European Association of Co-operative Banks
Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken

ANNUAL REPORT

MORE THAN A BANK, A CO-OPERATIVE BANK

2013

The voice of 4000 local and retail Banks - 56 million Members - 215 million Customers

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INTRODUCTION

The European Association of Co-operative Banks (EACB), a Brussels-based international non-profit association, was founded in 1970. As the voice of co-operative banks in Europe and at an international level, it is a leading trade association in the financial sector, representing 29 national associations and their member banks. The co-operative banking sector contributes significantly to the growth, stability and competitiveness of the European banking industry at a local and regional level. Over the past few years, this sector has demonstrated its robustness and resilience, as well as its ability to act as a key driver for the real economy:

- Co-operative banks serve 217 million customers.
- Co-operative banks are mutual and private banks, owned by their 56 million members.
- Co-operative banks share common values and foster local development and entrepreneurship through their 4,000 member banks and 71.000 branches.
- Co-operative banks adhere to the key co-operative principle of ‘one person-one vote’ and apply democratic principles in accordance with the European Co-operative Statute.
- Co-operative banks contribute to the competitiveness and stability of the European banking industry. Their performance is a result of their central focus on retail banking, solid capitalisation and their high-quality credit portfolios.
- Co-operative banks are long-term oriented with a risk-conservative approach and a strong focus on corporate citizenship and social action.
- Co-operative banks have long been an integral and well-established part of the financial system in many European countries; they form an important part of the diversity and plurality in European banking, having their own characteristic business models, ownership and governance structures[1].

1 Ayadi, R., Llewellyn, D.T., Schmidt, R.H., Arbak, E., De Groen, W.P., CEPS (2010) ‘Investigating Diversity in the Banking Sector in Europe’

PRESIDENT'S ADDRESS

Christian Talgorn, President

Economic indicators appeared to point to 2013 being the year we emerge from the crisis, in spite of weak growth and high unemployment. Policies aimed at deficit reduction and budgetary stabilisation together with economic recovery measures have brought about this improvement with a positive effect on interest rates. Tensions on the financial markets towards the Monetary Union have lessened considerably. The survival of the single currency is no longer being called into question.

For 5 years the contribution made by credit institutions to the Eurozone economy decreased from survey to survey. However the trend at the end of 2013 seems to be towards stabilisation. Nevertheless, co-operative banks occupied a special position on the credit market and never ceased to respond to demand from businesses and private customers throughout the period.

Economic recovery must very quickly become the priority on politicians' agendas and remain a target for regulators. There can be no separation between regulatory measures and growth stimuli in particular in Europe where banks are crucial intermediaries for funding the economy. In fact regulatory constraints prevail only too often over economic objectives, ignoring the role of banks, and in particular co-operative banks, in funding the local economy and encouraging local employment.

The EACB has passed this message on to European and national authorities that are sometimes too inclined to follow the recommendations of other bodies, when this would not suit the diversity of business models such as the co-operative banks'. 'One size does not fit all' is a concept not fully taken on board by the legislator. Recognising the nature, governance and organisation of co-operative groups does not distort competition or endanger the soundness of establishments. The adoption of CRD IV is a positive step but it should not be wrecked by over-restrictive standards. Future discussion about calibrating the LCR will reveal whether the Commission intends to express its interest in diversity and in reflecting the positions defended by the co-operative sector.

2013 was also the year when the Banking Union was set up in the Eurozone. Co-operative banks have supported this project as long as it does not lead to a burdensome and intricate set of procedures, rules and checks making it ineffective and in the long run costly for the community. Co-operative banks will keep a particularly close eye on the implementation of the Single Resolution Mechanism and its funding, especially in areas where co-operatives have their own recognised system, approved by the national supervisor.

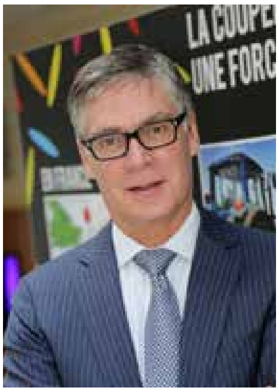
The far-reaching changes in the prudential framework should be seen in the context of new legislation to increase consumer protection. The 'Customer Champions'[2] co-operative banks with over 215 million consumers of which 50 million are clients who are both 'consumers and owners of their bank' are very concerned about measures whose conformity cost is ever higher in a context of negative margins. We believe that quality of service, correct advice, taking the needs of the client into account are a prerequisite for a well-balanced relationship. There is however no need to codify every detail of the modalities in a set of regulations that are penalising for retail banks with network structures.

In conclusion, important elections where the future of Europe is at stake will take place in May 2014. For almost half a century co-operative banks have provided enduring support for all efforts to achieve a better world. In the sixties they were effective proponents of the common agricultural policy. At the end of the nineties they unreservedly backed the single currency. Today, based on the resilience and solidity of their models, they support all measures that will encourage growth as long as the regulatory framework encourages this.

Finally may I address some words of praise to Mr Gerhard Hofmann, Vice-President of the EACB, and Hervé Guider, General Manager, and pass on our thanks for the great work and availability of all colleagues in the secretariat and all European and non-European members of the EACB.

2 Oliver Wyman study: 'Co-operative Bank – Customers Champion', 2008

WELCOME TO THE EACB



GENERAL MANAGER'S FOREWORD

The purpose of this report is to provide stakeholders, members and policy makers, both in Europe and beyond, with a better understanding of the EACB's core areas of focus and its business models.

Some of the major issues that the EACB focused on in 2013 are highlighted below. More details are provided further on in the report. Our lobbying activities would not be a success without the expertise we gather in our various working groups and task forces, while the involvement and contribution of the chairmen and CEOs of co-operative banks has leveraged EACB's activities for the benefit of the 4,000 co-operative banks.

Co-operative banks are facing headwinds driven notably by the regulators. New regulations are accumulating, leading to a tremendous increases in the cost of compliance and other administrative burdens at a time of low growth rates and negative margins. It is true that the financial industry cannot be left to govern itself. However, for co-operative banks, which function as retail banks and private banks that are anchored in the local economy, it is essential to establish a fit and proper legislative environment for stimulating and supporting retails banks that finance the real economy.

BANKING UNION

Co-operative banks support the decision of the European Council to create a Banking Union to enhance the stability of the Eurozone and to restore trust in the common currency. At the end of 2013, EU legislators agreed on a Single Supervisory Mechanism. It confers new supervision powers to the ECB for the banks of the euro area – such as the direct supervision of 'significant' banks, including all banks with assets of more than €30 billion or constituting at least 20% of their home country's GDP (around 130 banks). Under the new mechanism national supervisors will continue to supervise smaller banks. Even if the ECB may at any moment decide to directly supervise one or more of these credit institutions to ensure consistent application of high supervisory standards, the EACB believes that this agreement recognises the diversity of the banking industry and helps maintain links between the domestic banks and the domestic supervisor.

Regarding the second pillar of the Banking Union, co-operative banks have more concerns with the Single Resolution Mechanism including the resolution and recovery tools and the funding of the resolution fund. At the least, EU regulators should recognise the Institutional Protection System as a private alternative to resolution and pay attention to small banks concerning the definition and the use of bail-in when drawing up instruments to manage bank failures and take into account the principle of proportionality without any distortion between banking sector structures of the Member States.

BANKING LEGISLATIVE FRAMEWORK

Over the past 12 months, the EACB has continually alerted policy makers and banking regulators. It is clear that the 'one size fits all' principle is not appropriate to the European banking industry. It is also true that any systematic alignment with the "listed bank model" weakens in depth co-operative banks. Risks and dangers are increasing with a growing legislative framework based on maximum harmonisation to limit either national discretion or to avoid any legislative arbitrage. As a result, the EACB has intensified its efforts to enhance a constructive dialogue with the policy makers and the regulators.

RETAIL BANKING REGULATION

The year 2013 had a significant impact on banks' payment systems and bank accounts. New proposals were made for legislation and governance, and, of course, preparations were in full swing for migration to the new European payment standard in 2014. In addition, there was a proposal to renew certain obligations on banks in the area of money laundering.

For other areas of retail banking – such as investment services, lending, data-protection, electronic identification and signatures – the focus was on finalising proposals that were already on the table and on organising their detailed implementation. This latter point relates in particular to the increasing activities of the European Securities Market Authority.

All in all, 2013 brought a significant amount of additional obligations on retail banking that will be a challenge for co-operative banking groups to implement and to comply.

CO-OPERATIVE BANKS AS SOCIALLY RESPONSIBLE BANKS

The EU Agenda 2020 and the Single Market Act, which was released by the Commission at the end of 2012, have put a new emphasis on the CSR topics, bringing the objective of a sustainable, smart and inclusive growth at the heart of new EU initiatives. Moreover, the economic crisis and the subsequent need to restore confidence have meant that the terms 'responsibility' and 'sustainability' became more relevant than ever for the financial sector. For co-operative banks, however, such considerations are not new. Created to serve members with a long-term stakeholder value approach, they have been acting in a responsible and sustainable manner for more than two centuries. In this respect, the EACB is particularly involved in the different initiatives aimed at ensuring responsibility, while at the same time warning that sustainability cannot be imposed with legislative measures. The EACB has thus released a list of non-mandatory 'cooperative indicators' to measure the co-operative performance and the co- operative banks approach to CSR.

COMMUNICATION AND RESEARCH

In line with its communication policy, the EACB has continued to inform policy and opinion makers of the concerns of co-operative banks. During the course of 2013, several initiatives and activities were undertaken to highlight the distinct features of co-operatives banks and the role they play for the real economy as well as the challenges ahead for the sector. The EACB has stepped up its organisation of public events, press coverage, online communication and the availability of data and research activities in order to raise the visibility of the sector and to cater for a renewed interest in co-operative banks, in light of their resilience to the worst effects of the crisis.

This report reflects the intense activities undertaken by the association and its continuing commitment to serve the co-operative banking sector in all its diversity.

Hervé GUIDER, *General Manager*

ABOUT THE EACB (AN INTERNATIONAL NON-PROFIT ASSOCIATION)

The EACB Mission Statement:

The EACB is committed to representing, defending and promoting co-operative values and the interests of its members within a competitive environment that allows co-operative banks to best serve their members and clients at a local level. To this end, the Brussels-based association provides information and advice, and ensures that the voice of the co-operative banks is represented in the dialogue between the European Institutions and stakeholders.

Working with decision-makers

The EACB supports a legislative and regulatory framework based on better regulation principles that accommodate the co-operative banks business model. The EACB is recognised as the official spokesperson of European co-operative banks by policy makers and regulators. It voices the unique characteristics of its members in order to enhance the diversity and plurality of the European banking industry for the benefit of Europe's citizens and SMEs.

Promoting co-operative values

The EACB promotes the values of the co-operative business model at a European level. Democracy is central to these values with the principle of 'one person-one vote' at its core (as reflected in the co-operative share). Other values include a strong engagement to social commitment and a close proximity to customers through 71,000 banking outlets.

Delivering value-added services

Through its conventions, workshops, seminars, publications and dissemination of information, the EACB provides its members and other co-operative organisations with the tools to increase their awareness and knowledge of European issues. It helps keep them up to date with legislative and regulatory developments and offers them a platform to defend and promote their banking model.

CO-OPERATIVE BANKS KEY POLICY MESSAGES

Members owned model

Co-operative banks are owned and controlled by their members who actively participate in setting policies and making decisions according to the 'one person-one vote' principle. They are accountable to members, not to shareholders, and are orientated to long-term goals rather than maximising profits in the short term.

