

High Level Meeting on the Implementation of Basel II in Africa

CEBS work on Home- Host issues and Pillar 2 implementation

Kerstin af Jochnick | 28 February 2008

CEBS

Committee of European
Banking Supervisors

Outline

1. CEBS' role

2. CEBS' Pillar 2 implementation

3. Operational networking

4. Challenges ahead

CEBS' role

Main tasks:

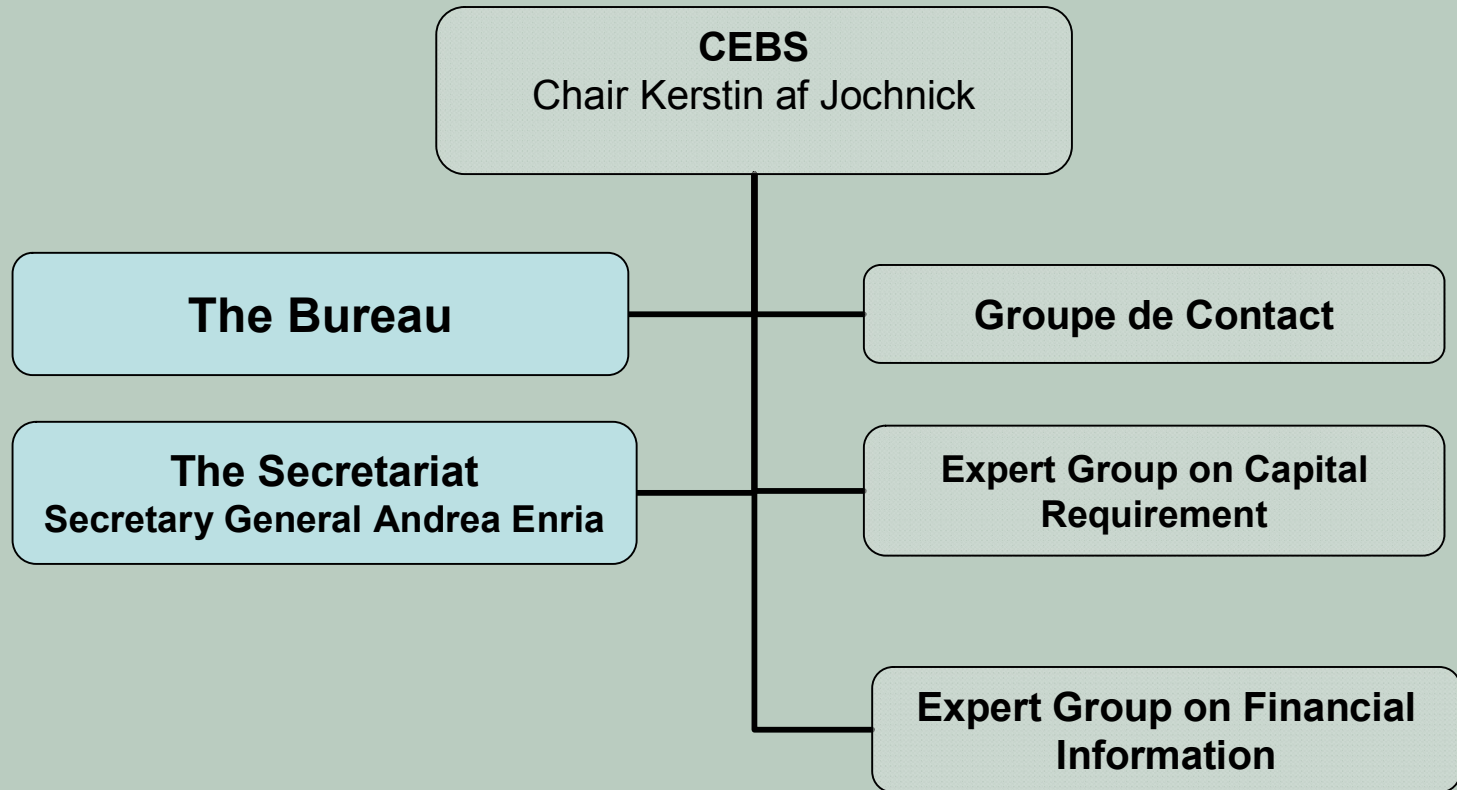
- Advise the Commission on banking policy issues,
- Promote consistent implementation of the EU legislation and convergence of supervisory practices,
- Enhance supervisory cooperation and information exchange.

