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Work programme for 2006

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1. Introduction

1. 2005 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 Committee clarified its role and tasks, shaped its tools, and established clear procedures and processes for consultation and interaction with market participants. From a substantive perspective, it published a series of consultation papers relating to the Capital Requirements Directive (CRD). These will ultimately be collected into a compendium of guidelines and standards, and aim to promote consistent implementation of the directive across the EU and to enhance convergence of supervisory practices in its application.
2. 2006 will be a year of continuation, in the sense that CEBS' focus will remain firmly on the CRD, but will also mark a shift of orientation and emphasis, from design to delivery of a more convergent supervisory framework.
3. CEBS intends to finalise most of its guidelines and standards in early 2006, on the basis of the consultation results. Its attention will consequently increasingly turn to preparing for their implementation, monitoring the progress achieved in convergence and carrying out dynamic "maintenance" of the standards and guidelines through adjustments and updates in the light of practical experience.

4. CEBS is well aware that 2007, the year that the CRD will be implemented, will be the key year for effective delivery against its objectives. At this point, 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. The work conducted during 2006 will be essential to ensuring that CEBS can deliver in practice what it has set out in policy.

Context and overview of work programme

6. The CRD introduces the risk-focused approaches of the Basel II capital framework into Community legislation and represents a window of opportunity for convergence in supervisory practices. The contemporaneous adoption of International Financial Reporting Standards (IFRS) represents another development that allows a move towards more common approaches in the EU. The discussion of CEBS' report on supervisory convergence at the Financial Services Committee (FSC) in July 2005 confirmed that the success of the Lamfalussy arrangements in banking will be assessed mainly on the implementation of the CRD.
7. In line with this main orientation, CEBS will focus on the finalisation, implementation, maintenance and fine-tuning of existing guidelines and standards. The key priority during the first half of 2006 will be the finalisation of the guidelines already submitted to public consultation, with a view to favour greater certainty for the industry's preparation for the adoption of the new capital adequacy framework. In the preparation of the draft guidelines, certain areas for follow up work have already been identified, in particular in the area of the Supervisory Review Process (Pillar 2) and validation. The dialogue with the Consultative Panel is also contributing to single out areas in which the industry perceives the need for further guidance at the EU level.
8. The setting up of operational networks is particularly important with regard to the supervision of EU cross-border banking groups. The consolidating home and the host supervisors will have to cooperate and coordinate supervisory activities at the operational level. CEBS will now develop a model for these arrangements in order to steer the process and ensure consistency of cooperation.
9. Furthermore, CEBS will initiate and coordinate joint home/host supervisory work within the emerging operational networks responsible for the supervision of the most important EU cross-border banking groups.
10. The Green 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. 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 supervisory practices. This should contribute to better regulation and reduce unnecessary administrative burden for supervised institutions.

11. 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 committees CESR and CEIOPS have agreed on a joint protocol for co-operation, which will be accompanied by a programme for joint work on issues of cross-sector relevance. CEBS also plan to intensify its contacts with non-EU banking supervisors also involved in the implementation of Basel 2.
12. In developing its initiatives, CEBS intends to further consolidate the dialogue with interested parties, developing the tools already used in 2005. The support of the Consultative Panel in structuring an open consultation process and a fruitful dialogue at the technical level is gratefully acknowledged.
13. The remainder of this paper sets out the specific areas of work planned for 2006. A table providing a timeline for each project is attached to the work programme and will be regularly updated on CEBS' website. Any postponement will be highlighted in the table, explaining the reasons for it. This table is intended to disseminate information on the timing of the different projects and the relative consultation processes, so that interested parties could prepare in advance.

2. Progress made in 2005

14. The work programme for 2005 has been closely followed and most products have been delivered according to the time schedule.
15. With reference to the ***calls for advice*** received from the Commission, CEBS delivered its technical input on (i) the review of Article 16 of the Consolidated Banking Directive (2000/12/EC), with a view to ensure that prudential controls do not improperly curb cross-border mergers and acquisitions in the Single Market; (ii) the review of Article 8 of the E-Money Directive (2000/46/EC) on waivers for hybrid issuers of electronic money, and (iii) aspects of the review of the Directive on Deposit Guarantee Schemes (94/19/EC). In all cases the advice was delivered according to the deadline, which was always very tight, ranging from 12 to 19 weeks. As a result, CEBS was unable to conduct proper public consultations on these pieces of work, although it relied on the Consultative Panel and in one case on an online questionnaire to receive input from interested parties. As the advice provided was on Level 1 legislation, the Commission has in any case conducted consultations on the same subjects. In order to ensure proper co-ordination with the

Commission in relation to future calls for advice, CEBS has proposed to distinguish between consultations touching upon general principles and political guidance for Community legislation, for which CEBS might be asked to provide supervisory input without necessarily consulting market participants, and more technical pieces of advice, in which CEBS should be given sufficient time to conduct extensive public consultations.