Smart, sustainable, inclusive growth

The EACB fully supports the EU Agenda 2020 for a "smart, sustainable, inclusive growth" and the European model of social market economy that the strategy puts forward. Co-operative banks play an important role in meeting these targets.

Consider co-operatives diversity

The EACB supports the Single Market, but it calls for a legislative framework at the EU and international level that takes into account the diversity in terms of sizes and organisation forms of the business model in the banking sector. It wants to avoid a one-size-fits-all approach, which would have a significant impact on local economies.

Warning against unintended impacts

The cumulative effects of new regulations and banking reforms should be considered. We warn against unintended impacts on the economic growth and on the financing of the real economy.

CO-OPERATIVE BANKS RESILIENCE, ENTERING BANKING UNION AND FACING FURTHER BANKING REGULATION

The year 2013 was decisive for the banking sector, particularly in the area of prudential regulation. It witnessed finalization of some key elements of the banking union, including the Single Supervisory Mechanism, the EU regime for bank recovery and resolution, and protection of deposits, as well as the completion of the CRD/CRR package. The focus was also on technical standards provided by the European Banking Authority, vested with the task of creating a Single Rulebook for all banks in the EU.

All those reforms will increase the resilience of the banking sector, but it will at the same time a challenge for banks to implement them.

The EACB was trying to have the particularities of co-operative banks recognized by policy makers, and to defend the co-operative business model in order to ensure that its specificities are properly reflected in the EU legislation.

A/ BANKING UNION – NEW ERA FOR THE ECONOMIC AND MONETARY UNION

1 – Single supervisor for euro area banks

Following intensive negotiations, the EU legislators agreed in September on a historic step towards strengthening the Economic and Monetary Union (EMU), by setting up the first pillar of the Banking Union, i.e. the Single Supervisory Mechanism (SSM). According to this agreement, the European Central Bank (ECB) will have ultimate responsibility for supervisory tasks related to the financial stability of banks in the euro area and in all Member States that choose to participate. The regulations establishing the SSM entered into force in 2014.

Co-operative banks welcome this approach, which allows for more direct supervision by the ECB on large banks with a certain systemic relevance while giving greater responsibility to national bodies to supervise smaller banks as well as the ECB sufficient power to intervene when necessary. This approach reflects practical realities and subsidiarity aspects. The EACB also welcomes the solutions found for a strict separation of the supervisory and monetary tasks of the ECB.

Throughout the year, the EACB engaged in a close dialogue with the European Central Bank. It met members of the ECB Governing Council on many occasions to exchange technical knowledge and experience.

As part of preparation for assuming its full responsibility for supervision in November 2014, the ECB must now complete a number of operational tasks. By far the most significant one is to carry out a comprehensive assessment with the aim of introducing greater transparency of banks' balance sheets and of restoring confidence in the stability of the banking sector. The assessment began in November 2013 and will take 12 months to complete.

It is crucial that all banking data is treated in a strictly confidential manner throughout this long process. Special attention must be paid to the partial results of the comprehensive assessment in order to ensure that there is no of leaking of information that could distort the behaviour of the participants on the market. It is crucial that the ECB applies the final CRR/CRDIV definitions and closely co-operates with the European Banking Authority (EBA), in particular with regards to the stress tests.

In parallel, the ECB is in the process of establishing the new structure of the Supervisory Board.

Over the coming months, the EACB will closely follow the processes leading to the establishment of a framework regulation and the 'single supervisory handbook'. It will ensure that the characteristics of co-operative banks, which are mainly focussed on retail banking, are well reflected.

2 – Uniform rules for failing banks and protection of deposits

In parallel to the establishment of the SSM, the debate on the Directive on Bank Recovery and Resolution (BRRD) and Deposit Guarantee Schemes (DGSD), the second pillar of the Banking Union, was on the priority list of the European regulators.

Directive on Bank Recovery and Resolution

Following the adoption of the Parliament's and Council's positions on the resolution regime in June, the tripartite negotiations were speedily concluded in mid-December. The resolution directive, which will enter into force on 1 January, 2015, establishes a three- pillar EU framework for restructuring failing banks: prevention, early intervention and resolution. The Member States will have to set up resolution funds that are capitalised by the banks. A target level of 1% of all covered deposits will have to be reached within ten years. Shareholders and creditors will be obliged to bear the losses through bail-in as of 1 January, 2016. The possibility of rescuing banks with public funds (bail-out) will not be entirely ruled out, but it will occur only in exceptional circumstances.

Co-operative banks were actively engaged in the negotiation process, producing position papers, letters, and engaging in a dialogue with policy makers. They supported the objectives to manage bank failures in an orderly way. Nevertheless, it was crucial to apply proportionality criteria (such as the business model, risk profile, size and interconnectedness), to the rules on bail-in, recovery and resolution plans, and contributions in an appropriate way. Co-operative banks therefore welcome the fact that the final agreement – unlike the original Commission proposal – acknowledges the important role played by co-operative solidarity systems. Indeed, it recognises IPS as a private alternative to resolution and as a mitigating factor in the context of the contribution level risk adjustments.

Nonetheless, certain agreed rules may have a profound impact on smaller deposit-taking banks. This, for example, relates to the exclusion of deposits above €100,000 that benefit from preferential treatment when calculating the minimum amount of their own funds and bail-in-able liabilities that each bank will be required to hold. Indeed, these deposits represent a big chunk of the liabilities on co- operative bank's balance sheets that can be bailed in. As a result, institutions that are not joint stock companies and cannot resort to the financial markets to raise capital may have to resort to increasing their own funds beyond prudential thresholds. In addition, the pre- condition bailing-in of 8% of the total liabilities before dipping into the resolution funds will mean that many smaller co-operative banks will not be able to meet this threshold. Indeed, they may not in practice be able to benefit from the recapitalisation from the fund to which they duly contributed.

Directive on Deposit Guarantee Schemes

While the 'crisis directive' was under scrutiny, legislators reopened negotiations on the review of the depositor protection rules that had been on hold since June 2011. The revision aimed to harmonise the level of protected deposits, faster pay-outs and improved financing of the schemes.

The agreement reached at the end of December preserves the harmonised coverage level of €100,000 per depositor and per bank. Repayment deadlines will be gradually reduced from 20 working days to seven working days. The Member States will be required to set up deposit guarantee funds capitalised ex ante by banks. These must in principle reach a target level of 0.8% of all covered deposits within ten years.

Co-operative banks welcome that the DGS systems will remain national. They have consistently called for maintaining different deposit guarantee models in the EU, and they fully support the final decision of the co-legislators to opt for the 'three-pillar approach' as proposed by the European Parliament during the negotiations. Indeed, DGS will be able to take such action as it considers necessary to achieve the objectives of depositor protection and financial stability. This has been the practice of many co-operative banks in the past, providing additional flexibility and minimising the cost of intervention for the DGSs.

Many of the issues under both the resolution and depositor protection directives must now be resolved in the delegated and implementing acts. While the EU legislators were hammering out the rules on resolution directive, the European Banking Authority (EBA) was already busy developing the first technical standards. Though the EU's rules fit systemically important institutions, they are excessive for smaller and simpler co-operative banks, which develop their activities locally. Appropriate adjustments are therefore essential. This applies in particular to the rules on the calculation of contributions to the resolution and deposit guarantee funds.

3 – Single architecture for bank resolution

The Commission addressed the third pillar of the Banking Union, the Single Resolution Mechanism (SRM) and Fund (SRF), in the summer of 2013. The proposal is set to centralise competences and resources for resolution of banks in the euro area and SSM-participating countries. To ensure that the system is compatible with the EU Treaties, the Commission proposed that it would 'rubber-stamp' or reject any decisions taken of the EU Resolution Authority. the Commission proposed that any decision taken by the EU Resolution Authority would have to be rubber stamped by an EU Institution, and the most appropriate one to do so would be the Commission itself.

Despite numerous legal questions, both the Parliament and the Council came to their respective positions at the end of December, thus opening up the possibility of tripartite negotiations in 2014. While there are some convergences in views – for example, the SRM could cover all banks in the SSM-participating Member States – some major differences between the two co-legislators can be observed. The Parliament focused on strengthening the accountability of the new single resolution authority, clarifying the roles of the various players involved, and aligning the rules with the resolution directive, leaving many essentials of the Commission proposal unaltered. In the Council, however, some Member States strongly opposed the idea of mutualisation of risk at EU level through the creation of a single fund. This resulted in an agreement to maintain separate national compartments within the single fund, which is primarily responsible for funding the resolution of banks in their respective territories. The compartments would be gradually transferred to a single pot under the rules envisaged in an inter-governmental agreement accompanying the SRM Regulation over a ten-year period. In addition, the Member States agreed that the final decisions should be taken by the Council, rather than by the Commission. Another point of contention between the legislators is the issue of backstops and the possibility of using the funds of the European Stability Mechanism until the resolution fund is filled.

A shared view across the co-operative banking sector is that if the proposal is adopted, it is essential that the legislators ensure consistency across the files, and particularly that the rules agreed under the bank recovery and resolution directive are not altered under the single resolution mechanism legislation. There must be a stronger focus on appropriate calibration and simplifying the obligations imposed on the credit institutions, taking into account their size, nature of business, risk profile and interconnectedness. Therefore, the Parliament's recognition of the role of the IPS is a welcome development. The co-operative banks agree that the processes envisaged for resolution must be based on clear rules on accountability, efficiency, task division and confidentiality of information. Finally, the burdens imposed on banks and the benefits they derive from the new mechanism must be appropriately balanced. The risk of default of the bank and the loss given default should be the main criteria for the calculation of the contribution to the fund, in order to avoid distortions between banking sector structures.

B/ CAPITAL REQUIREMENTS AND A NEW PRUDENTIAL FRAMEWORK: THE CRD IV – CRR PACKAGE

The new capital requirements directive and regulation

After lengthy trilogue negotiations, the Council, Parliament and Commission finally reached an agreement on the capital requirement legislative (CRD IV – CRR) package in March. Throughout the process, the EACB had been intensively involved in order to ensure that the particularities of co-operative banks and their group structures were given proper consideration.

On 26 June the CRD IV – CRR package, which implements the Basel III agreement in the European Union, was published on the Official Journal of the European Union. In 2014 the provisions for phasing in the CRR/CRD will begin.

The overarching goal of the new rules is to strengthen the resilience of the EU banking sector so it would be better placed to absorb economic shocks, while at the same time ensuring that banks continue to finance economic activity and growth. In particular, the new rules require a higher ratio and better quality of capital, introduce additional capital buffers, enhance governance and introduce new ratios regarding liquidity and leverage.

The EACB has closely followed the development of the CRD package, bringing forward the specific needs of co-operative banks. Among other topics, the association contributed to the definition of the treatment of co-operative groups, including consolidated approach to liquidity management within IPS schemes. The EACB also played an important role in defining capital (common equity) in the CRR, and specific provisions were made for co-operatives. Moreover, improvements in the treatment of SME loans were also achieved, in the definition of highly liquid assets and numerous other aspects of the legal package.

The CRD – CRR implementing activity of the European Banking Authority

The European Banking Authority (EBA) is comprehensively implementing the CRD/CRR provisions through the publication of technical standards, guidelines and reports as required by the regulation.

The EACB deepened and reinforced its relationship with EBA, monitoring and responding to multiple EBA consultations on the technical standards and guidelines needed to implement the CRDIV/CRR package. It also provided EBA with relevant feedback on delicate issues, participated in bilateral meetings and was present at EBA Public Hearings. EBA regulatory activities will be in the spotlight over coming years with more than 70 technical standards expected to be issued only in 2014.