Objectives:

Promote cross-border supervisory cooperation and safety and soundness of the EU financial system through:

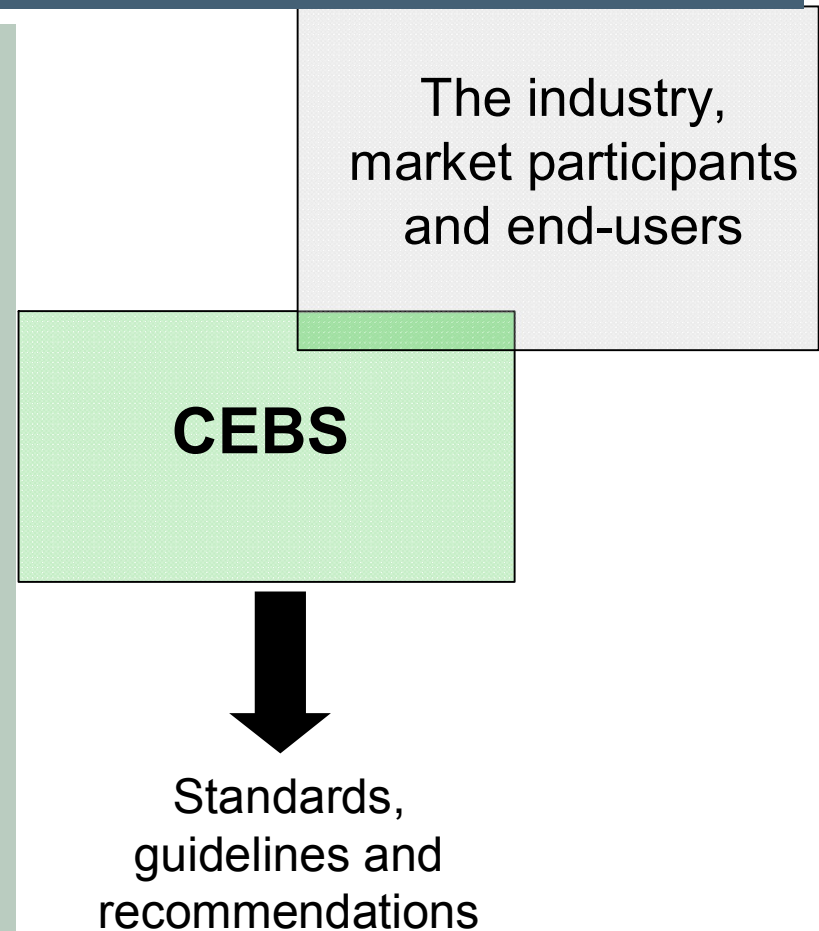
- *Effective regulation,*
- *Efficient and cost-effective approaches to supervision of cross-border groups,*
- *Good supervisory practices,*
- *Level playing field and proportionality.*

CEBS'' organisation chart



Consultation

- Consultation with the industry, market participants and end-users
- Objectives: transparency, benefit from expertise of market participants and end-users, dialogue and interaction
- Tools: public consultation on CEBS products, hearings, panel
- Consultative Panel composed of 19 members with main task of acting as a sounding board in strategic issues
- Industry expert groups



Introduction

- **Basel II and CEBS**

- The new paradigm: risk-focused supervision
- A window of opportunity for convergence in supervisory practices in the EU: the role of CEBS

- **Four main challenges in EU implementation**

- Consistent implementation
- Convergence in supervisory practices
- Streamlining the supervisory process for cross-border groups
- Effective consultations

