

Ensuring Convergence

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Ladies and Gentlemen, Dear Panellists,

It's a great pleasure for me to welcome you to this Panel on Ensuring Convergence.

Ensuring Convergence is not just a topical subject for panel discussion; it needs to be filled with action. It's necessary for European supervisors and regulators to develop and improve convergence to the point where industry understands and agrees that for practical purposes there is a European level playing field. It's one of the major challenges for supervisors today to reach the level of convergence that the industry thinks is acceptable.

Please let me start with the CEBS angle on convergence before inviting each of the panellists to give us their view on convergence and the steps that have to be taken in order to reach the goal.

The focus in my presentation will be around the following questions:

- 1) Why is it necessary that supervisory practices converge?
- 2) What is the role given to CEBS in this area ?
 - CEBS has developed a pragmatic and practical tool kit => How can we take work one step further?
 - Our aim is to create a virtuous circle for convergence
=> How can this virtuous circle be developed and how can we smooth the process we want to have in place.

1) Why is convergence needed?? Isn't it enough with a European directive in place for Basel II?

We have a dream. The dream is to have just one directive in place and full convergence in national regulation and in supervisory practices among 27 European states. Unfortunately the dream is not yet fulfilled.

The reasons behind is of course that we are 27 countries with different history and culture.

CEBS is of the view that convergence is both a process and a "destination". The process must be viewed over time, as current and past work bed down and future work takes shape.

The destination or end point is harder to identify as the underlying legal constraints, both financial and general, constitute a political limit to the degree of convergence which can be achieved by supervisory authorities.

I have identified at least three areas where there is room for more convergence.

First: The Capital Requirements Directive includes options and national discretions to a degree that makes things hard to harmonise.

There are additional layers of national rules.

And there are of course different interpretations and practices

Second: From the industry we have heard for a long time that the compliance cost for reporting requirements are still very high. For cross boarder banks reporting requirements are rather often associated with substantial costs.

The *third* issue I would like to mention is the complex and sometimes fragmented supervisory process in place for cross border banks. It's not always easy to find effective supervisory structures for co operation when there is a misalignment between legal and operational structures.

2) Convergence is a word a la mode today- We all understand that there is a need to converge in several areas. Question is how.

It's a complex roadmap to both understand and implement new regulation but also hard to understand the effects new regulation has on banks' business decisions. It's in the day to day supervision we have to take active steps to improve supervision when meeting new products and risks. To be able to co-ordinate and at the same time be sure that we as supervisor act in convergence with other European supervisors could be a challenging task.

some of the driving forces we are facing today are: Cross border banking is one, centralisation of functions within a bank group with cross border activities could be another and then we have the full range of new regulations that we all have to implement within a rather short timeframe.

CEBS is contributing to this work by **issuing guidelines** and is working hands on with encouraging supervisory convergence via our different **networks**.

CEBS strongly believes that **disclosure** is a key step towards convergence and in that respect has developed a comprehensive framework for which information supervisors regularly should publish on its own website. CEBS has also started to publish information on the ways CEBS guidelines on reporting of financial and prudential information have been implemented by its members.

The main aim for all of us is to deliver a common supervisory culture and approach hopefully for the benefit of European financial institutions.

3) Since the start of CEBS we have consistently tried to put in place tools and work streams with the aim of promoting convergence in supervisory practices.

CEBS has a clear mandate for convergence – To improve convergence is one of the main aims for the Committee

CEBS is supported by a strong commitment of its members. We all feel very committed to deliver convergence within Europe.

CEBS is of course also working to deliver at maximum speed and with a full range of tools.

CEBS approach is to be pragmatic and find easy, effective and transparent solutions,

We try to use a bottom up approach when identifying priority in convergence areas. Via our networks we have an efficient tool at an early stage to identify areas where there is a need for further convergence.

We try to find good ways of working together with the market participants. There is a great diversity in the EU banking sector that has to be reflected also in CEBS work.

I would also like to emphasise the liaison we have with CESR and CEIOPS. It's important for us to avoid overlaps between the three committees and identify possible regulatory gaps between sectors.

Finally, nine of the 27 EU countries are also members of the Basel Committee on Banking Supervision. We have established

a close co-operation with the Basel committee and its subgroups in order to promote a level playing field not only in Europe but also on a global basis.

I think that all of you participating in this conference have a fairly good view on the comprehensive set of Guidelines CEBS has issued. On our web site you can find guidelines for
Supervisory disclosure
Supervisory review
Validation
Reporting framework
Joint work together with the Commission on interpretation of the Capital Requirements Directive.

Is it enough with guidelines-based tools? No it's not. Directive, regulation and guidelines are a perfect platform but it's not enough if we really want to reach an acceptable level for convergence. Therefore we are developing new tools to be used in our work to reach the commitment.

Concrete work is done in our operational networks

We also try to build a common culture via developed co-operation in training of supervisory staff, workshops on supervisory issues and so on.

We are in the process of developing a mediation mechanism;

We are discussing the possibility to delegate tasks between supervisors.

Finally, we are also discussing the possibility to develop procedures for peer review.

4) to create the virtuous circle: Can we establish a well functioning process that starts from CEBS guidelines, continues with practical implementation and finally includes some form of

monitoring and follow up that the principles are implemented in regulations and in supervisory practices in a harmonised way?
This is what we want to do...

5) Facing challenges ahead

My final slide focuses on the challenges ahead.

It's a complex area to develop, many countries are involved.

Convergence is a process; we have to accept that it doesn't happen overnight.

I would be very interested in hearing views on how we can improve our process.

Are there other tools CEBS could use?

How can market participants contribute to more convergence?