BANCO DE ESPAÑA

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Introduction

I would like to thank Mme Berés and the Committee members for inviting me today. It is an honour to be here and to report on CEBS' work.

This also gives me a timely opportunity to thank you for your strenuous efforts to ensure the approval of the proposed Capital Requirements Directive, which represents the foundation for CEBS' efforts to foster supervisory convergence. The vote on 28 September was an excellent outcome for all concerned. Given the wide implications that the new capital regime will have, both for the banking industry and for supervisors, we have been preparing for its implementation well in advance and during the last 12 months CEBS' work has progressed at a great pace. I'll come back to details of our work on the CRD later in my presentation.

As the first Chair of CEBS, one of my priorities has been to build a good relationship with the European Parliament. Meetings with ECON members have been very beneficial in this respect. I met the previous Chair, Mrs. Randzio-Plath, soon after CEBS was established last year and my first public appearance as CEBS' Chair was in front of the Committee in April 2004. I have also participated in several events at which MEPs have been present, thus benefiting from further opportunities to exchange views and further advance our dialogue. And in June of this year I was honoured to welcome for the first time a delegation of ECON members to discuss the work of CEBS at our headquarters in London. I hope this visit gave you a good insight into our objectives and the way in which we are carrying out our work. We are keen to ensure that the means by which we are held accountable are fully transparent and reflect the democratic structures of European decision making.

As I have indicated, CEBS' key objective in this first phase of its work is to ensure consistent implementation and application of the CRD and to promote convergence of supervisory practices across the EU. By promoting good practices and a consistent approach to supervision across the EU, CEBS will contribute to more cost-effective and efficient banking supervision and a level playing field between institutions of different size and specialisation.

The new framework for capital adequacy of credit institutions and investment firms set out by the CRD offers us a perfect opportunity to make progress on cooperation and convergence, not to mention the benefits in promoting better risk management and enhanced financial stability. We have a unique window of opportunity, as all supervisors are changing their practices to implement the new rules and can therefore move more easily towards common supervisory approaches to be adopted throughout the Single Market.

The timing is such that our efforts can be conducted together with representatives from supervisory authorities of the new member states, thus facilitating the adoption of common approaches and the integration of markets within the new boundaries of the EU. This is particularly important as banking markets in new Member States are characterised by a widespread presence of foreign groups. Such setting raises important challenges to the framework for day-to-day supervisory co-operation and exchanges of information.

In my presentation I'll guide you through our present work and thinking on the key issues involving implementation of the CRD and progress in supervisory convergence. But, before getting into the details, let me just briefly recall the business environment within which we are operating and some of the challenges we face as a result.

Market environment and challenges facing CEBS

As internationalisation and integration of financial markets within the EU proceeds, the organisation of banking business has been increasingly driven towards consolidation via M&As and centralisation of key business functions at the group level. Community legislation is increasingly moving towards risk-focused approaches. Accordingly, supervisors need to capture risks at the level where they are measured and managed. For instance, if the risk management function is centralised at the group level, the supervisory process cannot remain rigidly segmented into independent assessments performed at the national level on each single legal entity. Supervisors need to undertake extraordinary efforts to co-operate and better co-ordinate their actions. Consolidated supervision has been the standard tool to look after the risks at banking groups since the late 1980s; the CRD intensifies the role of consolidated supervision and calls for greater co-operation.

On the other hand, most of the business is still done locally. The vast majority of the 8,750 credit institutions in the EU are operating on a national, or even local, scale. Only about 43 banking groups have significant cross-border operations. Although integration is progressing fast, national differences remain relevant and are likely to persist, especially in the retail banking sector. Retail banking is still very fragmented. There are social, cultural and legislative barriers and to be honest I don't expect these barriers to disappear in the short-term. And I think it is not even necessary to try and iron out all the national differences as long as they do not disrupt progress towards convergence or unbalance the EU-wide level playing field.

The challenge for us, therefore, is ensuring consistency and a level playing field across the EU, while not imposing unnecessary burden on smaller institutions or trying to impose some kind of homogeneous system that would be a straightjacket for institutions and supervisors alike.

