

FSI - High Level Meeting

**Developments and responses
to the current financial crisis –
an EU Perspective**

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CEBS

**Committee of European
Banking Supervisors**

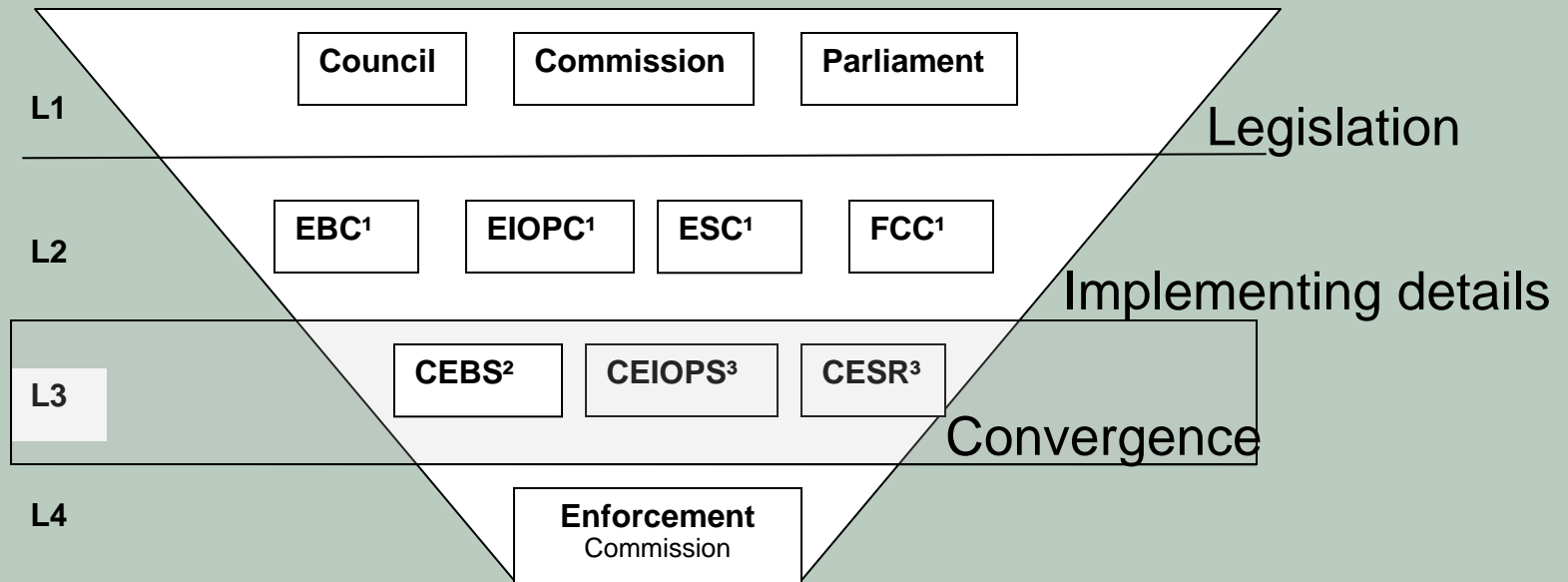
Outline

- The role of CEBS
- Regulatory initiatives
- CEBS role during the crisis
- Institutional issues
- Colleges
- CEBS work programme 2009

Europe and EU



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

¹ Finance ministries
² Supervisors and Central Banks
³ Supervisors

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

Regulatory initiatives – who is to blame?

- **Who is to blame for the financial crisis?**
- How can we restore confidence?
- Do we need more regulation? Supervision?
- Can supervision be better organised?
- How can we link the global macro prudential analysis to the day to day supervisory priorities?
- Do we have a relevant framework in place to handle cross border institutions?

