

# Interpreting Basel II requirements and implementing within Europe

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**CEBS**

Committee of European  
Banking Supervisors

# Outline

- Introduction:
  - The role of CEBS: why CEBS matters to the European banking industry
- Basel II and the Capital Requirements Directive:
  - Legal setting
- Consistent implementation of EU legislation:
  - Supervisory Disclosure
- Convergence of supervisory practices:
  - Common reporting of financial and risk data
  - Supervisory Review (Pillar 2)
- Co-operation between supervisors:
  - Home-host issues
- Convergence and co-operation:
  - Validation
- Conclusion

## Introduction - The role of CEBS

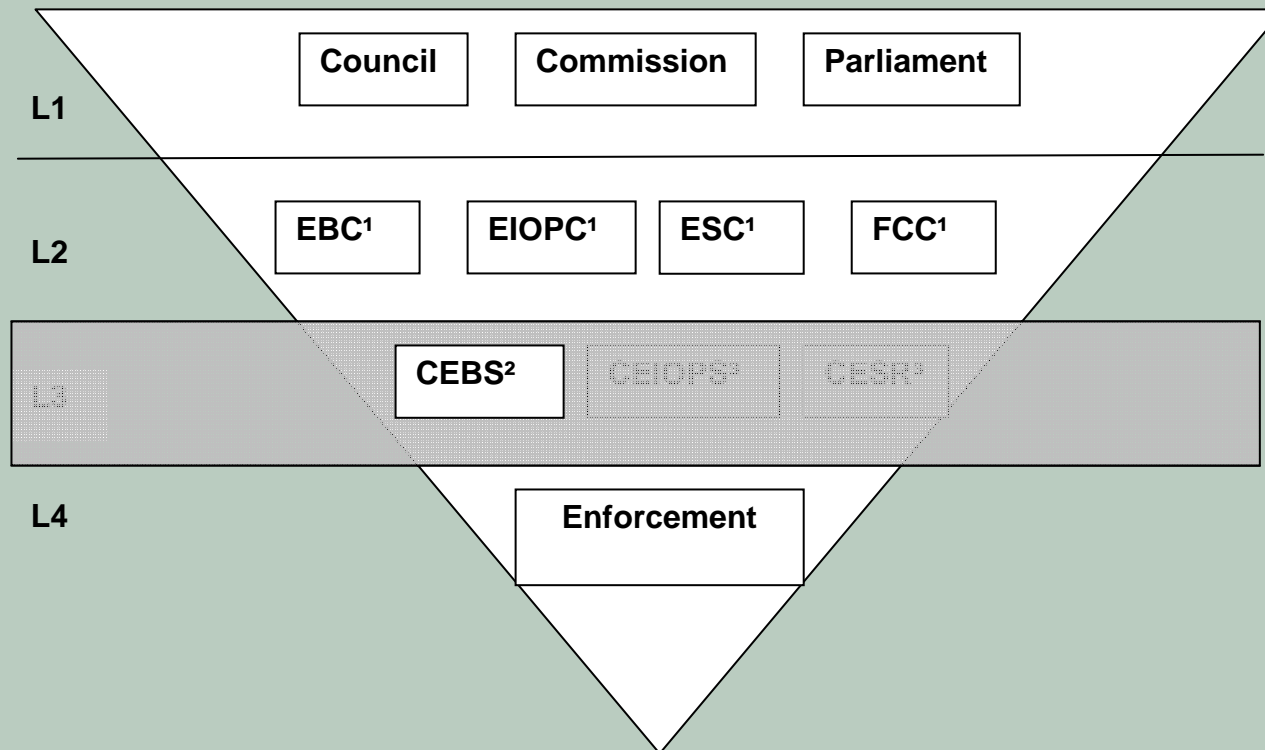
- The tasks according to CEBS Charter:
  - Advice to the Commission
  - Consistent implementation of Community legislation and convergence in supervisory practices
  - Supervisory co-operation and exchange of information
- CEBS members have a powerful voice
  - High level representatives of supervisory authorities and central banks
- CEBS is a part of the legal framework in the EU
  - Fleshing out the technical details in the Lamfalussy framework
- CEBS work effects the banking business
  - Tools: recommendations, standards and guidelines
  - Commitment to implement on national level

## The role of CEBS

- The accountability framework:
  - open and transparent consultations: market participants and end users have a say
  - website at [www.c-ebs.org](http://www.c-ebs.org)
  - annual report to the Commission, to the Council and the Parliament
- Building a European supervisory culture

# The role of CEBS

## CEBS and the Lamfalussy framework



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

<sup>1</sup> Finance ministries  
<sup>2</sup> Supervisors and Central Banks  
<sup>3</sup> Supervisors

## Basel II and the CRD: The legal setting

- Basel II is not a legal text
- The proposed Capital Requirements Directive (CRD) transposes Basel II to Europe
- The CRD - a window of opportunity in promoting consistency in banking regulations and convergence in supervisory practices
- A complex framework, with a number of national options: the risk of differences in national implementation ⇒ *CEBS' contribution to supervisory disclosure*

## Consistent implementation: Supervisory Disclosure

- Supervisors are required to publish (CRD Art. 144):
  - 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](http://www.c-eps.org)
  - Links to national websites
  - Comparable information
  - Common language - English
- Framework ready by the end of 2005, implementation 2006 (statistical data mid 2008)
- Public consultation launched in March 2005

# Supervisory Disclosure – front page

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Sitemap Copyright & Disclaimer Privacy

- About us
- Publications
- Consultative Panel
- Press news
- Key dates
- Links
- Contacts
- Vacancies

**Supervisory Disclosure**  
[Rules and guidance](#)  
[Options and national discretions](#)  
[Supervisory review](#)  
[Statistical data](#)  
[Contacts](#)  
[FAQ](#)

**Demo version**  
[Slides of the demo \(ppt\)](#)  
[Slides of the national demo \(ppt\)](#)

**Disclosure Supervisory Disclosure**  
In this section, CEBS will display and provide access to information regarding the laws, regulations, administrative rules and general guidance adopted by the Member States in the field of prudential regulation and supervision. This section will also display aggregate statistical data on key aspects of the implementation of the prudential framework in each Member State.