CEBS responses: efforts to address implementation issues

Phase I: guidelines

- Home Host co operation
- Structured use of supervisory judgment: Supervisory Review Process (Pillar 2).
- Framework for supervisory disclosure: enhanced transparency;
- Validation of advanced approaches for credit and operational risk (high level principles not enough to achieve convergence);
- Common reporting frameworks (COREP and FINREP);
- → ***Joint effort CEBS and Commission to ensure consistent interpretation of Basel II in Europe.***

Guidelines for co-operation between home/host

- Addressing the concern of a complex and fragmented supervisory process
- Practical framework for coordinated planning in supervisory colleges; structured exchange of information; and optimal use of supervisory resources and avoiding overlap

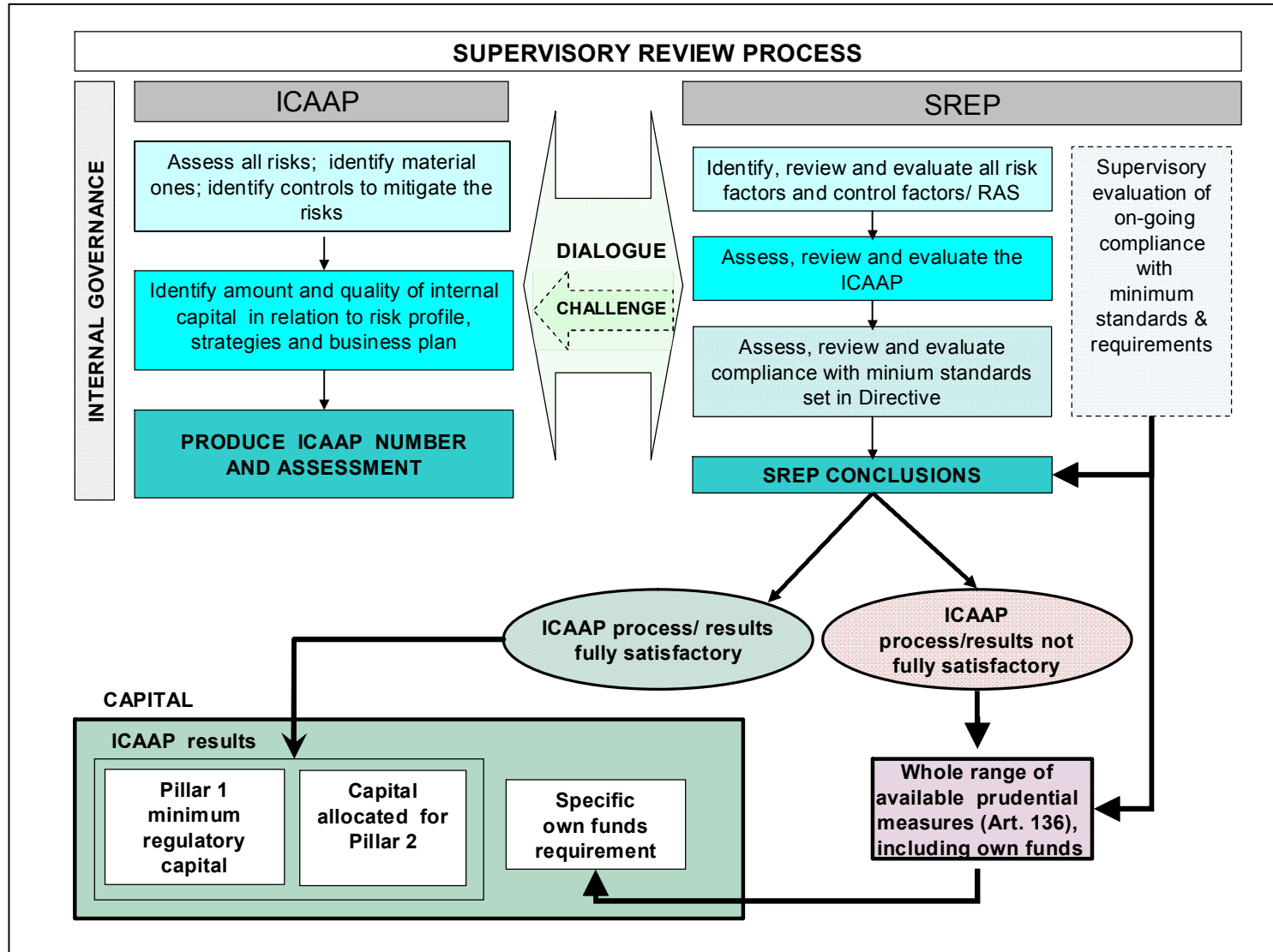
Key points:

