

## CEBS Work programme for 2007

### 1. Progress in 2006 and outlook for 2007

1. 2006 was a productive year for CEBS, in which much of the groundwork was laid for the achievement of the Committee's medium-term objectives. The work programme for 2006 has been closely followed and most products have been delivered according to the time schedule that was envisaged at the start of the year. The attached timeline (Annex 1) highlights the areas where progress has been against the original plans. Overall this shows that CEBS very largely delivered as expected and was able to present its work on time.
2. With reference to the *calls for advice* received from the Commission, CEBS delivered technical input in several key areas, including on current supervisory practices and industry practices on Large Exposures (May and August 2006, respectively); and a major survey on current rules and market trends on Own Funds (June 2006). In all cases the advice was delivered according to the deadline, which was always very tight. As in 2005 CEBS was unable to conduct full public consultations on these pieces of advice, although it relied on extensive questionnaires and informal discussions conducted through the Consultative Panel. CEBS also received two additional calls for advice in August 2006 on Own Funds and on the prudential treatment of commodities business and firms. Work is presently on-going in these areas. Finally, CEBS, together with the other two Lamfalussy Committees, also submitted own-initiative advice to the Commission on the revision to the banking Directive (Article 19) on cross-border consolidation, in a joint letter in October 2006.
3. Major progress was made also in the finalisation of CEBS work to support *convergence* in the implementation of the Capital Requirements Directive (CRD). The wave of guidelines was completed according to schedule, with minor postponement for the final publication of the additional guidance on the supervisory review process under Pillar 2, needed to accommodate comments received during the consultation process. The work on crisis management was also postponed, in order to take into account the lessons from the crisis management exercise performed to test the Memorandum of Understanding between Ministries of Finance, central banks and banking supervisors. In this area it was also decided not to submit the work to public consultation and final publication, due to the internal nature of the recommendations and the possible moral hazard implications. An extensive press release will be published shortly. The original intent of monitoring the implementation of CEBS' products was partly reviewed in the course of 2006: following an initiative of the Consultative Panel, CEBS developed and implemented a methodology for assessing the progress made in meeting its

objectives, which will support the production of a report in the first half of 2007; moreover, CEBS decided further investigate tools for peer review and use its project on operational networking to assess the actual use of the guidelines in day-to-day supervision.

4. The work programme for 2006 highlighted that CEBS was envisaging a shift of orientation and emphasis, from design to delivery of a more convergent supervisory framework. The project on *operational networking*, which aims identifying and addressing practical issues emerging in the implementation of the CRD and CEBS guidelines in a bottom up fashion, is key to the refocusing of CEBS activity. The project started according to schedule in 2006 and has been complemented by a number of parallel initiatives (seminars, case studies, etc.). During 2007 CEBS will continue and further develop this new orientation of its work. In 2007 the standards and guidelines should be in operation at the practical level of day-to-day supervision across the EU, and the operational networks for the supervision of cross-border groups and co-operation between consolidating and host supervisors will be responsible for ensuring their effective application.
5. As the Committee moves on from the production of guidance and more towards its implementation, the nature of its deliverables will also change. Traditional products (regulatory advice, guidelines, recommendations and standards) will have to be coupled with new types of output, more focused in assisting convergences and co-operation in day-to-day supervisory practices – see box for discussion.

#### **What sort of outputs in 2007?**

As CEBS moves from design to delivery, it will need to consider carefully what sort of deliverable it should aim for. The following deliverable might become more common in 2007 and following years:

- *Surveys of supervisory and market practices*, possibly coupled with high level principles to provide benchmarks for convergence, could be developed to identify different approaches, assess their impact on the effectiveness of supervision, on level playing field and on the administrative costs for supervised entities and prioritise further work where needed. In some cases, this type of output could be included in the framework for supervisory disclosure, to allow a meaningful comparisons between national approaches;
- *Summary feedback reports*, showing in outline the progress achieved with the practical implementation of each guideline issued by CEBS, so that there can be some assessment of implementation and convergence. The Committee might want to add its own commentary on the extent that convergence has taken place.
- *Catalogues of practical supervisory responses* in specific areas (e.g., on validation of advanced approaches), or *Frequently Asked Questions (FAQs)*. These could originate from the project on operational networking and other tools CEBS is currently developing, such as *discussion forums*, by means of which experts in different areas can network among themselves, and *query systems*, which allow each members to compile information on how fellow supervisors address specific issues. 2007 will allow CEBS to continue benefiting from the experiences gained in the publicly accessible CRD Transposition Group.