The supervisory practice to be disclosed here will include the way in which each Member State exercises the options and national discretions available in EU banking legislation and the general criteria and methodologies used by national authorities in the Supervisory Review and Evaluation Process (SREP). It is also possible to access the Supervisory Disclosure pages of each national authority by clicking [here](#).

These pages are intended to present a comprehensive overview of supervisory and regulatory practices in Europe to provide easy access to more detailed information and to permit meaningful comparison of the approaches adopted by the competent supervisory authorities in different Member States.

[CEBS Guidelines on Supervisory Disclosure](#)

The content of these pages is organised in four sections:

- Rules and guidance
- Options and national discretions
- Supervisory review
- Statistical data

**Rules and guidance**

This section will provide information on legal and regulatory texts, including:

- Laws and regulations** adopted by each Member State to implement the Basel II provisions of the recast Directives 2000/12/EC and 93/6/EEC. These texts outline the basic legislative and regulatory framework for supervised credit institutions and investment firms.
- Administrative rules**. The term "administrative rules" is used in a variety of ways in different contexts. For the purposes of supervisory disclosure it refers to documents that instruct supervised entities on how to satisfy legislative and regulatory requirements.
- General guidance**. This includes explicit disclosure requirements from the recast Directive 2000/12/EC, and explanations deemed necessary to set out how the rules should be applied by institutions. General guidance also includes any other relevant information that competent authorities may choose to release in order to improve the understanding of the new capital adequacy framework.

**Options and national discretions:**

The recast 2000/12/EC and 93/6/EEC Directives contain a large number of options and national discretions which may be applied on the basis of national circumstances. This section is intended to make it easy for end-users to make quick and meaningful comparisons of how these options and national discretions are exercised in different Member States.

**Supervisory review:**

This section will cover the general criteria and methodologies used by national authorities in the Supervisory Review and Evaluation Process (SREP),



## Convergence - Common reporting

- Common framework for supervisory reporting of the financial and risk data across EU:
  1. Common reporting of the solvency ratio
  2. Common reporting for balance sheet, profit and loss account and annexes data
- To achieve:
  - Level playing field
  - Less administrative burden for cross-border groups (while limiting the burden for small, local banks)
  - To remove potential obstacle to financial market integration
  - Easier exchanges of information between supervisors
  - To increase cost effectiveness of supervisory activities in the EU

## Convergence - Common reporting

- Common reporting of the solvency ratio:
  - Used by banking supervisors to assess institutions' risks and their related capital adequacy.
  - Large set of templates, but most banks will not have to report the whole set of items
  - Recommendation for a common technology platform (XML/XBRL coding and taxonomy being developed by CEBS)
  - Public consultation opened in January, comments welcome

## Convergence - Common reporting

- Common reporting of financial data:
  - Used for credit institutions which prepare consolidated data according to the new international accounting standards (IAS/IFRS)
  - Large set of templates, but most banks will not have to report the whole set of items
  - Recommendation for a common technology platform (XML/XBRL coding and taxonomy being developed by CEBS)
  - Public consultation starting, comments welcome

## Convergence - Supervisory Review

- Proposed CRD provisions (Art. 123 and 124)
- Risk-based approach to the supervisory review
- First round of consultation finished in August 2004; support for the main concepts:
  - ICAAP the responsibility of the institution.
  - Dialogue between the institution and the supervisory authority in the ICAAP/SREP process.
  - Proportionality.
- Now more attention on the relationship between:
  - Supervisor's SREP (the Supervisory Review and Evaluation Process); and
  - Institution' ICAAP (the Internal Capital Adequacy Assessment Process)
  - Internal governance of ICAAP
- Second round of consultation

## Co-operation - Home-host

- Group-wide measurement and management of risk, with supervisory responsibilities allocated according to the residence of legal entities ⇒ *CEBS' work on convergence of supervisory practices and on co-operation between home and host supervisors*
  - The enhanced role of the consolidating supervisor in the CRD
  - Joint decision on validation, framework for co-operation to be further fleshed out
  - Developing a framework for the co-ordination of supervisory activities, including the supervisory review evaluation process, which ensures involvement of supervisors and minimise the possibility of diverging approaches
  - Two-ways information exchange, significant enhancement
  - Building on the notion of “significance” (for the group and on local markets)
  - CEBS will consult on this issue
- Prudential supervision and systemic risk ⇒ *joint efforts of BSC and CEBS on crisis management*

## Convergence and co-operation - Validation

- New framework relies to a large extent on internal measures of credit risk (Internal Ratings-Based Approach - IRB) and operational risk (Advanced Measurement Approach - AMA)
- Supervisors have to review the methodologies used for estimating risk parameters and grant permission for the use of these approaches for regulatory purposes.
- CEBS is developing quantitative and qualitative requirements for discrimination and calibration of rating systems, estimates of PDs, LGDs, EADs and AMA parameters.
- Minimum standards for the review of the methodologies applied by credit institutions and investment firms
- CEBS will consult on this issue

## Conclusion

- By end-2005 the guidelines should combine in a compendium or guide book, providing a comprehensive framework for consistent implementation of the CRD and convergence in supervisory practices
- Priorities are identified in line with what we perceive to be the major issues for cross-border business in the Single Market. Consultations should allow focusing our work and adjusting our objectives through time.



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