

17 February 2009

CEBS Work Programme 2009

Progress made in 2008

1. The activities undertaken by CEBS in 2008 were very much focused on four topics:
 - Dealing with the **unfolding crisis situation** on the financial markets, amongst others by addressing the projects mentioned in the EU roadmap on the market turmoil and facilitating our members;
 - Addressing the follow-up work from the conclusions of the **Lamfalussy review**, especially with regard to the strengthening of the role of CEBS as a level 3 committee as set out in the EU roadmap on financial institutions;
 - Providing **technical advice to the EU Commission** on CRD-related issues, including the finalisation of the advice on own funds, large exposures, liquidity, national discretions and the work on the impact of the CRD in the economic cycle;
 - Giving **further guidance** in the delivery of the Capital Requirements Directive by our members which has now been implemented by our members.
2. On the **unfolding crisis situation** CEBS has stepped up its co-operation amongst members, facilitated swift information exchange (e.g. by means of conference calls), developed guidance as endorsed by the ECOFIN on the disclosures by banks as the crisis situation was unfolding, monitored the implementation of this guidance, analysed the problems associated with the valuation of assets that became illiquid, provided recommendations, as endorsed by the ECOFIN, to banks and accounting standard setters on this topic, provided comments on the proposals made by the EU Commission on regulatory changes, developed a process for delivering periodic risk assessments to the EU institutions and provided a first assessment mid this year to the EFC-FST. In addition, CEBS has contributed to the development of the MoU that has been established between supervisors, central banks and Ministries.
3. On the **implementation of the EU roadmap** on the Lamfalussy review, CEBS has agreed mid 2008 to implement Qualified Majority Voting, established its Review Panel, has facilitated the co-operation and co-ordination within colleges of supervisors and the monitoring of their functioning and developed a time-line for the delivery of a fully harmonised supervisory reporting system by 2012.

4. With regard to the **advices to the EU Commission** CEBS finalised its advice on own funds with a special focus to the treatment of hybrid capital instruments, issued an advice on the large exposures rules in the EU which is geared towards managing the idiosyncratic risk of a default of individual counterparties, has issued an advice on liquidity and will advise the EU Commission on the deletion of national discretions and options that are now part of the CRD but hinder a sufficiently converged treatment amongst EU member states.
5. On **level 3 guidance**, CEBS prioritised its work such that planned activities linked with the implementation of the EU roadmaps were given the highest priority whereas other areas have been postponed. Key areas on which level 3 guidance has been developed, were operational networking and colleges of supervisors, liquidity risk management, transparency and disclosure and valuation of illiquid assets.
6. Given the need to prioritise, Pillar 2 implementation issues, especially those related to diversification benefits arising from internal economic capital models (ECMs), based on assessments conducted by joint examination teams on a sample of EU groups, and on the level of application for Internal Capital Adequacy Assessment Processes (ICAAPs) have been **postponed until 2009**.
7. In developing its initiatives, CEBS has further intensified its dialogue with its external stakeholders. More specifically, for key areas on which CEBS developed initiatives, **industry expert groups** have been set up that provided technical expertise in the process. Furthermore, the dialogue with its Consultative Panel has intensified and CEBS has held hearings on every important topic.

Projects for 2009

Prioritisation

8. CEBS has identified the topics it needs to work on in the future. In order to be able to react swiftly to the changing situation on the financial markets, CEBS will utilise a strict prioritisation scheme in planning and executing its activities. To this end, a distinction is made between:
 - Priority 1: these activities are key and need to be delivered within the agreed upon time schedule. Resources will firstly be allocated to these priority 1 activities.
 - Priority 2: these activities are important for CEBS to deliver but could to some extent be postponed, if necessary.
 - Priority 3: these activities will only be undertaken in as far they do not conflict with the resources needed for priority 1 and 2 activities.

Given the changing developments in the financial markets, priorities can be changed in the course of 2009. Both the Extended Bureau and the Consultative Panel will be instrumental in this re-prioritisation exercise and changed priorities will be formally agreed upon at CEBS main committee meetings. Priorities in the work programme have already been revised to take account of the G20 roadmap, for which CEBS has been tasked with a number of deliverables at the European level.

