

IWCFC at CEBS /CEIOPS
conglomerates@c-eps.org

8 March 2008

**EAPB comments on the IWCFC's recommendations
to address the consequences of the differences in sectoral rules on the
calculation of own funds of financial conglomerates**

We thank the joint working group of CEBS and CEIOPS (IWCFC) for the possibility to submit our comments on the recommendations to address the sectoral differences regarding own funds for conglomerates. We would very much appreciate the IWCFC taking our remarks into account.

In general, we very much welcome the work undertaken by the IWCFC and we appreciate that the importance of the sectoral differences are considered comprehensively.

In the following, we would like to comment in particular on hybrids, participations and the calculation methods.

1. Hybrids

We very much welcome the IWCFC's proposal to harmonise sectoral rules concerning the treatment of hybrids in order to provide for more comparability and avoid unequal treatment between the banking and insurance sector. Therefore we fully agree that the principles and requirements for eligibility should be the same for banks and insurance companies. Also, we do not see any rationale to treat these two sectors differently, as banks and insurance companies both are refinancing themselves on the capital market and should therefore be subject to the same rules.

Therefore we very much welcome the IWCFC's proposal that any changes should be modelled closely along the principles and requirements set out in the CEBS proposal.

Along these lines, in particular

- the principles of permanence, loss absorption and flexibility of payments and
- the limits for eligibility and the grandfathering clauses

as set out in CEBS' proposal on hybrids should apply in both sectors.

2. Deduction of holdings

In general we agree that there are important differences regarding the deduction of holdings between the banking and the insurance sector. However, we do not see any major problems as regards the calculation of capital requirements on financial conglomerate level. Any regulatory arbitrage is from our point of view very unlikely. The management of minority holdings (less than 20 %) depends not on the deduction obligation.

Furthermore, we would like to draw your attention to the fact that, apart from differences depending on whether the holder is a bank or an insurer, there are also national differences regarding the interpretation of “**durable link**”. Therefore, we very much welcome the IWFCF's suggestion to develop a common approach for the assessment of durable link/ durable influence.

The criteria set out in para 86 (d) circumscribe cases in which a significant influence can be exercised on the respective holding company. We would very much welcome if these criteria would be applicable also for holdings of banks in insurance companies.

3. Calculation methods

We fully agree with IWFCF's recommendation to delete method 3 (book value/requirement deduction). As the IWFCF sets out, this method is far too simplistic and delivers doubtful results.

However, we are not fully supportive of the IWFCF's recommendation that method 1 (accounting consolidation method) should be used by all institutions by default. We think that only allowing for one single method is not appropriate and advocate for the possibility to recognise method 2 (deduction and aggregation method) as well. **Both methods, the accounting consolidation method and the deduction and aggregation method, should be accepted and institutions should also have the possibility to combine both methods.**

The proposed default method is only sensible for specific structures. It makes sense for a bank-driven financial conglomerate where consolidated financial statements are already prepared according to international accounting standards and the basis of consolidation is the same for statutory and prudential purposes. However, in many cases and particularly in the banking sector, the basis of consolidation differs considerably which necessitates an adjustment for the difference between statutory and prudential consolidation. To this end, those undertakings which are not relevant for regulatory purposes have to be eliminated and additional undertakings have to be added according to the aggregation method. This

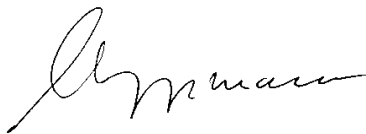
difference results in particular from the fact that banks as opposed to insurers have to deduct much more holdings due to the lower deduction limits. Such a deduction could be avoided by means of voluntary consolidation.

Against this background, in some cases the aggregate results of the individual financial statements of the banking group as well as the aggregate results of the insurance group based on consolidated accounts of this part of the group are used. The required deductions in order to avoid “double gearing” are in this case made on financial conglomerate level.

With regard to “cross-sectoral capital”, as set out in Annex I, I/2/ii FCD, it would be sensible to define which capital elements are effectively eligible in crisis situation, i.e. which elements can be used in order to fill up a deficit of own funds. A multitude of questions are not yet solved in this respect, like e.g. which capital is actually eligible qualitatively in both sectors, whether the details of the terms or the rough qualification as e.g. “Tier 2” capital is decisive, whether this hold also true for the inclusion limits and deduction obligations, etc.

Please do not hesitate to contact us if you have any questions.

Kind regards,

A handwritten signature in black ink, appearing to read 'Schoppmann', written in a cursive style.

Henning Schoppmann
EAPB

A handwritten signature in black ink, appearing to read 'Hemetsberger', written in a cursive style.

Walburga Hemetsberger
EAPB

The European Association of Public Banks (EAPB) represents the interests of 28 public banks, funding agencies and associations of public banks throughout Europe, which together represent some 100 public financial institutions. The latter have a combined balance sheet total of about EUR 3,500 billion and represent about 190,000 employees, i.e. covering a European market share of approximately 15%.