- notion of significance and systemic relevance
- two-way information exchange
- transparency of arrangements
- neutrality with respect to business model and structure

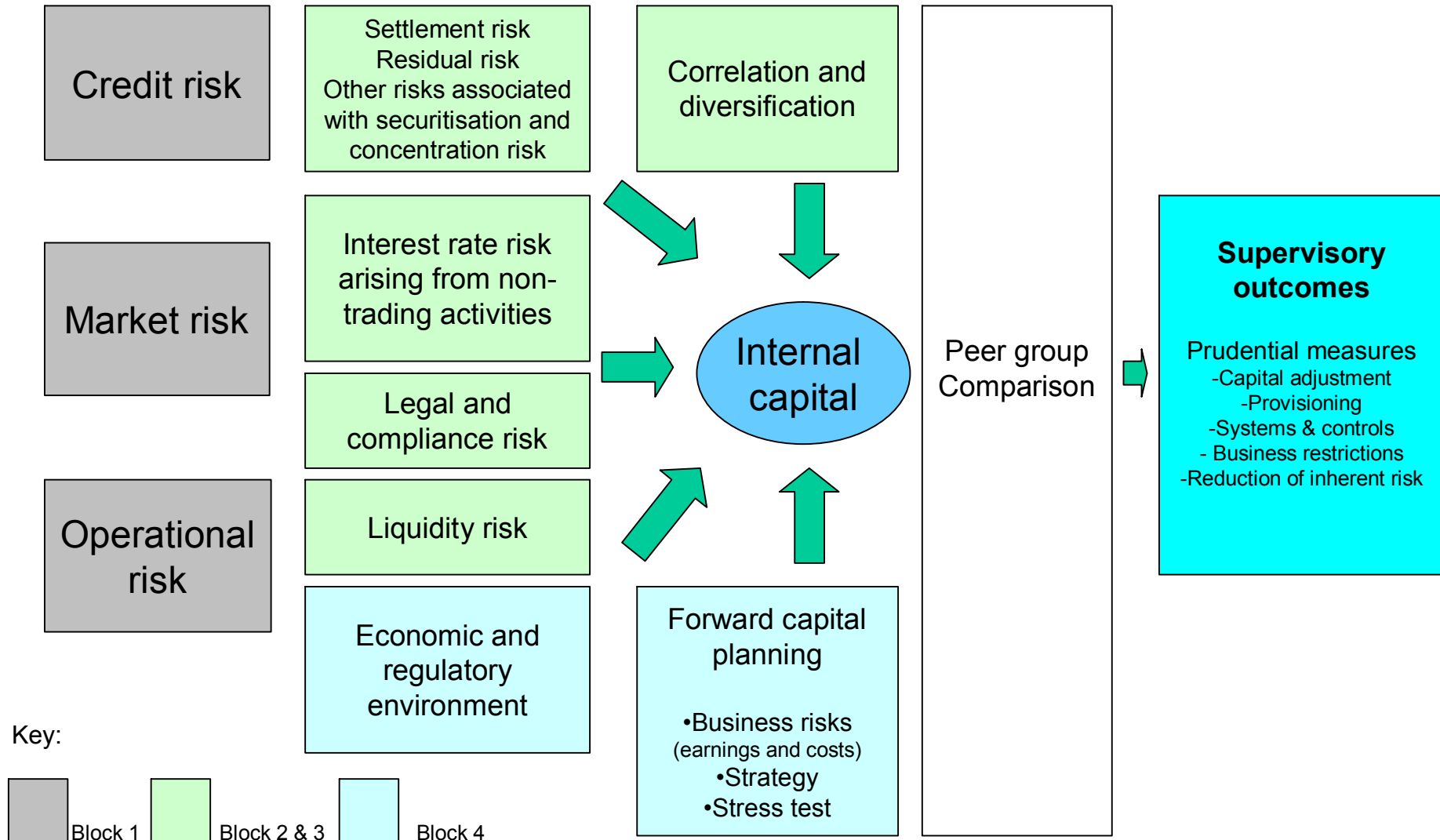
Supervisory Review Process

- **Objectives of Pillar 2 are to:**
 - Ensure institutions have adequate capital to support all risks in their business
 - Encourage institutions to manage risk
 - Foster an active dialogue between institutions and supervisors
- Covers the relationship between:
 - *Supervisor's SREP* (the Supervisory Review and Evaluation Process); and
 - *Institution' ICAAP* (the Internal Capital Adequacy Assessment Process).

Supervisory Review Process



Supervisory review process: a building block approach



Supervisory Disclosure

- **Supervisors are required to publish:**
 - Rules and guidance
 - How options and national discretions are exercised
 - Supervisory review and evaluation
 - Statistical data on national banking sectors
- **Easy access and meaningful comparison ⇒ peer group pressure**
 - Internet access via CEBS website www.c-eps.org
 - Links to national websites
 - Comparable information
 - Common language - English

Supervisory disclosure: Market pressure

Committee of European Banking Supervisors - CEBS - Microsoft Internet Explorer

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CEBS Committee of European Banking Supervisors

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Options and national discretions

Latest updates:

20.10.2005 [Austria](#)

The recast 2000/12/EC and 93/6/EEC national circumstances.

Tables of information:

- [COMPARATIVE TABLES TO SHOW THE EFFECTS OF THE OPTIONS AND NATIONAL DISCRETIONS](#)
- [MUTUAL RECOGNITION TABLES OF A MEMBER STATE IN RESPECT OF THE OTHER MEMBER STATES](#)

http://www.c-eps.org/SD/options_national_discretions.htm - Microsoft Internet Explorer

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Options national discretions [Close window](#)

	E7	AT				
	B	C	D	E	F	G
1	Dir. 2000/12 (unless indicated 93/6)	Denomination	Description	AT	BE	CY