Many sensitive topics have been addressed by EBA regulatory activity and the EACB responded to eight consultations launched by the EBA in 2013. Among the position papers submitted, the association addressed draft guidelines on the detail deposits that are subject to different outflows, draft technical standards on prudent valuation and additional value adjustment (AVA) and technical standards on 'own funds'.

In this context, the technical standards specifying provisions for own funds are of the utmost importance. The association has addressed some issues related to this particular topic, both with the European Commission and with the EBA.

In particular, with regards to the Regulatory Technical Standard on Own Funds I, which determines important parameters for cooperative shares, the EACB has strongly supported its members' concerns about a threshold for the redemption without authorization by competent authorities.

On the Regulatory Technical Standard on Own Funds IV, the association has already held bilateral meeting with EBA and is currently following the developments of the draft regulation concerning the treatment of instruments with fewer or no voting rights for which differentiated distributions (multiple dividends) are payable. In this respect, the particularities of co-operative banks must be safeguarded as they represent an important aspect of the European banking industry. Establishing a level playing field issues is a further key concern; though they do not have the same access to the capital markets as joint stock companies, co-operatives nonetheless support the real economy and provide a wide range of services to their members and to the local communities.

EBA Workshop on Proportionality

The issue of proportionality, in terms of the business model, risk profile and range of size and activities, is central to the co-operative banks, which are based on decentralised networks that are deeply embedded in their local communities. They have weathered the recent crisis well, continuing to support local economies and SMEs. In order to enable co-operative banks to maintain their specificities, appropriate calibration of both regulatory and supervisory rules is necessary.

The EACB has strongly advocated for the proportionality principle to be explicitly considered in the regulatory work. Towards this aim, the EACB actively participated to the EBA Proportionality Workshop that was held in October, 2013. The association provided EBA with four position papers in fields where the proportionality principle can be applied: reporting, liquidity, governance and leverage ratio. It also gave presentations during the meeting.

Liquidity requirements

New liquidity requirements have been introduced into the CRR in the form of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio. While details on the NSFR are yet to published, implementation of the LCR is at an advanced stage.

The exact details and mechanics of the LCR will be the subject of a delegated act of the European Commission and will appear by June 2014. The act will define, among other things, the terms of High Quality and Liquid Assets (HQLA) for the purpose of LCR compliance. The EACB participates in the legislative process and contributes to the debate by putting forward its members' views on the definition of the HQLA (and notably the inclusion of standby facilities granted by central banks or the Committed Liquidity Facilities being discussed), and the impact of the requirements on financing the real economy, among other issues. The liquidity requirements will be phased in gradually, according to the CRR, from a 60% compliance threshold to be met from 1 January, 2015, to a 100% compliance by 1 January, 2018.

The EACB held a meeting last December with the ECB to discuss the issues related to LCR implementation, such as the possible use of Committed Liquidity Facilities and the phasing in of the liquidity requirements. The meeting yielded valuable insights for its members.

To follow as closely as possible the developments of the relevant regulation, the EACB established a dedicated Liquidity Task Force in October, 2013. The task force, which comprises of the association's experts in liquidity risk and management, is assessing the impact of the new liquidity rules and representing the regulation concerns of co-operative banks.

Numerous meetings were held with Commission officials and EBA representatives to underline the particularities of co-operative banks, highlight level playing field issues and call for a balanced consideration of the range of institutions operating in the EU.

C/ THOUGHTS ON FURTHER REFORMS FOR EUROPEAN FINANCIAL SYSTEM

1 – Review of financial supervisory system

After two years of operation, the structure and performance of the European System of Financial Supervision (ESFS) are subject to review. As part of the exercise, last spring the Commission launched a public consultation, and in November the Parliament, led by Sven

Giegold, published its draft own-initiative report in the European Parliament.

Co-operative banks share the view that the European Supervisory Authorities (ESAs) have an obligation to respect the principle of proportionality while carrying out their tasks and developing regulation, supervisory methods, practices and handbooks. Co-operative banks are concerned that the draft standards, which were published by the EBA in 2013, add an additional layer of complexity, in spite of the EBA's requirement to calibrate its standards based on the criteria of proportionality according to the institutions' business model, risk profile, type of activates or size. Those complex proposals tend to encourage the development of bigger and more similar credit institutions in Europe, and thus threaten the diversity of the banking sector in the Single Market. It is therefore crucial that the ESAs engage with the EU legislators when Level 1 legislation is developed, to ensure that their mandates are formulated in such a way as to allow for the practical application of proportionality in their rulemaking.

2 – Reforms of the structure of EU banks

Michel Barnier, the European Commissioner for Internal Market and Services, is committed to proposing a legislative instrument on the separation of trading activities or 'risky' banking activities from the essential deposit-taking. To this end, the Commission launched a public consultation in spring, 2013, to further advance the debate that began with the publication of the Liikanen Report the year before.

Co-operative banks support the fostering of prudent banking and take a stand against all forms of irresponsible, high-risk banking. Well-designed reforms can contribute to the stability of the financial sector, including the protection of taxpayers' interests, economic growth, innovation and competition. Nevertheless, with the implementation of the CRDIV/CRR reforms and the Banking Union package, the necessity of structural separation is questionable. Moreover, such radical reforms risk disrupting the market in unstable economic times, driving up costs, raising uncertainty among clients and investors and hampering economic growth. Co-operative groups and networks, close to the 'real economy', identify serious difficulties in continuing to serve their clients if mandatory separation is adopted.

In June the Parliament led by Arlene McCarthy adopted its own-initiative report. The original draft report was clearly inspired by the UK's Vickers reforms, which are not suitable for the EU continental universal banking model. Co-operative banks were therefore pleased to see that the ambitions of the original draft were moderated in the end.

The Commission legislative proposal in this area is expected in early 2014.

D/ ACCOUNTING AND AUDIT

Disclosure of non-financial and diversity information

In April 2013 the European Commission submitted a proposal for an amendment to existing accounting legislation in order to improve the transparency of certain large companies on social and environmental matters. Companies with more than 500 employees would need to disclose information on policies, risks and results on matters concerning governance, the environment, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, and diversity on the boards of directors. For these purposes, companies may use the international or national guidelines that they consider appropriate (for example, the UN Global Compact, ISO 26000 and the German Sustainability Code).The EACB has been closely following the issue with the aim of keeping administrative burdens to a minimum. In particular, the 500-employee level should be increased and it should possible to disclose information in a separate and not necessarily audited report. Furthermore, the fields of reporting should rather be reduced than extended. Finally, there should remain room for co-operative banks to report on their specific missions if they choose to. In December, the European Parliament has reached an agreement,, while ongoing negotiations at a Council level are to conclude in early 2014.

International Financial Reporting Standards: IFRS 9 Financial Instruments

The IASB's IFRS 9 project was one of the key issues for the EACB. The IFRS project aims to completely replace the requirements of IAS 39 'Financial Instruments: Recognition and Measurement' with a new standard that represents a comprehensive reconsideration of the requirements of accounting for financial instruments. The project aims to substantially reduce the complexity and difficulties currently experienced with existing requirements.

In February the IASB issued ED/2013/2 'Novation of Derivatives and Continuation of Hedge Accounting'. The exposure draft proposes changes to IAS 39 and the forthcoming hedge accounting chapter of

IFRS 9 to permit the continuation of hedge accounting where hedging instruments are novated (substituted) to a central counterparty – in accordance with laws or regulations introduced by jurisdictions to implement the G20's agreed reforms on over-the-counter (OTC) derivatives. The EACB has commented on this project demanding further clarification of certain issues.

As a phase 2, the 'Exposure Draft Financial Instruments: Expected Credit Losses' was published in March 2013. The comment period closed on 5 July, 2013, and new deliberations are ongoing. This is the second phase of the project to replace 'IAS 39 Financial Instruments: Recognition and Measurement'. The objective of this phase is to improve the usefulness of financial statements for users by improving the amortised cost measurement, in particular the transparency of provisions for losses on loans and for the credit quality of financial assets. The EACB has commented on this project, appreciating the IASB's efforts to develop an expected credit loss approach in order to address the widely criticised shortcomings of the incurred loss model. Moreover, the EACB warmly welcomes the principle-based approach of the IASB's ED.

International Financial Reporting Standards: Leasing

In May 2013 the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) published a revised Exposure Draft outlining proposed changes to the accounting of leases. The proposal aims to improve the quality and comparability of financial reporting by providing greater transparency about leverage, the assets an organisation uses in its operations and the risks to which it is exposed from entering into leasing transactions. In particular, the ED proposes a new accounting model to address off-balance-sheet financing arrangements for lessees.

In its comments, the EACB is highly critical: it considers the suggested "right of use model" unworkable in practice. The new proposals would not provide for better quality information than produced by today's accounting. Moreover, members are highly concerned about the extra costs and complexity associated with the new proposals.

Maystadt Review

In September 2013, Philippe Maystadt, the special adviser to EU Commissioner Michel Barnier, released a draft report setting out his preliminary recommendations for enhancing the EU's role in promoting high-quality accounting standards. Mr Maystadt consulted with many European stakeholder groups, including the EACB, before reaching his preliminary conclusions. The key focus of his advisory role was to carry out a review of the governance of EU bodies in the field of financial reporting and accounting (the European Financial Reporting Advisory Group (EFRAG) and the Accounting Regulatory Committee (ARC)). In his report, which is not publically available, Mr Maystadt suggests three options, all of which aim to enhance the public voice within EFRAG. Under the most probable option, EFRAG would be transformed so that the public policy voice will already be embedded into the decision-making process before recommendations are made to the Commission. EFRAG's current Supervisory Board would be replaced with a board comprised of representatives from EU institutions, the private sector and national standard setters. Its role would be to approve comment letters to the IASB and cast opinions on whether to endorse a particular pronouncement. The current Technical Experts Group (TEG) would be transformed such that it would continue to work as a technical group, but its ultimate voting power would be transferred to the new board.

E/ TAXATION

1-European Financial Transaction Tax

Since the 27 Member States did not agree on a system for levies and taxes on financial institutions based on the Commission proposals of September 2011, a group of 11 Member States decided in January

2013 to go ahead with the establishment of a Financial Transaction Tax via the procedure of enhanced co-operation. In February 2013, the Commission submitted a new proposal based on the document from September 2011. The EACB reiterated its efforts to communicate to EU Institutions the negative effects that the FTT may have on co-operative banks, especially regarding double taxation effects, as well as difficulties regarding liquidity management and risk-reducing hedging transactions. Some Member States were concerned about the potential impact of such a FTT on their economy. In September, the legal service of the Council delivered a legal opinion that widely confirmed these views and considered the proposed measure to be in conflict with provisions of the Treaty. In December, the Commission delivered a response, contradicting the legal opinion of the Council.

DEVELOPMENTS AFFECTING RETAIL BANKING OFFER OF CO-OPERATIVE BANKS

The year 2013 had an important impact on banks' payment systems and bank accounts. New proposals were made for legislation and governance, and, of course, the preparations were in full swing for migration to the new European payment standard in 2014. In addition, there was a proposal to renew certain obligations on banks in the area of money laundering.

For other areas of retail banking, such as investment services, lending, data-protection, electronic identification and signatures, the focus was on finalising proposals that were already on the table and on organising their detailed implementation. This latter point relates in particular to the increasing activities of the European Securities Market Authority.

