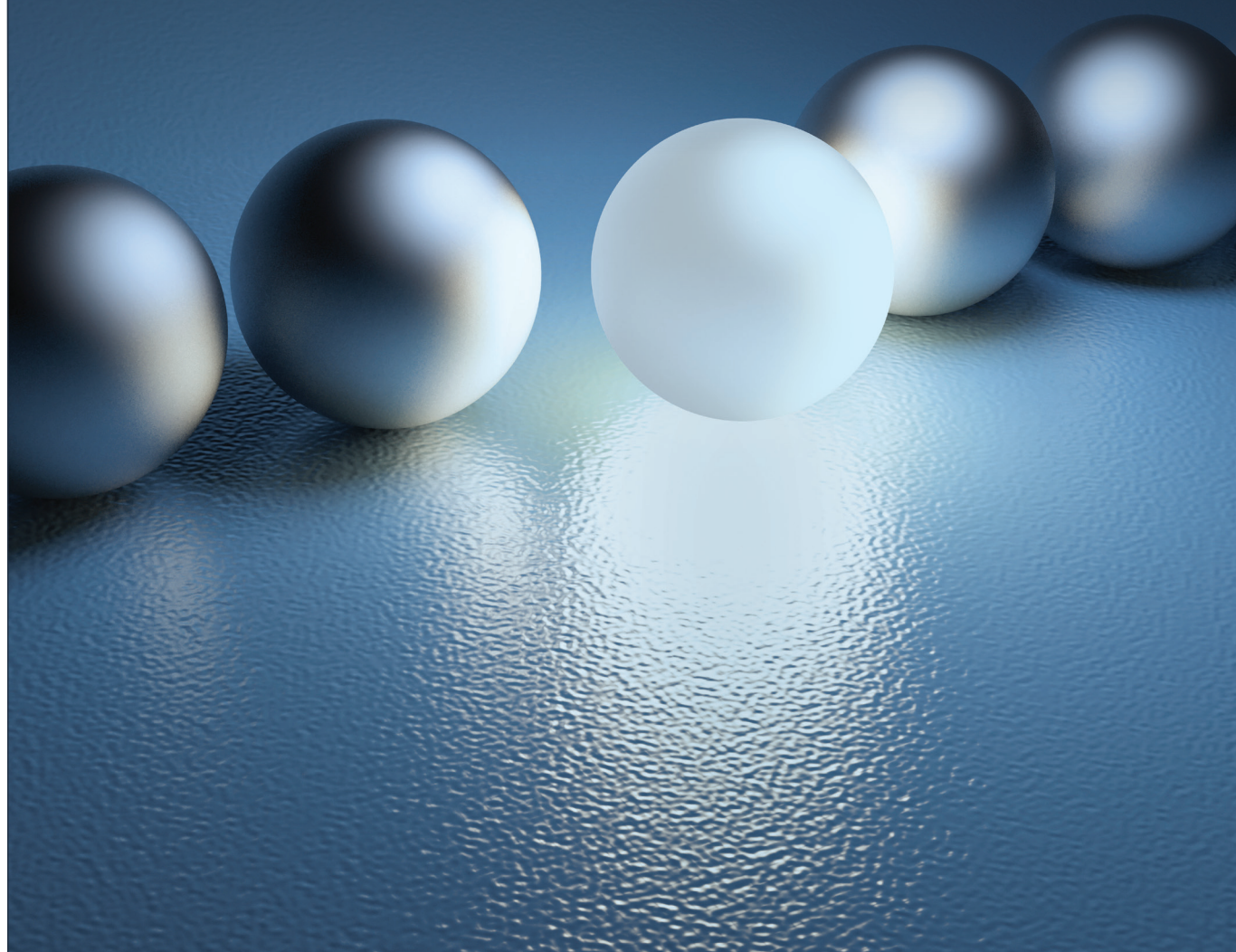




EUROPEAN ASSOCIATION  
OF CO-OPERATIVE BANKS

LEVERAGING THE CO-OPERATIVE BANKS' DIFFERENCE



# ANNUAL REPORT 2014

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The voice of **4,200** local and retail Banks | **78** million Members | **205** million Customers

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# President's Address



**Christian Talgorn,**  
President

The year 2014 was an important one for the co-operative sector with major political and legislative changes taking place. A new European Parliament was elected and a new Commission chosen for the next five years.

This year was also the fully-fledged Banking Union's first year giving rise to (as one of the three pillars of this framework) the undertaking of the banking supervision of the Eurozone by the European Central Bank. The ECB will be the direct supervisor of around 130 significant institutions that represent around 80% of banks' assets in the Eurozone – among that number are 22 co-operative banks. The ECB will also be the indirect supervisor of the less-significant ones. The practical implementation of this new framework on a day-to-day basis will be a key point of focus.

2014 was also marked by open discussions and constructive exchanges with the regulators and supervisors on a European and international level. The first Regulatory Debate was organised by the European Association of Co-operatives Banks in Brussels in March. It was followed by the second International Summit of Co-operatives in October in Québec at the initiative of Desjardins Group.

It is important to highlight that the co-operative banking model has performed reasonably well since the crisis. This was underlined by the very positive results obtained by co-operative banks in the comprehensive assessment exercise (stress test and asset Quality Review) that was carried out. It showed that the general capitalisation conditions of the EU banking system were aligned with co-operative banks' tradition of soundness and high capitalisation. Thanks to their business model – based on proximity to local communities, stable relationships with clients and members, expertise, long-term perspective and a joint liability system – co-operative banks are a key element of the systemic stability.

The EACB published in March a "Roadmap for Co-operative Banks: An Approach that Balances Regulation and Stimulation of Local Growth". This key document puts forward the concerns and expectations of co-operative banks. It also underlines the necessity for an appropriate regulatory framework that would allow them to continue playing a key role in funding the real economy, stimulating growth and boosting employment on a local level.

Allow me to conclude by addressing some words of praise: firstly to Mr Gerhard Hoffmann and Mr Andrea Moltrasio, both Vice-Presidents of the EACB, who have been very supportive; and secondly to the 200 national experts of our 31 member organisations for their precious support and contribution to the EACB technical working groups.

Finally, I would like to thank Mr Hervé Guider, Secretary General and the staff of the EACB Secretariat for their expertise and professionalism that has greatly benefited the co-operative banking sector and aided constructive dialogue with the European authorities. Our common goal, I believe, should always be to keep the interests of the people both at the heart of the regulation and the financing of the local economy.

I wish you a pleasant reading of this document.

# Welcome to the EACB



**Hervé Guider,**  
General Manager

## GENERAL MANAGER'S FOREWORD

The aim of this report is to provide stakeholders, members and policymakers in Europe and abroad with a better understanding of the co-operative banking model and an overview of the EACB's core objectives.

The main issues that the EACB focused on in 2014 are summarised below. More details can be found in the main section of the report.

We are thankful for the active involvement of our international experts (around 200) in our Working Group and Task Force initiatives and for the active support of the chairmen and CEOs of our member co-operative banks. Their contribution is invaluable to the EACB's work and their expertise has leveraged the EACB's activities for the benefit of more than 4,200 co-operative banks.

The year 2014 was pivotal for our member co-operative banks and for the banking sector in general, with major political and legislative changes impacting the banking sector:

- A new European parliament as well as new mandates for the EU institutions were elected for the next five years;
- Co-operative banks entered into the first year of the Banking Union;
- The implementation of Basel 3 legislative package to enhance the stability of the banking sector.

Furthermore, Jean-Claude Juncker, the newly elected President of the European Commission, emphasised

better regulation, more innovation and heightened competition in his 'Political Guidelines for the New European Commission'\*. In it, he stated: "We must not stifle innovation and competitiveness with too prescriptive and too detailed regulations." This is a positive step forward towards less 'red-tape' which will mean less administrative burden for co-operative banks. In the same regard, the EACB also strongly believes that a 'one size fits all' approach is deemed for failure and would have a negative impact on the diversity of ownership of banks. This again would be detrimental to the stability and competitiveness within the banking sector and for our member banks.

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

## EXECUTIVE SUMMARY

### EUROPEAN SUPERVISORY AND BANKING LEGISLATIVE FRAMEWORKS

In response to the financial crisis that emerged in 2008 a vast reform of the legal and prudential framework for the banking industry was undertaken, with a view to reinforcing the safety and the soundness of the financial sector in the Single Market in Europe. In 2014 a fully fledged Banking Union based on three main pillars (SSM, SRM and SRF) was built up through decisive steps taken for a healthier and risk-adverse banking sector.

In autumn 2014 the results of the comprehensive assessment exercise were released, resulting in generally positive outcomes for co-operative banks. The ECB undertook banking supervision in the EU with the direct supervision of around 130 significant institutions. These institutions represents approximately 80% of the banks' assets in the Eurozone, among which 22 are co-operative banks.

In the long term, the practical implementation of the new framework will represent a key element of focus, along with a solid dialogue with the supervisors. The diversity of co-operative banks, which enriches the European banking system, is widely recognised by national competent authorities and should also be acknowledged by European and international decision makers and standards setters.



## RETAIL BANKING REGULATION

The year 2014 had a significant impact on bank's payment systems, bank accounts and most importantly on consumers.

Hence, 'SEPA migration' (migrating payments from national systems to pan-European systems) finally came to a close in August 2014, with prior intensive preparatory work for the EACB and its members, as well as costly IT projects, both hardly visible by the consumers.

With more than 215 millions clients in Europe, consumer initiatives are of great interest for co-operative banks. The Payment Accounts Directive (PAD) was adopted, the European Commission reviewed the implementation of the Consumer Credit Directive by screening its transposition into Members States' national law. Lastly, the privacy and security of consumers was in the radar of the regulators, as the topical 'Big Data' issue was trending in 2014.

For other areas of retail banking (such as investment and insurance products, lending and EMIR) the focus was more on finalising proposals and organising the implementation phase. Building on the positive momentum of 2014, the EACB would like to underline its eagerness to continue a constructive dialogue with European regulators in these fields.

## CO-OPERATIVE BANKS AS SOCIALLY RESPONSIBLE BANKS

The global financial crisis of the past few years has reinforced the demand for a more responsible, trustworthy and sustainable banking sector and society at large. Even if these considerations are not new for co-operative banks, this year the EACB was involved in different initiatives in the field of corporate social responsibility.

The EU Agenda brought the terms responsibility and sustainability into a new light. The non-financial information disclosure directive was finally adopted by the European Council. It introduced assessments on economic, social and governance performance for companies at EU level. In the same regard, the European Commission run a consultation: 'Strategy on corporate social responsibility (CSR) 2011-2014: achievements, shortcomings and future challenges.'

On both occasions, the EACB highlighted the major role that CSR could play in contributing in the long run to a balanced development and growth of the economy and society at large.

## COMMUNICATION & RESEARCH

In line with its communication policy, the EACB has continued to inform European and international policy and decision makers of the concerns and expectations of co-operative banks.

During the course of 2014, several initiatives and activities were undertaken to highlight the distinct features of co-operative banks. Two events were particularly relevant:

- The first Regulatory Debate organised by the EACB and hosted by the European Economic and Social Committee in Brussels on 4 March.
- The International Summit of Co-operatives organised by Group Caisses Desjardins in Québec in October with the support of the EACB.

In light of the new mandates of the EU institutions, the EACB and its members drew up a: 'Roadmap for Co-operative Banks: an approach that balances regulation and stimulation of local growth'. This key document outlines the expectations and the concerns of its 31 member organisations.

The EACB also welcomed the 2014 Oliver Wyman Study, 'Co-operative Banking: Leveraging the Co-operative Difference to Adapt to a New Environment', which enumerates the challenges ahead for the sector and provides a number of recommendations and policy implications.

