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International Developments

On [12 September 2010](#), the Group of Governors and Heads of Supervision at its meeting in Basel (following the meeting of [26 July 2010](#)) announced a substantial strengthening of bank capital requirements (the so-called **Basel III agreement**). This new Basel agreement is to increase the quality, quantity and international consistency of capital and liquidity. It will raise the minimum common equity requirement. Moreover, banks will be required to hold capital buffers above the minimum requirements, i.e. a capital conservation buffer to withstand periods of stress, and a countercyclical buffer protecting the banking sector from periods of excessive aggregate credit growth. The agreement also includes an internationally harmonised leverage ratio to serve as a back-stop to the risk-based capital measures. The capital reforms agreed in Basel, together with a global liquidity standard, are to be the core of the global financial reform.

The Basel agreement was endorsed at the **G20 summit in Seoul** on [11-12 November 2010](#) by the Heads of State and Government. According to the G20 Leaders, the new bank capital and liquidity framework will increase the resilience of the global banking system and enable banks to withstand – without government support – stresses of a magnitude of the recent financial crisis. This, in turn, will result in a banking system that can better support stable economic growth. The Leaders expressed their commitments to implement the new framework within the timeframe agreed in Basel: starting on 1 January 2013 and fully phasing in by 1 January 2019.

On [16 December 2010](#), the Basel Committee issued the **Basel III rules text**, presenting the details of global regulatory standards on capital adequacy and liquidity agreed in Basel and endorsed in Seoul. The Committee also published the results of its **quantitative impact study** (QIS). Next, on [17 December 2010](#), the Basel Committee and the Financial Stability Board (FSB) presented the final assessment of the **macroeconomic impact** of the transition to the new Basel rules – produced in close collaboration with the International Monetary Fund (IMF) (preliminary assessment was discussed at the EBC meeting on 29 September 2010).

Both the Basel agreement and its endorsement in Seoul have been welcomed by the European Commission. Commissioner Michel Barnier emphasized the **Commission's contribution to this process** and stated that in line with the commitments made at the G20 summit, the Commission would present next year the legislative proposals in order to transpose the Basel agreement into EU law (see [section on CRD: Basel III transposition](#)). As stated by Commissioner Barnier, this is "the most significant financial reform in a generation".



The Commission is also closely monitoring other international developments, notably in the area of **crisis management and resolution**, and is helping to shape the work of the G20 and the FSB. In this context, the **G20 summit in Toronto** on [26-27 June 2010](#), committed to the design and implementation of systems whereby authorities have the powers and tools to restructure or resolve all types of financial institutions in crisis, without taxpayers ultimately bearing the burden. Moreover, at the **G20 summit in Seoul** on [11-12 November 2010](#), the Leaders confirmed that no firm should be too big or too complicated to fail and that taxpayers should not bear the costs of resolution. They also endorsed the policy framework, work processes, and timelines proposed by the FSB to reduce the moral hazard risks posed by systemically important financial institutions (SIFIs) and address the too-big-to-fail problem. In the United States, the **Dodd-Frank Act** of [21 July 2010](#) has established a resolution framework for systemic institutions at group level.

Finally, the Commission participates in international works on deposit insurance, notably on the **Core Principles for Effective Deposit Insurance Systems**, issued by the Basel Committee and the International Association of Deposit Insurers (IADI) in [June 2009](#). Over the past year, the IADI has collaborated with the Basel Committee, the European Forum of Deposit Insurers (EFDI), the IMF, the World Bank, and the Commission, to develop a **methodology** to assess compliance with the Core Principles. The recent consultation on the methodology (which is to be included in the IMF/World Bank's Financial Sector Assessment Program) was open until [8 December 2010](#).

Capital Requirements Directive (CRD)

CRD III publication

After the European Parliament and the Council have agreed on [the Commission's legislative proposal](#) of 13 July 2009 to amend the CRD (on capital requirements for the trading book and re-securitisations and on remuneration policies), those amendments to the CRD were published on 14 December 2010 as [Directive 2010/76/EU](#) in the Official Journal of the EU (L 329, Vol. 53).

CRD IV: Legislative proposal transposing Basel III

At the joint EBC-CRDWG meeting on 6 December 2010, the Commission discussed with Member States the latest progress in the Basel Committee in developing the new capital and liquidity requirements and the best way to transpose them in the EU. In this process, the Commission is taking due account of the recommendations outlined in the [Resolution on Basel III and CRD IV](#) adopted by the European Parliament (EP) on 7 October 2010 (the so-called [Karas report](#)).

