



Risk Capital 2008 Paris

The CEBS Perspective

Kerstin af Jochnick | 30 June 2008

CEBS

Committee of European
Banking Supervisors

Outline

- CEBS' response to the market turmoil
- Report on banks' transparency concerning activities affected by the market turmoil
- Report on issues regarding the valuation of complex and illiquid financial instruments
- Consultation paper on liquidity risk management

CEBS' main 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
- effective regulation
- level playing field and proportionality

Main tasks

- Give advice to the Commission
- Promote consistent implementation/application of EU legislation and enhance convergence of supervisory practices
- Exchange information and enhance supervisory cooperation
- Alerting on financial stability

Response to the market turmoil (1)

Financial Stability Forum

Basel Committee on Banking Supervision

Senior Supervisors' Report

ECOFIN Roadmap

Committee of European Banking Supervisors

Institute for International Finance

Response to the market turmoil (2)

Financial Stability Forum

- Capital requirements
- Liquidity
- Oversight of risk management

EU Commission and CEBS

- Review CRD
- Guidance Liquidity Risk Management
- Improved transparency
- Developed supervision cross border groups

Response to the market turmoil (3)

Financial Stability Forum

- Robust risk disclosure
- Standards for off-balance sheet vehicles and valuations
- Transparency in structured products

EU Commission and CEBS

- Report and guidance on transparency structured products
- Develop joint reporting framework
- Dialogue with accounting standard setters on improved guidance for valuation of illiquid assets

Response to the market turmoil (4)

Financial Stability Forum

- Changes in the role and uses of credit ratings
- Strengthening the authorities' responsiveness to risks
- Robust arrangements for dealing with stress in the financial system

EU Commission and CEBS

- Report from CESR
- Supervisory Colleges for large cross border banks
- Authorities will strengthen their cooperation in dealing with stress (MOU)

CEBS report on transparency (1)

Assessment covered significant banks and a broad range of sources

- Covered 22 significant banks: 19 of which originated from the EU
- For banks the analysis looked at published reports, presentations, slides, trading reports

CEBS report on transparency (2)

Methodological and logical approach

- Point of reference for analysis: list of possible disclosure topics and items - roughly based on principles and items covered in Pillar 3 and IFRS 7
- **Logical structure: analysis of all aspects to be disclosed in order to understand an institution's situation:**
 - Risk information and risk management;
 - Business model and extent of involvement;
 - Impact of the market turmoil and level of exposures;
 - Accounting policies and valuation issues;
 - Other disclosures and presentation issues

CEBS report on transparency (3)

Main findings

- Limited disclosures on business models and related risk management practices (especially liquidity risk).
- Diverse disclosures on exposures and on the impact of the crisis;
- Generic disclosures on the valuation of exposures affected by the market turmoil and their accounting;
- Varied presentations of disclosures

Report on valuation of complex and illiquid financial instruments (1)

Analysis focused on:

- The valuation of complex or illiquid financial instruments for which no active markets exist;
- Transparency on valuation practices and methodologies as well as related uncertainty;
- Audition of fair value estimates

Report on valuation of complex and illiquid financial instruments (2)

Main recommendations to institutions

- Enhance practices and governance surrounding the use of modeling techniques
- Ensure that all appropriate risk factors are considered when determining a fair value
- Improve risk management to ensure adequate assessment of transactions and appropriate management of exposure

Main recommendations to standard setters

- Consider the need for further guidance on determining fair values when there is little market activity in the instruments concerned (or instruments relevant to pricing)

Report on valuation of complex and illiquid financial instruments (3)

Transparency aspects

- Accounting standard setters should review the disclosures requirements to enhance the information to be disclosed on fair values and valuation techniques
- Institutions should enhance their disclosures on fair values and on valuation techniques

Auditing aspects

- Auditing standard setters should review the disclosures requirements to enhance the guidance for the audit of fair value estimates

Consultation paper on liquidity risk management (1)

- Paper published on CEBS' web site
- Consultation until 1 August 2008
- Public hearing in London on 4 July

Consultation paper on liquidity risk management (2)

- 18 recommendations to institutions to have adequate liquidity risk management in both normal and stressed times
- 12 recommendations to supervisors to apply a proportionate approach to the supervision of liquidity risk management

Consultation paper on liquidity risk management (3)

Main requirements on institutions:

- Robust internal governance
- Adequate tools to identify, measure, monitor and manage liquidity
- Stress tests
- Contingency funding plans
- Communication strategy

Conclusions

Responses to the financial crisis:

- Refinement of existing regulation
- Enhanced work on supervisory colleges
- Improved transparency
- Improvement of banks internal governance
- Improvement of risk management practices

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