Last but not least, the EACB, in collaboration with its academic think tank, awarded the winners of the Second Award for Young Researchers on Co-operative Banks. This initiative aims to raise awareness and stimulate research on the co-operative banking sector.

\* Jean-Claude Juncker, "A New Start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change", Political Guidelines for the next EU Commission, [http://ec.europa.eu/priorities/docs/pg\\_en.pdf](http://ec.europa.eu/priorities/docs/pg_en.pdf)

# About the EACB

## (International Non-Profit Association)

### CO-OPERATIVE BANKS AT A GLANCE<sup>1</sup>

- ▶ Co-operative banks serve **205 million customers**
- ▶ Co-operative banks are mutual and private banks, owned by their **78 million members**
- ▶ Co-operative banks share common values and foster local growth and entrepreneurship through their **4,200 regional and local banks, 68,000 branches**
- ▶ Co-operative banks employ **860,000** individuals nationally
- ▶ Co-operative banks manage more than **€ 7 trillion** in banking assets
- ▶ Co-operative banks safeguard **€ 3,5 trillion** in deposits
- ▶ Co-operative banks extend more than **€ 3,9 trillion** in loans

#### A. THE ASSOCIATION

The EACB is the leading trade association for the co-operative banking sector with 31 member institutions and co-operative banks located in 24 countries worldwide. As the representative of the world's largest co-operative banking cluster, the EACB is the voice of 4,200 small, regional and large member banks at European and international levels. As an international non-profit based in Brussels, the EACB is recognised as a key interlocutor for co-operative banks by the regulators and supervisors at EU level.

#### WHAT IS THE EACB?

As the official representative of co-operative banking to the international and European institutions, the EACB is committed to providing a high-quality, credible voice for co-operative banks. In this regard, the EACB supports the code of conduct on lobbying of the European Commission and is registered in the EU transparency register book (*Transparency Book Register 4172526951-19*).

The EACB has the largest and most comprehensive policy resources for co-operative banks worldwide. Working together with more than 200 experts from its member organisations, the association represents, promotes and defends the values of the co-operative banking model in Europe and on the global stage. Democracy is central to these values with the principle of “one person-one vote” at its core. Other values include a strong commitment to social engagement and close proximity to customers.

The EACB is fully dedicated to its members. In line with the co-operative values, each full member is given the same weight in the decision-making process, regardless of its size, country of origin or financial contribution. Furthermore, our credo “Everything we do – Everything you know” ensures the commitment of the EACB Secretariat to inform, consult, consider and respect all members’ opinions and advices.

#### WHO WORKS FOR THE EACB?

The expertise and professionalism of its 15 staff members, working hand in hand with more than 200 national experts actively involved in the EACB’s specific technical working groups (see related point page 8 and 9), allows the EACB to make relevant contributions in the consultations of the

international and European Institutions, in European Parliament committees, in expert panels and in other relevant hearings.

Furthermore, through a broad range of information, trainings, staff expertise and an EU Think Tank on co-operative banks, the EACB provides its members and stakeholders (study tours, other co-operative organisations, visiting delegations of co-operative bankers...) with the tools for increasing their awareness and knowledge of European issues. It helps keep them up to speed with legislative and regulatory developments. It is also a valuable platform on which members can defend and promote their banking model.

For details of the EACB's team, please visit our website: [www.eacb.coop](http://www.eacb.coop) or see annex page 37.

The co-operative banks have proved to be resilient to the effects of the economic crisis. The EACB emphasises 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.

### WHAT IS THE EACB'S AGENDA FOR ACTION?

The value placed in the EACB lies in its position as a leading trade association interacting and triggering debate with international and European institutions. As a privileged interlocutor for co-operative banks with policymakers and standards setters, the EACB is also considered a reliable source of information that delivers solid, and representative opinions on key issues with regards to the legislative agenda affecting co-operative banks.

Laws and regulations should be tailored to take into due consideration a bank's charter, business model, location and risk profile. It is of the utmost importance for decision makers to avoid the negative economic consequences of burdensome and 'one size fits all' banking regulations. Diversity is an element of financial stability. Co-operative banks call for a balanced calibration of the rules, in particular the 'level 2' ones, that would allow them to continue playing a key role in funding the real economy, stimulating growth and boosting local employment.

1	Better understanding of our business model - research is one of the ways to achieve it
2	"Fit to purpose" legislation - to balance efficiency and financial stability while reflecting market realities and diversity to be effective
3	Legislative instrument - a directive to give flexibility to member states that rely on co-operative banks to finance the local economy
4	Simplicity to drastically reduce compliance costs - compliance with complexity is an impediment for many banks and co-operative banks
5	Implementation - to be carefully timed and phased in
6	Proportionality - to calibrate regulation on the size, activities and complexity of bank risk
7	Impact assessment - all kinds of ownership banks should be part of the representative sample

## B. THE CO-OPERATIVE DIFFERENCE

Co-operative banks are the main pillar of diversity in the European banking sector. They account for 50% of the market of EU bank deposits and loans, and they are thus a major feature of the sector<sup>2</sup>. For this reason, they play a pivotal role in the European economy. With 4,200 locally operating banks and 68,000 outlets co-operative banks are widely represented in the European Union. They serve 205 million customers- around half of the population of the EU- mainly consumers, retailers, SMEs, communities.

### WHAT MAKES THE CO-OPERATIVE BANKING MODEL DIFFERENT?



#### • Member ownership:

Co-operative banks are private institutions. They are owned by their members, who are also their customers (e.g. local entrepreneurs, craftsmen, farmers and households.) Diversity of member ownership entails a consensus-driven approach and prevents a strong focus on only one stakeholder. This customer-centric aspect is a distinguishing feature of co-operative banks and is hard to replicate outside the co-operative model.

#### • Maximisation of members' benefit/surplus in a long-term relationship:

Compared to shareholder banks, which are primary focused on maximising their shareholders' profit, co-operative banks are focused on maximising their members' value (i.e. customer satisfaction, earnings stability, etc.)

#### • 'One person - one vote' governance, with a bottom-up approach:

The bottom-up approach or inverse pyramid structure is very specific to co-operative banks. It ensures that the interests of members are the top priority of their banks. As opposed to commercial banks, customers and members of co-operative banks are represented in the banks' governance structures and involved in the daily life of their banks (i.e. board meetings, membership councils, general assemblies, etc.) By becoming a member, customers have a say in the decisions and policies of their banks.

#### • Resilience:

Co-operative banks have a lower risk appetite than shareholder-based banks. With their long-term orientation, they also maintain higher capital reserves. Thanks to

their deep roots in local economies, co-operative banks anticipate and adapt to local circumstances. For these reasons co-operative institutions can adapt to changing circumstances and re-invent themselves more than other banks.

- **Strong commitment to social values:**

Co-operative banks have a long tradition of commitment to social values and solidarity. They were originally created in the 19th Century in Europe to fight against financial exclusion of social groups and alleviate the plight of rural populations. Furthermore as local contributors co-operative banks are part of the economic and social environment of their customers. They naturally take initiatives that aim to improve their clients' environment, and provide financial services. A proportion of the banks' earnings are invested in local economic initiatives that benefit at the same time the local community.

- **Proximity to customers:**

Thanks to their dense and decentralised networks of branches, co-operative banks reach even the most remote areas. Through their members they are locally rooted and an integral part of their community. They understand their customers and speak their language. Co-operative banks are dedicated to sustaining the real economy by creating and fostering local jobs, accompanying key territory actors and giving local communities the means for their own social and economic development. As a result, co-operative banks are often the main employer and serve as financial partners of local households and businesses. Overall they finance one-third of SMEs in Europe.

### C. TESTIMONIES OF THE CHAIRMEN OF THE EACB WORKING GROUPS

The expertise and professionalism of its 15 staff members, working together with more than 200 international experts actively involved in the EACB's Working Group and Task Force initiatives, makes the EACB a reliable source of information. It delivers solid and representative opinions on key issues with regards to the legislative agenda affecting co-operative banks. The activities of the EACB are articulated around Working Groups and Taskforces, covering topics from banking legislation to customer policy, CSR and Social Affairs. The Executive Committee, which is comprised of 40 appointed members, endorses recommendations put forward by the Working Groups members. The testimonies of the chair persons of these Technical Working Groups for the 2014 activities is provided below.

#### **Banking Supervision Working Group, Arnold Kuijpers, Rabobank**

*"2014 marked a regime change for the EU banking industry with the set-up of the overarching architecture of the Banking Union. While co-operative banks are pleased with this unique framework that reinforces the safety and the soundness of the financial sector in the single market*

*in Europe, they also support the sensitive and sensible shaping of rules and of the supervisory framework. In this respect, the Banking Supervision working group has actively promoted the need for a framework that adequately recognises co-operative banks with their specific ownership structure and the diversity of their organisational models. This is also especially true in the context of the follow-up of the Liikaneen report that is leading to a proposal for a regulation on a structural reform of the banking system. In this regard, it would be appropriate that a new impact study, reflecting the numerous changes in the regulatory and economic environment, is carried out by the Commission."*

#### **Banking Regulation Working Group, Holger Mielk, BVR**

*"The regulatory environment for European banks is evolving at a very fast pace. 2014 was a challenging year, during which the EACB working group on Banking Regulation has engaged in deep and thorough dialogue with regulators, supervisors and policymakers to ensure that the continued implementation of CRD IV/CRR and the day-to-day application of prudential requirements are adequately recognised. To this effect, the EACB provided relevant technical input to represent adequately the co-operative difference, and to strengthen the dialogue between regulators and co-operative banks. Lastly, policymakers should maintain the spotlight on the subsidiarity principle that would allow a wider recognition of specific national legislation and would also prevent burdensome overflow of new regulation. It would also ensure that level 2 regulation is adequately designed to allow banks to provide continued financing to the local economy."*

#### **Corporate Governance Working Group, Frank Brogl, DZ Bank AG**

*"The transposition of the rules of CRD IV into national legislation is a process that will shape the corporate governance environment for EU institutions. At the same time, the EBA standards and guidelines continue to provide guidance on key elements of governance, such as remuneration policies. Also the Basel Committee on Banking Supervision (BCBS) has been active in this area with a review of the Principles of Corporate Governance, which is important for co-operative banks due to their unique business model and their ties with their territories. The Corporate Governance Working Group was quick to assess the impacts of these developments, providing regular feedback and engaging in discussion with regulators. In this regard, the EBA review of the 'Fit and Proper' criteria will be one of the main challenges for 2015."*

#### **Taxation Working Group, Jürgen Tischbein, BVR**

*"2014 has seen major developments in the field of taxation. International co-operation in this area is high on the global agenda. In this vein a major development this year was the council political agreement that led to the EU adoption of the OECD Global Standard of Automatic Exchange of Information. The EACB was actively involved in this file and*



participated in the related Commission Expert Group. On another note, the experts of the EACB Taxation Working Group kept a close eye on the developments in the area of Financial Transaction Tax (FTT)."

#### **Accounting and Audit Working Group,**

**Andrea PEZZOTTA, Federcasse**

"During 2014, the Accounting and Audit Working Group was intensively engaged in two main files: 1/International Accounting Standards Board (IASB) Exposure Draft on Macro-hedge Accounting-that proposed a new method for the revaluation of an open portfolio (the Portfolio Revaluation Approach); 2/ EFRAG Discussion Paper on the Classification of Claims that was part of the proactive work of EFRAG in view of the upcoming IASB Conceptual Framework review. The EACB did not miss this opportunity to reaffirm the importance of considering co-operative shares as a key element of the equity. Indeed, one must not forget that the owners of co-operative banks are not profit-driven shareholders but members who are also clients involved in the long-term vision of their banks."