Regulatory initiatives – actors

- Financial Stability Forum
- G20 Action Plan
- Basel Committee on Banking Supervision
- Senior Supervisors' Report
- ECOFIN Roadmap
- Committee of European Banking Supervisors
- Institute for International Finance

Regulatory initiatives - FSF

- Strengthen prudential oversight of capital, liquidity and risk management
- Enhancing transparency, accountability and valuation
- Changes in the role and uses of credit ratings
- Strengthening the authorities' responsiveness to risk
- Robust arrangements for dealing with stress in the financial system
- Reinforcing international cooperation
 - Colleges of supervisors

Regulatory initiatives – G20 Action Plan

- Enhancing Transparency and Accountability
- Enhancing Sound Regulation
- Promoting Integrity in Financial Markets
- Reinforcing International Cooperation
- Reforming International Financial Institutions

Regulatory initiatives – EU Commission and CEBS

Strengthening prudential oversight

- Review Capital Requirements Directive (CRD)
- Ensure that banks maintain adequate capital
- Improve guidance to strengthen banks' risk management
- Enhance transparency and disclosures
- Work for the establishment of centralised clearing for credit default swaps (CDS)

Regulatory initiatives – EU Commission and CEBS

Enhancing transparency and valuation

- Report and develop guidance on transparency regarding structured products
- Follow up of disclosure practices in 2009
- Dialogue with accounting standard setters on improved guidance for valuation of complex and illiquid assets
- Develop uniform (EU) reporting framework at the latest by 2012

Regulatory initiatives – EU Commission and CEBS

Ratings and authorities' response to risk developments

- Proposal for EU legislation on rating agencies
- Review of role given to external ratings in regulations
- Supervisory colleges for large cross border banks
- Authorities will strengthen their cooperation in dealing with stress situations (MOU)

CEBS role during the crisis

Cooperation and coordination

Among CEBS members

- Activities under the ECOFIN Roadmap
- Deliveries to fulfil G20 Recommendations

With L3 Committees and EU institutions

- IWCFC meetings
- 3L3 Chairs and Secretariats meetings
- Written 3L3 updates on progress made are submitted
- Joint attendances and contributions to EU institutions' activities

CEBS role during the crisis

Task Force on Crisis Events (TFCE):

- Analyzing the supervisory implications of the national “rescue plans” as announced by members
- Looking at crisis events surrounding individual institutions

Institutional issues

Commission Mandate to the “de Larosière Group”

- The Group will make proposals covering all the financial sectors with the objective to establish a more **efficient, integrated, sustainable** EU system of supervision
- Issues to be addressed:
 - How the supervision of EU financial institutions should be best organised
 - How to strengthen EU cooperation on financial stability oversight, early warning mechanisms and crisis management (cross border and cross sectoral risks)
 - How supervisors in the EU should cooperate with their counterparts in other major jurisdictions at a global level

Institutional issues

CEBS stance on future institutional setting → enhanced evolutionary approach

Stressing the following:

- Establishment of colleges of supervisors for all cross border banks in the EU
- Networks of national experts to be set up
- Reinforced institutional arrangements between CEBS, BSC and ECB → especially in the context of risk assessments
- CEBS guidance and recommendations to be implemented timely and adequately at a national level
- Peer reviews

Colleges 1

Tools developed by CEBS

- Guidelines on home host cooperation
- Range of practices paper (Dec 2007)
- Template for written agreements (Dec 2007)
- Joint principles for banks and insurance colleges (Jan 2009)

Colleges 2

Main issues

- The focus on home-host cooperation is broadening to a wider range of supervisory issues, from internal models under pillar 1 to the supervisory review process under pillar 2
- Current crisis highlights the importance of effective information sharing, cooperation and coordination between authorities, both for crisis prevention and for the management of possible stress events
- Concept of colleges has to be further developed into a more *operational concept including* coordination of tasks, reduction of compliance costs and promotion of actual convergence in day-to-day practices

Colleges 3

CEBS priorities

- List of all major cross border banking groups in EU
- Regular follow up and monitoring
- Aim for 2009
 - To have colleges in place
 - To have MoUs in place
 - To have a good planning of supervisory activities

CEBS work programme 2009

Process

- CEBS has identified the topics it needs to work on in 2009
- During this identification process, CEBS has decided that flexibility and ability to react swiftly should be maintained. Thus, while a strict prioritization process is followed, changes in priorities will be accommodated

Priorities

Priority 1: Key activities that need to be delivered within the agreed upon time schedule i.e. crisis management early intervention mechanisms

Priority 2: Important activities for CEBS to take on, but could be postponed, if necessary i.e. large exposures

Priority 3: activities that will be undertaken as far as they do not conflict with the resources needed for priority 1 and 2 activities

Priority 1 Activities – Crisis management

Crisis Management is paramount to CEBS and its members

- CEBS will continue to:
 - facilitate swift information exchange
 - provide guidance on topics of common interest