Key activities for 2009

9. The highest priority has been given to CEBS' activities in relation to the current crisis situation and to CEBS' deliverables connected to the EU roadmaps. More specifically, CEBS has identified the following projects as being high priority projects for delivery in 2009:

• **Crisis management:** Given the current market situation it goes without saying that crisis management is paramount to CEBS and its members in our day-to-day supervisory practise. CEBS will continue facilitating as far as possible adequate information exchange between members and will provide guidance on topics of common concern and/or interest. In this regard, CEBS plans:

- to set up recommendations on the functioning of colleges of supervisors in a crisis situation,
- to implement practical tools at the level of the CEBS secretariat to facilitate information exchange between members in the current crisis situation,
- to analyse the supervisory implications of the national "rescue plans" and to look at crisis events by analysing the approaches taken by supervisors and supervisory tools applied.

Due to the unfolding of the crisis, the crisis management exercise in which CEBS would participate has been postponed.

• **Early intervention mechanisms:** the EU Commission is developing a white paper on early intervention tools for which a request for assistance has been sent to CEBS. CEBS's review panel is currently preparing an overview of 'all pre-liquidation stabilisation measures' available at national supervisors for achieving timely solutions at a troubled institution as well as under which conditions these measures can be used. There is a genuine interest to EU supervisory authorities to comment on this EU initiative and if necessary to develop policy-recommendations, especially with a view to having a sufficiently streamlined approach for these tools for cross-border operating banking groups.

• **Transparency, disclosure and valuation:** CEBS presented mid 2008 its good observed practises on adequate disclosures concerning assets that are relevant in the current market situation. In 2009 the major EU cross-border operating banks will for the first time disclose Pillar 3 information. CEBS will assess both the adequacy of the end 2008 disclosures of banks as well as the upcoming Pillar 3 disclosures presented to the market, and will present, if necessary, policy recommendations to increase the quality of these disclosures. CEBS will also assess the progress made by the banking industry in enhancing the transparency of securitisation activities and will follow-up on its 2008 report on issues regarding the valuation of complex and illiquid financial instruments.

- **Periodic risk assessments:** in 2008, CEBS developed a mechanism on how to perform on a periodic basis focused risk assessments, building upon a macro-economic analysis provided by the Banking Supervision Committee. In 2009, CEBS will continue to deliver these assessments to identify important risk areas, their relevance to banks, the measures banks have taken to mitigate these risks and possible policy responses needed.
- **Liquidity risk management:** in 2008 CEBS developed recommendations for liquidity risk management and supervision and presented its proposal for regulatory changes. In 2009 CEBS will do the follow-up work, as already announced in its 2008 products. More specifically, CEBS will develop more detailed guidance on the composition of liquidity buffers and the definition of the survival period, as well as on internal transfer mechanisms, will develop criteria for assessing internal methodologies and will explore the possibility of developing a minimum set of common quantitative and qualitative information requirements.
- **Colleges of supervisors and other network mechanisms:** The current market situation and the actions taken by supervisory authorities demonstrate that supervisory cooperation, coordination and information exchange is of the utmost importance. Promoting supervisory cooperation and coordination through colleges of supervisors has been high on the agenda of CEBS since its inception, by fostering the functioning of colleges of supervisors and tackling issues raised by members or the Industry Platform on Operational Networks. CEBS will draw lessons from the current experiences in order to improve the current cooperation and coordination supervisory mechanisms in place, as well as identify possible other networking mechanisms.
- **Guidelines on hybrid capital instruments:** As part of the follow up of CEBS proposals on hybrid instruments, which has translated into European Commission's proposals for revising the CRD, CEBS will elaborate operational guidelines on the precise criteria for hybrids instruments to qualify as capital for regulatory purposes.
- **Supervisory reporting:** In 2008 CEBS and CEIOPS developed a plan to introduce harmonised supervisory reporting by 2012. This plan has been endorsed by the ECOFIN. In order to have the framework accomplished in the agreed upon timeframe, several deliverables need to be agreed upon already in 2009, both on COREP and on FINREP.
- **Training programmes:** In 2008, CEBS agreed with the other level 3 committees to develop as of 2009 a number of 3L3 training programmes. To some extent, funds have been provided by the EU Commission to undertake these programmes. 2009 will be a pilot year in which a first 3L3 programme will be run and a structure will be set up within the secretariats to manage the trainings.
- **Securitisation:** In 2009, the revised CRD should modify the supervisory treatment of securitisation activities. CEBS will work on the implementation guidance of the revised regulation, notably on retention clauses.