#### **Payment Systems Working Group,**

**Narinda You, Crédit Agricole**

"In 2014, SEPA payments became a reality for European citizens. With European co-operative banks making up roughly 50% of all banks that had to get ready for SEPA, the successful migration of August 2014 represented a huge achievement. But SEPA migration was not the only important development in 2014. The proposals for the revised directive on payment services and the discussions around the proposed card services regulation also demanded the attention of the European co-operative banks as they have the potential to be important game changers for the banking industry. Indeed, not only do they represent a reduction of revenue but also a risk for co-operative banks to be dis-intermediated from their clients that are traditionally their members with whom they have tried to build long-term relationship. 2015 appears to be an active year for payment issues; regulator have ambitions to foster innovation through mobile, contactless or what is called 'instant' payments."

#### **Consumer Policy Working Group,**

**Rainer Siedler, BVR**

"Consumer rights in financial services have been further consolidated in the year 2014. The Payment Accounts Directive was the most notable result in this context. As well as being cumbersome in its implementation, co-operative banks also saw this directive as a confirmation, in principle, of what they were already doing (e.g. providing access to (basic) banking services, also for the most vulnerable consumers and the provision of account switching facilities.) But the regulators' interest in retail financial services did not stop here. Several texts are still under discussions and other avenues are being explored (i.e. over indebtedness, simple products, etc.) In the same regard, the European Banking Supervisor (EBA) has started its own work programme on consumer protection. On the whole, the EACB notices a somewhat worrying tendency for legislation to

become so prescriptive and detailed that it could lead to standardisation and homogeneity of retail banking services, and affecting the present diversity of the banking landscape. Co-operative Banks will thus have to remain vigilant."

#### **Financial Markets Working Group,**

**Miguel García de Eulate, UNACC.**

"The year 2014 marked an important milestone for the investment services that co-operative banks offer to their customers. The European legislators adopted several regulatory initiatives which aimed to restore the confidence of consumers on the one hand and stabilise the financial markets on the other. Also many discussions were held - and are still ongoing - on the rules that outline how exactly the adopted legislation should be implemented. Even if European co-operative banks are still in the process of evaluating the various proposals in detail. It is already clear that the combined effect of the adopted legislation and its implementing rules will have a huge impact on the way in which the co-operative banking community presently organises its investment services business. Indeed, the typical inverse pyramid structure of co-operative banks might suffer some disadvantages to the detriment not only of the industry but also of consumers."

#### **Corporate Social Responsibility and Co-operative Affairs Working Group,**

**Etienne Pflimlin, Crédit Mutuel**

"We are proud of our motto : The co-operative (banks) difference is the answer. Corporate Social Responsibility (CSR) is in fact a new term for traditional co-operative practices or Co-operative Social Responsibility. Via the CSR and Co-operative Affairs Working Group of the EACB, co-operative banks constantly aim to demonstrate this reality and their experts have been delivering accordingly: dialoguing with the EU institutions in the field of non-financial information reporting; providing answers to the EU Commission's 2014 consultation on CSR, running an internal project on co-operative indicators list; holding educational workshops with CSR Rating Agencies (e.g. Vigeo, Sustainalytics) and other stakeholders (e.g. GRI, Statutory auditors) and setting-up a dedicated and weekly updated CSR webpage on the EACB website."

# Co-operative Banks entering into the year 1 of the banking union

In response to the financial crisis that emerged in 2008 a vast reform of the legal and prudential framework for the banking industry was undertaken, with the view to reinforcing the safety and the soundness of the financial sector in the single market in Europe. These initiatives, which include stronger prudential requirements for banks, improved depositor protection and rules for managing failing banks, form a single rulebook for all financial actors in the 28 Member States of the European Union. The single rule book is at the core of the Banking Union. In addition, to tackle the Eurozone debt crisis, it became clear that given the high degree of interdependence among Euro countries, a deeper integration of the banking system was needed. For this purpose the EU institutions established a Single Supervisory Mechanism and a Single Resolution Mechanism for banks. EACB Members believe that the Banking Union represents a major step towards a more integrated financial market, allowing for more efficient supervision. In line with the crucial proximity role that co-operative banks play in real economy financing, however the Banking Union should keep the 'local' perspective alive, in order to take into account the rich diversity of the EU.

In this context, 2014 was a decisive milestone: a fully-fledged Banking Union based on the three main pillars was set up. The Banking Union involves one bank supervisor within a Single Supervisory Mechanism (SSM), one resolution authority and a common recovery and resolution framework (BRRD), and one insurance system for depositors (with the new Deposit Guarantee Scheme Directive, DGSD).

Moreover, the production of a Single Rule Book and the practical implementation of the CRD 4/CRR package has continued at a sustained pace, via the activities of the European Banking Authority (EBA) and the delegated Acts of the European Commission.

The EACB is fully aware of the challenges ahead and the practical consequences of the implementation of the Banking Union and Single Rulebook for the Single Market. For this reason, the EACB considers as priority to establish a permanent and solid relationship with the new authorities in place. It is of the utmost importance for co-operative banks to actively engage regulators, policymakers and supervisors throughout this process and to highlight the technical and political implications of the Banking Union on the co-operative banking model. During the hardest moments of the financial crisis, co-operative

banks provided the real economy with a solid and continued source of credit and liquidity. Co-operative banks want to continue playing a key role in funding the real economy stimulating growth and boosting local employment.

## A. THE EUROPEAN CENTRAL BANK (ECB) UNDERTAKES BANKING SUPERVISION IN THE EU

On 4 November 2014, the ECB finally undertook its new role as a single supervisor. The Single Supervisory Mechanism (SSM) is the new system of banking supervision for Europe. It comprises the ECB and the national supervisory authorities of the participating countries, and it will aim to ensure the safety and soundness of the European banking system, to increase financial integration and stability as well as to ensure consistent supervision. The ECB will be the direct supervisor of around 130 significant institutions which represents around 80% of the banks' assets in the Eurozone and among which 22 are co-operative banks. It will also be the indirect supervisor of the less significant ones<sup>3</sup>.

EACB members belong to both significant and less significant institutions categories, and the practical implementation of the new framework in day-to-day supervision will represent a key element to focus along with a solid dialogue with the supervisors. The diversity of co-operative banks, which enriches the European banking system, is widely recognised by National Competent Authorities (NCAs) and should also be in the highlight for the ECB.

## 1. THE COMPREHENSIVE ASSESSMENT: ASSET QUALITY REVIEW (AQR) AND STRESS TEST

Ahead of the formal inception of the SSM, the European Banking Authority (EBA) and the ECB released on 26 October the results of the comprehensive assessment exercise (stress tests and AQR), that revealed the general capitalisation conditions of the EU banking system.

The AQR aimed to review the carrying value of assets of the participating banks' balance sheets as of 31 December 2013. Based on these figures, the stress tests examined the resilience of banks by applying two prescribed stressed economic conditions and analysing the solvency ratio of the banks.

All in all, although the collection and presentation of the required data represented a challenge, the process has proved widely adequate and a good basis for understanding banks' sensitivities. The results for EACB members were, in general, very positive, aligned with the tradition of high capitalisation and soundness that characterises co-operative banks. Even under the stress scenario, a vast majority of co-operative banks showed excellent levels of capital, well above the minimum requirements; some others attained good results after the undertaking of some corrective measures. In particular, under the indication of Bank of Italy some Italian banks adopted such measures and already achieved satisfactory results before the end of 2014.

## **2. LAUNCH OF SINGLE SUPERVISORY MECHANISM (SMM) ON 4 NOVEMBER**

The Single Rulebook will be a reference point for the coherent implementation of prudential supervision advocated by the SSM. Given that the SSM covers institutions that have different business models (asset and funding structures, sector and geographical exposure, client mix, internal organisation and governance) this should however be combined with the use of supervisory judgement.

The Supervisory Review and Evaluation Process (SREP) is a key element of this future supervision. This supervisory instrument will address the whole array of risks based on the findings of supervision, allowing supervisors to impose a wide range of measures (i.e. additional capital and liquidity requirements, changes in risk management etc.). In the same regard, common guidelines that will apply to all supervisors (including the ECB) have been drafted by the European Banking Authority (EBA). During the consultation period, the EACB maintained a close dialogue with EBA pointing out that such guidelines should maintain the appreciation of qualitative information and supervisory dialogue at the heart of the SREP. A 'tick the box exercise' and supervision based on mechanistic tools should be avoided, allowing the specificities of institutions to be correctly reflected.

The EACB welcomed the approach taken by the EBA in its final guidelines, recognising that different elements, methodological aspects and assessment components, do not have the same relevance for all institutions and that different degrees of granularity are to be applied. Those guidelines also clarified that benchmarking would not result into a mechanistic tool.

## **3. REGULATORY FRAMEWORK (FEES, LANGUAGE REGIME, REPORTING)**

The SSM also gives rise to several practical issues, such as those concerning the supervisory fees, the language regime and reporting. From this perspective and according to their size and status, all supervised banks will contribute to the financing of the SSM. In this context, the EACB called for a streamlining and clarification of the calculation of fees as defined in the Regulation on Supervisory Fees.

In the same regard, the language regime (English only) may raise some questions for co-operative banks and their decentralised and dense networks of local banks in different Member States. With regards to the ECB's intention to reach an agreement on this matter, the EACB highlighted the importance of flexibility in the practical implementation of the language regime<sup>4</sup> and directly addressed its concerns in a letter to Ms Nouy<sup>5</sup>. The Association welcomed the more differentiated approach undertaken by the ECB that allow for tailored agreements.

Finally in regards to reporting, the EACB reaffirmed the need to take into account the proportionality principle when it comes to disclosure requirements. The administrative burden linked to these provisions should be proportionate to the size of the entity. In this light the Association supported the ECB's proposal to set lower requirements according to the bank's total assets and suggested higher thresholds to trigger reduced reporting.

## **B. THE COMPLETION OF FURTHER ELEMENTS OF THE BANKING UNION**

### **1. THE BANKING RECOVERY AND RESOLUTION DIRECTIVE (BRRD) AND DEPOSIT GUARANTEE SCHEMES DIRECTIVE (DGSD):**

Following the publication of the BRRD, the DGSD, and the Single Resolution Mechanism Regulation (SRMR), the European Commission also adopted the delegated act on the calculation of contributions to the resolution funds in October. These elements completed the overarching structure of the Banking Union and will in the future require the EBA to carry out a detailed analysis. It has to be noted that the EBA is in charge, for instance, of defining the calculation methods for the deposit guarantee scheme, and of outlining the additional criteria for a minimum requirement of own funds and eligible liabilities (MREL) that will facilitate the use of the bail-in tool in the resolution and recovery of the banks.

The EACB has been carefully following these developments, engaging in constant and fruitful dialogue with the regulators and ensuring that the regulatory products reflect the specificities of co-operative banks. In this regard, the recognition of Institutional Protection Schemes (IPs) as a risk mitigant both in the context of contributions to the resolution fund and to a deposit guarantee scheme is an important step forward.

### **2. CONTINUED IMPLEMENTATION OF THE REGULATION ON PRUDENTIAL REQUIREMENTS FOR CREDIT INSTITUTIONS AND INVESTMENT FIRMS (CRR)**

#### **The European Commission delegated acts**

In October the European Commission published its delegated act<sup>6</sup> specifying the details and mechanics of the Liquidity Coverage Ratio (LCR) to be implemented in the

European Union<sup>7</sup> by 1 October 2015. The LCR imposes a minimum requirement of high quality and liquid assets to be held by institutions in order to face potential liquidity stress situations over a 30 day horizon.

