



EUROPEAN SAVINGS BANKS GROUP  
GROUPEMENT EUROPEEN DES CAISSES D'EPARGNE  
EUROPÄISCHE SPARKASSENVEREINIGUNG

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## **European Savings Banks Group (ESBG)**

**Response to CEBS' Consultation Paper (CP05) on the  
framework for Supervisory Disclosure**

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## **Profile European Savings Banks Group**

ESBG (European Savings Banks Group), founded in 1963, is an international banking association that represents one of the largest European retail banking networks, comprising approximately one third of the retail banking market in Europe, with total assets of €4,345 billion (1 January 2004). It represents the interests of its members and generates, facilitates and manages high quality cross-border banking projects.

ESBG members are typically savings and retail banks or associations thereof, with a regional and responsible approach.



## 1. GENERAL REMARKS

The European Savings Banks Group welcomes CEBS' initiative to start work and consult with market participants in the area of supervisory disclosure at this early stage of the implementation of the Directive on Capital Requirements, as it provides useful guidance for both credit institutions and competent authorities.

In its consultation paper, CEBS rightly underlined the importance of supervisory disclosure in the new EU architecture for the capital requirements of banks. Specifically, the move towards a more qualitative approach to supervision, with increased room for judgements for the national supervisory authorities, makes it essential for supervisors to provide information to all interested parties on their working methods.

In this context as well, it should be pointed out that supervisory disclosure is one of the key building blocks in the new architecture for the supervision of credit institutions in the European Union. Other key elements are the extension of the power of the consolidating supervisor in certain areas of banking supervision (i.e. validation of models), enhanced duties for competent authorities to cooperate closely, exchange information and consult each other in specific cases, the extension of the Lamfalussy process to the area of banking and the establishment of CEBS. The ESBG is of the opinion that all these different measures, when put together, have the potential to substantially enhance the quality of the supervision of EU banks. Importantly, the changes proposed assume that improvements are more likely to be achieved by enhancing the cooperation between supervisors than by establishing new, heavy, constraining structures.

For ESBG Members, supervisory disclosure is especially important in the context of Pillar 2 of the new Basel framework. As we pointed out in our response to CEBS' first consultation paper on the Supervisory Review Process (CP03<sup>1</sup>), we are of the opinion that supervisory disclosure is a possibly useful way to avoid an overly prescriptive approach to Pillar 2. As a matter of fact, by disclosing information competent authorities can enhance the level of certainty required by credit institutions and help them understand better the approach of their supervisor, without burdening them with excessively detailed requirements.

As highlighted in the Consultation Paper, mandatory supervisory disclosure at the EU level pursues two objectives: the convergence of supervisory practices and the enhancement of the effectiveness of supervision. The ESBG welcomes CEBS' efforts to give equal weight to both objectives, as both are of particular importance.

ESBG Members very much welcome CEBS' commitment to avoid imposing additional reporting requirements on credit institutions for the sake of establishing the supervisory disclosure framework. This is particularly important given the significant efforts required from banks in recent times to implement the legislation adopted at the EU level (such as Basel II and the IFRS) and given also the burdensome reporting requirements credit institutions are already facing. As a matter of fact, the ESBG believes that the area of reporting is one which still leaves possibilities for reducing the burdens on credit institutions, and accordingly one in

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<sup>1</sup> See ESBG document 0720/04, dated 31 August 2004, available on the ESBG website (<http://www.savings-banks.org>).



which we would like to encourage CEBS to pursue its efforts, in cooperation with other interested bodies.

The main risk identified by ESBG Members in the context of this new supervisory framework is that it could lead to a “race to the top” between competent authorities, whereby all supervisors would copy the most “super-equivalent” national authority. In other words, supervisory convergence should not mean convergence towards a level of supervision with the highest reporting requirements in each area of the supervisory framework.

As a conclusion, ESBG Members are fully supportive of CEBS’ efforts to streamline the EU supervisory disclosure framework. They also insist on the importance to review the proposed framework in the future, based on the experience gathered, and accordingly on feedback provided by supervisors and market participants alike. Regular review and improvements will be crucial to reach the objectives pursued by Article 144 of the Directive and by Europe’s banking supervisors. The ESBG looks forward to a regular exchange of views with CEBS in the future on possible further improvements.