On a final note, the EACB observed that increased attention was paid to the subject of over indebtedness; multiple studies were released over the year.

All in all, 2013 brought a significant amount of additional obligations on retail banking, presenting a challenge for the co-operative banking groups to implement.

A/ CONSUMER LENDING

Strengthened requirements governing credits for the purpose of purchasing property

Co-operative banks, as important providers of mortgages for households at an EU level, have been actively involved in the legislative process of the proposed directive on credit agreements relating to residential property (CARRP). The Parliament finalised the adoption of the directive on 10 December 2013.

Co-operative banks' concerns concentrated on a number of issues – for example, the recognition of the specific nature of co-operative groups in which local co-operative banks act as intermediaries, the need for a clear distinction between an 'advised' and 'non-advised' loan granting process and a flexible approach to factors on which the creditworthiness assessment should be based. The EACB contributed to the discussions on the proposal by communicating position papers, proposals for amendments and comments to those involved in the negotiation.

In general, the EACB welcomed the endorsement of the directive, which will set a minimum level of quality in the provision of mortgage credits across the EU, while allowing co-operative banks to maintain their individualised approach to the credit granting process, based on trust and proximity.

Provision of comparable information to consumers in the context of consumer credit

In the area of consumer credit, the Commission issued an updated simulator that can serve as a tool to calculate the percentage rate of charge of a given credit agreement. This percentage rate of charge, which credit institutions providing credit offers are obliged to publish under the Consumer Credit Directive, helps consumers comparing different credit offerings and it is to be determined in the same way throughout the EU.

For the EACB, it has always been important that the use of such simulators does not become mandatory and that the calculator can be applied flexibly. The association has voiced these concerns and the Commission seems to have taken them into account.

The EACB also welcomes the Commission focus on implementation rather than a possible review of the Consumer Credit Directive.

Increased attention for the topic of over-indebtedness

This topic was put on the agenda by the European Commission and the European Banking Authority in 2012, and several publications have seen the light in 2013.

With the co-operative banking sector being one of the largest providers of mortgage and consumer credit in some countries, the EACB has followed the studies closely and commented on their outcomes where necessary.

At the beginning of the year, the Commission released the interim findings of a study on household over-indebtedness, examining its causes, consequences and measures to alleviate its impact. The EACB welcomed the study's recognition of a wide range of elements that can potentially lead to over-indebtedness and called for a cautious approach to drawing conclusions, given that the issue of over-indebtedness is marked with subjectivity.

Another study that examined the means to protect consumers in financial difficulty was also released last year. The study identified best practices in debt cancellation systems and encouraged financial users' representatives to urge the Commission to set up an EU legislative regime that would cover the whole of the cycle of credit granting, debt cancellation and reintegration of consumers in financial difficulty. For the EACB, which has always been a strong supporter of responsible lending, more legislation in this area – the causes of which are highly dependent on macro-economic developments and accidents of life – is not necessarily the answer. It is wary of approaches where total discharge of the debtor's liabilities would be foreseen.

The European Banking Authority also published two 'opinions': one on best practices in responsible mortgage lending, and the other on the treatment of borrowers in mortgage payment difficulties. These opinions would be complementary to the Mortgage Credit Directive and are addressed to competent authorities.

With the results of one more Commission study pending, it is likely that for the year 2014, this topic will continue to be a very relevant one for the EACB.

B/ BANK (PAYMENT) ACCOUNTS AND PAYMENTS

B1. Bank (payment) accounts

Achieving financial inclusion, consumer mobility and transparent and comparable information on fees for the European payment-accounts market

The EACB has closely followed the Commission proposal for the directive on payment accounts that was released in May 2013. The proposal consists of three separate, yet linked, parts. It focuses on access to banking services for vulnerable consumers, consumer mobility by means of bank account switching and transparent and comparable bank account fees. Co-operative banks are a strong supporter of access-to-banking services for vulnerable consumers. Indeed, it is one of the main reasons why cooperative banks were created in the first place. Co-operative banks also understand the rationale behind facilitating consumer mobility and bank fee transparency.

Though the EACB is supportive of these objectives in general, however, it is also wary of some of their concrete outputs – for example, the introduction of a cross-border switching service, where there is lack of proof for actual consumer demand of such service. Also, the EACB perceives the introduction of a basic payment account that is, in terms of number of services and operations, comparable to a 'regular' commercial payment account apart from its regulated price, rather as a market-intervention than an actual solution to the problem – of which the extent and underlying reasons vary enormously between Member States. As such, it has argued that the consumer applying for access for an account with basic features should fulfil certain criteria so that the basic account can truly serve those consumers that would otherwise have been excluded from the financial system.

The EACB has been actively engaged in the debate on the proposal, both before and after its publication. It has focused much of its communication on introducing a mandatory link to the Member State where the application for the basic payment account is made and on deleting – or making subject to a review clause – the provisions on cross-border switching.

B2. Payments

SEPA migration, the final countdown

As of 1 February, 2014, all credit transfers and direct debits in euros in the Eurozone will have to be compliant with the provisions of the

'End date Regulation 260/2012', which outlines a series of technical and business requirements that credit transfers and direct debit in euros must fulfil. This regulation entered into force in March 2012 and aims to achieve the migration of payment flows away from the euro payment schemes presently used in Member States towards pan- European ones. The ultimate goal is to achieve a true internal market for payments by doing away with 'national systems based on national standards. The year 2013 was an important one for banks and every stakeholder involved in ensuring a readiness for migration. In 2013, having finalised its series of best practice exchanges on migration with its members, the EACB focused on communicating to the political drivers of SEPA the need for public authorities to take a more prominent role in communicating SEPA migration to all interested parties, including SMEs. In this context, the EACB was happy to see that the ECOFIN Council devoted a specific set of Council conclusions to SEPA migration on 14 May. The EACB also raised awareness on the importance of SEPA migration by putting a special purpose message on its own website.

Updating the payments regulatory landscape

On 24 July, the European Commission published two legislative proposals that could potentially have a profound impact on the payments industry in the EU. These are the proposal for a revised Payment Services Directive (PSD 2) and the proposal for a regulation on interchange fees for card-based payment transactions (IF Regulation).

From the moment these proposals were published, the EACB has worked hard to better understand the consequences, to identify its members' opinion and to finalise its own position paper accordingly.

With regard to PSD2, the main issue for the EACB was to ensure a level playing field with the new players that the Commission intends to bring under the scope of the legislation – i.e. Third Party Providers. From the perspective of the EACB, however, the proposal focuses too much on one single business model of one specific kind of provider, and it does not pay enough attention to the needs of banks.

As regards the IF Regulation, the main concerns focused on the consequences of the proposal, not only concerning the proposed intervention on the levels of interchange fees, but also the proposed changes to the current business rules that could fundamentally change the foundations of the card payments industry in Europe and, as a consequence, create distortions in the markets.

In this context, the EACB engaged in an intensive dialogue with members of the European Parliament dealing with these dossiers, in order to voice its concerns. As well as bilateral meetings, it also organised a special breakfast session with a view to allowing some time to provide the necessary background for the two proposals. Such space is necessary to ensure an informed debate. The legislative process will continue over 2014 and the EACB will focus on outlining the right messages to the right stakeholders.

Ensuring the security of electronic payments

In line with its mandate, the European Central Bank has been working on the security of payments. Indeed, already in 2011, it created a special body, composed of supervisors and overseers of retail payment services providers in order to facilitate understanding between authorities. The body also addresses areas of weakness or vulnerability and formulates recommendations. Having released a first set of recommendations on the security of internet payments for consultation in 2012, it issued two more sets of recommendations in 2013 for consultation: one in January on the security of 'Payment Account Access Services' by third parties, and one in November on the security requirements for mobile payments.

The EACB responded to the document relating to access to accounts by emphasising that, in order to make internet payments via third parties offering secure services, agreements may need to be established between banks and these parties in order to be able to identify them and resolve issues that may arise.

The EACB is still working on its response to the consultation on mobile payments.

The governance of payments development in Europe

The governance of the retail payments in Europe was an important topic in 2013 for two reasons. On the one hand, the European Payments Council (EPC)[3], which was created in 2001 under huge political pressure to integrate the 15 different payments markets into one single one for the Eurozone, has received criticism from stakeholders. On the other hand, the SEPA Council that was created by the European Commission in 2010 was due a review in 2012. Indeed, both issues had already been the subject of different discussions and consultations in 2012 and were expected to result in a Commission proposal in that year.

The Commission, however, did not produce a proposal on the governance of retail payment in this year, the EACB thus expected one to come in 2013 and contributed to the few meetings where this issue was on the agenda. In doing so it reiterated its main stance – i.e. the need for a governance structure with more responsibilities, independence, an equal representation of demand and supply side, and, most of all, with some form of public recognition from both the European Commission and the European Central Bank.

When the proposal for a new governance body was finally published in September, it was put forward by the European Central Bank (ECB) and not the European Commission. This somewhat unexpected change of course partly explains the delay.

3 The European Payments Council (EPC) is the coordination and decision-making body of the European banking industry in relation to payments. The purpose of the EPC is to support and promote the Single Euro Payments Area (SEPA). The EPC develops payment schemes and frameworks which help to realise the integrated euro payments market. In particular, the EPC defines common positions for the cooperative space of payment services. EPC members represent banks, banking communities and payment institutions.

The proposal for the new governance body, called Euro Retail Payments Board (ERPB), was adopted by the Governing Council of the ECB on 18 December 2013.

This future body, which will replace the SEPA Council, will be chaired exclusively by the ECB. It will be composed of representatives from both the demand and the supply sides of the payments markets, and will help foster the development of an integrated, innovative and competitive market for retail payments made in euros in the EU. The EACB calls to have a seat on the future ERPB in order to represent the interest of its members.

The European Payments Council

As a founding member of the European Payments Council (EPC), the EACB has been following several of its work streams and providing input on behalf of its members where necessary. It has – for example, contributed towards the legal support group, the cash working group, the cards working group and the mobile channel group.

In addition, it contributed to the EPC's reflections on the future retail payment governance, the impact it will have on the EPC and on how the EPC should be reformed. Of concern to the EACB and its members are, first and foremost, the need to concentrate on professional, legally sound and democratic scheme management, which is able to manage, maintain and possibly further evolve the schemes in future. These reflections are expected to continue and should give rise to concrete results in 2014.

C/ INVESTMENT SERVICES

Coming up: Markets in Financial Instruments Directive 2/ Regulation on Markets in Financial Instruments

One of the most important initiatives in retail banking affecting investment products is the current revision of 2007's Markets in Financial Instruments Directive (or MiFID 2) which started in October 2011 and is expected to be concluded in early 2014.

With both the Council and the European Parliament having established their respective positions on the Commission's proposal for a revised version of the directive and a Regulation on Markets in Financial Instruments, the EACB has been closely following the trilogue negotiations among the European Parliament, the Council and the Commission. The EACB has focused on ensuring that inducement-based advice will still be allowed in the future, be it under certain stringent conditions to avoid conflict of interest, and that Member States should be able to waive the obligation to record telephone conversations in certain circumstances. Moreover, the EACB has raised awareness on the issue of 'member certificates' and the proposed requirements for 'Organised Trading Facilities (OTF)' – for which the mandatory involvement of an entity outside the group to carry out market making on an OTF on an independent basis – could mean the end of the low-cost internal markets for co-operative instruments and thus should be avoided. At the same time the EACB Secretariat is elaborating on the potential ESMA work items that will follow soon after political agreement has been reached.