- *Workshops and seminars* (either internal or with industry) to consider progress in convergence of supervisory practices in specific areas of CEBS work.
- Even lighter touch deliverables, such as *internal updates* or published *newsletters* on specific supervisory issues.

## **2. Context and overview of work programme for 2007**

*The focus of this work programme has 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 2007 according to their importance and urgency.*

6. The Committee will keep its main orientation on the promotion of co-operation and convergence of supervisory practices in the operational implementation of the new framework for capital adequacy introduced by the CRD. A number of initiatives will be developed to support home-host co-operation at the operational level and to identify issues emerging in the day-to-day application of the new regulatory framework.
7. The ECOFIN has taken on board the recommendations of the FSC Report on Financial Supervision (so called Francq Report). It highlights the main challenges and the concrete steps that could be taken to further develop supervisory arrangements in the EU. These three main challenges consist of fostering supervisory cooperation and convergence, enhancing the cost-efficiency of the EU system and finally improving cross-border supervision. Within this framework, CEBS is required to develop new tools to foster a common European supervisory culture, to address possible disputes via non-legally binding mechanisms such as mediation, to explore the possibilities for delegation of tasks and responsibilities, and to move towards common frameworks for supervisory reporting.
8. The White Paper of the Commission on Financial Services Policy 2005-2010 places great emphasis on initiatives aimed at achieving better regulation and on the need for a regulatory pause. The focus is shifting towards ensuring consistent implementation of existing legislation and convergence in supervisory practices throughout the Single Market. In line with this general aim, CEBS plans to devote a great effort to ensure that the guidelines and standards issued are effectively driving towards consistent implementation of the CRD and to convergence of day-to-day supervisory practices.
9. High priority will also be devoted to the intensification of co-operation with EU supervisors in other sectors and with banking supervisors in areas outside the EU. In particular, CEBS and its sister Level 3 Committees - the Committee of European Securities Regulators (CESR) and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) - will further develop their co-operation on the basis of their joint protocol for co-operation, which will be accompanied by the programme for joint work on issues of cross-sector relevance. A separate joint 3L3 work programme for 2007 covering joint initiatives of the three is published together with this sector work programme. The two documents complement each other and should be read together in order to have a full picture of CEBS work plans.

CEBS also plans to intensify its contacts with non-EU banking supervisors also involved in the implementation of Basel 2. Particular attention will be devoted to co-operation with US authorities, but contacts are established also with other relevant jurisdictions.

10. In developing its initiatives, CEBS intends to further consolidate the dialogue with interested parties, developing the tools already used in 2006. The support of the Consultative Panel in structuring an open consultation process and a fruitful dialogue at the technical level is gratefully acknowledged.
11. The remainder of this paper sets out the specific areas of work planned for the year 2007.

### **3. Work streams and priorities for 2007**

*CEBS' projects are grouped under three main headings, in line with the main tasks defined in CEBS Charter: (1) regulatory advice; (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.*

#### **3.1 Regulatory advice**

12. **Own funds:** the Commission invited CEBS to carry out a quantitative analysis of the types of capital held by institutions within the EU, with a view to assess the impact of differences in the national implementation of EU rules. This analysis should have a special focus on hybrid instruments. Following this work, the Commission could ask for further advice on the need for a review of the definition of own funds, in line with the work been developed at the Basel Committee.

*Expert group: Expert Group on Capital Requirements*

*Deliverable: Report on quantitative analysis of regulatory capital held by institutions*

*Timeline: May 2007*

13. **Commodities business and firms:** CEBS received a call for technical advice from the Commission with regard to the review of the prudential treatment of commodities business under Article 48 of the CRD. Following the review of current supervisory practices, the work will focus on the assessment of prudential risks.

*Expert group: Expert Group on Capital Requirements*

*Deliverable: Report on the prudential risks arising from the conduct of commodities business and from the activities of firms carrying out commodities business*

*Timeline: April 2007*

14. **Large Exposures:** The Commission is expected to issue a second call for advice asking CEBS to explore ways in which supervisory convergence could be achieved within the existing regime and to consider the needs for more fundamental changes to the existing regime.

*Expert group: Expert Group on Capital Requirements*

*First deliverable: first part of advice on (i) ways in which supervisory convergence could be achieved within the existing rules; (ii) the purpose of the Large Exposures regime; (iii) the metric used to measure large exposures (iv) third country regimes.*

*Timeline: October 2007*

*Second deliverable: second part of advice on a range of issues including the treatment of credit risk mitigation, intra-group exposures and other 'group' aspects, reporting, and inconsistent interpretation of definitions.*

*Timeline: March 2008*

15. **Liquidity:** The Commission announced a forthcoming call for advice on the assessment of the current arrangements on liquidity risk issues. CEBS will complement the work on liquidity issues being conducted from a financial stability perspective by the Banking Supervision Committee (BSC) of the ESCB. CEBS will also closely liaise with the parallel work stream on liquidity supervision being activated at the Basel Committee.

