper highlighting various proposals
Timeline:	December 2008

(3) Cooperation with Third countries' supervisors

36. CEBS will continue to closely monitor global developments in banking supervision, e.g. by attending the Basel Committee on Banking Supervision and developing bilateral contacts with supervisors from Third Countries. In particular, it will organise meetings with a selected set of Asian supervisors and with US agencies to address cross-border issues in Basel II implementation.

IV. Developing tools and working procedures

37. In 2007 CEBS finalised the implementation of the recommendations of the Francq report. Their practical application will be intensified in the course of 2008. In particular:
- the mechanisms for developing common training and staff exchanges will be further developed in the course of 2008: CEBS envisages to improve on the targets achieved in 2007 (260 members of staff from member organisation attending common training initiatives and 25 staff exchanges);
 - the Review Panel has been established and will conduct a first test in the course of the first half of 2008; further peer review exercise will follow as a priority;
 - a mediation mechanism has been established and is ready for possible activation by members.