Better information for investors on the products they may consider investing in

Another important initiative regarding investment services is the Regulation on Key Information Document (KID) that was proposed in June 2012 but was still on the table in 2013. This initiative aims to improve the quality of information that is provided to consumers when considering investments and making it easier to understand and compare different kinds of investments.

The EACB has actively followed the developments around the proposed regulation; the association had a range of concerns in particular with the scope of the regulation. For example, it believes that regulation should clearly exclude simple savings deposits. Other concerns included the liability attached to the content of the document and how best to inform retail investors on the risks and costs. In this context, the EACB engaged with Members of Parliament to exchange views and represent the views of its members.

The outcome of the legislative process in the European Parliament was received with mixed feelings; while the scope of the proposed regulation was clarified, the liability for the content of the KID still does not recognise that the document can only ever be a summary of the full legal package.

The EACB will therefore continue to pay attention to this issue and follow the forthcoming negotiations among the European Commission, Parliament and the Council, which set out its position on the proposed Regulation in June.

The current European efforts to provide simplified disclosure documents for retail customers when buying more complicated investment products are not isolated. The International Organisation of Securities Commissions (IOSCO) has also held consultations on a possible 'Regulation of Retail Structured Products', which was opened to feedback in April and May 2013. The EACB took part in this consultation to outline its views that it is currently bringing forward in its EU campaign and ask for proper alignment with the already existing (or soon to be finalised) disclosure requirements in MiFID, UCITS and PRIPS.

Changes to the safekeeping landscape for depositaries of European funds

European co-operative banks act in some cases as custodians to securely safeguard financial assets held by European investment funds. Following the Lehman bankruptcy and the Madoff fraud, the European Commission set out to boost protection of those who buy investment funds and to harmonise the liability standards for fund depositories within Europe. In this context, it proposed in 2012 a fifth review of the long-standing Undertakings for Collective Investment in Transferable Securities (UCITS) Directive. This review focuses on depositary and remuneration issues. The main question concerned the level of liability depositories should bear while safekeeping assets of an investment fund – in case of a loss where custody needed to be subcontracted. With some more specialised European co-operative banks being affected by this directive, the EACB has emphasised the importance of aligning the depository rules of the Directive for Alternative Investment Funds (AIMFD) and the UCITS Directive. In this respect, the EACB has reiterated the message that investors protections regimes in the European fund industry should pay attention to the unintended consequences of establishing unbalanced liability regimes between all actors in the value chain (fund managers, depository banks and end-investors).

The supervisor works on the implementation of the clearing obligations concerning OTC derivatives

In 2013, the European Market Infrastructure Regulation (EMIR) on over-the-counter (OTC) derivatives, central counterparties (CCPs) and trade repositories (TRs) reached the stage where the securities market supervisor, the European Securities Market Authority (ESMA) carried out consultations on certain implementation issues. In response to the question of the clearing obligation, the EACB's efforts focused on ensuring that the EMIR implementation would accommodate the co-operative business model and the co-operative group structure. In this context, the EACB asked that transactions only become subject to the clearing obligation if clearing services are available for these transactions for all market participants.

Another key aspect of EMIR implementation for the EACB was the third country application of EMIR in relation to third country counterparties and to third country branches of European banks. This is a problem because non-EU counterparties do not have to comply with the relevant EU regulation and could refuse to accept demands on them coming from European banks as a result of European legislation. Moreover, European banks with branches outside the EU/EEA could be subject to two different and even conflicting sets of legislation. In response, the EACB has written to high-level representatives of both the Commission and ESMA to ensure that the compliance with the requirements for activities in third countries only becomes effective when more clarity has been achieved between the European Commission, ESMA and third country authorities on the equivalence of third country legislation.

Shadow Banking in the spotlight

In the context of the wider policy area related to shadow banking, the European Commission published in September 2013 its proposal for a regulation with new rules for money market funds (MMFs) along with a communication on shadow banking. Due to their interconnectedness with the banking sector and with corporate and government finance, Money Market Funds have been identified by the Financial Stability Board (FSB), the International Organisation of security committees (IOSCO), and the European Institutions as systemically relevant entities acting as shadow banks.

Considering that Money Market Funds can pose a systemic risk for the European financial markets, the aim of the proposed regulation is to improve the liquidity profile and stability of Money Market Funds and strengthen them against investor runs. The EACB's involvement with this proposal was limited to asking Members of Parliament to avoid – as regards to the organisation of the cash buffer for Constant NAV-MMF – unintentionally undermining the principle of fungibility of cash deposited with banks and the functioning of credit institutions.

Dismantling the Giovannini barriers in cross-border clearing and settlement in the European Union

The first and second Giovannini Reports[4] identified several technical, legal and fiscal obstacles to the creation of a single market for the post-trading of securities transactions in the EU.

Apart from the initiatives undertaken by the European Institutions to dismantle these barriers – such as the European Central Bank (ECB) Target2-Securities (T2S) project, the harmonisation of settlement cycles through the soon-to-be-adopted proposal for Central Securities Depositories Regulation (CSDR) and attempts to draft a Securities Law– market participants are also pulling their weight, including co-operative banks. Indeed, the reports delegated the removal some of the barriers to market participants, united in various associations. In the context of the governance framework that has been set up both at national and European level to address these barriers[5], the EACB, along with the European Banking Federation and the European Savings Banks Group, evaluated in the beginning of 2013 whether or not to endorse a revised set of standards for Corporate Actions Processing. The endorsement was confirmed in May after long deliberations on some elements of the standards that still raised some concerns among EACB members. This endorsement is an important step in the ongoing effort to eradicate barriers for clearing and settlement of securities transactions (identified by the Giovannini Group) that inhibit a truly European Single Market.

Towards a harmonised securities market

The Commission has been reviewing the issue of securities law for many years. Indeed, its efforts link back to the work on dismantling the barriers to cross-border clearing and settlement (see above). Following the collapse of Lehman Brothers, the Commission has started - after a pause of a few years – to draw up a proposal on EU Securities Law to address the barriers identified to the safe and efficient functioning of the Single Market.

In this context, the EACB also focused on the Securities Law Legislation (SLL) with a view to informing the debate currently going on inside the Commission on the subject. The EACB , in particular, is addressing the definition of the law that is applied when more than one jurisdiction is relevant in assessing the legal nature of the rights accredited to securities accounts (i.e. 'conflict-of laws' rules). The EACB is also trying to find an approach that appropriately balances the advantages and disadvantages of the direct versus the intermediated holding model. The EACB is in favour of practical solutions that do not contradict the specificities and structure of the markets of the different Member States.

The single European platform for securities settlement (T2S) on track

Target2-SECURITIES (T2S) is a milestone project carried out by the European Central Bank (ECB) that aims to create a single pan-European platform for securities settlement for ECB money by 2015. T2S will reduce the cost of cross-border settlement in Europe and create a single collateral pool for European assets. At the same time, T2S will contribute to the reduction of certain 'Giovanninni barriers'.

The project is ready to become operational, and the focus now lies on testing of the T2S platform, the progress of the harmonisation activities, the role of directly connected participants (DCPs) and technical matters (for example, connectivity solutions, T2S sizing and auto-collateralisation). The EACB is participating as an observer in the T2S Advisory Group (AG), representing co-operative banks' interests as future users of this infrastructure and reporting back to its members on the relevant issues.

D/ HORIZONTAL ISSUES

Processing and protection of personal data

Although processing of personal data is not the core business of the co-operative banks as such, it cannot be denied that almost all the operations in the retail banking sphere will require processing of the client's personal data. This is necessary to be able to provide consumers with services (for example, assess their creditworthiness or their investment profile) or to fulfil important public functions (such as fraud, money laundering or terrorism prevention). The Regulation on Data Protection proposed on 25 January 2012 is therefore a regulation that will have considerable impact on the day-to-day operations of co-operative banks, and requires EACB involvement.

4 First report of the Giovannini Group (November 2001): 'Cross-border clearing and settlement arrangements in the European Union'; and second report of the Giovannini Group (April 2003): 'Second report on EU Clearing and Settlement Arrangements', which was named after the chairman of the group of financial experts that identified the barriers.

5 The Broad Stakeholder Group (BSG) is the industry body made up of all relevant parties in the securities' value chain which have endorsed the Market Standards for Corporate Actions Processing and the Market Standards for General Meetings. It aims to steer, organise, monitor and coordinate the implementation process at European level. The responsibility for the actual implementation of these two sets of standards resides at national level. with the Market Implementation Groups (MIGs). The BSG reports directly to the European Commission on progress achieved.

The year 2013 was marked by considerable attention from the European Parliament on this piece of legislation, and the EACB has actively engaged MEPs, as well as national representatives in the Council. Issues of most concern, include the possibility to process data within different entities of the co-operative group, the conflict between obligations of anti-money laundering legislation and data protection provisions and the appointment of a Data Protection Officer. The EACB believes that it is important that it should also be possible to appoint such an officer at a co-operative group level, rather than having one officer per co-operative bank. It remains to be seen whether the legislator will be able to close the file before the 2014 elections. Meanwhile, the EACB will focus its efforts on continuing to address the issues surrounding national permanent representatives.

Anti-discrimination

European co-operative banks take non-discrimination seriously. They attach, for example, importance to easy access to banks' premises, ATMs and a diversity of access channels in relation to services and recognise that facilitating access can lead to an increase of business opportunities. The European Parliament conducted an impact assessment over the course of 2013 with regards to the proposed measures on anti-discrimination, and EACB underlined the need to carefully consider proportionality of administrative burdens, in particular when it comes to compliance costs for smaller co-operative banks that are less able to apply economies of scale or cross-subsidise costs than larger banks.

E/ SERVICES CONTRIBUTING TO THE PUBLIC GOOD

Banks to facilitate cross-border debt recovery

The year 2013 witnessed good progress on the regulation that was put forward by the European Commission in 2011 to create a European Account Preservation Order to facilitate cross-border debt recovery in civil and commercial matters. The regulation proposes to allow creditors to preserve the amount owed in a debtor's bank account by preventing debtors from removing or spreading their assets during the time it takes to obtain and enforce a judgment on the merits. As a result, banks will be obliged to block an amount that is indicated in the preservation order. For the EACB, a number of practical concerns arose in the application of this Regulation – for example, in relation to balancing the rights of the debtor and the creditor, and with regards to the bank's obligation to provide information, the scope of assets that are to be preserved and the possibility for banks to be reimbursed for the administrative costs incurred when exercising the order.

The EACB commented on developments in the Parliament in 2013, and, in general, it has positively welcomed the progress made by the legislator, who is expected to finalise the file in early 2014.

Anti-money laundering and the fight against terrorism

In the area of anti-money laundering and terrorist financing, the agenda of the EACB was driven by three initiatives.

On 5 February, the European Commission published the proposal for a fourth Anti-Money Laundering Directive, which reviews the third Anti-Money Laundering Directive that was put in place in 2005. The proposed legislation moves from a rule-based approach to a risk-based approach. The EACB's involvement on this file has been heavily channelled through the European Banking Industry Committee (EBIC), which developed a common position on the proposed directive to which the EACB largely contributed. The combined efforts of the European associations through EBIC achieved a very good result in the European Parliament. By the end of 2013, MEPs were taking on board our most relevant concerns and were also very supportive of the EACB's key demands, especially those stressing the need for specific tools and supportive instruments for banks to allow them to successfully pursue the targeted objectives.