2	Article 57 (last para.)	Inclusion of interim profits*	Member States may permit the inclusion of interim profits before a formal decision has been taken on the accounts, subject to conditions.			
3	Article 58	Waiver on certain deductions*	Shares in another credit institution, financial institution, insurance or reinsurance undertaking may not be deducted if held temporarily for the purposes of a financial assistance operation designed to reorganise and save the entity.			
4	Article 59	Alternatives to deductions*	As an alternative to deductions of participations and capital instruments held in other financial institutions, credit institutions may be allowed to apply, with the necessary changes, any of the methodologies set out in the Annex 1 to the Conglomerates Directive.			
	Article 60	Deductions for stand-alone requirements	For the purposes of the calculation of their stand alone requirements, institutions may be not required to deduct holdings and			

Links to national websites for more detailed information

start | Inbox - Microsoft Out... | CEBS_US_Basel - Micr... | Committee of Europe... | http://www.c-eps.or... | 15:11

CEBS responses: operational networking

Phase II: Shift to implementation and operational networking, market and peer pressure

- **Via enhanced coordination and cooperation:**
 - Operational networking: e.g. networks of validation experts,
 - Developing new tools; developing a common supervisory culture, delegation of tasks, mediation.
- **Via market pressure:**
 - Supervisory disclosure as a tool for market pressure,
 - Peer review.

Operational networking: concept and pilot project

Specific efforts to establish an operational network of line supervisors in charge of day-to-day supervision of cross-border groups

- Test phase, centred on a sample of 10 cross-border groups,
- Objective: identifying and addressing Basel 2 implementation issues in a bottom-up fashion,
- Deliverables: surveys of supervisory and market practices, catalogue of pragmatic supervisory solutions,
- Dialogue with the Industry Operational Network Platform.