The EACB has maintained continued dialogue with the European Commission and has especially addressed both technical aspects of the act and its economic impact. The final version of the delegated act reflects the specificities of co-operative liquidity systems in many respects, in particular with regard to the treatment of internal deposits in co-operative groups/networks.

The European Commission also published in October its final delegated act amending the Leverage Ratio<sup>8</sup> that is a non-risk based indicator of capital strength. The delegated act does not specify a minimum capital requirement (Pillar 1) but only the calculation basis of the leverage measure for reporting purposes. The final text addressed many concerns expressed during the consultation, for instance the scope of the ratio (prudential), the reporting period, the exemption for intragroup exposures<sup>9</sup>, the rules for the netting of Structure Finance Transactions (SFTs) and the treatment of derivatives. In the future the EACB should proactively take part in the discussions surrounding the definition of a Pillar 1 measure to avoid any unintended consequences on the financing of the real economy.

### European Banking Authority (EBA) Standards and Guidelines

The EBA continued in 2014 its work to establish a Single Rule Book for European banks. A central element of the Single Rule Book is the set of guidelines that substantially revised the process for supervisory review and evaluation. The EACB responded to numerous consultations and voiced its concerns about the tuning of the supervisory approach towards too mechanistic measures and low sensitivity to institutions specificities.

Furthermore, the use of co-operatives' multiple dividends instruments (CET1 elements) was addressed in a draft EBA technical standard published for consultation at the end of 2013. This is of special significance for the EACB as many co-operative banks in different countries issue instruments with multiple dividends. Those instruments are very important for sustaining their capital base. This issue was raised during several exchanges between the EACB, the EBA and national authorities, as well as in a detailed technical paper submitted to EBA in January 2014<sup>10</sup>. The EACB was pleased to notice that the final draft Regulatory Technical Standards of the EBA published in April resulted in requirements that had been much mitigated.

### European Commission proposal for a banking structural reform

The European Commission published a proposal for a regulation on Bank Structural Measures (BSMR) in January 2014 aiming to improve the resilience of credit institutions and to further address the 'too big to fail' problem. While the opportunity of the proposal is still debated and to be

questioned, the EACB together with its Working Group on Banking Supervision has been particularly engaged both internally and externally, with policymakers in providing solutions to the specificities of the ownership structure of co-operative groups. Such recognition is currently limited only to Institutional Protection Scheme (IPS) modelled networks and to other technical aspects of the proposal, particularly the definition of proprietary trading. It is important to preserve the market making activity which is useful.

## C. CORPORATE GOVERNANCE DEVELOPMENTS

With the implementation of the CRD4, the design and functioning of the corporate governance system of banks is currently the focus of the regulators. This topic has a special importance for co-operative banks due to their specific ownership structure and also because of the composition of their boards that are the expression of the democratic decisions of their members and often reflect and benefit their ties with the territory. The EBA is in charge of the implementation of this legislation. It also delivered an opinion and gave relevant technical input on certain aspects of remuneration policies. In 2014, the EACB maintained a fruitful exchange with EBA and was pleased to organise informative meetings together with the experts of its Corporate Governance Working Group.

Corporate governance was also a focus of the Basel Committee for Banking Supervision. It proposed a review of its governance principles. In responding to the consultation, the EACB highlighted the need to take into account the soundness and the specificities of the governance structure of co-operative banks, the various existing national legislations and the new factors already introduced by the CRD4. Moreover, in light of the growing importance of corporate governance discussions, the EACB established a High Level group to enhance the understanding of the strengths and specific features of co-operative banks' governance structures, - e.g. the checks and balances between professional bankers and elected directors and chairmen, intimate knowledge of the field and long-term strategy.

It is important that the main features of the co-operative governance, which is the cornerstone of the strength of the co-operative model, is not weakened for the sake of an alignment and standardisation of the banking governance and organisation.

## D. OTHER REGULATORY DEVELOPMENTS

### 1. EUROPEAN FINANCIAL TRANSACTION TAX

Discussions on the proposal for a Directive implementing enhanced co-operation in the area of Financial Transaction Tax (FTT) continued at the Council level among the 11 participating Member States in 2014. In spite of numerous discussions and several attempts to reach a compromise,



discrepancies among Member States made it impossible to obtain a minimum political agreement by the end of the year. This fact was mainly due to disagreement in two major areas: the scope of derivatives to be taxed in a first step and the taxation principle to be applied (residence vs issuance). The EACB has closely monitored the discussions at the Council level and supported a collective press release of the European banking industry. The EACB has warned against the negative effects that the FTT may have for consumers, upon whom the real burden of the tax is likely to fall (an estimated cost €10-15 billion for end-users, according to a 2013 Oliver Wyman study<sup>11</sup>). Attention has also focused on the impairment of the liquidity of co-operative banks which would potentially raise the transaction costs for end-users.

## 2. AUTOMATIC EXCHANGE OF FINANCIAL INFORMATION

Following the EU adoption of the 'OECD Global Standard of Automatic Exchange of Information'<sup>12</sup> in December, banks will have to provide more information about their customers to the tax authorities. The new requirements apply to interests, dividends and other income, account balances and sales proceeds from financial assets. This information will have to be exchanged from September 2017 onwards. In order to discuss the implementation of the new provisions, the Commission has set up an Expert Group on Automatic Exchange of Financial Account Information for direct taxation purposes. The EACB is represented in this group and is voicing the concerns of the co-operative banks regarding the administrative burden that the implementation and subsequent compliance would bring.

## 3. INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 9 – FINANCIAL INSTRUMENTS

The International Accounting Standards Board (IASB) issued in July the final IFRS 9 standard, which sets the provisions for the accounting of financial instruments. The new standard took a principle-based approach (as opposed to the previous rule-based approach) and provided a better framework to reflect co-operative banks' specificities. For instance, it has to be noted that the co-operative business model is taken into account in the classification and measurement of financial instruments. Another important difference was the introduction of a new forward-looking 'expected credit loss' model, which replaced the previous 'incurred loss' model. The institutions may take into account new factors in order to assess when a loss has to be accounted for, which may in some cases be difficult to estimate. As a supplement to these changes, the Basel Committee is expected to launch in 2015 a consultation in view of adapting the parameters that institutions will need to take into account in their assessment of credit loss. In this respect, the EACB shared its concerns about excessive provisioning with Basel Committee representatives. Lastly, the hedge accounting model in the final standard did not include macro-hedging aspects, which were treated in a separate Discussion Paper issued by

the IASB. In this regard, the EACB expressed its concerns about the Portfolio Revaluation Approach proposed in this IASB paper as a method of accounting for macro-hedging and supported instead the development of an approach focused on risk mitigation.

## 4. EUROPEAN FINANCIAL REPORTING ADVISORY GROUP (EFRAG) REFORM

As part of a wider project to make IFRS 'more European', and following a report by a group of experts led by former Belgian Finance Minister Philippe Maystadt, the governance structure of EFRAG was overhauled. A new board was appointed, which met for the first time in November. This new board includes representatives from the public and private sectors equally, with two seats only allocated to banking industry representatives. In order to guarantee the proper representation of co-operative banks' specificities, the EACB took the initiative to create a coordination group with the other two major European Banking associations (namely the EBF & ESBG) in order to agree on common positions ahead for each board meetings. Lastly, within this framework, an EU-wide public consultation on the experience of using IFRS in the EU was carried out. The EACB responded to this consultation in October, commenting that the IAS Regulation's objectives are not outdated and that the current scope (i.e. consolidated accounts of listed companies) should be kept. Indeed, this is a special concern for some co-operative banks that are not using IFRS, as their securities are not listed.

# Developments affecting the retail banking offer of co-operative banks

## A. BANK ACCOUNTS AND PAYMENTS

### 1. THE ADOPTION OF A DIRECTIVE ON PAYMENT ACCOUNTS

As a strong supporter of access-to-banking services, something within the very DNA of co-operative banks, the EACB has actively followed and supported the legislative process leading to the publication of the Payment Accounts Directive (PAD). Besides access to banking services, this directive also seeks to facilitate consumer mobility by making the switching of bank accounts easier and by introducing principles that make it easier to compare bank account related fees.

Co-operative banks have a longstanding experience of providing access to banking. Indeed, they were created more than a century ago to address exactly this problem. With the collective experience of its members at hand, the EACB contributed to the dialogue on the directive. Where the EACB was wary of the directive becoming too prescriptive in its introduction of a 'basic payment account', it has taken note of the fact that the legislator recognises that 'financial exclusion'<sup>13</sup> has different origins and different scales in different Member States and is best addressed at the level of individual Member States.

As to the issue of payment account switching, the EACB endeavoured for existing initiatives and national best practices to be given due consideration so as to allow co-operative banks to build further on successful systems for payment account switching that are already in place.

### 2. INITIATIVES ADDRESSING THE PAYMENT SERVICES THAT ARE OFFERED

#### Single Euro Payments Area (SEPA) Migration

With the rather technically oriented project of the 'SEPA migration' (migrating payments from national systems to pan-European systems) brought to a close in August 2014, the EACB and its members also closed a period of intense preparatory work and costly IT projects. The effects of this work are difficult for customers to see but were a long-standing demand from European policy makers. It is worth noting that this migration hardly gave rise to any problems. This can be considered a huge success for the co-operative banking community as it represents 50%<sup>14</sup> of all the banks that had to implement the changes.

#### Review of the Payment Services Directive

This proposal introduced the possibility for non-banks to access the accounts of bank customers. While open to discussing this possibility, the EACB also felt that it created some friction with one of the core functions of a bank, which is to safeguard the funds that have been entrusted to it by its customer. One of the key elements that the EACB addressed in its dialogue with the regulators on this file was therefore the need to ensure that banks are given the tools to safeguard the funds of their customers and the need for a fair distribution of the liabilities between banks and non-banks in this context.

Another issue that co-operative banks looked at in the context of the PSD2 was one concerning the equal treatment of co-operative banks as compared with and non co-operative banks. The EACB exchanged views with the regulator arguing that groups of co-operative banks, having organised a payment system between them, should be treated the same as other banks that have such systems.

#### Regulation on interchange fees for card based payment transactions

The European Commission's proposal for a regulation on interchange fees and other card related business rules was quite a cause for concern of the EACB, not least because it introduced a form of price regulation but also because of some quite intrusive measures affecting the organisation of the cards payment market. Aware of the controversies around the funding mechanisms of card payments and the difficulties in understanding the cards market for outsiders, the EACB contributed to the debate by explaining how the cards market works and the rationale behind its functioning.

#### The governance of payments

##### • The Euro Retail Payments Board (ERPB)

The Euro Retail Payments Board (ERPB<sup>15</sup>), a strategic body under chairmanship of a board member of ECB that is meant to give guidelines and directions for the further development of the European payments market, held its first two meetings in 2014. The EACB believes that the development of more future proof payment solutions in Europe need further thought on which direction to take/encourage. It therefore supported the decision of

the ERPB to create two working groups (one on SEPA migration and one on e-mandates) in June and another two (one on person-to-person mobile payments and one on Near Field Communication (NFC) based mobile payments) in December. The EACB nominated representatives in all groups and coordinated the formation of positions with its wide membership on all issues under consideration.