CEBS' main tool for promoting greater consistency is through developing guidelines, standards and recommendations, which member authorities commit to implement in their national practices. CEBS' proposals are discussed in depth with our Consultative Panel, which is composed of representatives of all parties interested in our work (large cross-border groups, medium-size national banks, small local co-operative and savings banks, representatives of end-users of banking services). They are then submitted to extensive public consultations, usually complemented with public hearings. CEBS intends to publish feedback documents, explaining in detail how the comments received have been incorporated in the final guidance. If comments are rejected, the feedback documents will explain the reasons for such decision. Our proposals are being significantly modified on the basis of the reactions received in the consultation period. In several cases, we will have a second round of consultation, as our documents change substantially as a result of the work developed on the basis of the requests received during the consultation. Hopefully, this should ensure a good degree of consensus on the solutions adopted and a better quality of the final products.

CEBS has already produced 11 consultation papers, most of which relate to the implementation of the CRD. Our performance should not be measured by the number of papers we produce, but this is a good indicator of our collective effort and of the commitment of all members.

Let me also mention some of our initiatives.

Reporting requirements

Banking groups voiced their dissatisfaction with the administrative burden and compliance costs stemming from supervisory reporting. They complain that, when operating on a cross-border basis, they have to report a different information set to each national supervisor using different formats and technological platforms, even though the information is collected for the enforcement of rules harmonised at the EU level.

CEBS has taken the initiative to develop a common framework for reporting of the solvency ratio and for the prudential reporting of financial data. To my knowledge, it is the first time national authorities agree on a common system that could be used for reporting purposes in all EU countries. The effort put into this endeavour has been huge and included the development of harmonised templates, data models and specific IT protocols. Banking groups operating on a cross-border basis should benefit from a lower administrative burden, while small, local banks should not be subject to additional costs as the reporting framework has to be updated in any case. The new reporting framework will also make the exchanges of information between supervisors more effective.

But we have to keep in mind that we move from quite different starting points, with differences in reporting mirroring differences in supervisory practices. For instance, some national supervisors rely more on comprehensive reporting of data and off-site surveillance, others on on-site inspections, others rely more on the information stored in the internal systems of the supervised entities. There are differences in human and technical resources and in the structure of supervisory processes. A lot of work has been done and much progress is being achieved, but one has also to be realistic: we cannot change supervisory practices at once by harmonising the reporting framework. The industry is asking for a very simple framework, reducing substantially the total amount of information to be reported, and for complete uniformity throughout the EU, in other words full convergence towards a very narrow set of requirements. Especially if we consider that we are moving towards much more sophisticated and risk-focused approaches, these requests do not seem realistic. However, we are in an active dialogue with market participants, in the attempt to strike a balance between the different interests at stake.

Streamlining supervisory co-operation

As I have already described, banking groups have been undergoing significant restructuring in recent years, centralising some key business functions at the group level while outsourcing other lines of business to external service providers.

The increase in the aggregate balance-sheet dimension of some players and their international ramification also implies that large groups might pose a systemic threat also in ‘host’ countries. In some cases, it might well be that a subsidiary in a small country has a limited relevance for the stability of the group as a whole, but its illiquidity or insolvency might well cause financial stability problems in the host markets.

The CRD envisages additional tasks for the 'consolidating supervisors', while acknowledging the need for stepping up co-operation between home and host authorities, ensuring full involvement and proper access to information to all the supervisors involved in the process. CEBS has followed up on these provisions, by preparing a practical framework for enhanced co-operation and information exchange between consolidating supervisor and host authorities. The draft guidelines focus in particular on two key areas: the supervisory review process (so-called Pillar 2) and the supervisory approval of internal approaches for credit and operational risk.

The approach proposed is very pragmatic: the process is broken down into the different phases and for each step a table sets out what is expected from the consolidating supervisor and the host authorities, what basic information is supposed to be exchanged and so on. As a result, all supervisors should be in a better position to perform their statutory tasks, while the administrative burden of supervision on EU banking groups should be reduced, by cutting duplication of tasks. We do not want to build up a giant bureaucratic machinery: our co-operation framework is graduated in relation to the significance of each component of the group, with respect to both group activities and the impact on host markets, and is expected to be proportionate to the risks involved.

Consistent implementation, convergence in practices and common supervisory culture

One of the key objectives of the Lamfalussy process is to ensure consistent implementation of Community legislation, in other words to avoid that the process of transposition into national laws and administrative rules creates unwarranted barriers and segmentations within the Single Market. The CRD provides a very powerful tool to foster consistent implementation: supervisory disclosure. National authorities will have to publish information about how they implemented the directive and this information should be collected and published in a single location, and in a format that allows comparison across countries.

