



EUROPEAN COMMISSION
Internal Market and Services DG

FINANCIAL INSTITUTIONS

EBC/24/11

10 October 2011

Summary Report

European Banking Committee

Brussels, 19 September 2011

1. INTRODUCTION BY CHAIRMAN

- Mr Mario Nava, Acting Director in DG MARKT, who chaired the meeting, welcomed the participants.
- The agenda was approved by EBC Members.

2. CAPITAL REQUIREMENTS DIRECTIVE & REGULATION (CRD IV)

- COM presented the key elements of its legislative proposal of 20 July 2011 (so-called CRD IV) and emphasized that it is aimed at three main purposes:
 - transposing the Basel agreement in the EU legal text;
 - improving the existing legal text of CRD (e.g. eliminating most annexes);
 - creating a single rule book (to align EU bank regulation to the new EU supervisory architecture).
- PL Presidency outlined its plans for the forthcoming negotiations on CRD IV. The following meetings have been tentatively scheduled in the Council: 29 September, 7 or 10 October, 21 October, 27-28 October, and one meeting in November, if necessary.
- Some Member States emphasized the need to speed up negotiations on CRD IV in order to finalise it under the DK Presidency (i.e. by mid-2012) to have enough time for implementation before the Basel deadline of 1 January 2013. At the same time, they expressed some doubts whether the coming nine months is enough time to do so.
- In order to facilitate the negotiations, one delegation suggested dividing all CRD IV issues into a few categories: key political issues, other important issues, technical issues, etc. (similarly like it was in the case of CRD II negotiations under the NL Presidency).
- In response to the question on when the translation of CRD IV will be available, COM informed that it should be ready in about a month (about 22 October).
- One delegation indicated the need to clarify whether CRD IV is fully compliant with the Basel III agreement. In this context, COM pointed out that CRD IV and Basel III are fully convergent and compliant.
- Other Member States indicated the need to coordinate the EU works on CRD IV and other issues (e.g. SIFIs, bank resolution) with analogous international works (G20, IMF, USA). One delegation asked whether a legislative proposal on crisis management / bank resolution is to be adopted by COM by end-2011, and whether it will be coordinated with CRD IV. COM stated that it will do its best to coordinate both projects.
- EBA, in response to the questions from Member States, informed that it will make a lot of preliminary drafting of binding technical standards in advance, i.e. during the Council/EP negotiations. EBA is currently discussing with COM the possibility to have public consultations on binding technical standards before the adoption of the final text of the Directive. In any case all Member States are represented at the EBA via the Board of Supervisors and will informally have access to preliminary binding technical standards in advance of public consultation.

- EP informed that rapporteur Karas is preparing a preliminary report on CRD IV that is to be submitted to ECON by end-January 2012 and voted by ECON before end-April 2012.

3. CREDIT RATING AGENCIES (CRA)

Reducing reliance on external ratings

- Some delegations asked whether measures against overreliance would be part of the CRA III proposal or rather included in coming amendments to sectoral financial regulation.
- COM replied that measures against overreliance would be integrated in sectoral legislation (as it has been proposed in CRD IV).

The current work in Basel aiming at reducing overreliance on external ratings

- COM presented the measures proposed in CRD IV aimed at strengthening banks internal credit risk assessments and linking them to Pillar II overall capital adequacy, thereby excluding mechanistic reliance on ratings both for internal purposes and overall capital adequacy purposes. Furthermore, steps to ensure that banks more often implement internal ratings based (IRB) approaches have been proposed.
- COM presented the ongoing work in Basel on securitisation capital charges, where reliance on ratings is currently greatest, and on reliance on ratings more broadly. The Basel Committee currently considers making capital requirements for securitisation more risk sensitive and reducing the currently extreme "cliff" effects in that context. In addition, incentives could be created to combine the external rating with internal credit assessments through a hybrid approach, thereby "diversifying" reliance on different sources of credit assessments. Furthermore, the Basel Committee has been looking at the relevance of the use of ratings for capital requirements outside the securitisation framework and concluded that the overall share of capital requirements determined on the base of external ratings is relatively limited. Outside the EU, it is however relatively high for sovereign and bank exposures and steps to change that might be considered. COM explained that the Basel Committee envisages publishing a consultation paper in spring 2012 and that final rules changes are unlikely to become available during the CRD IV discussions.
- Member States supported the efforts to reduce mechanistic reliance on ratings in both internal assessments and capital requirements and the different efforts to that end.
- Delegations in particular cited the impact of rating changes and the related "cliff" effects as a major concern, and one delegation noted that these changes can even destabilize economies. In general, Member States agreed that more emphasis should be placed on internal approaches, but their effective supervision has to be ensured as well. COM noted that the CRD IV proposal envisaged a process to ensure consistent soundness of IRB implementation across the EU.
- Some Member States were concerned about the complexity of securitisation products and about the resulting complexity of capital requirements methodologies to measure the risk of securitisations. Product standardisation by law or through market self-regulation could be a way out of that dilemma.
- One delegation stated that more transparency is needed in order to enable more internal assessments of securitisation. It was also concerned about overburdening issuers and investors with regulatory expectations.

Further new initiatives in the field of CRA

- Some Member States said that regulation of CRA should be enhanced. There would still remain conflicts of interests due the "issuer pays" model that need to be addressed.
- There were mixed views whether there should be specific requirements for sovereign debt ratings. Some delegations argued that the destabilizing effect of ratings on countries and the global economy require additional procedural and transparency measures (including more frequent reviews, extended pre-notification period to sovereigns, more explanation of rating actions). Other delegations were more cautious in this regard arguing that sovereign and other ratings should rather follow the same rules.
- Member States had mixed views on external rotation for credit rating agencies. Some delegations raised concerns as to increased costs for issuers and for the CRA, while others pointed to the existing conflict of interest due to the "issuer pays" model which could be efficiently reduced by mandatory rotation.
- One delegation proposed to strengthen civil liability of credit rating agencies not only vis-à-vis investors but also vis-à-vis sovereign issuers. It argued that often CRA exclude in the rating contract civil liability which would leave sovereign issuers without protection.
- One delegation asked whether the transparency requirements as included in the CRD were sufficient or whether COM would intend to enhance these requirements. COM confirmed that it was considering strengthening transparency requirements for structured finance instruments.

4. ANY OTHER BUSINESS

- COM informed that the new issue of the EBC Info-letter was prepared by the EBC Secretariat in August 2011. The Info-letter is available at the Commission website.
- COM recalled the tentative date of last EBC meeting planned for this year:
→ 2 December 2011.