*Expert group: Groupe de Contact*

*First deliverable: Stock-take of current practices in the EU*

*Timeline: June 2007*

*Second deliverable: Issues paper on liquidity risk supervision*

*Timeline: September 2007*

16. **Equivalence of third country (US and Switzerland) supervision:** the Commission will soon finalize a mandate to CEBS (and IWCFC) to review the 2004 general guidance on the equivalence of US and Swiss consolidated banking (and conglomerates) supervision.<sup>1</sup> Public consultation is not envisaged, although the Consultative Panel will be kept informed of progress.

*Expert group: Groupe de Contact*

*Deliverable: Advice to the Commission to inform the general guidance to supervisors on the equivalence of consolidated banking supervision in the US and Switzerland.*

*Timeline: November 2007*

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<sup>1</sup> Parallel work is being requested with reference to the equivalence of supplementary conglomerate supervision. This stream of work is discussed in the 3L3 work programme

## 3.2 Convergence of supervisory practices

### 3.2.1 Implementation of the Francq recommendations

17. As mentioned at point 7, CEBS will have to address several recommendations of the FSC report on financial supervision (so-called Francq report) aimed at fostering convergence of supervisory practices and to enhance the cost effectiveness of supervision in the EU. CEBS will draft a general report on the progress made in implementing the recommendations.

*Expert Group: Convergence Task Force*

*Deliverable: Report to the FSC on the implementation of the Francq report recommendations.*

*Timeline: June 2007*

18. The report will cover work under way in the following areas:

**(i) Training programmes and staff exchanges:** CEBS emphasises the need to foster the emergence of a common European supervisory culture. Efforts to develop CEBS-sponsored training programmes and open up to all member organisations the training programmes organised at the national level will intensify in 2007. CEBS will also work to developing a framework for the exchange of staff between member organisations, as a key channel to promote a greater commonality of approaches in day-to-day supervision. A specific programme will be launched for exchanges of staff in charge of the line-side supervision of the groups included in the sample of the operational networking project.

*Expert Group: Convergence Task Force*

*Deliverables: Training programmes on CRD implementation and common framework for staff exchanges.*

*Timeline: planning phase completed by June 2007, implementation in the second half of 2007*

**(ii) Mediation mechanism (priority issue):** CEBS mediation mechanism is under construction, building on the framework already in place at CESR.

*Expert Group: Convergence Task Force*

*Deliverable: Consultation paper on CEBS mediation mechanisms*

*Timeline: March 2007, implementation by 2008*

**(iii) Delegation of tasks (priority issue):** this will be investigated within the context of operational networking and more generally in the implementation of the guidelines on co-operation between consolidating supervisors and host authorities. *See section 3.3.*

**(iv) Streamlining of reporting requirements (priority issue):** CEBS will assess the progress made with the common reporting frameworks COREP and FINREP and identify whether there is further scope for streamlining the frameworks on a cross-border basis (see point 34).

**(v) Impact assessment:** impact assessment is a key tool to help meet the objectives of the better regulation agenda. The Commission has noted that better regulation is a shared responsibility of all policy makers and

impact assessment should be applied by all parties. CEBS should therefore build on the work already carried out by CESR, to agree principles and a detailed methodology for impact assessments.

*Expert Group: Convergence Task Force*

*Deliverable: (3L3) Guidelines covering principles and detailed methodology on Impact Assessment. This should also be tested through a pilot study.*

*Timing: Principles to be agreed by early 2007; with draft methodology by Spring 2007 (which should be tested and consulted in the context of a pilot project in 2007) and finalized by end-2007.*

**(vi) Peer review:** CEBS will consider the feasibility of adopting a review process for assessing members' implementation of its guidelines, recommendations and standards, moving from the approach already in place at CESR

*Expert Group: Convergence Task Force*

*Deliverable: Feasibility study on a review mechanism.*

*Timeline: June 2007*

19. In implementing the Francq recommendations and reporting on the progress achieved, CEBS will aim at the maximum possible degree of consistency with its sister committees, CESR and CEIOPS.

### **3.2.2 Other strands of convergence work**

20. **Mergers and Acquisitions (Art 19) L3 implementation work** As and when the amendments to Article 19 (M&A) are agreed, CEBS will need to flesh out key aspects of the new provisions: on the cooperation (home-host) arrangements underpinning the supervisory assessment of an application, on a common approach to and disclosure of the information required by supervisors to make an assessment, and on the fit and proper criteria.