Operational networking: concept and pilot project

Support functions:

- **Validation experts**
 - credit risk
 - operational risk
- **Tasks to follow-up work resulting from the guidelines:**
 - Exchange information on technical validation issues,
 - Suggest areas where further input from CEBS is deemed necessary,
 - Where necessary, conduct surveys of good supervisory or market practices on validation issues and suggest to the CEBS any further action.
- **Similar approach in the area of reporting (FINREP and COREP networks).**

Operational networking: current work

Deliverables

- First Priority: working of colleges, identification and prioritisation of IRBA and AMA validation issues, Pillar 2 cross border issues
- Paper on range of practices of colleges of supervisors
- Template for written arrangements for banking groups
- Analyses on the practical implementation of article 129 paragraph 2 CRD.
- Collection of Pillar 2 cross-border processes and issues.

CEBS' main focus and challenges in 2008

Supervision of cross border groups

- ❖ *Enhancing supervisory cooperation through colleges of supervisors*
- ❖ *Increased use of delegation between supervisors*
- ❖ *Co-ordination of supervisory requests and supervisory responses*
- ❖ *Consideration of cross sector dimension*
- ❖ *Consideration of diversification benefits*
- ❖ *Technical assessments of economic capital models*

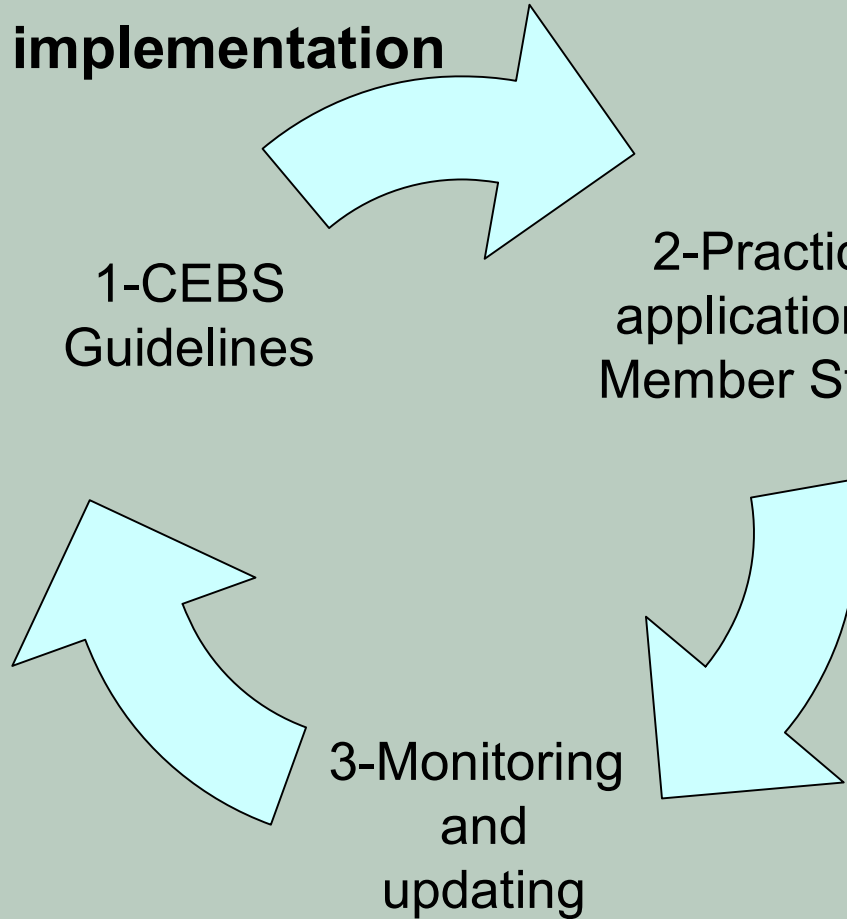
To create a virtuous circle ...

Consistent implementation

1-CEBS
Guidelines

2-Practical
application in
Member States

3-Monitoring
and
updating





CEBS

Contacts:

CEBS – <http://www.c-ebs.org>

Kerstin af Jochnick
CEBS Chair

Kerstin.Jochnick@c-ebs.org

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