#### • The European Payments Council (EPC)

The European Payments Council (EPC<sup>16</sup>), in which the EACB and its members are active participants, underwent a process of profound transformation. This project was driven by:

- A. The need to improve the organisation of the EPC with respect to the governance of the two pan-European payment schemes for credit transfers and direct debits and the involvement of other stakeholders. Indeed, the smooth running of these two schemes has become very important as –since SEPA migration– they are processing some 16 billion transactions<sup>17</sup> a year.*
- B. The need to incorporate the establishment of the ERPB and reflect on the wish of the ECB for the EPC to take an active role in taking up the work on the decisions of the ERPB.*

As a founding member of the EPC, the EACB secretariat joined the EPC task force that worked on the proposals for change with the objective of creating a leaner but more tightly run yet democratic organisation and a fair system of financial contributions.

## B. LENDING AND BORROWING

### 1. THE REVIEW OF THE CONSUMER CREDIT DIRECTIVE

As retail banks, the offering of consumer credit is at the heart of co-operative banking business. With the Consumer Credit Directive in place since 2008, the European Commission has been reviewing its implementation and the regulatory choices made by Member States in their transposition of the directive into national law. The implementation was an important exercise for co-operative banks. Hence the EACB has been, together with its members, evaluating the various steps in order to get an idea of the direction that follow-up action, if any, might take. The European Commission report found that creditors should make further efforts to ensure that rights given to EU citizens by the directive (e.g. advertising and pre-contractual information) are respected. It also focused on raising awareness among consumers and creditors of their rights and obligations, as well as focusing on their correct application and enforcement.

Co-operative banks were fully supportive of those awareness-raising campaigns and remained committed to responsible lending and the implementation of the various provisions of the directive.

## 2. OVER-INDEBTEDNESS

The financial crisis has left its traces in many ways. One of them is apparent: the increased number of over-indebted consumers. But what are the causes of this development and should something be done about it? This is what the European Commission services<sup>18</sup> as well as other European bodies are looking into. With the co-operative banking sector being one of the largest providers of mortgage and consumer credit in some countries, the EACB has assisted the European Commission on this subject with the objective of identifying the real causes of the problem, so as to carefully target the solutions.

In the various documents regarding the causes of over-indebtedness, macroeconomic factors, higher unemployment levels and significant increases in costs of living ranked on top. In addition, co-operative banks observed that the problem of over-indebtedness is complex and compound, sometimes differing from one Member State to another. This being the case, the EACB recommended to look into what debt-solution mechanisms already existed at national level -with a view to possibly improving them - rather than seeking European solutions.

## C. INSURANCE

### 1. REVIEW OF THE INSURANCE MEDIATION DIRECTIVE

Co-operative banks offer a wide range of products and services to the retail customer -often including insurance products-, which are sometimes based on investment products. Consequently the EACB, together with its experts group, followed the legislative proposal aimed at companies offering these services. The proposed directive laid down a number of important provisions in regards to disclosure of remuneration of intermediaries, the need for continuing professional development of intermediaries and -independent- advice, and possible sanctions. These provisions are of key importance to co-operative groups when considering upon their strategies for distributing insurance policies. Moreover, the proposed Insurance Mediation Directive (IMD)<sup>2</sup> overlaps with the Markets in Financial Instruments Directive (MiFID)<sup>2</sup> that deals with investment services and products. EACB members thus have a direct interest in making sure both legislative acts are aligned for the relevant points on which they overlap so they are able to serve their consumers in the most coherent way.

## D. INVESTMENT SERVICES

### 1. REVIEW OF THE MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE

The proposals for MIFID2 and a Markets in Financial Instruments Regulation (MIFIR) could potentially have a big impact on co-operative banks due to a number of

important changes that are foreseen. These include in particular:

- A. The rules directed at managing potential conflict of interests; and
- B. Some rules concerning the organisation of the market for trading securities.

Depending on the outcome of this legislation, the model used by co-operative banks to offer investment services and -more generally- banking services to its clients could be threatened. This model is based on a central body designing products for the local co-operative banks that subsequently distribute them. Some of the implementing rules being contemplated by the European Securities Market Authority (ESMA) on the issue of conflict of interest could, if too narrowly interpreted, have an impact on the financing arrangements that are aimed at making this distribution model possible.

While supportive of the intention to tackle conflicts of interest that are to the detriment of consumers, the EACB has asked for care to be taken in the definition of these conflicts of interest so as not to unintentionally hurt a business model that ensures access to financial services in geographical areas where more commercial models have long since disappeared. In this context, the EACB had an exchange with the European regulators to get clarity on the eligibility criteria to receive inducements.

On a related note, but referring back to the first Directive on Markets in Financial Instruments, the EACB shared their concern with the European supervisors about the selling of financial instruments issued by financial institutions to their own clients. As it is one of the basic principles of co-operative banks that clients can become members of the institution by taking a financial stake in the bank, any measures in this area that would be drafted without a thorough knowledge of the difference between the co-operative form of enterprise and that of a public limited company could harm co-operative banks. The EACB thus entered into a dialogue with the supervisor to explain the specificities of the co-operative form of enterprise.

## **2. INSURANCE AND INVESTMENT BASED INSURANCE PRODUCTS REGULATION (PRIIPS)**

Another important initiative regarding investment services that dominated the agenda of the EACB in 2014 was the proposal for a Regulation on Key Information Document (KID) for insurance and investment-based insurance products (with the acronym PRIIPS). This initiative aims to improve the quality of information that is provided to consumers when considering investments and make it easier to compare and understand. As co-operative banks' members are both customers and owners of their banks, the needs of the owners naturally coincide with the needs of the customers. This means that the core business of co-operative banks is the creation of value for their members coupled with a long-term relationship of trust (as opposed to profit maximisation as it is

the case in shareholder-based banks.) At the same time, co-operative banks -due to the dense network of small regional and local banks and branches- are integral part of the community. Thanks to this territorial proximity they better understand their customers and speak their language. Given that co-operative banks are among the major distributors of a large range of retail investment products and considering this 'privileged' relationship with their customers, the EACB focused on finding ways to meet the regulators objectives while at the same time not creating an even bigger information overload with papers being handed to customers that do not serve their purpose.

The final negotiations on KID took place early in 2014, and the EACB approached all parties involved to explain the logic behind proposals to keep certain simple products out of the scope of this text. The EACB also highlighted an important inconsistency: the proposal to make financial institutions liable for the content of the information document even if that document can only ever be a summary of more extensive information. The final text struck a good balance between the need to provide comparable information and the tendency to overload the document with topics on which information should be provided.

## **3. UNDERTAKINGS FOR COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES DIRECTIVE (UCITS V)**

In the total landscape that makes up the market for securities trading, European co-operative banks sometimes act as custodians (i.e. they take the role of the party that securely safeguards the financial assets that are held by European investment funds.) Following the Lehman bankruptcy and the Madoff fraud, the European Commission proposed in 2012 a fifth review of the long-standing Undertakings for Collective Investment in Transferable Securities (UCITS) Directive. This version five of the UCITS directive - presently under debate at the level of the European Securities Market Authority, which is addressing the implementation measures to be formulated - could end up prescribing the need to legally separate the asset management activity of banks from the depositary activity for the same funds in order to avoid conflicts of interest. However, this would cause a fundamental restructuring of the banking landscape. The ability of banks to efficiently provide a wide range of financial services to meet the various customer needs would be affected. At the same time, the motives for doing so are not clear. For this reason, the EACB, together with its members, informed both national supervisors and the European supervisors of the negative impact of such proposals and proposed alternative measures. The outcomes of the debate are expected in March 2015.

## **4. OVER THE COUNTER (OTC) DERIVATIVES, CENTRAL COUNTERPARTIES (CCPS) AND TRADE REPOSITORIES (TRS) (EMIR)**

Throughout the preparation of the implementing measures of the Regulation on OTC derivatives, central



counterparties (CCPs) and trade repositories (TRs) (EMIR), the EACB concentrated on ensuring that the EMIR implementation would accommodate the co-operative business model and the co-operative group structure. For the EACB members that do not qualify as a group under the definition of Regulation 648/2012, there is the issue that they cannot obtain access to the institutions that are supposed to clear derivative transactions. This means that, against their own will, they might not be able to comply with the law or limit the services they provide. In addition for the larger EACB members, there are also issues arising from the differing and sometimes contradictory regulations of the EU and the US, which create implementation issues. Moreover, having in mind the difficulties encountered from the beginning of this process, the EACB in 2014 started working with its members on finding possible ways to make the EMIR more efficient and less complex and burdensome. This was done with a view to engaging in a constructive and fruitful dialogue with the European Commission and ESMA in light of the upcoming review of EMIR. The EACB has supported its members in setting-up and maintaining a dialogue with regulators on both topics, however, with a particular emphasis on the problems of access to clearing institutions. A dialogue is presently ongoing with the European Commission services with a view to finding an opening towards viable solutions.

services. The concern addressed by the EACB was that such exchanges should not become unduly onerous and should not be treated differently from exchanges of data taking place in non co-operative banks.

## E. HORIZONTAL ISSUES

### 1. EUROPEAN DATA PROTECTION FRAMEWORK

“Every single minute, the world generates 1.7 million billion bytes of data(...) Businesses build their decision-making processes on knowledge generated from data(...)While big data presents great opportunities, it is also challenging: today’s datasets are so huge and complex to process that they require new ideas, tools and infrastructures. It also requires the right legal framework, systems and technical solutions that ensure privacy and security.<sup>19</sup>”

With ‘big data’<sup>20</sup> on the horizon of businesses and policy-makers alike, the legislative debate on the proposed Data Protection Regulation (2012) remained a relevant and controversial one in 2014. The EACB took a keen interest in this debate in 2014, given that banks that are providing their customers with retail services are, as such, also processors of personal data. In addition to concerns that are horizontally shared by banks (e.g. conflict between obligations under the anti-money laundering rules and those proposed under the new data protection framework), the EACB exchanged views with the regulator on an issue of particular relevance to co-operative banks. It concerned the exchange of data between the central institution of a co-operative group and the local banks. Such exchanges need to take place in order for local banks to be able to make commercial offers to their clients. It is a result of the governance structure of co-operative banks which is characterised by so-called inverse pyramids whereby the local banks jointly own an institution that provides centralised

# Co-operative banks as socially responsible banks

The global financial crisis of the past few years has reinforced the demand for a more responsible, trustworthy and sustainable banking sector and society at large. Co-operative banks were created to serve their members and to emancipate them, both economically and socially. Responsibility has been a cornerstone of their way of doing business for more than two centuries. Owned by their clients/members, co-operative banks are key players at local and regional level in fuelling economies and boosting employment. In line with those principles, they act in a responsible and sustainable manner. In this respect the EACB is in favour of all related EU institutions plans, such as the 'Long-Term Financing plan' of the European Economy and 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.