*Expert group: Groupe de Contact*

*Deliverable: guidelines and inclusion of information in the supervisory disclosure framework*

*Timeline: June 2008*

21. **Prudential filters (priority issue):** CEBS will further follow the implementation by its members of the Guidelines on prudential filters for regulatory capital as well as their quantitative impact. This effort will build on the work undertaken for the Commission in the area of the call for advice on own funds, in order to avoid duplication of work. (see point 12)

*Expert group: Expert Group on Financial Information*

*Deliverable: Analytical report on the implementation of prudential filters*

*Timeline: September 2007*

22. **Proportionality:** At the beginning of 2007 a workshop with representatives of the industry will be held. On this occasion the industry will be offered the

opportunity to present its views on proportionality to CEBS. This will serve a first exchange of ideas upon which further steps will be considered.

23. **Pillar 2:** Work in this area will start with exchanges of experiences on the implementation of CEBS guidance on the Supervisory Review and Evaluation Process (SREP) and supervisory measures under Pillar 2. CEBS will also discuss the issue of diversification, by organising a seminar in February 2007 to gain more experience of the industry techniques and calculations.

*Expert group: Groupe de Contact*

*First deliverable: Summary of issues highlighted in the internal seminar on diversification effects under Pillar 2*

*Timeline: March 2007*

*Second deliverable: Internal report on experiences gained on SREP and supervisory measures under Pillar 2*

*Timeline: December 2007*

24. **CRD national discretions and mutual recognition:** CEBS will keep discussing the possibility for further convergence in the exercise of the options and national discretions granted by the CRD. During 2007 CEBS will complete its analysis of possible criteria for relying on mutual recognition as a tool to foster convergence.

*Expert group: Expert Group on Capital Requirements*

*Deliverable: Internal note on mutual recognition and national discretions*

*Timeline: June 2007*

25. **CRDTG: CRD transposition group on answering queries (joint effort with the Commission) (priority issue):** The CRDTG agreed to continue collecting questions on the implementation of the CRD in the course of 2007.

*Expert groups: Expert Group on Capital Requirements, Groupe de Contact and Expert Group on Financial Information (according to topic)*

*Deliverable: Answers to technical supervisory questions, to be posted on the dedicated website of CEBS and Commission*

*Timeline: until December 2007 (deadline for the implementation of advanced approaches)*

26. **Regulatory framework for disclosure by credit institutions and investment firms (Pillar 3):** CEBS will continue to monitor the national implementation of Pillar 3 and exchange experiences on the issues arising in this area.

*Expert group: Expert Group on Financial Information*

*Deliverable: Internal note on regulatory implementation of Pillar 3*

*Timeline: December 2007*

27. **Monitoring of developments in accounting and auditing standards:** CEBS will continue to monitor the developments in the area of international



accounting and auditing standards and, if deemed necessary, provide input to the standard-setting process.

28. **Monitoring of minimum capital requirements and analysis of cyclicality:** In co-operation with the BSC, CEBS will start monitoring the minimum capital requirements to assess the adequacy of the overall level of capital requested under the new regulatory framework and the volatility of the requirements throughout the business cycle.

*Expert group: Task Force on Minimum Requirements on Capital*

*Deliverable: Methodology for the assessment of the impact of new capital requirements, with a framework for data collection*

*Timeline: September 2007*

### 3.3 Co-operation and information exchange

29. **Operational networking (priority issue):** CEBS has been increasingly called to address practical issues emerging in the implementation of the CRD and of related CEBS guidelines. Operational networking mechanisms have been intensified to identify and address these issues. Part of the project is a test through a project envisaging a high intensity dialogue with regard to a sample of 10 cross-border groups and their supervisory home and host authorities. This work will be conducted in a bottom up fashion, through case studies, surveys of implementation issues, catalogues of pragmatic supervisory solutions, stock takes of supervisory and market practices. The first deliverables of the intensified operational networking will focus on the current practices of colleges of supervisors, issues emerging in the validation of advanced approaches for credit and operational risk. It may also include the application of the supervisory review process. The project on operational networking will be complemented by wider and more general work on delegation of tasks between supervisors, the organisation of joint inspections, sharing of practices on group wide MoU's, on secrecy and data protection, as well as the exchange of experiences in the area of integrity supervision.

