



# HSBC Chief Officers' Conference - Future Shape of Regulation

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**CEBS**

Committee of European  
Banking Supervisors



# Outline

- The role of CEBS
- The Commission's proposal
  - ✓ *New framework*
  - ✓ *Key challenges for CEBS*
- CEBS's work on convergence
  - ✓ *Colleges*
- New regulation in response to the crisis
  - ✓ *Risk Management & remuneration*
  - ✓ *Liquidity Risk Management*
- Conclusions

# The role of CEBS – objectives and tasks

## Objectives:

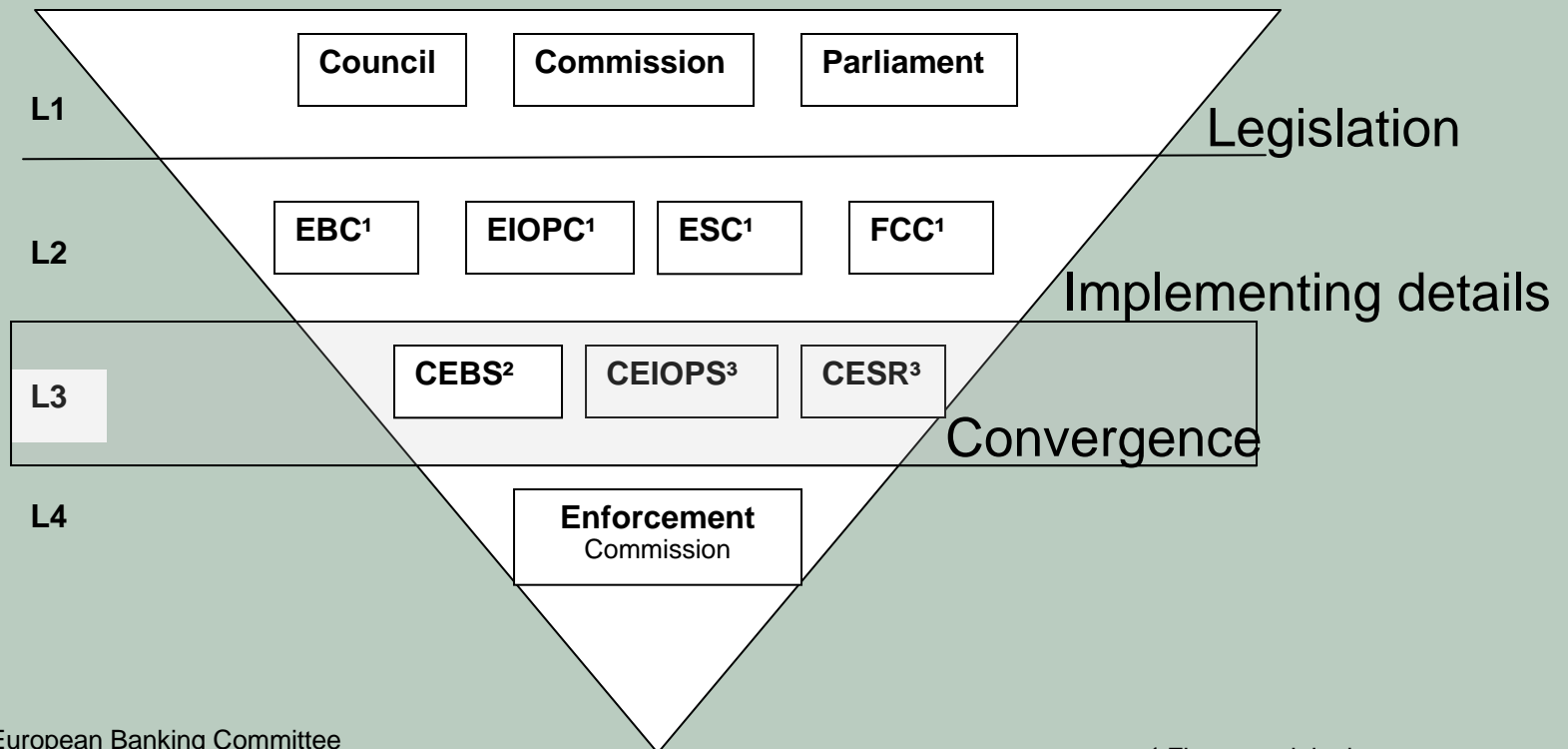
Promote efficient and effective supervision and the safety and soundness of the EU financial system through:

- Good supervisory practices
- Efficient and cost-effective approaches to supervision of cross-border groups
- Level playing field and proportionality

## Main tasks:

- Give advice to the Commission
- Promote consistent implementation/application of the EU banking legislation
- Promote convergence of supervisory practices
- Promote information exchange and supervisory cooperation
- Regular risk assessments from a supervisory perspective

# The role of CEBS - the Lamfalussy structure



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

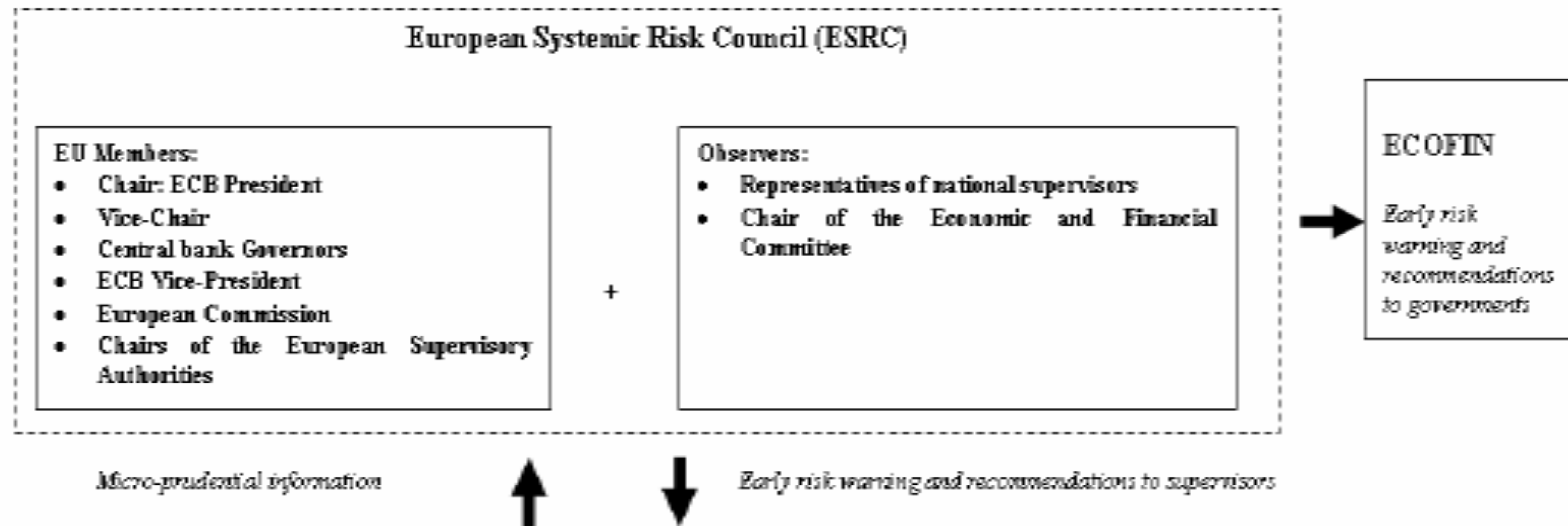
<sup>1</sup> Finance ministries  
<sup>2</sup> Supervisors and Central Banks  
<sup>3</sup> Supervisors