There is a broad support for the new capital and liquidity requirements, and for supervisory tools preventing the build-up of excessive leverage. The Commission, with the invaluable input from stakeholders, has positively contributed to the process of developing the reform with ambition and determination, while making its utmost so that all major European specificities are properly addressed. A special emphasis is being given to the importance of maintaining an international level playing field and implementing the Basel framework in a coherent way across the globe.

In line with the G20 commitments, the Commission will table the **legislative proposal** before the summer of 2011. The proposal will cover issues such as definition of capital, liquidity, leverage ratio, counterparty credit risk, and capital buffers. The proposal will also include amendments related to a single rule book for banking in the EU (further details below).

The Commission has launched various **public consultations** to get the scope of this proposal right. The final proposal will be accompanied by a robust and in-depth **impact assessment** of



micro- and macro-economic effects. This will allow ensuring the appropriate calibration of the proposal. In the coming months, the Commission will continue to work with Member States, the EP, and all relevant stakeholders to finalise the details of the upcoming legislative proposal.

CRD IV: Single rule book in banking

The Commission is strongly committed to **removing national options and discretions in the CRD** and to strictly limiting areas where "goldplating" may be justified in view of domestic markets and legal specificities. Achieving a single rule book is at the very heart of the EU financial architecture reform. The European Council, in the [conclusions](#) of its meeting on 18-19 June 2009, made it clear that the European System of Financial Supervision should be aimed at "establishing a European single rule book applicable to all financial institutions in the Single Market".

Inconsistencies across Member States come from differences in transposing the CRD, but also from administrative rules that specify the Directive in areas left to implementation. As part of the "single rule book" initiative, the Commission intends to identify areas left to implementation where **further harmonisation**, including by technical standards, should be achieved. It should be noted that the single rule book in banking will not be achieved in one step, in the context of the upcoming legislative proposals in 2011. The European Banking Authority (EBA) should be tasked to identify further areas that need to be harmonised, and report back to the Commission.

The Commission has set up a CRDWG subgroup to further discuss the single rule book initiative. In addition, on 6 December 2010, at the joint EBC-CRDWG meeting, the Commission discussed with Member States whether prudential requirements should take the form of a regulation.

Crisis Management / Bank Resolution

During the recent financial crisis, a number of governments had to take emergency actions to stabilise banks thus avoiding their failures and preventing serious financial meltdown. However, governments acted under their own national laws since no EU framework for managing banking crises existed at EU level. It became obvious during the crisis that the lack of an EU regime hampers the ability of governments to deal with problems in cross-border banks. Thus, putting in place a new bank resolution framework will be a key issue in the coming years.

Against this background, and following the Commission's communication "**An EU Framework for Cross-Border Crisis Management in the Banking Sector**" ([COM\(2009\)561](#)) published on 20 October 2009, the Commission adopted two further communications this year. The first one – "**Bank Resolution Funds**" ([COM\(2010\)254](#)) – was published on 26 May 2010 and explored the financing of resolution in a way which minimises moral hazard and protects public funds. The second communication – "**An EU framework for Crisis Management in the Financial sector**" ([COM\(2010\)579](#)) – was adopted on 20 October 2010 (following the discussion at the EBC meeting on 29 September 2010) and set out the policy orientations the Commission intends to pursue on the basis of the work done to date on crisis management and resolution. Moreover, a report by the European Parliament (the so-called [Ferreira report](#) of 7 April 2010) has also made important recommendations on cross-border crisis management in the banking sector.

The Commission plans to launch **public consultation** on the technical details of a possible EU crisis management framework by the end of December 2010. The consultation period will be open until mid-February 2011. The Commission's objective is to adopt a **legislative proposal** (accompanied by a detailed **impact assessment**) before the summer of 2011. It will complete the Commission's implementation of the principal G20 reforms on financial regulation.



Deposit Guarantee Schemes

The **legislative proposal** on the new Directive on Deposit Guarantee Schemes (DGS), accompanied by an in-depth **impact assessment** and a **report** on non-legislative issues, was adopted by the European Commission on [12 July 2010](#). The proposal was aimed at bringing significant improvements for depositors, banks and DGS, as well as for the Internal Market.

The key principles of the current DGS review are **maximum harmonisation and simplification**. Among other things, the level and scope of coverage are to be fully harmonised (as already required by current legislation, the level of coverage will be fixed at € 100 000 from the end of 2010). In turn, it should ensure a level playing field and banks would not suffer from competitive distortions anymore. The proposal includes a series of important consumer-friendly solutions. For example, the Commission proposed to reduce the **payout delay** substantially – from four-six weeks (required by current legislation from the end of 2010) to one week.