## A. CO-OPERATIVE SOCIAL RESPONSIBILITY AND RELATED INITIATIVES

Responsibility is one of the key values of co-operative banks, be it towards its members, the community to which they belong or the environment. In this light, in 2014 the EACB was involved in several discussions and initiatives at EU level. In particular, the EACB contributed to the European Commission's Consultation and assessment of its 'Strategy on Corporate Social Responsibility (CSR) 2011-2014: achievements, shortcomings and future challenges.' At this occasion, the EACB outlined the major role that CSR could play in contributing in the long run to a balanced development and growth of the economy and to society at large. In the same vein, the EACB has been closely following the final stages of the proposal for a non-financial information directive that aims to introduce assessments on economic, social and governance performance for companies at EU level. The final text was adopted during the Italian presidency of the EU. In the same regard, the EACB further developed its work on an internal list of co-operative indicators list that are meant to measure co-operative banks' performance and their specific approach to CSR. Hence, the EACB engaged in discussions with external stakeholders in order to foster awareness on co-operative banks' 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 a reference point in CSR international reporting standards. This resulted in the organisation of successful educational workshops with relevant actors linked to the CSR reporting field (statutory auditors, CSR Rating Agencies, etc) Lastly, with the aim of continuing to showcase the connection between co-operative banking activities, the co-operatives' values and their specific approach to CSR, the EACB developed a specific webpage on its website where the best practices of its members in this field are displayed on a weekly basis. (see [www.eacb.coop](http://www.eacb.coop))

## B. SOCIAL AFFAIRS AND EU SOCIAL DIALOGUE

Co-operative banks are major employers in Europe at regional and local levels with a total of 860,000 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 2014, the European Social Dialogue focused mainly on the follow-up and conclusions of the Life Long Learning (LLL) Enlargement project that was run in 2013. This project aimed to enhance social dialogue in 'enlargement countries' (Romania, Croatia and Bulgaria) by sharing the 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. In 2014 representatives from the 'enlargement countries' were invited to provide their testimony on the recent impacts of the project in their countries, fuelling at the same time the overall conclusions drawn by Social Partners from this project. In the same regard and building on the impetus of the LLL enlargement project, preliminary exchanges took place on potential new projects of the European Social Dialogue. This was reinforced by the willingness of the newly appointed European Commission (November 2014) to promote 'social dialogue and engaging with social partners at EU level on all aspects of interest for the delivery of our priorities<sup>21</sup>.' In line with this declaration and building on the year 2014, all Social Partners committed to continue exchanging within the European Social Dialogue in order to enhance reflection on employment and growth within the European banking sector.

## C. FINANCING OF SMALL AND MEDIUM-SIZED ENTERPRISES

Through their distinctive business model, based on their proximity to local communities, co-operative banks are the main partners of SMEs in Europe. For instance in countries such as Italy, France, Germany and the Netherlands, between 25% and 45% of all loans are granted by co-operative banks, with SMEs representing between 20% and 50% of their clients. In this context, they have provided a liquidity and stability anchor to the whole market throughout the financial crisis. The EACB is committed to EU actions to improve SME lending, especially in the current difficult economic context, and in 2014 it continued maintaining its involvement in the European Commission's high-level forum for SME financing (established in 2010.) Lastly the EACB continued exchanging with the European Investment Bank (EIB) in order to facilitate the access of smaller co-operative banks to the EIB group's instruments. After two years of negotiations on a potential facility adapted to co-operative banks, the EIB group is now about to finalise this new product under the EIB Group Risk Enhancement Mandate. A tentative timeline for the launch has been set for the first quarter of 2015. Given the enhanced role and the EIB mission to increase funds to support EU growth, there is mutual interest in finding appropriate solutions in 2015 that allow local co-operative banks to play a major role in intermediating EIB facilities.

# Communication & research

In line with its communication policy, the EACB has continued to inform policy and opinion makers of the concerns and expectations of co-operative banks. During the course of 2014, several initiatives and activities were undertaken to highlight the distinct features of co-operative banks and this in a specific context at European level: the European elections and the new mandates of the EU institutions (2014-2019). In this light, the EACB and its members have drawn up a key document addressed to European and international decision makers: '[Roadmap for Co-operative Banks: an approach that balances regulation and stimulation of local growth](#)' that outlines the state of play and the way forward for the sector. In conjunction with this milestone document, the EACB, together with UEAPME (the European Association of Craft, Small and Medium-sized Enterprises), endorsed and issued a joint open letter '[SMEs and Co-operative Banks are an essential part of the EU's real economy](#)'. In the same way as for the 'Roadmap for Co-operative Banks', the [EACB and UEAPME](#) put forward five recommendations while stressing the importance of having a tailored regulation that takes into account the need to finance the European economy. Lastly, the EACB has developed its organisation of public events, improved the availability of data and increased its studies and key research activities. A selection of relevant activities for 2014 is provided below.

## A. PUBLIC EVENTS

### 1. EACB REGULATORY DEBATE

On 4 March 2014, the EACB held a Regulatory Debate. The event '[Between regulation and the need to relaunch local growth: the role of co-operative banks](#)' was hosted by the European Economic and Social Committee in Brussels. The regulatory debate was marked by a roundtable composed of 10 high-level EU regulators, top University Researchers, high-representatives of co-operative banks and was moderated by Silvia Pavoni, a journalist from 'The banker Magazine'. The panellists shared about their concerns and expectations of co-operative banks on regulatory reforms while underlining the necessity to allow them to continue playing a key role in funding the real economy, stimulating growth and boosting local employment. The event was also an opportunity to discuss the findings of the 2014 Oliver Wyman study 'Co-operative Banking:

leveraging the co-operative difference to adapt to a new environment'. Further information can be found in section B page 21-22.

### 2. EACB THIRD ACADEMICS AND STAKEHOLDERS' DAY

On 1st April 2014, the EACB held the [Third Academics and Stakeholders' Day](#) which took place at the European Parliament and was hosted by Raffaele Baldassare an MEP in the EPP Group. The main goal of this traditional event, organised on a yearly basis by the EACB, is to outline the state-of-the-art of research on co-operative banking and to highlight important points and challenges lying ahead for the co-operative banking sector. Top researchers from universities and institutions of various European countries, as well as European stakeholders and policymakers attended this successful day. The event was marked by discussions on the co-operative banks' difference, their unique governance and their role in ensuring a more sustainable banking environment. It provided a valuable platform for dialogue between stakeholders, academics and decision-makers. Finally, the winners of the second 'EACB Award for Young Researchers on Co-operative Banks' were granted with their prizes by the Scientific Committee of the EACB Think Tank on Co-operative Banks. Further information can be found in section B page 21.

### 3. INTERNATIONAL SUMMIT OF CO-OPERATIVES AND EACB LUNCH DEBATE

In October 2014 a milestone event was organised at the initiative of Caisses Desjardins and the International Co-operative Alliance in Québec: '[The International Summit of Co-operatives: The Co-operatives' Power of Innovation](#)'. The 4-day-long second edition of this Summit – following the first Summit in 2012 during the United Nations International Year of Co-operatives- was particularly successful with some 3.000 attendees from 93 countries, 211 speakers (including Nobel prizes winners), seven round tables, 22 forums, 26 newly presented studies, 88 'Rendez-vous', an international exhibition and social media reach to an audience of nearly four millions users. As partner of the event, the EACB organised a lunch debate on 7 October which focused on '[Co-operative Banks: Leveraging the Co-operative Difference](#)'. The EACB event was marked by the presentation of the



2014 Oliver Wyman study on co-operative banks. For more information about this study please see section B below. This high-level event was attended by more than 150 participants including leading representatives of European and International co-operative banks, ambassadors, European and international institution representatives, finance ministers, academics and consultancies. In this light, the International Summit of Co-operatives provided its co-operators with numerous sessions dedicated to the co-operative banking sector. Hence, the EACB was solicited and shared its views and expertise on a common concern for co-operatives: 'For a meaningful legal, regulatory and tax framework'. The Summit greatly contributes to the visibility of the co-operative movement and creates a sphere of influence in the global economic and political arenas. In this spirit, the EACB fully support the official declaration that was released at the issue of this Summit (see [www.intlsummit.coop](http://www.intlsummit.coop))

#### 4. 6<sup>TH</sup> EUROPEAN FORUM ON CO-OPERATIVE BANKS AND SMES IN BRUSSELS

On 1st December 2014, the European Economic and Social Committee (EESC), the European Association of Co-operative Banks (EACB), the International Confederation of Popular Banks (CIBP), the European Association of Craft, Small and Medium-sized Enterprises (UEAPME) and UNICO Banking Group held in Brussels the 6th European Forum on Co-operative Banks and SMEs : '[Co-operative banks: a model to finance the real economy](#).' This event was a good opportunity to demonstrate once again the close and special relationship between co-operative banks and SMEs. Co-operative banks play a vital role in financing the real economy which includes SMEs, the backbone of the European economy. The financial crisis has prompted significant changes to European regulation, but constant application of proportionality and diversity principles is crucial for SMEs financing and growth. The 6th European Forum featured high-level speakers from the European Commission, the European Economic Social Committee (EESC), the European Investment Bank (EIB), the European Banking Authority (EBA), Members of the European Parliaments, SMEs and co-operative banks. This event was also an occasion to present and discuss the five recommendations of the [EACB-UEAPME](#) open letter, which outlines the expectations of both co-operative banks and SMEs.

## B. RESEARCH AND SURVEY

### 1. 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 as well as the need to stimulate further research on the sector are among the reasons that led to the setting-up of the Think Tank on Co-operative Banks in 2008.

The Think Tank is composed of about 20 academic experts in the European co-operative banking field and provides an important platform for discussion and exchange of information. Over the past year, several papers were produced and discussed by members and their research networks. The topics covered the most important features of the co-operative banking model, and ranged from governance and memberships to the performance of co-operative banks. In addition, the EACB strengthened its synergies with other European and international Think Tanks and research institutions specialised in co-operative finance, such as EURICSE and HEC Montréal.

### 2. STIMULATING NEW RESEARCH : THE EACB AWARD FOR YOUNG RESEARCHERS ON CO-OPERATIVE BANKING

In 2014 the EACB, in collaboration with its academic Think Tank, awarded the winners of its [second EACB award for young researchers on co-operative banks](#). The ceremony took place during the Third Academics and Stakeholders' Day held at the European Parliament on 1 April (See section page A page 20.) The EACB received a large number of applications from various countries on a very broad range of subjects, such as the relationship between co-operative finance and the traditional banking sector, the relevance of soft information in assessing credit risk and the analysis of the unique co-operative banking governance model. Following a careful examination, the scientific committee selected two winners ex-aequo: Anaïs Périlleux for 'Is co-operative finance a solution to banking market failure? The complex relationship between financial cooperatives and the traditional banking sector' and Simon Cornée with 'The relevance of soft information for predicting small business credit default: evidence from a social bank.' The initiative aims to raise interest and knowledge of the co-operative banking model among researchers- especially the younger ones- and the academic community as a whole. Despite the role played by the co-operative banking system in Europe, it is estimated that only 1% of the existing research is devoted to co-operative banks. For this reason and building on the positive impetus of the past EACB Research Awards, a call for papers for the 'Third EACB Award for Young Researchers' was launched in 2014. The winner will be announced in spring 2015.

### 3. CO-OPERATIVE BANKING: LEVERAGING THE CO-OPERATIVE DIFFERENCE TO ADAPT TO A NEW ENVIRONMENT

In 2014 a new research on co-operative banks was released by the consulting group Oliver Wyman. This third report '[Co-operative Banking: Leveraging the Co-operative Difference to Adapt to a New Environment](#)' is the follow-up to two successful surveys on co-operative banks. It is a timely contribution to explain the nature, the role, the commitments and the challenges of co-operative banks. The 2014 Oliver Wyman report provides a comprehensive analysis of the relationship of co-operative banks with their clients and their members. It also outlines their contribution

to their local communities by highlighting their role in the financing of the local economy, their assistance to less favoured clients segments and their social commitment. On another note, it enumerates several challenges that lie ahead for the sector (regulation, demography, technology, cost management, etc) and provides a number of recommendations and policy implications. This new report was presented in the context of EACB events and the International Summit of Co-operatives.