16. During 2005, CEBS also conducted follow up work on the advice on national discretions and prudential filters delivered to the Commission in 2004 (see CEBS Annual Report 2004 http://www.cebs.org/documents/Annual_report_04.pdf). In the area of national discretions, CEBS has continued to work on the identification of areas in which supervisory convergence could be pursued. The request of market participants to consider recourse to the notion of mutual recognition in the area of national discretions is being further investigated. With reference to the prudential filters to avoid unwanted effects of the new accounting standards on regulatory capital, CEBS reviewed the implementation of the guidance at the national level.
17. The work on ***convergence of supervisory practices*** proceeded according to schedule. Eight consultation papers were published in 2005: common reporting of the solvency ratio, financial reporting, supervisory disclosure, supervisory review process (Pillar 2 – second consultation including internal governance issues), validation of internal approaches for credit and operational risks, role and tasks of CEBS, cooperation between consolidating and host supervisors and recognition of external credit assessment institutions (ECAIs).
18. The work on ECAIs was conducted in close dialogue with CESR, which was asked to provide advice to the Commission on the issue of credit rating agencies. An addendum to the consultation on ECAIs has been launched in November 2005 to cover the mapping of credit assessments of Collective Investment Undertakings (CIUs) and of securitisation positions to the CRD risk weights.
19. Finalised guidelines on supervisory disclosure were published in November 2005. The two frameworks for reporting received extensive comments and further work has been conducted, so that the implementation of these frameworks is expected to start in early 2006.
20. As to outsourcing, CEBS continued to work on its draft standards, cooperating with CESR and CEIOPS in order to ensure consistency of technical rules and supervisory guidance across sectors. As a result, the second round of consultation on the draft standards has been postponed to 2006. On other cross-sectoral issues, together with CESR and CEIOPS, CEBS was also involved in a stock taking exercise aimed at capturing the supervisory issues raised by off shore financial centres.

21. In the area of ***co-operation and information exchange***, the envisaged consultation paper on co-operation between the consolidating supervisors and host authorities was issued later than expected, in order to include a section on model validation (as requested by the Consultative Panel) and to conduct "road testing" of the arrangements on a sample of cross-border groups.

3. Priorities for 2006

3.1. Regulatory advice to the European Commission

22. In 2006, CEBS will work at least on two areas of technical advice, at the request of the Commission:

- CEBS has been asked to deliver by August 2006 the results of its stock take on the implementation of the Directive provisions on **own funds** in Member States as well as a survey of innovative capital instruments issued by market participants. CEBS has also been asked to begin work on the guiding principles for own funds, and a quantitative analysis of the types of capital currently held by credit institutions across the EU.

- The Commission has also submitted a call for advice on the review of the rules on **large exposures**.

23. CEBS may also receive follow-up requests for advice on the prudential controls on mergers and acquisitions and on deposit guarantee schemes as part of the Commission's review of Community legislation in these areas.

24. The Commission has also indicated that a call for advice on liquidity issues and on the application of the CRD to certain types of commodity firms could be issued in 2006. The mandates for these contributions are still to be defined.

3.2. Convergence and supervisory co-operation

25. CEBS attributes a high priority to efforts aimed at fostering the convergence of supervisory practices and emergence of a common European supervisory culture. Efforts have already been made in the course of 2005 to develop CEBS-sponsored training programmes and open up to all member organisations the training programmes organised at the national level in relation to implementation of the CRD.

26. CEBS is also supporting programmes for the exchange of staff between member organisations, as a key channel to promote a greater commonality of approaches in day-to-day supervision. These efforts will

be further intensified in 2006 when most of the guidelines submitted to public consultation will be finalised and put to practice.

3.2.1. Finalisation of guidelines and standards

Supervisory review process

27. CEBS intends to publish final guidelines on the general principles for the Supervisory Review Process in the first quarter of 2006, taking into account the results of the second round of consultation conducted during the summer of 2005 on a revised paper. This paper included sections on internal governance and on the interaction between the Internal Capital Adequacy Assessment Process (ICAAP), which places certain obligation on the supervised institutions, and the Supervisory Review and Evaluation Process (SREP), which places certain obligations on the supervisory authorities and leads to the identification of prudential measures
Deliverable: guidelines.