Also on 5 February, the European Commission published a proposal for a revised regulation on information on the payer accompanying the transfers of funds that would replace the former regulation on this area that was published in 2006. This regulation lays down rules for payment service providers on the kind of information on the payer and the payee they must send with the payment throughout the payment chain, in order to prevent and investigate money laundering and terrorism financing. The EACB has been monitoring the discussions on this piece of legislation with a view to ensuring that transactions inside the EU remain exempt from the obligations imposed in line with the idea introduced by the Payment Services Directive that the market for payments in Europe should be a single one.

Closely linked to its initiatives to counter anti-money laundering and terrorism, the European Commission (service of Foreign Policy Instruments) invited the EACB, along with the other European credit sector associations, to a meeting in the premises of the External

Action Services on 10 October. The objective was to discuss different aspects relating to the "consolidated list of persons, groups and entities subject to EU financial sanctions" established and maintained by the European Commission with the support of the European associations in 2004, and used by banks in the fight against the financing of terrorism. The Commission outlined its intention to renew, at its own expense, the database and invited the industry to provide input on the functional requirements that the future database would have to fulfil from the user perspective. The EACB has welcomed this offer of the European Commission and will continue to collaborate with the Commission in this project in order to ensure that the database meets the requirements of banks.

F/ OTHER

Proposal for a regulation on electronic identifications and trust services

The proposal for a regulation on electronic identification and trust services was published in 2012. This draft legislation, on the one hand, enables Member States to notify the European Commission of their e-ID-schemes. By this voluntary notification, the Commission expects to achieve interoperability among these schemes in different Member States, without imposing the obligation to establish eID-schemes in those Member States where they do not exists. The ultimate objective is to boost cross-border access to public services. On the other hand, this proposed regulation is a revision of the eSignature Directive of 1999 and also sets forth a number of requirements for the 'trust services' (such as the provision of time stamps in official documents).

The EACB finalised its position on this proposed regulation in March 2013, and it was sent to relevant members of the European Parliament discussing the dossier, some of whom it also met. The EACB continued to monitor the state of play the legislative process, paying special attention to the implications that the future regulation may have on banking services, especially those relating to electronic banking and payment services.

E-Invoicing

The EACB has played a role as an observer in the Multi-Stakeholder Forum on Electronic Invoicing since 2012. This forum, set up by the European Commission, brings together key actors from the public and private sector of all Member States, and it is used as a platform to exchange experiences and best practices ahead of the wide-scale adoption of e-invoicing at EU level.

During the last meeting of the Multi-Stakeholder Forum, good progress was made in the four work streams: monitoring the e-invoicing uptake in Member States and at EU level, exchanging experiences and good practices, proposing appropriate solutions for remaining cross-border barriers, migrating towards a singe e-invoice standard data model. During the same meeting the European Commission announced its intention to consult members about an extension of the mandate of this group. The EACB intends to keep its position as an observer and continues to follow developments in e-invoicing.

CO-OPERATIVE BANKS AS SOCIALLY RESPONSIBLE BANKS

Co-operative banks were created to serve their members and to emancipate them economically and socially. Responsibility has been a cornerstone of their way of doing business since the beginning. Owned by their clients/members, co-operative banks are key players at local and regional level, where they act in a responsible and sustainable manner, taking the long-term view. In this respect, the EACB fully supports the Agenda 2020 and its objective of a smart, sustainable and inclusive EU economy. The EACB, however, warns that a sustainable approach cannot be imposed with legislative measures.

Active role in financial education

With a specific focus on children and young people, the EACB believes that for any considered measure designed to protect consumers to reach its maximal potential, financial education must be enhanced and thus the EACB regrets that financial education receives little support from consumer advocates. It is particularly important for co-operative banks to promote such education. EACB members are, in general, aware and supportive of financial instruction (in particular for those present or starting their activities in developing countries). In this light, the EACB was invited to express co-operative banks views at events focusing on this issue.

Co-operative social responsibility and related initiatives

Co-operative banks are engaged in their communities and sustain local economies. Responsibility is one of the key values of co-operative banks, be it towards its members, towards the community to which they belong or towards the environment. In 2013 the EACB was therefore involved in several discussions and initiatives at a EU level. In particular, the EACB has been following the regulatory process of the proposal for a non-financial information directive that aims to introduce assessments on economic, social and governance performance for companies at a EU level. For a full report on this initiative please refer to the related paragraph titled 'Disclosure of non-financial and diversity information', in the Accounting/ Auditing Section of this document.

In the same regard, the EACB has released an internal list of non-mandatory 'co-operative' indicators. Those indicators are meant to measure the co-operative performance and the co-operative banks specific approach to CSR. The aim is to facilitate reporting on governance, social and environmental matters, while highlighting the co-operative differences. The EACB internal guidelines recommend a list of co-operative indicators in line with the ICA's co-operative principles and in compliance with international standards (GRI, UN Global Compact and OECD guidelines, etc.). It is a tool box that showcases the connection between co-operative banks activities and the co-operatives values.

Finally, the EACB engaged in discussions with externals stakeholders in order to foster awareness on their distinct features. In particular, the co-operative governance principles are not well known and are often perceived as not being in line with the predominant shareholder governance models that are used as reference in CSR international reporting standards. This resulted in the organisation of educational workshops that should be developed and extended in the near future to relevant actors of the CSR field.

Financing of small and medium-sized enterprises

Co-operative banks have a market share of around 30% of loans to SMEs, and are among the main financial partners of small enterprises in Europe. In this respect, the EACB is committed to the EU actions to improve SMEs' lending especially in the current difficult economic context. The association has followed the negotiations on the newly established framework programmes for SME's financing, which was introduced in the new 2014-2020 EU budget – namely, Horizon 2020, COSME and the Entrepreneurship 2020 Action Plan, along with new financial products offered by the EIB and the EIF. The EACB has highlighted throughout the process that, while co-operative banks are main financing partners of small businesses at a local level, they face specific difficulties in intermediating EU funds. In particular, the network structure of co-operative banks prevents from using the EU instruments directly, as local banks need to pass through their central institutions with associated costs and burdensome set-ups. Moreover, the administrative and reporting requirements are often a barrier for smaller co-operative banks to access those instruments.

Eligibility criteria (i.e. rating) and size of amounts can be another obstacle. The EACB maintains its involvement in the Commission's high-level forum for SME financing that was established in 2010. It has participated in the projects on improving data on SMEs lending and on the transparency and rating systems of SMEs. Indeed, co-operative banks believe that there is room of improvement for data available at an EU level (ECB SMEs lending survey). Increasing the quantity and quality of data and providing a more diversified picture of the banking sector would be essential.

Finally, talks continue with the EIB in order to facilitate the access of smaller co-operative banks to the EIB group's instruments. Given the enhanced role and the EIB mission to increase funds to support EU's growth, there is mutual interest in finding appropriate solutions in 2014 to allow local co-operative banks to play a major role in intermediating EIB facilities.

Social affairs and EU Social Dialogue

Co-operative banks are major employers in Europe at regional and local levels with a total of 850,000 employees. As a consequence, the EACB remains an active player in the European Social Dialogue on Banking (ESDB), the dialogue between employer associations (EACB, EBF and ESBG) and employees (UNI Finance) in the banking sector. During 2013, the European Social Dialogue focused on two main aspects: 'Life Long Learning (LLL), where it followed up the joint declaration and promotion of the EU sectorial social dialogue (the LLL Enlargement Project), and the revision of the CSR Joint Statement of 2005. After two years of long-lasting negotiations, the LLL enlargement project began in 2013 with the organisation of three workshops in targeted countries (Croatia, Romania and Bulgaria) and a final dissemination conference in Brussels. This initiative aimed to enhance social dialogue in 'enlargement countries' by sharing good practices of other 'new' member states, such as Malta and Cyprus and also the ones of older Member States through the dissemination of one of the good results of the European Social Dialogue (ESD): the Joint Declaration on Life Long Learning. The outcomes of the project were summarised in a booklet of best practices and on a dedicated website. As part of the follow-up of this initiative, conclusions and recommendations will be addressed by social partners in 2014. As for the regular meetings of the ESD, the social partners worked on the revision of their Joint Statement on CSR that dated back to 2005, focussing on employment and social aspects of CSR in order to take into account the impact of the financial crisis. The areas of CSR that were revised concerned the evolution of training, learning and development, core labour standards, work/life balance, internal communication and equal opportunity in the banking sector in the context of the financial crisis. The revised joint declaration will be officially signed by the social partners in early 2014.

COMMUNICATION, RESEARCH AND TRAINING ACTIONS

In line with its communication policy, the European Association of Co-operative Banks has continued to inform policy and opinion makers of the concerns of co-operative banks. During the course of 2013, several initiatives and activities were undertaken to highlight the distinct features of co-operatives banks and the role they play for the real economy as well as the challenges ahead for the sector. The EACB has stepped up its organisation of public events, press coverage, online communication and the availability of data and research activities in order to raise the visibility of the sector and to cater for a renewed interest in co-operative banks, in light of their resilience to the worst effects of the crisis. A selection of those relevant activities for 2013 is provided below.

PUBLIC EVENTS

EACB Second Academics and Stakeholders' Day

On 14 May, 2013, the EACB held the Second Academics and Stakeholders' Day. The event, titled 'The Co-operative Difference: evidence on a unique governance and a sustainable business model' was hosted in the European Parliament by First Vice-President Gianni Pittella. Top researchers from universities and institutions of various European countries, as well as European stakeholders and policy makers, attended this successful event. The event was marked by two round tables: one on the unique governance of co-operative banks and the other on the role of co-operative banks in bring about more sustainable banking. The day was an opportunity to show new figures concerning development in memberships, clients, lending and capitalisations of European co-operative banking groups. Moreover, two brand new studies were presented: 'Resilience in a downturn: the power of financial co-operatives (conducted by the International Labour Organisation)' and 'Co-operative banks: international evidence (conducted by the New Economics Foundation)'. Patrizia Toia, MEP and guest speaker at the event, highlighted that European Institutions and Members States should recognise the differences between co-operative banks and investor-owned banks both in their capital structure and their corporate governance.

EACB-EURICSE 4th International Conference on Co-operative Finance and Sustainable Development

The EACB joined forces with The European Research Institute on Co-operatives and Social Enterprises (EURICSE) to organise the fourth International Conference on Co-Operative Finance and Sustainable Development that took place in Trento, Italy, in June 2013. Researchers and participants discussed various research papers focusing on the impact of co-operative banks on society and the local economy. Also, the event focused on the co-operative model and practices, gathering the views and ideas of members of the financial co-operatives sector.

5th Forum on co-operative banks and SMEs in Brussels

In March 2013, the yearly Forum of Co-operative Banks and SMEs was organised in Brussels by the EACB together with the CIBP and UEAPME with the support of the European Economic and Social Committee (EESC). Co-operative banks play a crucial role in financing one third of European SMEs. In the light of this privileged relationship at a local level, representatives of SMEs, co-operative banks and institutions were invited to provide their views on the current challenges for SMEs financing and policy messages. Despite the crisis, co-operative banks have continued lending to their SMEs customers, maintaining a substantial level of loans. Nevertheless, the context of a bleak economic situation and current banking reform has raised challenges for co-operative banks and SMEs. With this in mind, participants welcomed the speech of the EESC president, who referred to the action plan to improve access to finance for SMEs and to the unintended effects of Basel III on SMEs financing. In the light of an open and important dialogue with the key EU players, the event also included presentation from the representatives of Commissioner Barnier, the European Investment Bank and key stakeholders in SMEs financing.