# References

1. EACB key statistics (Financial Indicators) on 31.12.13, [www.eacb.coop](http://www.eacb.coop)
2. EACB key statistics (Financial Indicators) on 31.12.13, [www.eacb.coop](http://www.eacb.coop)
3. Cf 'The list of significant supervised entities and the list of less significant institutions', European Central Bank, September 2014
4. As laid out in Article 24 of the ECB Framework Regulation for the SSM.
5. Ms Danièle Nouy was appointed chair of the supervisory board of the SSM at the European Central Bank on 1st January 2014
6. Mandated under Art. 460 of the CRR,
7. The European Parliament and the Council have three months to object to this delegated act
8. as designed in Art 429 of the CRR
9. As granted under Art. 113(6) of the CRR
10. Cf : EACB position paper on EBA draft RTS on Own Funds part IV (multiple dividends)
11. ' The Impact of the EU-11 Financial Transaction Tax on End-users', Oliver Wyman, 2013
12. Revision of the Directive on Administrative Co-operation (DAC2)
13. Cf Commission Factsheet on Access to Payment Accounts: [http://ec.europa.eu/finance/finservices-retail/docs/inclusion/20130506-factsheet-3\\_en.pdf](http://ec.europa.eu/finance/finservices-retail/docs/inclusion/20130506-factsheet-3_en.pdf)
14. Cf Registers of Participants in SEPA Payment Schemes, [http://epc.cbnet.info/content/adherence\\_database](http://epc.cbnet.info/content/adherence_database)
15. ERPB is a body created by the European Central Bank in December 2013 as a follow up to the SEPA Council. It unites 7 demand side and 7 supply side representatives at Executive Board level and is chaired by Yves Mersch, ECB Board members. Its mandate is mainly to identify strategic issues and work priorities (including business practices, requirements and standards) and ensuring they are addressed. The EACB is represented in the Board by Dr. Christian Brauckmann, Member of the Executive Board of WGZ Bank
16. 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.
17. Cf European Central Bank Payment statistics report (5 September 2014): <http://sdw.ecb.europa.eu/reports.do?node=1000004051>
18. Cf. Civic Consulting study (2014) "The over indebtedness of European households", [http://ec.europa.eu/consumers/financial\\_services/reference\\_studies\\_documents/docs/part\\_1\\_synthesis\\_of\\_findings\\_en.pdf](http://ec.europa.eu/consumers/financial_services/reference_studies_documents/docs/part_1_synthesis_of_findings_en.pdf)
19. Extract from European Commission's Press Release(13th October 2014) , 'European Commission and data industry launch €2.5 billion partnership to master big data', [http://europa.eu/rapid/press-release\\_IP-14-1129\\_en.htm](http://europa.eu/rapid/press-release_IP-14-1129_en.htm)
20. Cf. European Commission Communication on "Big data" / Data driven economy: <https://ec.europa.eu/digital-agenda/en/news/communication-data-driven-economy>
21. Jean-Claude Juncker, President of the European Commission, Mission Letter to Valdis Dombrovskis, Vice-President for the Euro and Social Dialogue

# Glossary of Abbreviations

<b>AQR:</b>	Asset Quality Review	<b>ERP:</b>	Euro Retail Payments Board
<b>AMLD:</b>	Anti-Money Laundering Directive	<b>ESD:</b>	European Social Dialogue
<b>APRC:</b>	Annual Percentage Rate of Charge	<b>ESMA:</b>	European Securities Markets Authority
<b>BRRD:</b>	Banking Recovery and Resolution Directive	<b>FTT:</b>	Financial Transaction Tax
<b>BSMR:</b>	Bank Structural Measures Regulation	<b>IASB:</b>	International Accounting Standards Board
<b>CCD:</b>	Consumer Credit Directive	<b>IFRS:</b>	International Financial Reporting Standards
<b>CCPs:</b>	Central Counterparties (clearing houses)	<b>IPS:</b>	Institutional Protection Schemes
<b>CRD4:</b>	Capital Requirements Directive 4	<b>KID:</b>	Key Information Document
<b>CRR:</b>	Capital Requirements Regulation	<b>LLL:</b>	Life Long Learning
<b>CSR:</b>	Corporate Social Responsibility	<b>LCR:</b>	Liquidity Coverage Ratio
<b>COSME:</b>	Programme for Competitiveness of Enterprises and SMEs	<b>MEP:</b>	Member of the European Parliament
<b>CRD:</b>	Capital Requirements Directive	<b>MiFID:</b>	Markets in Financial Instruments Directive
<b>CSDs:</b>	Central Securities Depositories	<b>NCA:</b>	National Competent Authorities
<b>CSR:</b>	Corporate Social Responsibility	<b>OTC:</b>	Over-The-Counter
<b>DG MARKT:</b>	Directorate General Internal Market and Services	<b>PAD:</b>	Payments Accounts Directive
<b>DGS:</b>	Deposit Guarantee Schemes	<b>PRIPS:</b>	Packaged Retail Investment Products
<b>EBA:</b>	European Banking Authority	<b>PSD:</b>	Payment Services Directive
<b>EBIC:</b>	European Banking Industry Committee	<b>SEPA:</b>	Single Euro Payments Area
<b>ECB:</b>	European Central Bank	<b>SMEs:</b>	Small and Medium- Sized Enterprises
<b>EFrag:</b>	European Financial Reporting Advisory Group	<b>SFT:</b>	Structure Finance Transactions
<b>EIB:</b>	European Investment Bank	<b>SREP:</b>	Supervisory Review and Evaluation Process
<b>EP:</b>	European Parliament	<b>SSM:</b>	Single Supervisory Mechanism
<b>EPC:</b>	European Payments Council	<b>SRMR:</b>	Single Resolution Mechanism Regulation
		<b>TR:</b>	Trade Repositories
		<b>UCITS:</b>	Undertakings for Collective Investments in Transferable Securities



# Annexes



## A. KEY STATISTICS (FINANCIAL INDICATORS) ON 31/12/2013

European Countries	ECONOMIC INDICATORS					
	Total assets (EUROmio)	Total deposits from customers (EUROmio)	Total loans to customers (EUROmio)	Net profit after taxes (EUROmio)	Total equity (EUROmio)	Leverage Ratio (%)
Austria						
Österreichische Raiffeisenbanken *	281.609	173.263	191.070	746	19.089	5,66
Österreichischer Volksbanken *	40.602	24.900	29.469	5	2.965	7,3
Bulgaria						
Central Co-operative Bank	1.915	1.724	856	5	182	9,51
Cyprus						
Co-operative Central Bank	15.209	13.477	13.252	-1.698	1.207	8
Denmark						
Nykredit *	189.994	8.736	152.359	224	7.870	4,1
Finland						
OP Cooperative, Financial Group *	100.991	47.333	68.087	665	7.724	6,8
France						
Crédit Agricole *	1.706.326	648.032	708.452	5.136	78.000	n.a.
Crédit Mutuel *	658.618	259.022	351.200	2.651	40.200	5,6
BPCE *	1.123.520	401.000	367.000	2.669	51.000	n.a.
Germany						
BVR *	1.080.565	693.191	648.470	6.862	79.386	n.a.
Greece						
Association of Cooperative Banks of Greece	3.158	2.590	2.881	-57	367	11,63
Hungary						
National Federation of Savings Co-operatives (2)	6.386	4.366	2.707	n.a.	n.a.	n.a.
Italy						
Associazione Nazionale fra le Banche Popolari *	460.000	435.000	392.000	-503	63.220	13,7
FEDERCASSE *	206.289	159.500	136.000	2	20.000	n.a.
Lithuania						
Lithuanian Central Credit Union	477	403	265	-12	39	8,2
Luxembourg						
Banque Raiffeissen	6.354	5.237	4.809	18	292	5
Netherlands						
Rabobank Nederland *	674.139	329.400	438.975	2.012	40.037	4,8
Poland						
National Union of Co-operative Banks (KZBS)	31.195	18.971	15.422	146	2,716 (1)	n.a.
Portugal						
Crédito Agrícola *	12.969	10.210	8.199	2	1.106	8,5
Romania						
Creditcoop	199	134	132	n.a.	n.a.	n.a.
Slovenia						
Dezeln Banka Slovenije d.d.	856	646	530	-17	45	n.a.
Spain						
Unión Nacional de Cooperativas de Crédito *	135.019	93.778	87.734	352	9.426	6,98
Sweden						
Landshypotek	9.105	251	7.084	24	481	5,28
United Kingdom						
The Co-operative Bank p.l.c.	52.093	39.615	21.100	898 (D)	2.134	2,4
Building Societies Association	389.800	281.400	286.500	780	15.700	n.a.
<b>Total</b>	<b>7.187.388</b>	<b>3.652.179</b>	<b>3.934.553</b>			
<b>Non-European Countries</b>						
Canada						
Desjardins Group	144.674	93.317	95.901	1.044	11.759	n.a.
Japan						
The Norinchukin Bank / JA Bank Group **	587.131	351.086	122.840	1.100	42.204	7,19
Switzerland						
Raiffeisen Schweiz *	144.032	112.615	123.504	584	9.142	6,3
<b>Total (Non-EU)</b>	<b>875.837</b>	<b>557.018</b>	<b>342.245</b>			

	PROFITABILITY INDICATORS		CAPITAL SOLIDITY INDICATORS	
European Countries	ROA (%)	ROE after taxes (%)	Cost/Income Ratio (%)	Total capital ratio (%)
Austria				
Österreichische Raiffeisenbanken *	n.a.	6,8	75,6	11,2
Österreichischer Volksbanken *	0,01	0,13	131	15,64
Bulgaria				
Central Co-operative Bank	0,3	3	85,3	14,99
Cyprus				
Co-operative Central Bank	-11,2	-144,1	51	13,6
Denmark				
Nykredit *	0,12	2,9	55,2	18,9
Finland				
OP Cooperative, Financial Group *	0,66	8,9	62	14.3 (T1 Cap. Ratio)
France				
Crédit Agricole *	n.a.	n.a.	63,2	16,3
Crédit Mutuel *	0,4	9,5	63,3	14.5 (T1 Cap. Ratio)
BPCE *	0,23	5,2	70,7	13 (T1 Cap. Ratio)
Germany				
BVR *	0,64	8,64	61,5	11,4 (T1 Cap. Ratio)
Greece				
Association of Cooperative Banks of Greece	-1,82	-15,64	45,94	8,7
Hungary				
National Federation of Savings Co-operatives (2)	0,47	6,48	72,25	7,07
Italy				
Associazione Nazionale fra le Banche Popolari *	-0,11	-1,1	62,4	10.1 (T1 Cap. Ratio)
FEDERCASSE *	0	0	58,9	15,4
Lithuania				
Lithuanian Central Credit Union	-2,44	-30,8	57,45	21,7
Luxembourg				
Banque Raiffeissen	0,3	8	74,2	10,7
Netherlands				
Rabobank Nederland *	0,3	5,2	75	16.6 (T1 Cap. Ratio)
Poland				
National Union of Co-operative Banks (KZBS)	0.8 (1)	7.8 (1)	70.9 (1)	14.3 (1)
Portugal				
Crédito Agrícola *	0,01	0,14	64	11.9 (T1 Cap. Ratio)
Romania				
Creditcoop	0,42	1,33	98,03	22
Slovenia				
Dezeln Banka Slovenije d.d.	-2,27	-28,4	62,48	9,83
Spain				
Unión Nacional de Cooperativas de Crédito *	0,26	4	48,23	6
Sweden				
Landshypotek	0,26	5,1	45	27.77 (T1 Cap. Ratio)
United Kingdom				
The Co-operative Bank p.l.c.	1.72 (D)	42.1 (D)	93,6	7.2 (T1 Cap. Ratio)
Building Societies Association	0,20	5,32	60,06	n.a.
<b>Total</b>				
<b>Non-European Countries</b>				
Canada				
Desjardins Group	0,72	9,4	73,5	18,4
Japan				
The Norinchukin Bank / JA Bank Group **	0,19	2,65	82,49	17,6
Switzerland				
Raiffeisen Schweiz *	0,4	6,6	61,7	14,9
<b>Total (Non-EU)</b>				