- **Pillar 2:** Pillar 2 is an area in which at the moment there are quite divergent practises amongst member states. In a number of these areas it is felt important to further develop a more harmonised approach, more specifically as regards:

- i. Guidelines on the joint assessment process
- ii. The range of practices between supervisory approaches to stress testing under Pillar 2
- iii. Concentration risk

Priority 2 activities for 2009

10. Besides ongoing topics like the monitoring of accounting & auditing standards, the development of guidance on the implementation of the 3rd EU anti money-laundering directive, the handling of Q&A's on the implementation of the CRD and COREP & FINREP and the yearly **Peer Review** exercises, CEBS plans also to address the following topics as priority 2 activities in 2009:

- **Pro-cyclicality:** CEBS has been invited to work in an EU working group on the topic of pro-cyclicality. CEBS already acts as a joint sponsor of the TFICF (together with the BSC) aiming for analysing the effects of the Capital Requirements Directive on the economic cycle. Also in the BCBS and the FSF work is being undertaken in this area. CEBS plans to liaise as much as possible with these work streams. In addition, CEBS will analyse the impact of declining capital levels.
- **Amendments to the CRD:** especially in 2008, a number of changes in the CRD have been initiated by the EU Commission to be effected in the coming years. In 2009 CEBS will be monitoring these upcoming changes and might develop level 3 tools, partly as spin-off of work already undertaken in 2008 in the different calls for advice or already announced in these advices. Apart from the work on hybrid capital instruments and the guidelines on securitisation, which are assigned a high priority, areas for which this is planned, are:
 - i. Large exposures
 - ii. National discretions and options.

In addition, CEBS will elaborate guidelines on implementing the incremental default risk charge in the trading book, monitor the changes concerning home and host responsibilities, and might revise its tools for cross-border cooperation accordingly.

- **Supervisory disclosure:** CEBS developed in 2007 its guidelines on supervisory disclosure, specifically aimed at the Capital requirements Directive. The supervisory framework is now in operation. A number of topics have been identified to further improve the use of this framework. In addition, the scope of the current framework could be enlarged. In 2009 a study will be undertaken to amend the guidelines, which could take effect in 2010-2011.

- **Financial conglomerates:** In 2009, the IWCFC will focus its work on the Financial Conglomerates Directive, especially geared towards a study on the implementation of said directive in the different member states and possibly on the development of proposals for regulatory changes, dependent upon the outcome of this exercise.
- **Mediation:** CEBS has introduced the mediation mechanism among its members in its Charter. Until now, CEBS did not use this mechanism. For 2009, a case study will be undertaken to learn how this mechanism could be utilised in practise.
- **Delegation:** The three levels 3 Committees will work in 2009 to deal with any possible follow-up work to their 2008 work on delegation of decisions/responsibilities. Further they will also assist the Commission in the continued work with regard to the options for voluntary delegation of supervisory competences.

Priority 3 activities

11. A number of activities have been earmarked as priority 3 activities. These activities will only be undertaken in 2009, when CEBS will have sufficient resources available. Given the current situation in the financial markets, it is uncertain whether that will be the case. Topics that have a low priority include:
- The development of a range of practises paper under Pillar 2 on **interest rate risk** in the banking book
 - Possible follow-up work on **diversification** under Pillar 2
 - Work on business, strategic and reputational risk, on internal governance and on economic capital models
 - The establishment of a CEBS network on the treatment amongst member states on hybrid capital instruments
 - Some topics in the intermediate 3L3 work programme, like the guidance on internal governance, the periodic report on non-cooperative jurisdictions and the development of 3L3 fit & proper requirements
 - Updating the guidelines on validation (GL10)
 - Updating the Pillar 3 implementation study undertaken in 2007

Detailed template on the work programme 2009

12. A more detailed template on the deliverables that are foreseen for 2009 is provided in appendix. For every deliverable, it shows their priority, deadline and origin of the request.

Monitoring of progress and bottlenecks

13. As of 2009, the main committee will be informed on a quarterly basis about the progress of the work programme. Possible bottlenecks will then be identified and changes in priorities as proposed by the Bureau will be agreed upon.