Other events: participation of EACB in Members and external conferences

Over the past year the EACB has maintained and reinforced a number of partnerships and collaborations, aiming to provide a more diversified, thorough and effective service to its members. Among other events, the EACB was invited by Federcasse to a workshop organised at the offices of the European Banking Authority (EBA) to explain the specificities of the co-operative banks protection schemes in Italy and other European countries. In 2013, the EACB also participated in events and conferences organised by its members in France, Germany, Portugal and Canada. Moreover, the EACB has engaged in a vast range of activities and events organised by the European institutions, participating in initiatives by the European Commission, the European Parliament the European Economic and Social Committee and the European Banking Authority, among others.

B. CO-OPERATIVE BANKS LEADERS ENDORSE THE 'PARIS DECLARATION'

In June 2013 Top co-operative bank leaders have issued and endorsed an official 'Paris Declaration' that takes a stance vis-à-vis European and international regulators. The declaration highlights the merits of their member-owned banking model and warns that current regulatory reforms may radically affect their decentralised networks.

European co-operative bank leaders are proud of their model, which puts 'people before profits' and has demonstrated efficient and successful ways of working. This model is challenged, however, by current regulations. The cumulative effect of CRD IV (the legislative package that will implement Basel III within the EU) and the new supervisory framework, combined with new consumer protection rules, will have a strong impact on the co-operative banks decentralised model. The full text of the 'Paris Declaration' can be found in Annex III.

C. INTENSIFYING ONLINE COMMUNICATION AND INCREASING PRESS COVERAGE

Following the successful launch of its new website in 2012, the EACB decided to press ahead with its goal of intensifying its online communications. In 2013, the association developed its activities on the web with a special focus on social media. These tools are essential to complement the information available on the website on the co-operative banking sector: key figures, studies, external researches, interviews, press, latest news, articles and videos. Meeting the needs and expectations of member organisations and stakeholders to stay tuned, those tools have also amplified the outreach of the association and its member organisations. When looking at the number of interactions and engaged users, especially on the eve of the European elections, the use of these channels is more relevant than ever. Moreover, building on the development of the e-presence of the association, the outreach of co-operative banks in print media sphere has also further evolved. For example, The Banker magazine, which is published by The Financial Times, in a special issue for the Davos Summit, ran an extensive article on the lessons that can be learnt from the co-operative banks. Also, many specific articles on co-operative banks were published by European media sources, such as the Guardian, Europolitics and Les Echos, clearly reflecting the growing appetite for more information about the distinctive features of co-operative banks.

D. RESEARCH AND SURVEYS

The EU Think Tank on Co-operative Banks in Europe and relations with research centres

The growing interest of the academic community and stakeholders in the specificities of the co-operative banking model and the need to stimulate further research on the sector are among the reasons that led to the setup of the Think Tank on Co-operative Banks in Europe back in 2008. The think tank is composed of about 20 academic experts in the co-operative banking field and provides a crucial platform for discussion and exchange of information. The think tank also has a primary role in fostering knowledge and awareness on the co-operative banking sector at an academic level. Over the last year, several papers were produced and discussed by the members and their research networks. The analysed topics covered the most important features of the co-operative banking model, and ranged from governance and memberships to performances. Members of the think tank also participated in panel discussions at external academic conferences on co-operative banks (for example, the Southampton International Conference on the Global Financial Crisis and the conference on Financial Globalisation and Sustainable Finance in Cape Town) Moreover, the EACB has strengthened its synergies with other think tanks and research institutions specialised in co- operative finance, such as EURICSE and HEC Montréal. The EACB also reinforced its collaboration with other Brussels-based think tanks.

Stimulating new research: the EACB Award for young researchers on co-operative banking

In 2013 the EACB, in collaboration with its academic Think Tank, launched the second EACB Award for young researchers on co-operative banks. The initiative aims to raise interest and knowledge of the co-operative banking model among researchers – specifically, the younger ones – and the academic community as a whole. Too often, in fact, the co-operative banking sector is overlooked by mainstream economic research.

Despite the key role played by the co-operative banking system in Europe, with almost 4,000 banks and an average market share of around 20%, it is estimated that only 1% of existing economic research is devoted to co-operative banks. A number of applications were received from nine different countries on a very broad range of subjects, such as the role of co-operative banks in promoting SME financing, performance, governance structure and the impact of regulation. The scientific committee of the EACB Award is in the process of evaluating the papers received and the winner will be announced in spring 2014.

New studies on co-operative banks

In 2013 the unique features and role of the co-operative banking model attracted the interest and attention of many important stakeholders. In particular, a renewed focus on the sector was shown by the academic community and by think tanks and research centres.

During the last year, a new study on financial co-operatives, 'Resilience in a downturn: the power of financial co-operatives', was published by the International Labour Office (ILO). This comprehensive report primarily focused on the resilience of the financial co-operatives sector and demonstrated that financial co-operatives fared much better than 'traditional' banks during the crisis. The characteristic features of the co-operative banking model proved to offer a greater level of reliability and resilience, and this has helped the sector weather the storm comparatively well.

The study concluded with a review of policy options and recommendations for governments and political decision makers to better interact with the financial co-operatives sector. Another relevant study for co-operative banks in 2013 was the one issued by the New Economics Foundation titled, 'Co-operative banks: what benefit do they bring, where do they flourish and why, and what challenges do they face'. The study highlighted how co-operative banks comparatively outperform shareholder-owned banks on a number of aspects including customer service, support to local economies and more stable long-term profits. Furthermore, the study analysed the way that the unique characteristics of the co-operative model influence the performances and priorities of the relative institutions. The report also emphasised the urgency for appropriate and tailored regulation that identifies the features and needs of the co-operative banking model.

E. VISITS AND TRAINING SESSIONS

In response to the growing demand for more information on co-operative banking in Europe as well as the role and missions of the EACB, the Secretariat organised both information sessions for visiting delegations within its premises and local meetings. Firstly, groups of visitors from local and regional banks from a number of countries were received throughout the year. The EACB welcomed delegations from France, Germany and Italy, both in the context of training programmes organised by member organisations with a specific focus on the European institutions and for specific interests on ongoing activities. On another note, EACB expertise was also presented at an international level in Kyrgyzstan and Israel, where new co-operative banks are being established.

F. RELATIONS WITH OTHER CO-OPERATIVE BODIES

The EACB is a member of Co-operatives Europe, the umbrella body gathering European and national co-operative organisations and the International Co-operative Alliance (ICA). The EACB participated in events organised by both bodies, and EACB members views were also consulted during discussions initiated by Co-operatives Europe on certain European files. The EACB is also a partner of the International Summit of Co-operatives; the next summit will be held in Québec in October 2014. Moreover, the EACB is a member of the International Raiffeisen Union (IRU).

As the voice of co-operative banks, the EACB also maintains close relations with other bodies that regroup certain co-operative banks with the purpose of enhancing business co-operation, such as UNICO and the Confederation Internationale des Banques Populaires (CIBP). In particular, the EACB has offered its expertise on regulatory issues and was invited on several occasions by UNICO to explain the impact of regulatory developments on co-operative banks.

G. RELATIONS WITH OTHER EUROPEAN BANKING INDUSTRY REPRESENTATIVES

The EACB is a founding member of the European Payments Council (EPC) and the European Banking Industry Committee (EBIC). The year 2013 was marked by continued co-operation of the EACB within various bodies, such as the EBIC. The EBIC is an advisory committee which is regularly called upon to provide expertise in the field of financial services. EBIC consists of seven Brussels-based banking and credit associations, together representing the industry's common interests and is presently chaired by the EACB. The EACB took part in a range of meetings of its various working groups and contributed to its position papers on issues related to banking supervision, consumer and mortgage credit, anti-money laundering and payment accounts. Moreover, the EACB is part of the European Financial Reporting Advisory Group (EFRAG).

Institutional relations and education sessions with European and international institutions

During the past year, the EACB intensified its institutional relations with the aim of increasing the awareness and understanding of the co-operative banks business model. Meetings have been organised with high-level officials from the European institutions, the European Central Bank, the European Banking Authority and the Basel Committee on Banking Regulation to put forward the EACB views on the latest developments on regulatory matters and on the future of the co-operative banking sector. The EACB is aiming to reinforce the role of the co-operative banking model at an international level and was included in high-level meetings with senior officials from the World Bank, the US Department of Treasury and the Canadian Ministry of Finance.

ANNEX I – GLOSSARY OF ABBREVIATIONS

ADR: Alternative Dispute Resolution

AMLD: Anti-Money Laundering Directive

APRC: Annual Percentage Rate of Charge

CCD: Consumer Credit Directive

CCPs: Central Counterparties (clearing houses)

CRR: Capital Requirement Regulation

COSME: Programme for Competitiveness of Enterprises and SMEs

CRD: Capital Requirements Directive

CSDs: Central Securities Depositaries

CSR: Corporate Social Responsibility

DG MARKT: Directorate General Internal Market and Services

EAPO: European Account Preservation Order

EBA: European Banking Authority

EBIC: European Banking Industry Committee

ECB: European Central Bank

EFRAG: European Financial Reporting Advisory Group

eID: electronic Identification

e-Invoicing: electronic Invoicing

EP: European Parliament

EPC: European Payments Council

eSignature: electronic Signature

ESIS: European Standardised Information Sheet

ESMA: European Securities Markets Authority

FATCA: Foreign Account Tax Compliance Act

FATF: Financial Action Task Force

FICOD: Financial Conglomerates Directive

IASB: International Accounting Standards Board

IAS 39: International Accounting Standard

ICA: International Co-operative Alliance

IFRS: International Financial Reporting Standards

MEP: Member of the European Parliament

MiFID: Markets in Financial Instruments Directive

ODR: Online Dispute Resolution

OTC: Over-The-Counter

PRIPS: Packaged Retail Investment Products

PSD: Payment Services Directive

SEPA: Single Euro Payments Area

SMEs: Small and Medium- Sized Enterprises

T2S: TARGET2-Securities

UCITS: Undertakings for Collective Investments in Transferable Securities

ANNEX II – MEMBERS KEY STATISTICS

Key Statistics (Cooperative Indicators) as of 31.12.2012

(When not specified figures refer to the domestic / local banks)

	Governance	Employment	
Full Member Organisations[a]	**Members / clients ratio (%)**	**Nr. of New employees hired this year**	**Expenses staff training / payroll (%)**
Austria			
Österreichische Raiffeisenbanken	48,0	n.a.	1,6
Österreichischer Genossenschaftsverband	76,4	-249	n.a.
Bulgaria			
Central Co-operative Bank	0,5	244	9,0
Cyprus			
Co-operative Central Bank	62,9	135	n.a.
Denmark			
Nykredit	27,0	-24	n.a.
Finland			
OP-Pohjola Group	40,0	102	2,5
France			
Crédit Agricole	33,0	3.010	6,3
Crédit Mutuel	72,0	11.412	5,7
Germany			
BVR/DZ Bank	57,7	1.839	5,6
Greece			
Association of co-operative banks of Greece	47,8	6	n.a.
Hungary			
National federation of Savings Co-operatives	7,3	n.a.	n.a.
Italy			
FEDERCASSE	n.a.	n.a.	n.a.
Lithuania			
Lithuanian Central Credit Union	100,0	35	0,4
Luxembourg			
Banque Raiffeissen	6,6	25,2	0,8
Netherlands			
Rabobank Nederland	25,9	-42	2,5
Poland			
Krajowi Ziazek Bankow Spółdzielczych	n.a.	+0.7	n.a.
Portugal			
Crédito Agrícola	34,0	79	0,05
Romania			
Central Cooperatist Bank Creditcoop	60,8	251	0. 1
Slovenia			
Deželna Banka Slovenije (a)	0,3	1	1. 2
Spain			
Unión Nacional de Cooperativas de Crédito	23,3	-362	n.a.
United Kingdom			
The Co-operative Bank	42,6	1.071	n.a.
Associate Member Organisations	**Members / clients ratio**	**Nr. of New employees hired this year**	**Expenses staff training / payroll (%)**
Canada			
Desjardins Group	100	2.800	2,4
Japan			
The Norinchukin Bank / JA Bank Group	n.a.	n.a.	n.a.
Switzerland			
Raffeisen Schweiz	49,2	770	n.a.