European Countries	OTHER INDICATORS					
	Nb Employees Full-time equivalent	Nb Clients	Nb of independent local co-operative banks (local/regional banks)	Nb of branches -home country	Nb members	Nb of domestic ATMs
Austria						
Österreichische Raiffeisenbanken *	26.000	3.600.000	490	1.646	1.700.000	3.052
Österreichischer Volksbanken *	6.785	900.000	59	512	688.000	756
Bulgaria						
Central Co-operative Bank	2,042(D)	1,474,650(D)	n.a.	271	6.818	461
Cyprus						
Co-operative Central Bank	2.973	600.000	19	349	554.363	211
Denmark						
Nykredit *	4.052	1.093.000	1	755	270.000	60
Finland						
OP Cooperative, Financial Group *	10.806	4.252.000	183	457	1.404.229	n.a.
France						
Crédit Agricole *	150.000	49.000.000	39	9.099	7.400.000	n.a.
Crédit Mutuel *	78.482	30.400.000	18	5.920	7.500.000	9.000
BPCE *	115.000	36.000.000	36	7.530	8.800.000	n.a.
Germany						
BVR *	191.243	>30,000,000	1.078	13.056	17,712,774(D)	19.632
Greece						
Association of Cooperative Banks of Greece	905	385.571	10	129	157.835	n.a.
Hungary						
National Federation of Savings Co-operatives (2)	7.326	1.150.000	105	1.484	84.000	n.a.
Italy						
Associazione Nazionale fra le Banche Popolari *	82.200	12.300.000	72	9.256	1.336.000	9.023
FEDERCASSE *	31.565	6.000.000	385	4.454	1.173.668	5.193
Lithuania						
Lithuanian Central Credit Union	598	2.656	63	126	142.601	n.a.
Luxembourg						
Banque Raiffeissen	559	100.000	13	46	10.241	52
Netherlands						
Rabobank Nederland *	56.870	10.000.000	129	722	1.947.000	2.963
Poland						
National Union of Co-operative Banks (KZBS)	33.084	n.a.	571	4.816	1.034.448	3.706
Portugal						
Crédito Agrícola *	3.834	1.220.075	83	683	400.000	1.442
Romania						
Creditcoop	2.235	919.467	763	46	660.000	n.a.
Slovenia						
Dezelna Banka Slovenije d.d.	355	85.000	1	85	260	39
Spain						
Unión Nacional de Cooperativas de Crédito *	18.910	10.713.548	65	4.651	2.764.746	4.749
Sweden						
Landshypotek	130	70.000	1	19	45.000	0
United Kingdom						
The Co-operative Bank p.l.c.	6.704	4.700.000	n.a.	294	2.000.000	2.558
Building Societies Association	25.800	n.a.	45	1.548	20.000.000	1.466
<b>Total</b>	<b>858.458</b>	<b>204.965.967</b>	<b>4.229</b>	<b>67.954</b>	<b>77.791.983</b>	<b>64.363</b>
<b>Non-European Countries</b>						
Canada						
Desjardins Group	45.219	6.000.000	376	864	4.500.000	2.270
Japan						
The Norinchukin Bank / JA Bank Group **	211,782(D)	n.a.	702***	8.548	4,614,000(D)	12.109
Switzerland						
Raiffeisen Schweiz *	8.887	3.660.000	316	1.025	1.828.202	1.588
<b>Total (Non-EU)</b>	<b>265.888</b>	<b>9.660.000</b>	<b>1.394</b>	<b>10.437</b>	<b>10.942.202</b>	<b>15.967</b>

European Countries	MARKET SHARE			
	Domestic market share deposits (%)	Domestic market share loans (%)	Mortgage market share (%)	Market share SMEs (%)
Austria				
Österreichische Raiffeisenbanken *	30	27,3	n.a.	n.a.
Österreichischer Volksbanken *	7	6,1	11,18	6,3
Bulgaria				
Central Co-operative Bank	5,27	2,95	0,7	6,77
Cyprus				
Co-operative Central Bank	28,7	23,9	32,1	n.a.
Denmark				
Nykredit *	5,2	31	43	n.a.
Finland				
OP Cooperative, Financial Group *	36,8	34,6	37,8	n.a.
France				
Crédit Agricole *	23,3	20,9	n.a.	n.a.
Crédit Mutuel *	15	17,2	19,8	15,6
BPCE *	22	21	n.a.	n.a.
Germany				
BVR *	20,6	19,1	21.3(D)	32,5
Greece				
Association of Cooperative Banks of Greece	1,11	0,8	n.a.	15
Hungary				
National Federation of Savings Co-operatives (2)	8,69	4,44	n.a.	n.a.
Italy				
Associazione Nazionale fra le Banche Popolari *	25	26,4	21	26,1
FEDERCASSE *	7,4	7,1	9,1	15
Lithuania				
Lithuanian Central Credit Union	2,93	1,79	0,43	4,49
Luxembourg				
Banque Raiffeissen	17	13	13	10
Netherlands				
Rabobank Nederland *	38	n.a.	26	n.a.
Poland				
National Union of Co-operative Banks (KZBS)	9.8(1)	6.3(1)	1.62(1)	15,4
Portugal				
Crédito Agrícola *	6,3	3,6	2,1	n.a.
Romania				
Creditcoop	n.a.	n.a.	n.a.	n.a.
Slovenia				
Dezeln Banka Slovenije d.d.	2,34	2,22	n.a.	n.a.
Spain				
Unión Nacional de Cooperativas de Crédito *	6,97	6,21	n.a.	n.a.
Sweden				
Landshypotek	0,5	2,0	2,3	1,0
United Kingdom				
The Co-operative Bank p.l.c.	2,2	1,8	2	0,6
Building Societies Association	19,1	n.a.	18,7	n.a.
<b>Total</b>				
<b>Non-European Countries</b>				
Canada				
Desjardins Group	43,2	23,4	35,5	29,2
Japan				
The Norinchukin Bank / JA Bank Group **	10,6	8,1	n.a.	n.a.
Switzerland				
Raiffeisen Schweiz *	18,9	n.a.	16,3	n.a.
<b>Total (Non-EU)</b>				

(1) Data refers to co-operative banks without the two Polish affiliating banks  
(2) 2012 data

(D) Local/domestic banks

(\*) Data collected in collaboration with TIAS School for Business and Society of Tilburg University  
(\*\*) Data is as of 31 March 2014 unless otherwise stated. The Bank's financial term is from 1 April to 31 March  
(\*\*\*) Data is as of 1 April 2014



# Why a Roadmap

The 4,200 Co-operative Banks and their 205 million clients play a major role in the European economy, in terms of funding local economy and stimulating local employment. In light of the European elections and the new mandates of the EU Institutions (2014-2019) starting this year, the European Association of Co-operative Banks (EACB) has drawn up a **Roadmap of the Co-operative Banks' concerns and expectations, for an approach that balances regulation and stimulation of local growth.**

The EACB supports all legislative and regulatory initiatives that are in line with the principles and values of the co-operative banking model. Our Members, the Co-operative Banks, call for an appropriate regulatory framework that would allow them to continue playing a key role in funding the real economy, stimulating growth and boosting employment at local level. We hope that the Co-operative Banks' concerns and expectations described herein are taken into due consideration by the new MEPs and Commissioners.

# Who we are

**The EACB represents, defends and promotes the Co-operative Banks in Europe**

- ▶ **4,200 local and regional banks**
- ▶ **78 million members**
- ▶ **205 million customers**
- ▶ **860,000 employees**
- ▶ **68,000 outlets**

- Co-operative banks account for about 20% of the market share of EU bank deposits and loans and so are a major feature of the sector\*. In countries such as Austria, France, Finland, Italy and the Netherlands, the market share is well above this figure, ranging from 25 to 50%. Co-operative banks are a main lender to European SMEs. In Austria, Italy, Finland, France, Germany and the Netherlands, co-operative banks' market-share of loans ranges between 20% and 45%, and often much higher in urban areas.
- Co-operative banks have shown customer proximity, a focus on SMEs lending, contributions to society and a very high level of stability for more than a century thanks to their strong values and principles. Their key values are: trust between the bank and its members/clients, democratic and prudent governance, resilience to adverse market developments, close proximity to customers, social commitment and solidarity.
- True to their original mission, co-operative banks offer members and customers well- designed services and products that meet their needs and resources and support them through good and bad times.
- Co-operative banks actively support the sustainable development of their regions by, in some cases, reinvesting a large proportion of their profits back into the community, and by engaging with local members to select the projects that should receive the co- operative dividend.
- Their strategy is not to pay a maximum of dividends or to grow for the sake of growth. Profits are nevertheless necessary to ensure the durability and development of the business.

\* Olivier Wyman report, "The outlook for co-operative banking in Europe in 2012- banking on values, building on agility", December 2012.

# Concerns and expectations

Co-operative banks fully support the EU's strategy 'Europe 2020' for **"smart, sustainable, inclusive growth"** and the European model of social market economy put forward by the strategy.

They are eager to continue **"building a better world"**, as expressed by the motto of the United Nations' International Year of Co-operatives.

Co-operative banks are ready to become a bigger part of the solution to the crisis and believe that they can be a driving force for a more sustainable society and economy. They are resolutely determined to continue funding the European economy and to meet the needs of their customers and territories in the current difficult economic climate.

They are keen to foster new ways of thinking about the co-operative banking sector and to pave the way towards a better understanding of their current and possible future role.

For this purpose co-operative banks would like to point out the following:

1. The strict alignment of the EU regulatory framework with the set of recommendations decided by the Basel Committee without due consideration given to the specificities of European co-operative banks has reached an impasse.
2. Reforms and new regulation should be phased in more carefully and better calibrated to mitigate the effects on the real economy and on the end users such as SMEs and consumers.
3. The extremely large number of regulatory proposals has reached a critical mass which exponentially increases the administrative burden and compliance cost. The adoption of rigid rules and binding technical standards based on the one-size-fits-all principle is not optimal. Co-operative banks express their strong preference for a pragmatic approach with adequate flexibility to accommodate the diversity of the banking industry.
4. The growing complexity of the current regulatory landscape and the accumulation of new legislation leads to disproportionate implementation and compliance

costs for co-operative banks. These costs should be in line with the size of the institutions and their human and IT resources.

5. In the context of the stress tests and the implementation of the Single Supervisory Mechanism (SSM), more detailed and more frequent reporting requirements should only be imposed once it has been determined that (1) the information required could not be generated from existing reporting requirements, and (2) the benefits of imposing these requirements far outweigh the costs.
6. For most co-operative banking groups, any new binding constraints on the movement of capital and liquidity, between the apex body and affiliated local/regional banks in order to appropriately manage capital, on liquidity and on risk at the group level could have a significant impact on existing structures and must be avoided.
7. Co-operative banks shall keep the benefit of their solid and strong Institutional Protection Schemes in the context of the Single Resolution Mechanism. In order to avoid distortions between banking sector structures, the risk of default of the bank and the risk of loss of the fund should be the main criteria for the calculation of the contribution to the fund.
8. Given that consumer protection is a combination of 'rights and duties' for both retail banks and consumers, information should be simplified and the 'tick box' behaviour should not be the rule but the exception.
9. Too much focus on pricing should be avoided, as it does not do justice to the values that co-operative banking offer to customers, such as proximity, education and a tailor-made and individualised approach.
10. Co-operative banks do not call for any exemption but for a full recognition of their specificities in the legislation in accordance with article 54 of the Treaty on the Functioning of the European Union.

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