

Presentation of CEPS report “The new Basel Capital Accord and the future of the European Financial System”

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Speaking points:

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Opening remarks

- Firstly, I would like to thank Karel Lannoo of CEPS for the invitation to this presentation today.
- Congratulations to the rapporteurs (Ms Rym Ayadi of CEPS, and Professor Andrea Resti of Bergamo University) and the contributors to the report, as well as the members of the task force, for producing an interesting and stimulating report on this very important topic.
- I am wearing two hats today – Chair of the Committee of European Banking Supervisors and Member of the Basel Committee on Banking Supervision.

The Basel process

- Firstly, with my Basel hat, a few words about where we are in the Basel process.
- The Basel Committee is on-track to resolve outstanding issues by mid-year 2004, the commitment given in October of last year. I hope that this provides some satisfaction in relation to the first recommendation of the CEPS report “*regulators need to come to a final agreement on the new Accord and should not let uncertainty linger*”.
- The prompt completion of the text is important both from the perspective of the industry and the authorities:
 - It will provide the industry with certainty and clarity about the new Accord, so that they can continue with their work on implementation although the Third Consultative Paper, together with the agreements reached by the Committee at its last two meetings, already provides a good basis for these efforts.
 - As with the first Accord, and its previous amendments, the text will also provide a solid basis for national – and supra-national - implementation processes to continue. In Europe we will have a directive, and fortunately, this is already in good shape, thanks to the parallel process that Europe has been following.
- There will be a few issues left for further work, but the Committee intends to complete them as soon as possible prior to the implementation of the new Accord. And this is consistent with what we have always said about the need for an Accord which can be adapted as practices and circumstances change.
- This does not imply instability – on the contrary, it requires a stable framework, with sufficient structured flexibility to adapt the details to reflect continuing developments. I will make some remarks on this aspect from the European perspective shortly.

The EU process

- In Europe, the Commission Services have said publicly that they are committed to finalising the text of the draft proposal for a directive by the summer of this year.
- The new directive will apply to all credit institutions, regardless of their shape and size or of whether they conduct international business, and also to investment firms. In

this sense, the EU does, indeed, have “a *showpiece role in the implementation of the new Accord*” as commented in the CEPS report.

- And CEBS has a key role to play in this implementation. Before I go into more details about this, let me say a few, more general, words about CEBS.

CEBS (and transparency)

- As noted in Karel Lannoo’s chapter “*implementation of the New Accord in the EU*” (Chapter 7), CEBS was created by a Commission Decision, as part of a package to extend the so-called “Lamfalussy approach” to the banking and insurance sectors. This Decision came into effect at the beginning of January 2004.
- CEBS is comprised of high-level representatives of supervisory authorities and central banks from the EEA, and already includes the new EU member states.
- As the so-called “level 3 committee” for banking, CEBS’ main tasks are to give technical advice to the Commission on legislative proposals in the banking field, to be the key forum for the national authorities to work together to promote convergence of supervisory practices, and to enhance supervisory co-operation and exchange of information.
- All of these tasks are very important, and I will comment on them in more detail in relation to specific issues in a few moments, but for now I want to draw attention to the first of these – giving advice to the Commission on legislation. It is crucial that we have a legislative structure in the EU that allows regulation to be adapted to changes in financial markets – not just in the context of future changes to the new Basel Accord – which as I mentioned will be “evolutionary” in nature - but also in a wider context, given the pace of change in financial markets. This was a driving force behind the Lamfalussy approach, which foresees the increased use of committee structures in developing and amending the technical details of legislation. CEBS has a key role to play in formulating these technical details for the Commission’s consideration.
- And in that respect, CEBS intends to operate with a high degree of openness and transparency. We will publish soon a draft statement of consultation practices, setting out our intentions in more detail. We have already set up an interim website (www.cebs.org) in order that our publications and consultations can have the widest reach possible, and we intend to develop an effective relationship with interested parties. This is also key to ensuring a smooth functioning of the process as far as the European Parliament is concerned. We will also establish a consultative panel of practitioners and other stakeholders, to support a high-level strategic dialogue with interested parties, e.g. on the priorities for CEBS’ work.
- Increased consultation should mean more transparency and accountability in the regulatory process at the Community level and an improvement in the technical quality of regulations that have to apply to intermediaries acting under market practices which remain rather different.
- Karel Lannoo makes some comments in his chapter about the *increased burden implied by transparency and consultation*, and I can certainly recognise that. We do have to be sensible and to manage resources carefully, taking a more flexible and targeted approach where this is more appropriate.
- But it also goes without saying that consultation will allow the industry to have an influence over CEBS’ proposals.

CEBS and Basel II (or CAD III)

- Turning to the issue of Basel II, or CAD III, I must first stress that CEBS has placed Basel II at the top of its priority list.
- Given the CEPS report's strong support for "*clear-cut principles to define the relationship between banks and supervisors*", especially in the context of pillar two, I think the authors will be pleased to hear that CEBS will publish soon a set of principles setting out supervisors' expectations in relation to pillar two. This clearly shows the importance that we attach to this element of the new framework and is in line with the report's call for "*a balanced focus between the three pillars of the new capital adequacy framework*", which I very much support. The new Accord is a mix of three approaches – rules, supervisory judgement and market disclosure – which, taken together, provide a more potent set of tools.
- I also fully support the call *for close co-operation between home and host-country supervisory authorities* in the cross-border application of the new framework. Co-ordination of efforts will be key for effective implementation, and CEBS intends to play an active role in this co-ordination effort. It is clear that we have to find an efficient solution to the legitimate concerns of the industry, while ensuring that we don't endanger supervisors' statutory objectives and, by extension, financial stability. From a European perspective, the best way could well be a strengthening of the role of the consolidated supervisor, together with a clear role and responsibility for CEBS in ensuring the effectiveness of the process. We are currently developing and refining our proposals in this respect.
- CEBS is also working on convergence issues in relation to Basel II, most particularly in relation to validation of advanced models, and on exploring the possibilities for reducing the extent of national discretions and achieving convergent use of them, which is *another aspect picked up in the report*.
- So, you can see that CEBS has a lot of hard work ahead, but we think we are well-placed to take up the challenges, and we welcome the analysis and debate that reports such as this one inspire.