[a] 2011 Data [b] in Québec

SME's financing		Territory coverage	
SMEs loans on total loans (%)	Market share of loans to SME (%)	Nr. of clients / Nr. branches	Market share of ATM's (%)
n.a.	37,0	2.050	37,5
32,0	6,5	1.714	10,0
8,7	n.a.	5.141	5,9
15,5	n.a.	2.355	33,4
4,0	5-15%	736	2,0
n.a.	n.a.	8.112	n.a.
n.a.	26,4	3.000	21,7
18,3	14,5	3.280	20,0
26,6	30,3	2.270	32,6
70. 0	15,0	2.445	n.a.
50,72	8,7	775	20,0
60,0	15,0	n.a.	12,1
21,3	n.a.	734	n.a.
6,5	n.a.	2.649	n.a.
13,9	43,0	8.959	n.a.
30,0	n.a.	n.a.	n.a.
41,4	5,5	1.659	10,6
0. 6	n.a.	1.409	n.a.
36,0	n.a.	992	2,2
n.a.	n.a.	2.267	n.a.
1,2	0,4	13.823	4,0
% of SMEs loans on total loans	Market share of loans to SME (%)	Nr. of clients / Nr. branches	Market share of ATM's (%)
85,0	45,0	4.032	46,0
n.a.	n.a.	n.a.	6,7
n.a.	n.a.	3.363	n.a.

Key Statistics (Financial Indicators) as of 31.12.2012

(When not specified figures refer to the Group)

	Economic indicators			Profitability indicators				
Full Member Organisations	**Total assets (EUROmio)**	**Total deposits (EUROmio)**	**Total loans (EUROmio)**	**ROA (%)**	**ROE (%)**	**Cost/Income (%)**	**Tier 1 capital ratio (%)**	**CET 1 capital ratio (%)**
Austria								
Österreichische Raiffeisenbanken	291.538	172.195	193.879	0,4	5,8	90,3	9,1	6,0
Österreichischer Genossenschaftsverband (a)	57.405	11.793	27.975	-0,2	-3,7	66,0	10,1	n.a.
Bulgaria								
Central Co-operative Bank	1.713	1.467	847	0,3	3,0	84,4	14,4	n.a.
Cyprus								
Co-operative Central Bank	21.169	15.165	13.923	0,3	5,8	51,8	10,7	10,7
Denmark								
Nykredit	192.565	7.323	164.213	0,2	4,6	56,6	19,1	15,8
Finland								
OP-Pohjola Group	99.769	49.650	65.161	0,5	7,0	63,0	14,1	14,1
France								
Crédit Agricole	2.008.152	812.100	876.100	n.a.	n.a.	65,8	12,9	9,3
Crédit Mutuel	645.216	640.048	343.216	0,3	5,8	61,7	n.a.	n.a
BPCE (b) (c)	1.138.000	537.700	583.100	n.a.	n.a.	n.a.	10,5	n.a.
Germany								
BVR	1.090.336	664.839	632.448	0,9	13,5	61,2	10,1	n.a.
Greece								
Association of Cooperative Banks of Greece	3.610	2.933	3.259	-0,7	-6,1	n.a.	n.a.	n.a.
Hungary								
National Federation of Savings Co-operatives	6.386,00	4.366,69	2.707,32	0,50	6,50	72,2	19,8	15,9
Italy								
Assoc. Nazionale fra le Banche Popolari (b)	481.472	425.375	378.391	0,70	5,10	57,6	7,90	n.a.
FEDERCASSE	201.503	139.356	153.743	0,2	2,4	60,3	14,1	14,1
Lithuania								
Association of Lithuanian credit unions	479,02	405,48	281,40	0,02	0,2	99,6	17,6	n.a.
Luxembourg								
Banque Raiffeissen	6.291	5.654	4.455	0,7	15,4	61,6	8,26	8,26
Netherlands								
Rabobank Nederland	752.410	334.271	458.091	0,30	5,6	65,6	17,2	13,2
Poland								
National Union of Co-operative Banks (KZBS) (d)	115.800	101.800	59,5	1,4	12,8	63,5	13,0	n.a.
Portugal								
Crédito Agrícola	13.748	10.178	8.365	0,3	3,8	65,3	11,1	11,6
Romania								
Creditcoop	192	127	124	0,6	2,8	97,2	37,8	n.a.
Slovenia								
Dezelna Banka Slovenije d.d.(b)	893	806	504	1,0	11,6	82,9	10,9	n.a.
Spain								
Unión Nacional de Cooperativas de Crédito	131.649	90.960	89.676	-1,2	-18,4	49,3	n.a.	n.a.
Sweden								
Landshypotek (b)	4.648	n.a.	4.123	n.a.	n.a.	n.a.	n.a.	n.a.
United Kingdom								
The Co-operative Bank	61.119	45.336	41.104	0,4	9,8	74,3	6,3	n.a.
Total (EU 27)	**7.326.063**	**4.073.848**	**4.045.686**					
Associate Member Organisations								
Canada								
Desjardins Group	144.672	93.315	96.185	n.a.	9,4	73,5	15,7	15,7
Japan								
The Norinchukin Bank / JA Bank Group	669.158	392.721	133.463	0,1	2,0	90,6	n.a.	15,98
Switzerland								
Raiffeisen Schweiz	141.032	111.614	120.598	n.a.	6,2	65,8	12,6	n.a.
Total (Non EU 27)	**960.141**	**603.149**	**355.125**					

(a) All figures referred to the domestic/local banks only (b) 2011 Data (c) After merger of Banques Populaires and Caisses d'Epargne (d) All figures expressed in PLN: 1 Euro - 4,08 PLN (as of 31/12/2012) *In Quebec

Capital solidity indicators				Other indicators					Market share	
Total capital ratio (%)	Long term rating			Nb Employees	Nb Clients	Regional / Local Banks	Banking Outlets	Nb members	Market share deposits (%)	Market share credits (%)
	S&P	Moodys	Fitch							
11,5	A	A2	A	29.758	3.600.000	527	1.758	1.720.000	29,8	26,1
14,2	n.a.	Baa 3	A	5.595	900.000	64	525	687.902	7,2	6,4
15,1	n.a.	n.a.	n.a.	2.166	1.393.138	30 (a)	271	6.958	2,9	5,0
5,6	n.a.	n.a.	n.a.	2.896	988.959	97	420	621.967	21,6	19,2
19,1	A+	n.a.	A	4.115	1.092.000	1	1.483	291.000	4,4	31,0
14,1	n.a.	n.a.	A+	12.028	4.210.335	197	519	1.371.347	34,1	33,4
14,0	A	A2	A+	150.000	51.000.000	39	11.300	7.000.000	23,4	20,6
14,5	A+	Aa3	A+	79.060	30.100.000	18	5.961	7.400.000	15,0	17,1
n.a.	A	Aa3	A+	117.000	36.000.000	36	8.000	8.100.000	n.a.	n.a.
14,7	AA-	n.a.	A+	190.095	30.000.000	1.101	13.211	17.300.000	19,8	18,3
10,9	n.a.	n.a.	n.a.	1.133	396.173	13	162	189.232	1,8	1,3
7,07	n.a.	n.a.	n.a.	7.326	1.150.000	105	1.484	84.000	8,7	4,4
11,2	n.a.	n.a.	n.a.	84.500	9.593.158	100	9.514	1.212.739	26,9	24,7
15,0	n.a.	n.a.	n.a.	32.000	6,000,000 (a)	394	4.448	1.135.096	7,4	7,1
20,2	n.a.	n.a.	n.a.	566	135.920	63	122	135.920	4,6	6,8
9,6	n.d.	n.d.	n.d.	540	127.159	13	48	8.388	n.a.	n.a.
19,0	AA-	Aa2	AA	59.628	10.000.000	136	826	1.918.000	39,0	31,0
13,8	n.a.	n.a.	n.a.	32.966	10,000,000 (a)	572	4.193	1.051.897	9,4	7,7
10,9	n.a.	n.a.	n.a.	4.243	1.138.122	84	686	389.295	4,5	3,7
22,2	n.a.	n.a.	n.a.	2.248	1.097.830	47	779	667.815	n.a.	n.a.
11,9	n.a.	n.a.	n.a.	362	84.358	1	85	260	2,8	1,6
n.a.	n.a.	n.a.	n.a.	19.674	10.958.300	68	4.832	2.554.627	6,7	5,8
n.a.	n.a.	A2	n.a.	100	69.216	10	n.a.	57.606	n.a.	n.a.
3,4	n.a.	A3	BBB+	9.032	4.700.000	n.a.	340	2.000.000	n.a.	3,0
				847.031	**214.734.668**	**3.716**	**70.967**	**55.904.049**		
18,4	A+	Aa2	AA-	45.219	5.000.000	376	1.240	5.000.000	43,0	30,0
23,8	A+	A1	n.a.	215.807	n.a.	708	8.435	4.669.000	10,5	7,0
12,9	n.a.	AA2	n.a.	10.540	3.645.020	321	1.084	1.794.855	20,0	16,1
				271.289	**9.226.020**	**1.426**	**10.813**	**12.044.855**		

ANNEX III – 'PARIS DECLARATION' ON CO-OPERATIVE BANKING IN THE EU

Paris Declaration: Extract from the Paris declaration

The co-operative model has proven its effectiveness and contributes substantially to the competitiveness and stability of European economies. Furthermore, the high level of democratic corporate governance, pronounced social responsibility, and customer proximity are serious advantages of the cooperative model. Cooperative banks are generally deeply rooted in local economies everywhere in Europe.

We, the leaders of the European cooperative banks, are proud of what we represent: member-owned enterprises that put people before profit, while still remaining efficient and successful.

We are committed to the values of cooperative banking, which we believe provide an alternative for the benefit of citizens, businesses, and the economy as a whole.

We fully support the EU Agenda 2020 for "smart, sustainable, inclusive growth," and the European model of social market economy put forward by that strategy.

We look forward to continuing to do our part to help "build a better world," as expressed by the motto of the United Nation's International Year of Cooperatives.

We are ready to become a bigger part of the solution to the crisis and believe we can be a driving force behind a more sustainable society and economy. Our banks are resolutely determined to continue funding the European economy and to meet the needs of our customers and territories in today's challenging economic context.

We are keen to help foster a new way of thinking about the cooperative banking sector and pave the way for a better understanding of the current and potential future role of European cooperative banks.

The full text is available on the EACB Website.

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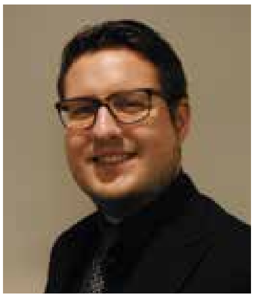


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