According to the Commission's proposal, DGS would be **soundly financed**, following a four-step system: ex-ante funds, ex-post contributions, mutual borrowing between DGS, and alternative funding (e.g. borrowing from financial markets). Bank contributions to DGS would be adjusted to risk profiles of member banks. DGS funds should mainly be used for paying out depositors or alternatively and optionally for bank resolution (i.e. mergers, good/bad bank, transfer of deposits to a healthy bank or to a bridge bank). However – to some extent – they could also be used for early intervention and bail-out measures (e.g. recapitalisation, guarantees or liquidity assistance).

During the Belgian Presidency, there were five meetings in the **Council** to discuss the Commission's proposal with Member States. The Belgian Presidency drafted a compromise text of the new DGS Directive but it was not adopted. Further works on DGS will be continued under the Hungarian Presidency in 2011.

As regards the **European Parliament**, MEP Peter Simon has been appointed a rapporteur for the proposal on the new DGS Directive. According to the tentative timetable, a draft report is to be presented and discussed by the ECON committee in the spring of 2011.

Financial Conglomerates

The **legislative proposal** on the Financial Conglomerates Directive (the so-called **FICOD I**) was adopted by the European Commission on [16 August 2010](#). A general approach to this proposal was adopted by the ECOFIN Council on 17 November 2010, to start negotiations with the European Parliament (EP). MEP Theodor Stolojan is to deliver his views as the EP's rapporteur before Christmas. The EP plans to finish the file in the spring of 2011.

If adopted, the CRD and Solvency II provisions on ultimate parent entity level will also apply if that ultimate parent is a mixed financial holding company, i.e. subject to the FICOD. The three Directives will be applicable at the same ultimate parent entity level, which will enforce supervisors' grip on groups as purported by the FICOD.

A debate on **strengthening the supervision of financial conglomerates** in a more fundamental way started with the Commission's [Conglomerate Conference](#) on 7 June 2010 and was followed up by a discussion among Member States on 11 October 2010. As announced during the conference, recommended by the [Joint Forum](#) and endorsed by the Financial Stability Board (FSB), as well as in the earlier [consultation on FICOD I](#), key elements of that debate are:



(1) the regulation of non-operating holding companies, (2) the inclusion of non-regulated or less regulated entities such as special purpose entities and hedge funds, (3) internal governance (group wide risk management, living wills), (4) alignment of supervisory provisions (e.g. capital eligibility) and powers across directives, and (5) the scope of supplementary supervision in general. The debate closely follows what is happening at the Joint Forum and the FSB, for example, the recent [FSB recommendations](#) on intensity and effectiveness of SIFIs supervision, published on 2 November 2010.

The Commission will only publish a **FICOD II consultation paper** after publishing recommendations on supplementary supervision by the FSB and Joint Forum, expected in the fall of 2011.

Expert Groups

Insolvency Law Expert Group

In the context of its work on cross-border crisis management in the banking/financial sector (see [section on Crisis management / Bank resolution](#)), the European Commission has set up a new group of experts – Insolvency Law Expert Group (ILEG). It consists of experts in the field of re-organization, resolution and insolvency law in the banking and financial sector. The task of this group is to assist the Commission in developing an EU crisis management regime in the banking sector. The ILEG held two meetings in 2010 – on 14 July and 15 October. During the meetings, the following issues were discussed: preparing the Crisis Management Directive, a possible regime for intra-group asset transferability in the banking sector, and a possible regime for write-down of debt.

More information on the ILEG (including agendas and minutes of its meetings) is available at: http://ec.europa.eu/internal_market/bank/crisis_management/index_en.htm#ileg

Group of Experts in Banking Issues

The Group of Experts in Banking Issues (GEBI) has been established with an aim to facilitate direct communication between the banking industry, consumers, and the Commission. The GEBI advises the Commission on policies and possible legislative proposals concerning banking regulation, as well as provides information, forecasts and analysis concerning the possible impact of banking policies and possible legislative proposals on various stakeholders. The group consists of experts from the banking sector (savings, cooperative and commercial banks), business consultants, universities, trade unions, consumer organisations, European associations, the Committee of European Banking Supervisors (CEBS), the European Central Bank, and the European Parliament.

The GEBI had its first meeting on 14 June 2010, when various issues of Basel III / CRD IV were discussed (deferred tax assets, minority interests, liquidity), including their potential impacts. During the second meeting, held on 22 October 2010, the discussion continued on the economic, social and private impacts of the forthcoming CRD proposal. It was also discussed how social and environmental sustainability criteria could be incorporated in the Basel II review. The next GEBI meeting will take place in mid-February 2011 and is to focus mostly on issues related to crisis management.

More information on the GEBI (including agendas and minutes of its meetings) is available at: http://ec.europa.eu/internal_market/bank/group_of_experts/index_en.htm