CEBS designed a framework for supervisory disclosure that aspires to maximum transparency and user-friendliness.

Access to information will be provided on the CEBS website with links to national websites which host more detailed information, in the same language. This will allow to easily compare the choices made at the national level and to identify possible areas of divergence, for instance in the use of national options and discretions. We can think of this as "market discipline" for supervisors, progressively driving towards more consistent approaches.

The new framework for capital adequacy is very complex and shifts the supervisory focus on the measurement and management of risks at banks. It relies extensively on the judgement of supervisors to asses the adequacy of the internal safeguards put in place by banks themselves. In order to ensure consistency of approaches, CEBS is devoting a great deal of work to develop common guidance for the performance of the supervisory review process (the so-called "pillar two" of Basel II), the key tool for ensuring that banks take responsibility for assessing their risk profile and for maintaining capital buffers commensurate with this.

But developing common guidance is not enough and may fail to deliver the desired results if the supervisory staff in different countries remains anchored to different professional cultures and expertise. This awareness has driven CEBS to launch various initiatives, including common training programmes and exchanges of staff between national authorities, in order to gradually develop a common European supervisory culture.

Conclusions

Convergence of supervisory practices is not a simple endeavour: supervisors from 25 countries need to reach a consensus on very technical and complex issues, often respecting very tight deadlines. As differences remain in market structures and business practices, supervisory traditions also remain rather different. But once consensus has been achieved, all members are committed to implement the common approach.

Our guidance and advice draws strength not only from the consensus of the members, but also from the open consultation and dialogue with all interested parties. We are also convinced that a strong accountability framework is an essential element for the legitimacy and effectiveness of CEBS work.

We are constantly enhancing cooperation and information exchange with the other Level 3 committees, CESR and CEIOPS. We believe that cross-sectoral work and cross-fertilisation of ideas and approaches will be much valued in the future. It is very important to prevent gaps and overlaps in the regulatory framework when the financial markets are integrating. The committees intend to publish a Joint Statement of Cooperation later this year, setting out the practical working arrangements that have been agreed between them.

While CEIOPS and CESR have focused much of their efforts on the legislative framework, in other words Level 1 and Level 2 of the Lamfalussy approach, CEBS' work has centred mostly on the Level 3, i.e. consistent implementation of legislation and convergence of practices.

We followed with great attention and respect the discussions on the use and scope of comitology within the Lamfalussy process. But in the banking field we also had the opportunity to start at full speed on the area that is more naturally in our remit, by relying on a long standing tradition of supervisory co-operation and exchange of information.

Let me just add a few words on the proposals put forward in the Commission's recent Green Paper on financial services policy, which correctly identifies the priorities for the Single Market: maximising the effectiveness of the current framework, identifying gaps and developing existing tools to achieve effective and efficient supervision. CEBS is in favour of an optimum and full use of the new organisation structure of financial committees under the Lamfalussy approach.

The Lamfalussy framework provides us with a flexible and adaptable framework within which we can deliver our objectives. CEBS will aim to exploit fully the tools at its disposal. There is an ongoing debate about possible additional tools for the level 3 committees, and work is underway in other committees on elements such as peer review and mediation. CEBS does not currently perceive a pressing need to develop further tools to promote its objectives, but it remains open to discussing whether it is appropriate to go further.

Let me finish where I began, with some thoughts on CEBS' relationship with the European Parliament. We endeavour to carry out our tasks in ways that ensure that we fully comply with our obligations on accountability and transparency, and respect the needs and interests of the Commission, European Parliament, and Council in a clear and open way.

CEBS fully recognises and understands Parliament's interest in its work. I would like to take this opportunity to reiterate that as Chairman of CEBS I am more than happy to appear before you to and to keep you fully informed of the developments in CEBS. Maybe I should stress once again that what CEBS is doing is very practical and pragmatic technical work.

Although this will be my final year as a Chair of CEBS, whoever will take over this position in January will, I am sure, share this view.

In closing, let me just note that the two-year term for a Chair reflects our practical approach. We are not banking on permanent structures. This is an evolving process and it is good to have some movement in the management part of the committee as well, involving new countries and new people. This promotes a sense of ownership of the committee by its members and enhances the level of commitment to deliver the results we are expected to deliver.

Thank you very much for your attention.