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Introduction

First of all, I would like to thank the organisers of the European Financial Markets Convention for inviting me to participate in this conference, and in particular in this panel. The discussion is certainly very timely. The Commission's recently published Green Paper on Financial Services Policy highlights the key role of supervisory cooperation as a cornerstone in financial integration. The paper calls for greater clarity in the roles and responsibilities of supervisors and for further convergence of supervisory practices. I hope we can give some clarity to these issues today.

My task in this panel is to present the perspective of CEBS – the Committee of European Banking Supervisors. I imagine that CEBS is familiar to most, if not all, of those present in this room, but let me just recall that our role is to promote convergence of supervisory practices and co-operation between European banking supervisors within the context of the Lamfalussy approach.

CEBS was officially established at the beginning of last year, and now I often wonder whether I should still describe it as a new committee. In the context of the long history of co-operation between European banking supervisors, it is a relatively new body. But a year is a long time in the finance industry. And I must say that, given the commitment and the amount of travelling that goes with the job, it sometimes feels like I have been chairing CEBS for a lot more than sixteen months. More seriously, I think that the progress the Committee has made in its lifetime is quite impressive, and perhaps this is another reason why it may seem as if we have been around for a long time.

In the first sixteen months of its existence, apart from the logistical tasks of fully establishing the Committee and its secretariat, opening the offices in London, and setting up consultation practices and transparency mechanisms, CEBS has delivered a number of pieces of substantive work. These have been mainly related to supervisory practices surrounding the proposed implementation of the Basel II capital framework in Europe, which is widely accepted as the predominant challenge for European banks and their supervisors over the near term.

For example, we have published a consultation paper on a consistent approach to the so-called "supervisory review" pillar, designed a common framework for banks to report solvency data to supervisors under the new regime and a structure for facilitating supervisory transparency, and provided advice to the Commission on matters relating to the proposed Capital Requirements Directive (CRD), which will be the instrument for implementing Basel II in Europe. This is not to mention the work we currently have in the pipeline.

But I am not here to indulge in a self-congratulatory speech about our achievements to date, and certainly the real test of our success will come with implementation of Basel II. What I want to do today is to talk about the future.

CEBS and the future

In this context, let me just touch on the current debate on European supervisory structures. It is clearly essential to have a regulatory and supervisory framework that meets the needs of the various stakeholders within the context of the single market. But equally, the European Commission makes a very valid point in its Green Paper that this is a debate that should not be rushed.

The Commission makes another valid point in calling for the current framework and existing tools to be maximised before new structures are even considered. As the Green Paper says, the Lamfalussy committees need to be given time to deliver their full potential.

From CEBS' perspective, and despite our achievements over the past 16 months, we do not yet feel that we have reached the limits of the possibilities afforded to us by the Lamfalussy structure. We will continue to push hard in our efforts to build a European supervisory culture and to fully exploit the tools at our disposal, acting within the accountability and transparency framework to which we are rightly subject.

Furthermore, the new Capital Requirements Directive will bring new responsibilities and open new possibilities for coordination that we will need to pursue. I believe that our work will be judged by the progress that we can deliver in the field of convergence of supervisory practices. After all, convergence is about much more than structures.

In this respect, I would note that the present Lamfalussy structure envisages strong accountability and transparency for CEBS vis-à-vis the European institutions, and in particular the Commission, where accountability mechanisms are currently being strengthened. We are also subject to continuous review by the Inter-Institutional Monitoring Group. This monitoring will permit that the possibilities laid down in the Lamfalussy approach are fully exploited before considering any other options.

Taking a wider perspective

Apart from continuing the work we already have underway and planned in CEBS, I believe it will be important to also take a wider perspective in two senses; within the banking sector, I think CEBS will need to look outside of Basel II when considering possibilities for future convergence of supervisory practices and building a common supervisory culture. On a broader level, I think we can do more to promote the cross-fertilisation of ideas and tools between the three sectoral committees that will help up achieve our common aims. I want to concentrate on the second idea, but let me begin with some comments on the first.

Wider convergence

When I talk about looking outside Basel II, I do not want to give the impression that Basel II will be a narrow part of banking supervision. Let's be clear – Basel II is a very wide-ranging framework and a crucially important one.

I think everyone would agree that the proposed Basel II regime is about much more than just setting better minimum capital requirements. It is about establishing incentive-based approaches to risk and capital adequacy management. The combination of better risk management, a stronger capital structure and improved transparency standards in the banking system can significantly improve financial stability.

Basel II will therefore affect every aspect of supervision, and CEBS has been working at maximum capacity to support a smooth and consistent application of the future capital framework in the European Union.

But, more generally, with the move to risk-focused supervision that Basel II implies and for which there is wide support, prudential controls cannot be seen as a mere compliance exercise; they entail a major judgmental component, which is by its nature difficult to codify ex ante. If we really want convergence in this area, it will be necessary to have a common culture for supervisors; there are various ways of building such a culture, for instance via common training programmes and exchanges of staff. We have started working on this in CEBS, although we are at very early stages of the process.

And there is supervisory life outside of Basel II. My personal view is that there is more that we could do in other areas to promote greater convergence of practices, and make a real, practical difference on a day-to-day basis.

As just one example, we could seek more consistency in our authorisation processes, perhaps in areas such as fitness and properness assessments of bank managers, or in relation to information requirements.

Of course, right now our first priority must be Basel II, and I would not divert resources from our current activities, but I do think that we could build upon our successes in the future. And, indeed, I think that some of the tools we have already used to find convergence in relation to the CRD could also be used in these wider areas, as well as in other sectors, which is what I will come on to now.

