

Brussels, 4 March 2009

European Banking Federation initial reactions to de Larosière Report Detailed Comments

In the wake of today's Commission Communication to the Spring Council, following the publication of the de Larosière Report last week, the European Banking Federation releases some of its key comments on the proposals contained in the Report.

The EBF welcomes the de Larosière Report as it feels that it provides a roadmap for the future, a positive and forward looking input into the collective response to the recent collective failings of industry, regulatory authorities and policy makers. European banks consider the stated goal as an extremely positive sign, as it establishes a sense of urgency.

European banks have repeatedly asked for an effective and efficient supervision, which they feel the paper clearly provides the foundation for. Providing Europe with a consistent set of rules is crucial.

The EBF welcomes, in principle, the proposal to strengthen the Basel Capital framework, and the suggestion that this should be done gradually. It further agrees that there is a need to reduce the strong pro-cyclical impact of the current regulatory framework. Efforts to offset the volatility effects of accounting and capital regulations should not be assessed or decided in an isolated manner.

Regarding macro prudential supervision, the EBF considers the creation of a European Systemic Risk Council (ESRC) within the European Central Bank as a very positive proposal, in line with the recommendations the EBF itself put forward to the de Larosière group www.ebf-fbe.eu

On the micro prudential supervision aspects, the idea of strengthening the three Level Three Committees remains well established; the EBF welcomes this approach, as well as the objective of creating a European System of Financial Supervisors (ESFS), which confirms the reliance on college structures.

The EBF agrees that, with a view to improving transparency, accounting standards should also be improved and that such process should be elaborated based on the mixed measurement model, which is the only model able to take into account the complexity of the banking business. Whilst considering as a priority the need for a rapid convergence to a single internationally accepted set of high quality accounting standards, the EBF agrees on the Commission's view that the governance structures of the International Accounting Standards Board should be improved.

On the issue of Credit Rating Agencies, the EBF supports the consideration given by the Report to the need for a pragmatic and clear system of licensing and oversight, as well as the recognition of the importance to work towards international solutions in the medium term.

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The EBF is also supportive of stricter rules for off-balance sheet vehicles and agrees that measures should be taken in the area of Corporate Governance to strengthen internal risk management processes.

The "EU supervisory repair" reiterates more controversial aspects such as binding mediation, which brings into question jurisdictional and supervisory independence questions are however raised and will require further analysis.

It is now essential that the Member States demonstrate the political will to implement swiftly and efficiently the various measures put forward by the Report and are followed up by the Commission proposals, whether just released or still to come.

The EBF insists that the real test will be in the implementation of the proposals, as well as in a rapid return to the Better Regulation approach, which the EBF considers to have been broadly overlooked in the recent impulses to regulate.

Looking at the more detailed proposals, the EBF considers it somewhat disappointing that no concrete proposal is made in terms of measures to be adopted at EU level, in order to build a consistent crisis management framework.

On the issue of burden sharing, the recommendation of the Report limits itself to proposing further criteria, against which to share costs; they are to be added to the existing Memorandum of Understanding (MoU). Considering however that the MoU rests on intergovernmental cooperation, the EBF has doubts as to whether this would be sufficient.

It also feels that clarification is needed as regards the relationship between the European Systemic Risk Council and the European System of Financial Supervisors as well as with national supervisors. Determining the failure of an institution seems a particularly delicate problem to clarify. The EBF hopes that the clarifications the Commission should bring in the coming months will help determine the terms of this relationship.

The EBF also points out that the timing of and modalities for establishing the ESRC should be more detailed than "as soon as possible", in order to make it more concrete and ensure better implementation. It seems the Commission wishes to implement the EFSF by 2010, which may be too optimistic, but a 2011 deadline seems realistic and certainly advisable in order to build on the current momentum and ensure international convergence.

Furthermore, the EBF questions how the budget of the Authorities would be constituted, since this aspect is not covered in the proposals.

Proposals to have key differences in national legislation removed by 2013, the EBF believes is a rather optimistic. The Federation would very much welcome stronger support in favour of this idea, however, the current revision of the CRD has shown a clear lack of

political support. The plight of the integrated supervision approach under Solvency II is another case in point.

That said, the EBF stands ready to facilitate the implementation of the measures to be put in place, whether at European or national levels. European banks intend to actively contribute at all levels in a bid to achieve more efficient and effective supervision in a single market.