

CEBS: Past, Present and Future

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Introduction

Thank you Madame Chair for inviting me to speak at this conference about the past, the present and the future of CEBS.

I have been asked to comment about the *past*. As Shakespeare wrote: 'Past is prologue'. And all of CEBS's efforts and endeavours to date will influence and determine the shape of its future.

Later on today, my colleagues Patrick Pearson and David Wright will discuss the present and the future work of CEBS.

So let's look back a bit. What exactly were the Commission's objectives when we set up CEBS, alongside its sister committees CESR and CEIOPS? And has CEBS been able to meet our expectations?

Objectives

Our objectives were actually rather simple.

First, we knew exactly what CEBS *didn't* need to do: spend any energy on preparing technical directives to 'implement' the Capital Requirements Directive.

Because – unlike MiFid or Solvency 2 – the CRD is a complete package. One directive contains both the broad regulatory principles of a Lamfalussy type framework Directive *and* all of

the necessary technical details of a Lamfalussy implementing Directive.

As a trade-off for this European Parliament agreed to two important things. First, a rapid adoption of the CRD proposal. And second that all of the 120 pages of technical details in its Annexes can be changed through a fast-track legislative 'comitology' procedure. And this of course will be the future regime. CEBS will be expected to provide technical advice to the Commission when it adopts amendments under the classical comitology procedures.

And this left CEBS's hands free to focus on one critical priority. A single deliverable against which it can expect to be judged: that is a converged application of the Capital Requirements Directive across Europe. The correct transposition of this Directive is critical for banks and for financial stability.

Convergence of supervisory practices is particularly important in banking. Because Basel 2 comes at a cost. Around €26 Billion – the GDP of a small Member State. Most of these costs for IT systems and structures.

By enhancing internal credit risk models by segmenting customer bases. Generating EADs. LGDs. PD bands. Internal ratings information and recovery processes.

Warren Buffet recently offered a warning to his leadership team and wrote: "*The five most dangerous words in business may be: "Everybody else is doing it"*". For this case he was wrong. Spending on IT systems to improve risk measurement and management under Basel 2: everybody should be doing it.

But we, and industry, at the same time expect supervisors to converge their approaches to justify this bill for our banking system. Put simply, we expect CEBS to get more banking supervisors to do more things in the same way.

So has CEBS succeeded in this task?

Results

Well, CEBS has certainly taken to this task with relish. Some figures:

- ☞ Since 2004, CEBS has had held 14 meetings and discussed almost 200 papers
- ☞ it has created a machinery of 11 subgroups to produce these papers;
- ☞ CEBS has issued 417 pages of 12 formal Guidelines about CRD implementation. They range from validation to stress testing, and from rating agency recognition to supervisory review;
- ☞ it has held 14 consultations with industry and set up a consultative panel;

☞ and is reported to have the longest conference table in the United Kingdom to fit all of its members around: 74 meters circumference of table space – and even with sufficient space for the Commission

So what are the tangible results of this work? And has it succeeded in converging supervisory practices?

I will not discuss all of CEBS's outputs this morning but want to single out four of them: transparency, options, regulatory reporting, and home / host issues.

Let me start with disclosure of supervisory practices. To converge you need to know where you diverge. To help us here, the CRD contains an innovative and powerful tool. It obliges CEBS and European supervisors to publicly disclose all of their rules and regulations. Including how each of them implements and applies the CRD. And the Commission could even think about expanding this further to all detailed prudential requirements.

As a result of CEBS's efforts everybody can now compare, in some detail, where the precise divergences in supervisory practices are. This is of interest to industry and the Commission. But it is also at least as useful for supervisors themselves.

And this brings me to the options and discretions in the CRD. Because if convergence is about more commonality in supervisory practices, legal options and discretions seems diametrically opposed to this. But CEBS's public disclosure of how each banking regulator applies the 101 options and discretions under the CRD has actually helped us.

This new transparency demonstrates that some discretions may not be used at all. Or that most regulators in practice apply the same option. Which begs the question why some discretions should not be deleted completely? Or how authorities could apply mutual recognition?

We have been following developments closely. And six weeks ago we put this on the agenda of the European Banking Committee, comprising finance ministries and CEBS. This Committee agreed that our banks do face regulatory burdens because of these options and discretions. So we have now tasked CEBS to identify which of them can be deleted. And which ones could be subject to mutual recognition between authorities.

We have asked CEBS to report back to us next spring so that we can decide on our course of action. We in the Commission, as well as CEBS, will of course involve industry in shaping and taking these decisions.