*Expert group: Groupe de Contact*

*First deliverable: Survey of current practices at colleges of supervisors  
Timeline: March 2007*

*Second deliverable: Survey of implementation issues in the validation of AMA and IRB approaches to be delivered by the GdC test project on operational networking*

*Timeline: June 2007*

*Third deliverable: Survey of implementation issues on the supervisory review process*

*Timeline: December 2007*

*Fourth deliverable: seminars and discussion fora on the abovementioned subjects, on integrity supervision and on implementation methodologies, both in confidential sessions and with invitation of market participants*

*Timeline: calendar to be defined*

*Fifth deliverable: Analysis of the potential for delegation of tasks and joint inspections*

*Timeline: discussion paper March 2007, interim report December 2007, with follow up for 2008 to be determined.*

30. **Crisis management:** following the conclusion of the joint work with the BSC on cooperation in crisis situations, CEBS will focus its attention on practical arrangements for crisis management, with a particular focus on the role of operational networks and on practical arrangements to support supervisory co-operation. In line with the recommendations of the Financial Stability Table of the EFC, CEBS will also co-operate with the BSC to discuss methodological issues emerging in the assessment of the systemic impact of a cross-border crisis.

*Expert group: Groupe de Contact*

*Deliverable: Internal note on refinements in the arrangements for co-operation in crisis situations*

*Timeline: December 2007*

31. **Information exchange:** CEBS has already established discussion forums for the networks of experts on validation issues and query systems to collect and compare approaches followed by its members. During 2007 the mechanisms to support co-operation and information exchanges will be further upgraded and extended throughout CEBS Expert Groups and networks of experts.

32. **Third country relations (priority issue):** CEBS will closely monitor developments in the worldwide area, e.g. by attending the Basel Committee on Banking Supervision and by the bilateral contacts with amongst others the US and Chinese supervisors. It will organise exchanges of information among its members on possible issues emerging in the implementation of Basel II/CRD to institutions with third country establishments, especially in view of the different implementation schedule in the EU and the US. CEBS will also host the exchange of information on third country supervisory structures between its members, amongst others to facilitate bilateral MoU negotiations with third countries. The Commission has also asked CEBS to undertake work to assess whether there are issues emerging in the treatment of third country branches.

#### **4. Maintenance of CEBS products**

33. **Framework for Supervisory Disclosure (FSD) (priority issue):** the framework will be activated at the beginning of 2007 and CEBS will have to closely monitor that all relevant information is readily available. Additional areas will be introduced through time. During 2007 the FSD will be extended to include information on the implementation of the common reporting frameworks (COREP and FINREP).

*Expert group: Expert Group on Financial Information*

*Deliverable: Extension of Supervisory Disclosure to CEBS common reporting frameworks (COREP and FINREP)*

*Timeline: December 2007*

34. **Common reporting frameworks:** CEBS will update on an ongoing basis its reporting frameworks and the related XBRL-taxonomies, in order to accommodate any developments in international accounting standards changes required by the implementation of the CRD. A web-based facility, accessible to both supervisors and market participants, will be established to collect and address questions emerging in the implementation of the reporting frameworks.
35. **Internal governance and electronic guidebook:** CEBS will finalize its work on integrating the various internal governance requirements early 2007, including the necessary added references to e.g. the “know-your-structure” requirements requested by the EU. Following this work, CEBS will complete the announced electronic guidebook of standards, guidelines, advice and other work of CEBS.

*Expert Group: Groupe de Contact*

*First deliverable: Consolidated guidelines on internal governance*

*Timeline: September 2007*

*Second deliverable: Electronic Guidebook*

*Timeline: December 2007*

## **5. Monitoring of progress**

36. **Assessment of CEBS’ progress for the 2007 Lamfalussy Review (priority issue):** The results of the online survey on the progress made by CEBS in the first years of work will be prepared by Ipsos MORI. CEBS will complement this analysis with its own assessment of the progress made, integrating the results of the survey with in-house analysis on the progress achieved in specific areas of supervisory work. The results of this work will be discussed at a public Conference in May 2007 and forwarded to the Inter-Institutional Monitoring Group and other relevant EU bodies, as CEBS input to the review of the Lamfalussy process.

*Deliverable: Analysis of responses from stakeholders and Report on CEBS progress*

*Timeline: early May 2007*

37. **Assessment of convergence in supervisory reporting:** a specific study will be conducted to assess the degree of commonality achieved with the implementation of CEBS reporting frameworks (COREP and FINREP). The study will also include comparisons with supervisory reporting packages in certain third-countries.

*Expert Group: Expert Group on Financial Information*

*Deliverable: Analytical report on convergence in supervisory reporting*

*Timeline: September 2007*