28. CEBS will continue working on further details of Pillar 2 including interest rate risk in the banking book, concentration risk and stress testing. CEBS is also considering conducting further work on proportionality.
Deliverable: technical annexes

Validation of IRB and AMA approaches

29. CEBS expects to finalise its guidelines on the implementation, validation and assessment of Advanced Measurement (AMA) and Internal Ratings Based (IRB) Approaches within the first quarter of 2006. The final guidelines will be issued after a second round of consultation. *Deliverable: guidelines.*

Common reporting of the solvency ratio and IFRS compliant reporting

30. The common frameworks for the reporting of the solvency ratio and for IFRS compliant supervisory reporting are being streamlined as a result of the comments received in the public consultation. Both packages will be implemented during 2006. Further work will include (i) monitoring of implementation, with particular attention to the balance between common and national components; (ii) maintaining and updating the templates and XBRL taxonomies (including work on definitions); (iii) preparing an overall assessment of the progress achieved in moving towards common reporting (to be finalised in 2007, after implementation). *Deliverable: on-going maintenance of the frameworks and report on the progress in convergence of supervisory reporting*

Internal governance

31. CEBS has already conducted work on internal governance and the outcome is included in its draft guidance on the supervisory review process (CP03), on validation of IRB and AMA approaches (CP10) and on

outsourcing (CP02). All these strands of work will be integrated in a single and consistent set of guidelines. *Deliverable: guidelines*

Home/host issues

32. CEBS expects to finalise its guidelines on co-operation between consolidating and host supervisors within the first quarter of 2006. An overall assessment of the progress achieved will also be conducted. *Deliverable: guidelines and report on the progress achieved in co-operation between home and host supervisors.*

Crisis management

33. Jointly with the ESCB Banking Supervision Committee (BSC) CEBS will bring forward proposals to help improve cooperation in crisis situations. The attention will be focused on convergence of supervisory practices, the development of effective operational network mechanisms, as well as the organisation of simulation exercises. The final outcome is expected to take the form of an addendum to the guidelines on co-operation between consolidating and host supervisors, to be finalised in the third quarter of 2006. *Deliverable: addendum to guidelines on co-operation between consolidating and host supervisors.*

3.2.2. Monitoring, maintaining and assessing CEBS products

34. CEBS will promote consistent implementation of EU legislation and convergence of supervisory practices by compiling a compendium or guidebook of standards, guidelines, advice and other work of CEBS. This electronic guidebook will be aimed at supervisors and market participants. It will have a flexible, internet-based structure that can be updated with ease. It will promote consistent terminology and definitions and may be viewed as a common layer of EU technical guidance. The preparation of the compendium will be started in 2006 and is expected to be finalised in 2007.

35. CEBS efforts will move in 2006 towards preparing for implementation of all the guidelines which come into effect with CRD and the common guidance will promote consistency in implementation. At the same time CEBS has to maintain and update some of its products, namely Supervisory Disclosure and reporting frameworks.

Monitoring of progress

36. The CRD requires competent authorities to disclose information on the implementation of the Directive itself, the exercise of options and discretions and other relevant information in such a way to enable a meaningful comparison of approaches adopted in different Member States. CEBS has set up a Supervisory Disclosure framework which will be an important element in the process of monitoring possible differences in national implementation. CEBS will follow closely the progress made in

the implementation of the CRD, with a view to highlight possible issues to be addressed. Implementation of the common reporting frameworks for solvency ratio and financial information will be included in the Supervisory Disclosure.

37. CEBS will endeavour to pursue greater convergence in the interpretation, implementation and application of the CRD through discussion of queries arising from members, industry and the Commission, including from its CRD Transposition Group. In co-operation with the Commission CEBS will participate in delivering answers to a FAQ (Frequently Asked Questions) page on the internet devoted to implementation issues.
38. CEBS will be increasingly called to address issues emerging during the implementation of the CRD and of related CEBS guidelines. Operational networking mechanisms will be established to identify these issues. This work will be conducted mainly through case studies focused on supervisory co-operation and practices involving cross-border banking groups and questionnaires to compare implementation plans. This work will allow identifying possible areas for further work. A survey of implementation issues will be prepared in order to allow for an assessment of the progress made in 2007.
39. The case-studies can provide valuable information about supervisory processes and highlight market practices in the field of risk management. Findings on best, sound and deficient practices will be published as reports and surveys. Peer group comparisons will be investigated for possible use to flag up best supervisory practices and to identify areas in which further convergence would be warranted. The FSC has highlighted the need to explore possible mediation mechanisms in the banking and insurance sectors. CEBS will investigate the concept to find out if it could be used in the banking sector.
40. The dialogue with the Consultative Panel should help in identification of convergence issues that need to be addressed at CEBS level. Additionally CEBS might consider relying on ad hoc networks of experts at national supervisory authorities and, in case of need, develop questionnaires to collect additional input.
41. CEBS will also follow closely the implementation of its guidelines on reporting frameworks and prepare progress reports on these areas not covered by the CRD.
42. Developing some of these tools would reaffirm the pragmatic approach of CEBS and its focus on practical convergence issues. It would also allow giving a greater content to the notion of operational networks, including both the work done in a multilateral mode and the local contacts between authorities involved in the supervision of a cross-border group.