Further work is planned regarding:

- Colleges of supervisors in **crisis situations**
- Implementation of practical tools for information exchange
- Supervisory implications of national “rescue plans” (TFCE)
- Enhanced guidelines to strengthen bank’s risk management practices (TFRM)

Priority 1 Activities – Early intervention mechanisms

A white paper is being prepared by the European Commission on early intervention mechanisms and a request for assistance has been sent to CEBS. Relevant topics include:

- Stabilisation measures available for problem banks
- Conditions under which these measures can be used
- Link with issues on asset transferability and deposit guarantee schemes

Goal is to develop a streamline the approach for cross-border operating banking groups

Priority 1 Activities – Transparency and Disclosure

2008

- CEBS reported twice on transparency and disclosures based on a sample of large banks

2009

- Similar analysis will be performed when 2008 year-end results are available
- Major EU cross-border operating banks will disclose Pillar 3 information
- Possible policy recommendations
- Assess and report on proposals on better transparency for securitised transactions (EBF templates and supervisory relevance)

Priority 1 Activities – Periodic Risk Assessments

- CEBS has delivered two risk assessment reports to the EFC – FST
- CEBS will continue to provide, at least bi-annually, assessments of micro-prudential trends, potential risks and vulnerabilities in the banking sector
- Close cooperation is also built with the sister Committees CESR and CEIOPS establishing a 3L3 cross sector risk assessment framework

Priority 1 Activities – LRM

2008

- CEBS report on liquidity risk management and supervision
 - 30 recommendations

2009

- Follow-up work
- More detailed guidance on
 - Composition of liquidity buffers
 - Definition of the survival period
 - Transfer mechanisms within groups
 - Criteria for assessing banks' internal methodologies
 - Developing a minimum set of common information requirements

Priority 1 Activities – Capital Instruments

- In 2008 CEBS has delivered advice on hybrid capital instruments which has been largely translated into the proposal for a revised CRD
- Further work to be done
 - Elaborate guidelines for the convergence of supervisory practices
 - Review the application of those guidelines
- Goal is to provide a common EU interpretation of the eligibility criteria and advise the European Commission on the codification of these criteria into EU legislation
- Monitoring new issuance of capital instruments and their consistency with the revised CRD

Priority 1 Activities – Others

- Harmonised supervisory reporting by 2012
- Several deliverables need to be agreed upon in 2009, both on COREP and FINREP
 - Streamlined FINREP and COREP framework
- Principles for risk management
- Principles for remuneration policies and incentive schemes
- Training programmes
- Article 6 of EC decision:
 - “*The Committee should contribute to the development of a common supervisory culture in the field of banking as well as on a cross-sectoral basis in close cooperation with the other Committees of Supervisors*”
- CEBS, CEIOPS and CESR plan to develop 3L3 courses in 2009
- EU funding from the European Commission expected
- 2009 will be a pilot year

Priority 2 Activities – Part I

- Pillar 2 issues
 - Supervisory Review and Evaluation Process
 - Concentration risk
 - Business, strategic and reputational risks
 - Internal governance
 - Stress testing
- Pro-cyclicality
 - Report to EFC in liaison with BSC (December 2008)
 - Pillar 2 capital buffers that can be drawn down in adverse market conditions
 - Effects of the CRD to the economic cycle
 - Impact of declining capital levels
- Amendments to CRD (apart from hybrid capital)
 - Implementation work on large exposures
 - National discretions and options
 - Tools for cross-border cooperation

Priority 2 Activities – Part II

- Supervisory disclosure
 - Framework is now in operation
 - Improvement is needed "→ extension of the framework (tables/guidance)
 - 2009 "→ amend the guidelines
 - 2010-2011 "→ enforcement will take place
- Financial conglomerates
 - IWCFC implementation of FCD
 - Carrying out micro-prudential crisis related work
- Mediation
 - Not used so far
 - 2009 "→ case study will be undertaken
- Delegation
 - Follow-up work on delegation of tasks
 - Voluntary delegation of supervisory competences?

CEBS – Conclusions

- Contribute to restoration of confidence in financial markets
- Continue closely monitoring of the financial crisis and co-ordinate supervisory responses
- Deliver on CEBS work program 2009 and co-ordinate with the global agenda
- Move further on European convergence



CEBS

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