



IACPM

IACPM Spring General Meeting 2009

The Future of Financial Regulation and Supervision

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CEBS

Committee of European
Banking Supervisors

Outline

- The role of CEBS
- The Larosière report
- Colleges
- New regulation in response to the crisis
 - Risk Management
 - Remuneration
- Conclusions - the way ahead

The role of CEBS – objectives and tasks

Objectives:

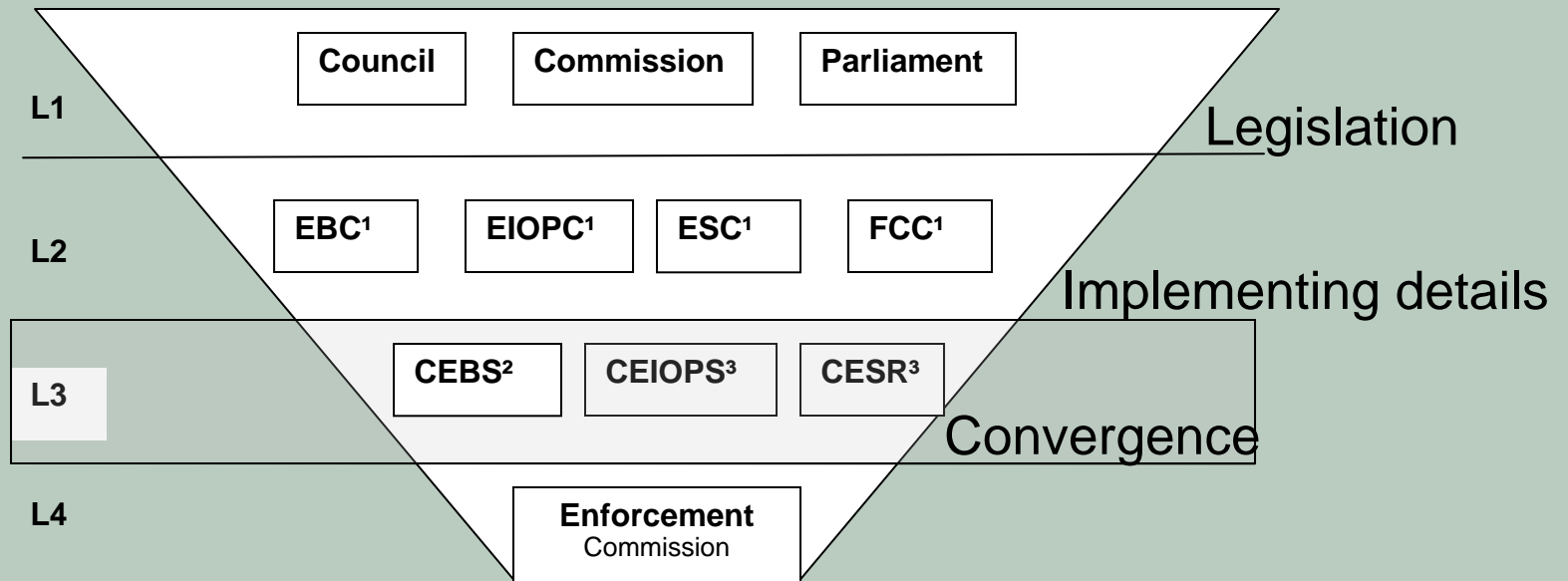
Promote efficient and effective supervision and the safety and soundness of the EU financial system through:

- Good supervisory practices
- Efficient and cost-effective approaches to supervision of cross-border groups
- Level playing field and proportionality

Main tasks:

- Give advice to the Commission
- Promote consistent implementation/application of the EU banking legislation
- Promote convergence of supervisory practices
- Promote information exchange and supervisory cooperation
- Regular risk assessments from a supervisory perspective

The role of CEBS - the Lamfalussy structure



EBC = European Banking Committee
EIOPC = European Insurance and Occupational Pensions Committee
ESC = European Securities Committee
FCC = Financial Conglomerates Committee
CEIOPS = Committee of European Insurance and Occupational Pensions Supervisors
CESR = Committee of European Securities Regulators

¹ Finance ministries
² Supervisors and Central Banks
³ Supervisors

Global markets require global solutions



The Larosière report (1)

- The link between macroeconomic and regulatory policy
- Establishing a European Systemic Risk Council
- Correcting regulatory weaknesses
- Consistent set of rules in EU
- Corporate governance reforms
- Crisis management and resolution
- Establishing a European System of Financial Supervision

The Larosière report (2)

- Mechanism to bring about regulatory convergence
- Balance between the roles and responsibilities of the EU bodies versus national authorities
- Creation of a coherent and workable framework for crisis management in EU, including criteria for burden sharing
- From L3 committee to EU authority - balance between independence and accountability

CEBS work on convergence – Colleges (1)

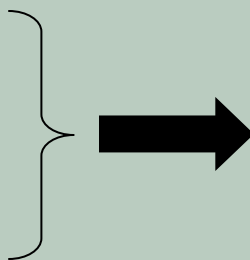
- Guidelines on home-host cooperation (Jan 2006)
- Range of practices paper (Dec 2007)
- Template for written agreements (Jan 2009)
- Joint principles (CEBS/CEIOPS) for supervisory colleges (Jan 2009)
- Good practices paper (April 2009)

CEBS work on convergence - Colleges (2)

CEBS priorities

- Agreed list of major cross border banking groups in EU
- Regular follow up and monitoring of work in colleges
- Aim for 2009
 - ✓ *To prepare a stock take to have a full overview of all EU cross border banking groups*
 - ✓ *CEBS Secretariat members to attend individual colleges*
 - ✓ *Monitor the setting-up and functioning of colleges*

New regulation in response to the crisis

- CRD – Gaps, pro-cyclicality and capital buffers
 - Liquidity risk management
 - Transparency and Valuation
 - **Risk management**
 - **Remuneration**
- 

Risk Management - I

- G20 declaration and Action Plan called for strengthening of risk management practices
- CEBS public consultation on risk management principles (April – July 2009)
- High level principles to be considered both by institutions (ICAAP) and supervisors (SREP)

Risk Management - II

- Governance and risk culture
 - Comprehensive and independent risk management function
 - Consistent risk culture, sound risk governance and appropriate communication policy
- Risk appetite and risk tolerance
 - To be set by the management body and senior management
 - All relevant risks to be taken into account
 - Consistency among respective targets (credit rating and rate of return on equity)

Risk Management - III

- Role of Chief Risk Officer (CRO) and risk management function
 - CRO responsible for the risk management function across the entire organisation
 - CRO to be sufficiently independent and in a position to challenge the decision-making process of the institution
 - The risk management function to be independent from the business units
- Risk models
- New product approval policy and process (NPAP)

Remuneration

CEBS published its principles for remuneration policies in April 2009

- Remuneration policy to take into account institution's business strategy, risk tolerance and long term interests
- Transparent internally and adequately disclosed externally
- Management body responsible
- Performance related remuneration should not be based just on individual results
- Proportionate ratio between base pay and bonus
- Implementation expected Q3 2009

Conclusions - the way ahead

- Contribute to restoration of confidence in financial markets
- Contribute to the improvement of the EU Supervisory Architecture
- Develop high level principles on risk management addressed both to institutions and supervisors
- Move further on regulatory harmonisation and convergence of supervisory practices



CEBS

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