Cross-fertilisation across sectors

Cross-sectoral co-operation is a key priority for all three sectoral committees. We have already identified areas of common interests and we are working together to find consistent solutions to common issues. Of course, these efforts take into account the fact that the three sectors have different perspectives, and that the integration pace is not the same across the financial services sector.

However, apart from the areas of common work, I think that there are a number of areas where the experiences and tools used in one sector can be useful to another. This is what I would call "cross-fertilisation". From CEBS' perspective, we are certainly learning a lot from the experiences of our colleagues in the other level 3 committees. In turn, we are also beginning to identify some aspects that might have relevance beyond the banking field, and
I would like to take the opportunity to mention three of these.

Streamlining co-operation

It is clear that supervisory practices must evolve as the surrounding financial environment changes. One of the challenges that we face in this respect is finding effective and efficient ways to deal with cross-border financial groups.

Increasing centralisation and outsourcing of key business functions means that the operational structure of cross-border group no longer automatically coincides with its legal structure, on which the division of responsibilities between national supervisors is based.

At the same time, we have to bear in mind that large consolidated groups might pose a systemic risk to financial stability in their 'home' countries, while local branches of foreign financial institutions can be important to the financial system of their 'host' country. This is especially relevant in many new Member States, where foreign ownership of financial institutions is predominant.

The proposed CRD will grant additional powers to 'consolidating supervisors' and CEBS is currently working on guidelines which will provide a practical framework for cooperation and the exchange of information in this context. The objectives of the framework are to increase convergence of supervisory practices, to promote more effective cooperation between all of the authorities involved in the supervision of EU banking groups and to reduce the administrative burden of supervision on EU banking groups. In line with the proposals in the directive, the guidelines foresee an enhanced role for the consolidating supervisor of a group, while recognising that the host supervisors have also their important role to play in co-operation and information exchange. It is clear that the home-host co-operation remains the backbone to the allocation of powers at EU level.

As an example of the cross-fertilisation I mentioned earlier, I think that this practical framework developed by CEBS, together with the work of CEIOPS on co-operation for the supplementary supervision of insurance groups, might be helpful as a model for cross-sectoral co-operation in the supervision of financial conglomerates, especially given that the Financial Conglomerates Directive contains the concept of the coordinating supervisor, which is very similar to the concept of the consolidating supervisor.

Reporting requirements

Let me give another example. Reporting is an example of an area where CEBS is making concrete progress. Institutions have argued that, when they operate on a cross-border basis, they have to report different information to a number of different supervisors using different formats, even though the information is collected with the same broad aim. This has a significant impact on their compliance cost.

Implementation of the new international accounting standards (IFRS) and the proposed CRD provide the EU with a unique opportunity to harmonise the framework for supervisory reporting, as all institutions and authorities need to make changes to their systems.

CEBS has taken the initiative to develop a common framework for reporting of the solvency ratio and we are also developing a standardised framework for prudential reporting of financial data. Formal consultation on concerning common reporting has just been closed and consultation on financial reporting runs until early July.

It is CEBS' intention that these reporting frameworks would apply in all Member States. The proposed technical solution does not affect existing reporting systems and the recommended solution is based on XML/XBRL-protocol. CEBS is providing XBRL-coding free of charge to keep the installation costs as low as possible.

The two proposals on common reporting for capital and financial reporting are in a sense unique. It is the first time European supervisors have presented a common system that could be used in all countries. As a result, it is expected that banking groups operating on a cross-border basis will face a lower administrative burden, while small, local banks will not be subject to additional costs as the reporting framework had to be updated in any case. Also the exchanges of information between supervisors should be facilitated, with increased cross-border comparability.

I think that we could view this initiative as part of a wider drive to streamline how supervisors organise data and information requirements, and I believe that we could explore and share lessons on a wider basis.

Monitoring of convergence – Supervisory Disclosure

Finally, all three level 3 committees are charged with promoting consistent implementation of directives and greater consistency of supervisory practices, but one of the big questions is how do we measure or monitor this progress? CEBS has designed a tool that should help in this respect.

The initiative I'm talking about is what we call "supervisory disclosure" or transparency. The proposed CRD will require banking supervisors to publish information about how they have implemented the directive, and the impact of this implementation. Some supervisors already do this as a matter of course. But the directive goes a step further, by requiring this information to be collected and published in a single location, and in a format that allows comparison across countries. CEBS has designed a framework for this disclosure that aspires to maximum transparency and user-friendliness.

This transparency tool is based on the internet and access to information is provided on the CEBS website with links to national websites which host comparable and consistent information. For the first time ever, anyone will be able to easily compare the application of rules and guidance between EU countries.
Apart from the benefits to be derived in terms of helping us to *assess* progress in convergence, I believe that a supervisory disclosure framework which allows meaningful comparisons to be made between countries can actually be a powerful tool for *driving* convergence. We can think of this as "market discipline" for supervisors. I think that it could also have some relevance beyond the banking field as a means of increasing transparency and encouraging supervisors to move toward common approaches.

Conclusion

As I mentioned earlier, Basel II provides a real opportunity to achieve convergence in banking supervisory practices, but convergence in my view goes further than this.

Returning to a comment I made at the beginning of my intervention, the member authorities of CEBS have more than 30 years' experience of working together and I believe we can build on this to achieve a common banking supervisory culture in Europe.

Although our cross-sectoral co-operation does not have such a long history, experiences over recent years, and especially the co-operation between the three level 3 committees, have already started to bear fruit and bode very well for the future.

Thank you for your attention.