# The Commission's proposal

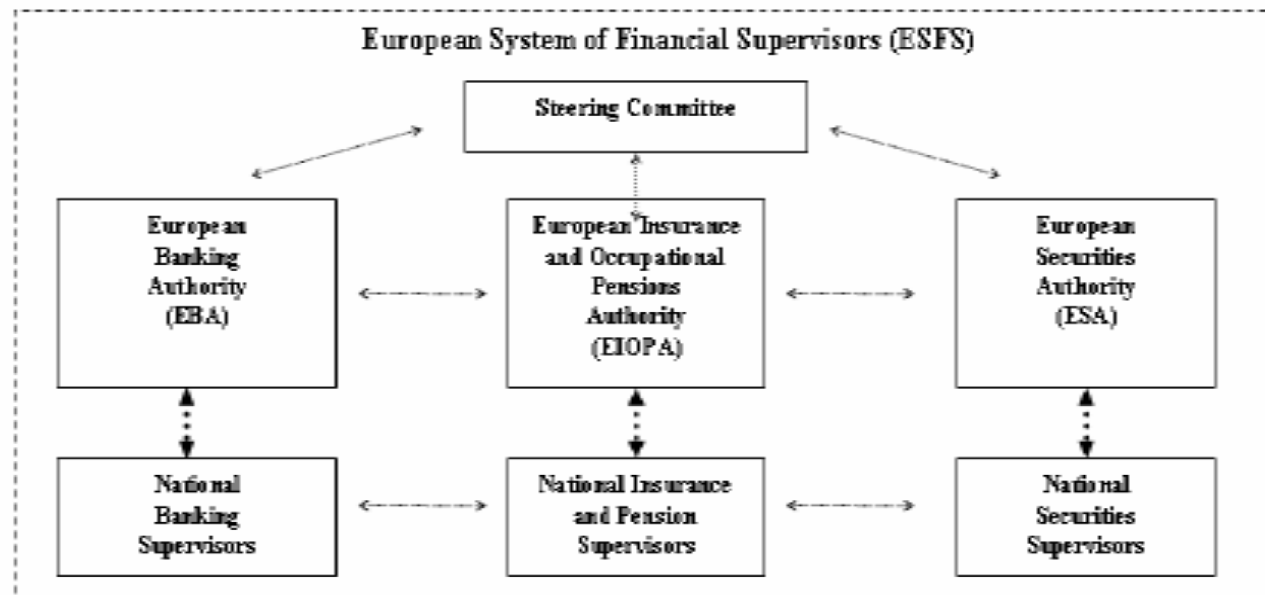
- An enhanced European financial supervisory framework should be composed of two new pillars
  - European Systemic Risk Council (ESRC) -> *macro-prudential supervision*
  - European System of Financial Supervisors (ESFS) -> *micro-prudential supervision*
- In this context, the existing 3L3 Committees to be replaced by three new European Supervisory Authorities (ESAs)

# ESRB & ESFS

*Macro-prudential supervision*



*Micro-prudential supervision*



# Proposals on micro prudential supervision

- **A single set of harmonised rules**

- ✓ ESAs to develop binding technical standards in specific areas

- **The European Supervisory Authorities to:**

- ✓ collect micro-prudential information
- ✓ have full supervisory powers for some specific entities (*i.e. credit rating agencies*)
- ✓ ensure coordinated response to the crisis
- ✓ promote common supervisory culture and consistent supervisory practices
- ✓ investigate breaches of EU rules
- ✓ participate in colleges' meetings as observers

- **Disagreement between national supervisors**

- ✓ ESAs to facilitate the dialogue, assist supervisors in reaching a joint agreement
- ✓ ESA's to decide if no agreement can be reached >> fiscal policy



# The Commission's proposal


## CEBS supports..

- Evolution rather than revolution
- Day to day supervision at national level
- Key role for colleges
- One harmonised set of core rules
- Strengthened role of 3L3 Committees
- Mediation role for the future Authorities
- Establishment of a formal 3L3 coordination