## **2. SPECIFIC COMMENTS ON CEBS’ CONSULTATION PAPER**

### **Comments on the ‘Introduction’ section**

In addition to our general remarks, we would like to provide specific comments on the following paragraphs of the introduction:

**Paragraph 13:** the ESBG fully supports CEBS’ choice to construct its framework in English, as the only language which will allow meaningful comparisons to be made between Member States. Specifically, the information which is meant to allow comparisons (summaries, comparative tables, manner in which national options and discretions are exercised, etc.) should be provided in English as a priority.

**Paragraph 14:** we agree both with the choice of the internet as the way to make the disclosures available, and with the architecture proposed. The choices made will allow a sufficient degree of flexibility and at the same time will make it possible to guarantee the correctness of the information published (see also related comments to paragraph 32).

**Paragraph 15:** as pointed out above, we entirely support CEBS’ willingness to follow an evolutionary process. For this framework to fulfill its objectives (be useful for competent authorities and market participants, avoid excessive burden), a high level of interaction between industry and supervisors will be necessary.

### **Comments on the ‘Transparency of supervision’ section**

The ESBG supports CEBS’ proposal to follow a different strategy for each section of Article 144 of the CRD, as it is the best way to achieve the two core objectives of supervisory disclosure. In addition, we are of the opinion that the approach proposed by CEBS for each section is appropriate (**paragraphs 21 to 24**).

As pointed out above, ESBG Members have a particular interest in the information mentioned in paragraph (c) of Article 144(1) on Pillar II. Clear and comprehensive information on the



supervisors' criteria and methodologies will in this context be particularly helpful. The same can be said with respect to some aspects of Article 144(1)(a), such as the disclosure of guidance dealing with the validation of the IRB and AMA approaches (paragraph 57). In this area as well, EU credit institutions look forward to being provided with clear and comprehensive information.

### **Comments on the 'Basic principles' section**

The ESBG supports the five principles developed by CEBS. Specifically, particular attention should be paid to ensuring the respect of the **confidentiality principle** with regard to the information made public by competent authorities. In particular in the case of highly concentrated national banking markets, strict principles should be followed to make sure that non-public information cannot be deducted from aggregate information disclosed by competent authorities.

Comments were already made above on other important principles mentioned, such as the use of the **English** language, the willingness to have a **resource-efficient** approach. Moreover, **regular monitoring** of the framework by CEBS is necessary, with a view to improving it and making it match the needs of supervisors and market participants. To us, improving the framework also includes identifying and removing possible administrative burdens that may arise, although not intended initially.

The ESBG agrees as well that a sufficient degree of **flexibility** will be necessary. As touched upon in the introduction, the ESBG does not believe that the objectives pursued by Article 144 will be achieved by imposing strict rules on competent authorities or for that matter on supervised institutions. Rather, a flexible framework, which encourages cooperation, dialogue and mutual understanding between the different national competent authorities is much more likely to bring about true benefits. Flexibility is also necessary to make sure that the framework functions in the long run.

Finally, the principle of **proportionality** is key in general in the area of banking supervision, both for competent authorities, such as for example in the context of supervisory disclosure, and for credit institutions, notably regarding the requirements of the second pillar. The ESBG accordingly welcomes CEBS' mention of this principle in its consultation paper.

### **Comments on the 'Internet architecture and format of publication' section**

The ESBG believes that the architecture proposed by CEBS is appropriate, especially with regard to the use of the CEBS website and of the 25 national websites. Similarly, the ESBG fully supports the decision to use hyperlinks, and to attempt to the maximum extent possible to store an item of information in just one site, either at the CEBS level or at the national level (**paragraph 32**). Actually, preventing the duplication of information is the best way to make sure that no erroneous or contradictory information is published. Storing information in just one place and using hyperlinks is the best method to achieve this objective.

CEBS points out in **paragraph 30** that competent authorities shall be allowed to disclose additional information. This is appropriate, as it grants competent authorities the flexibility they need when selecting the information they feel it is most appropriate to disclose. On the other hand, this opens the door to a risk of 'information overload', which can make it difficult



to distinguish important information from accessory information. Regular reviews will be needed to assess the reality of such a risk.

