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Introduction:

What is CEBS and why should the banking industry care?

- CEBS is a high level committee of supervisors and central bankers with a clear mandate: convergence of supervisory practices and consistent implementation of EU legislation
- CEBS should make banks life in Europe easier, not more difficult (regulatory fatigue is well acknowledged among the supervisors as well)
- The banking industry should face similar treatment by supervisors and supervision should be cost-effective

Advice on mergers and acquisitions

CEBS is currently working on several areas of convergence and providing technical advice to the European Commission. The hot topic at the moment is of course cross-border consolidation of banking sector.

- CEBS has received a call for advice from the Commission to provide technical details on possible regulatory obstacles on cross-border mergers and acquisitions in Europe
- CEBS has published a questionnaire on its website to consult the industry and market participants on this issue
- The Commission timeline doesn't allow full consultation – deadline for comments is end of April. CEBS will publish its advice at the end of May
- If current banking regulation is misused by national authorities to oppose consolidation it might be regarded as protectionism and investigated by the EU competition authorities
- CEBS doesn't have any enforcement powers tools to put pressure on its members – CEBS work is based on consensus
- Other obstacles might be more relevant: taxation, legal questions, culture, fragmented retail markets and products

Supervision of cross-border groups

Another interesting work stream at the moment is the home-host debate. CEBS is creating guidelines on the supervision of cross-border banking groups. This requires enhanced co-operation between home and host supervisors.

Why are these new guidelines needed?

- Number of large and complex banking groups is increasing
- Market share of significant foreign branches and subsidiaries is growing, which may assume systemic relevance in host countries
- Key business functions in large banking groups have been centralised i.e. risk management
- Supervisors need to be aware of the risks in every part of the cross-border group
- Banks should not be faced with unnecessary administrative burden and compliance cost

What is to be achieved?

- CEBS guidelines for supervisory co-operation aim to achieve cost-effective process where more emphasis is put on the role of consolidating supervisor but at the same time home and host supervisors work in close co-operation

- Consistent treatment of institutions will safeguard a level playing field
- Joint decision on approval of model validation
- National legal limitations have to be taken into account
- CEBS is preparing a consultation paper on supervision of cross-border groups and the consultation is envisaged to start in July.
- The consultation was originally scheduled for Q2 but it was delayed to include model validation and some road-testing before finalising the paper.

Reporting requirements

One of the key complaints of cross-border banks have been that they have to report to a number of different supervisors according to different formats and more generally face different sometimes even contradictory treatment by authorities. CEBS work on home-host will solve part of these problems. At the same time CEBS is working to streamline and harmonise the reporting requirements. This should have a significant impact on banks' compliance costs.

- In January CEBS published a consultation paper on common reporting framework for the solvency ratio: used by supervisors to assess institutions' risks and their related capital adequacy
- This week it was followed by consultation on standardised financial reporting framework for accounting data: credit institutions which prepare consolidated data according to the new international accounting standards (IAS/IFRS)
- CEBS is developing a common reporting language and data framework based on XBRL which will be the recommended technical platform
- Coordination between common reporting of solvency ratio and financial data needed to achieve consistency
- Further steps are to follow in order to streamline the package further. Large set of templates, but most banks will not have to report the whole set of items
- The framework is not meant to be implemented in full by all national authorities – flexibility to choose some data according to national requirements
- Consultation period for common reporting closes on 30 April and for financial reporting in early July.

Pillar 2

The last area of convergence of supervisory practices is a very important one – Application of the Supervisory Review Process under Pillar 2 of Basel II capital framework.

- Final review after Capital Requirements Directive has been adopted
- First round of consultation (closed 30 August 2004) provided a lot of input from the industry
- Second round of consultation needed, based on a revised and enriched version of the first paper - CEBS has redrafted the proposals to include many of the suggestions it received
- Supervisory Review Process is a central part of the Basel II framework which promotes adequate capitalisation of banks and encourages improvements in risk management
- The institution is responsible for assessing its risks and defining its own capital needs. The supervisor is responsible for reviewing and evaluating this
- The paper also embraces new proposals, including guidelines on the general application of internal governance, and specifically how this applies to an institution's internal capital adequacy assessment process

- It also includes more detail on how the dialogue between the institution and its supervisor should be handled, and more detail on how supervisors themselves will use their internal risk assessment systems as part of the supervisory review and evaluation process
- The paper gives an overview of the guidelines but more detail will be added later to flesh out the practical review and evaluation processes as well as the individual risks that institutions may face
- CEBS will provide guidance for small institutions to assist them in producing and managing their own capital adequacy assessment – further work on principle of proportionality to be done
- This set of guidelines will form the nucleus of a guidebook to institutions and supervisory authorities on how to approach their obligations under the banking Directives.
- Main interest to banks: how supervisors intend to approach the interaction between their own review process and the institutions' capital adequacy assessment process. The paper aims to highlight the respective roles and responsibilities and ensure that the dialogue between the two is clear and consistent. This dialogue should embrace all aspects of business risk and control risk including internal governance, systems and controls and risk management