# Key challenges for CEBS

- Mechanism for regulatory convergence
- Goldplating and national discretions
- Scope for binding technical standards
- Legally binding decisions >> mediation mechanism
- Framework for crisis management
- New role for the ESA's on data-collection
  
- ❖ Funding - Accountability – Independence
- ❖ Fiscal policy >> burden sharing

# Convergence tools developed by CEBS

- Supervisory culture (trainings etc)
- Supervisory disclosure framework
- Guidelines, standards and recommendations
- Common reporting
- Implementation studies and peer reviews
- Colleges 

# CEBS work on colleges

- Guidelines on home-host cooperation (Jan 2006)
- Range of practices paper (Dec 2007)
- Template for written agreements (Jan 2009)
- Joint principles (CEBS/CEIOPS) for supervisory colleges (Jan 2009)
- Good practices paper (April 2009)

# Priorities for 2009 on colleges

- Agreed list of major cross border banking groups in EU
- Regular follow up and monitoring
- Aim for 2009
  - ✓ colleges in place for each group on the list
  - ✓ MoUs in place
  - ✓ a good planning of supervisory activities

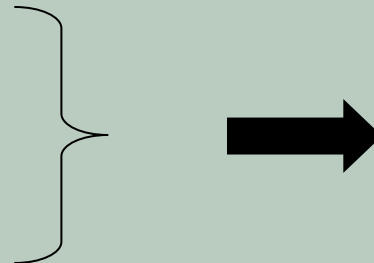
# Colleges as of end 2010

- Guidelines for a joint risk assessment
  - ✓ coordinated risk assessment
  - ✓ coordinated assessment proces
  - ✓ coordination decision
- Guidelines for the operational functioning of colleges
- Global versus EU colleges??
- One bank - one college - different operational settings
- CEBS – BCBS - FRB

# New regulation in response to the crisis

- Building on BII >> CRD
- BII >> CRD – gaps
- Definition of capital – hybrids – core tier 1
- Fair values - reclassification of assets
- Pro-cyclicality - capital buffers – dynamic provisioning
- Non-risk based metrics
- Stress testing
- Transparency and Valuation
- .....

- **Risk management**
- **Remuneration**
- **Liquidity risk management**



# Risk Management

- G20 declaration and Action Plan called for strengthening of risk management practices
- CEBS public consultation on risk management principles (April – July 2009)
- High level principles to be considered both by institutions (ICAAP) and supervisors (SREP)



# CEBS HLP on risk management

- Governance and risk culture
  - Comprehensive and independent risk management function
  - Consistent risk culture, sound risk governance and appropriate communication policy
- Risk appetite and risk tolerance
  - To be set by the management body and senior management
  - All relevant risks to be taken into account
  - Consistency among respective targets (credit rating and rate of return on equity)

# CEBS HLP on risk management

- Role of Chief Risk Officer (CRO) and risk management function
  - CRO responsible for the risk management function across the entire organisation
  - CRO to be sufficiently independent and in a position to challenge the decision-making process of the institution
  - The risk management function to be independent from the business units
- Risk models
- New product approval policy and process (NPAP)

# Remuneration

CEBS published its principles for remuneration policies in April 2009

- Remuneration policy to take into account institution's business strategy, risk tolerance and long term interests
- Transparent internally and adequately disclosed externally
- Management body responsible
- Performance related remuneration should not be based just on individual results
- Proportionate ratio between base pay and bonus
- Implementation ASAP (expected Q3 2009)

# Liquidity risk management

- CEBS's 30 Recommendations on LRM (*September 2008*)
- CEBS's interim report on liquidity buffers and survival periods (*March 2009*)
- CEBS's consultation on the appropriate size and composition of liquidity buffers (*public hearing on 22 Sep 2009*)

# Conclusions

- Contribute to restoration of confidence in financial markets
- Contribute to the improvement of the EU supervisory architecture
- Enhance the regulatory harmonisation
- Move further on European and global convergence of supervisory practices



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