43. These tools are intended to assist both institutions and supervisors without putting any additional burden on institutions. Benchmarking and peer group reviews will foster consistency in the supervisory practices across the EU whilst preserving at the same time the necessary degree of flexibility and proportionality in the assessment of individual, institution-specific arrangements.

Maintenance of CEBS products

44. Ongoing work will be required to maintain and update CEBS products. Enough human and technical resources should be allocated to maintenance of solvency and financial reporting frameworks and updating of taxonomies. Supervisory Disclosure framework will be another area where constant technical maintenance and content updating is needed.

3.3. Cross-sector issues

45. CEBS, CESR and CEIOPS have agreed on a protocol on cross-sector co-operation. A specific work programme for 2006 will be issued jointly by the three Level 3 Committees by the end of 2005. Therefore, this document does not elaborate on specific strands of cross-sector work and should be read in conjunction with the joint CEBS-CESR-CEIOPS work programme. There is a clear demand for consistency coming from both supervisory authorities and market participants. The work in this area will therefore be attributed high priority in 2006.

46. The Financial Conglomerates Directive covers prudential aspects of banking and insurance. CEBS and CEIOPS believe that a good deal of cross-sector work needs to be done to implement fully the Directive and to address other relevant issues relating to the supervision of conglomerates. In this respect, CEBS and CEIOPS have activated an interim structure to take this work forward. This initial work will be adjusted accordingly when the Commission makes its decisions on this area.

4. Other areas of work

Information exchange

47. Confidential exchanges of information already take place within the Groupe de Contact, which regularly reports to CEBS on the issues singled out in these closed sessions. CEBS intends to further stimulate and improve the operational network on information exchange, with a view to assist members in the performance of their supervisory tasks in increasingly integrated EU banking markets. *Deliverable: internal note on procedures for exchange of information.*

Work in relation to accounting

48. In addition to the ongoing monitoring of IASB initiatives CEBS continues its work aimed at supporting common application of some components of the IFRS for supervisory purposes. In that respect CEBS will adopt a process-based approach, developing guidelines in those cases where the monitoring of the implementation and the application of the standards highlights the need to address supervisory concerns. These guidelines could cover areas such as the use of the fair value option, loan accounting and provisioning. The work conducted in the Accounting Task Force of the Basel Committee on Banking Supervision will be taken into due account.
Deliverable: guidelines

Impact of IFRS on prudential requirements

49. CEBS has already carried out an initial assessment of the implementation of the CEBS Guidelines on Prudential Filters for Regulatory Capital developed in response to the call for advice to the European Commission in this area and is at a point of finalising a report on the quantitative impact of the introduction of IFRS on banks' financial statements and on their regulatory own funds as well as of the effects of applying the Guidelines for the Implementation of Prudential Filter. Deliverable:
Analytical report

QIS5

50. The Basel Committee on Banking Supervision plans to review the calibration of the framework for capital adequacy (Basel II) in spring 2006. In order to ensure that the envisaged review is based on the most recent, high-quality data and to evaluate the impact of the new proposals for the recognition of double default and trading book-related issues, the Committee is undertaking a fifth Quantitative Impact Study (QIS5). In close liaison with the structures established by the Basel Committee, CEBS is engaged in extending this exercise to the whole EU. The outcome of the work will be a report to the Commission, as input for the discussion of possible changes to the CRD. *Deliverable: report to the Commission*

Outsourcing

51. CEBS issued a consultation paper in 2004 containing draft general principles for supervisory approaches and practices in relation to outsourcing. Within the first quarter of 2006 CEBS plans to finalise its guidance in this area, clarifying key concepts and further elaborating on the concepts of strategic or core outsourcing activities and on the materiality test. CEBS is also liaising with CESR to ensure that this work is fully coordinated with the provisions of the Directive on Markets in Financial Instruments (MiFID) and its implementing measures.
Deliverable: standards.

Convergence beyond the CRD

52. Although CEBS maintains its main focus on CRD implementation and IFRS related issues, in a medium term perspective it considers appropriate to highlight that convergence in supervisory practices may be warranted in other areas. One possible area of work could be the practical process of licensing of credit institutions, i.e. conduct and assessment of the fit and proper tests. This strand of work might be affected by revisions to the Directive text (Art. 16 of the Consolidated Banking Directive), following the review initiated by the Commission and in all likelihood CEBS will not initiate work in this area in the course of 2006.