So transparency helps us to identify where we diverge and need to converge. It has helped us to identify at least one important area for attention. This is a third point I would like to talk about: regulatory reporting requirements.

For many years, our ministers in Ecofin and banks have complained about the administrative burdens of different regulatory reporting requirements between Member States. CEBS deserves credit for recognizing this. It has made a real effort to develop a common reporting framework for all EU banks. I am of course referring to CEBS's so-called 'COREP' initiative.

For the first time, prudential information will be reported in the same way. Using the same format and variables and the same common definitions of EU Directives. This improves comparability of information for supervisors and should make life simpler for cross-border banking groups. So far, so good.

Where it gets interesting, is that at COREP's centre is a core set of data that will be used almost uniformly throughout the EU. But there are also standardised *supplemental* information details. These may be asked from banks in addition to the core data. CEBS itself acknowledges that the application of COREP will not be entirely uniform. The degree of granularity of

information asked may differ among supervisory authorities. But according to CEBS this is needed to give flexibility to meet the needs of different supervisory authorities.

In our view, COREP is only a first step towards convergence in this field. But it is one of those cases of the glass being half empty or half full. Some banks would have wished COREP to go further and harmonize a limited but maximum amount of information.

I have raised this specific example because it also demonstrates some of the intrinsic difficulties in converging supervisory practices today. It says a lot about the difficulty for colleagues in CEBS having to take decisions on the basis of consensus. Consensus as a result is good. But consensus as a goal is a real challenge.

But there is also something more fundamental to be said about the wider issue of home / host competencies. Supervisors will argue that each host-country supervisor is charged by its own government with ensuring that, at least at the bank subsidiary level, legal entities operating within its jurisdiction are operating with adequate capital. This is a global reality which reflects the Basel Concordat of 1975.

And at the heart of this lies a simple, but sobering truth. It does not matter to a host supervisor that the consolidated entity has sufficient capital if, in a period of stress, that capital is not available to the legal-entity subsidiary in that host country. This is what banking regulators refer to as the “tensions” arising from the combination of cross-border banking and sovereign responsibilities.

Such tensions have existed for years but are increasingly prominent with cross-border integration and group-wide risk management. This is sometimes apparent in CEBS's work. But it extends far beyond that.

This underlying tension largely determines how far host supervisors are willing and *able* to surrender powers to home supervisors. How far can we realistically, legally and politically require hosts to give up *powers* over local subsidiaries without giving up their *responsibilities*? We have already come some way since 1992: home country control over foreign branches. Consolidated supervision over cross-border groups.

And for the first time in any EU-directive, the CRD has shifted host powers over local subsidiaries to the home consolidating supervisor. But this is limited to one specific area only – group wide model validation.

But do not underestimate the difficulties we faced in getting agreement in Council and Parliament on this. It clearly demonstrates the Commission's determination to progress as far as is sensible in this area.

But extending home powers to other areas of banking subsidiaries located in other Member States touches upon inter-governmental and institutional issues of sovereignty. It raises questions about the responsibility for the stability of a Member State's financial sector. This has the attention of the Commission. And work is ongoing in the Council.

This complex and sensitive set of issues is for another conference, on another day. But we should understand why they are important in judging whether CEBS has realistically been able to meet our expectations.

Appraisal

So *has* CEBS succeeded in its tasks? I raised four particular areas of CEBS work for a reason. They tell us some important things.

First, we need a body to do the work CEBS is doing. Nobody else can deliver this type of work.

Second, I think that we can fairly say that CEBS has made important progress compared to where we were four years ago. We have seen more convergence over the past three years than the preceding three decades .

Third, we can also see the limits to the present arrangements. Transparency has helped us monitor convergence. But there are clear limits to how far CEBS can take convergence. And convergence and consensus clearly make a challenging marriage.

If we did not have CEBS today – we would need to invent it. CEBS is doing a very good job.

The future

So what will all of this mean for the future for CEBS? I believe that in the future we will need more progress. More cooperation, more convergence, more international regulatory leadership, more concrete deliverables. Dictated by continuing market integration, consolidation, complexity, and group wide risk management.

In short, bank supervisors doing more things the same way. David Wright will comment in more detail about how we think to approach those challenges this afternoon.

I do not underestimate the efforts that this requires. It will take time to achieve. But today is 9th May. The date of the Robert Schuman's declaration in 1950, which led to the creation of what is now the European Union. He famously said that

"Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity"

So an evolutionary process. Step by step. Based on confidence and trust.

Looking back, CEBS has taken many of those necessary steps. But together we need to step up gear in the future and for the future.

Thank you for your attention.