Regarding the format of publication, ESBG Members would strongly support the use of formats which facilitate the handling of information by market participants. In this context, the use of a spreadsheet such as MS Excel would be much more helpful than disclosing information in a PDF format.

Finally, ESBG Members welcome the proposal to include in the framework a page for disclosing contact information (**paragraph 44**). In particular, the requirement to make public the name of a contact person for each CEBS member will help in increasing the interactions between competent authorities and market participants, and will accordingly facilitate the regular review of the framework. More generally, including a page with detailed contact information will help in enhancing the credibility of CEBS' initiative in the area of supervisory disclosure.

### **Comments on the 'content of disclosure' section**

The ESBG supports the architecture proposed by CEBS.

The ESBG believes that the section on 'rules and guidance' will be useful for market participants, especially the information on Article 87(5) on the assignment of risk weights and on the criteria that credit institutions are required to use. Likewise, ESBG Members will follow with particular attention the forthcoming publication by CEBS on guidance dealing with the validation of models, which is expected to provide very useful information.

The ESBG appreciates the work delivered by CEBS in the area of national discretions. National discretions are the reflection of diverging market practices or legal environments. Their deletion or maintenance must accordingly be assessed on the basis of the market environment, on a case-by-case basis. Against this background, possible deletions should be agreed upon as much as possible on a consensual basis, as opposed to be subject to majority votes. CEBS is in an ideal position to examine the discretions, and therefore its advice in this area is indispensable. Given that it is sometimes felt that there is a lack of clarity in the area of national options and discretions, the ESBG looks forward to the publication by CEBS of a new version of its tables.

We already commented on the importance of the Supervisory Review Process for ESBG Members. A specific response will be sent on this topic. At this stage, we would like to limit our comments to stressing the importance of the proportionality principle in this area – both for supervisors and for supervised institutions. With regard to credit institutions, it is appropriate to take account of the nature, scale and complexity of the activities of the institution concerned.

We do not have any particular comments on the section on statistical data. We support the preliminary definitions included in Annex II, as well as CEBS' commitment to avoid involving additional burden for the supervised institutions.



### **Comments on the ‘implementation and updating’ section**

The ESBG supports CEBS’ staggered approach. We agree specifically with the end 2006 deadline for the items contained in Article 144(1)(a) through (1)(c).

CEBS proposes a minimum yearly update of the framework. We understand that different practices are applied by competent authorities across Europe in terms of update, and that accordingly a yearly update is the minimum requirement solution. Ideally though, updates should be made whenever important changes occur. In any event, it is important for supervisors to indicate very clearly a reference date as of which the published information is valid. This makes it then possible for supervisors willing to update their websites on a more regular basis than once a year to do so.

Finally, we support the ‘procedure’ proposed by CEBS (paragraph 104) to update the CEBS website when a national site is changed as a simple and straightforward solution which makes an appropriate use of the chosen technologies.

### **Comments on the ‘review of the framework’ section**

We already commented on the need to review the framework on a regular basis. The ESBG is of the opinion that this will require in-depth consultations with the main users of the framework, i.e. competent authorities and supervised credit institutions.

### **Answers to the specific questions posed by CEBS**

- 1) Does the framework allow for a meaningful comparison across the EU of the approaches to implementation of the Basel II related provisions of the CRD?

As pointed out throughout our response, we are of the opinion that the framework proposed by CEBS will make it possible to achieve meaningful comparison, especially in the areas where this is most needed.

- 2) What additional disclosures, if any, would you like supervisors to make, in addition to those listed in Annex II? Why?

At this stage, we do not consider that additional disclosures should be made. This question should be an important element of the forthcoming reviews of the framework.

- 3) How do you envisage using the disclosure framework?

As explained, ESBG Members will use in particular certain sections of the framework, where getting additional information from supervisors is useful for credit institutions. These areas have been highlighted in our comments to the section ‘content of disclosure’.

- 4) Do you have any comments on the mechanics of the website architecture, e.g. suggestions for making it more user-friendly?

No particular comments in addition to those made in the paper.