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

Interim Working Committee
on Financial Conglomerates
CEBS/CEIOPS

Brussels, 18 March 2008
AH/B2/08-053

conglomerates@c-ebs.org

Draft Consultation (CP 3L3): Recommendations to address the consequences of the differences in sectoral rules on the calculation of own funds of financial conglomerates

Ladies, Gentlemen,

The European Association of Cooperative Banks (EACB)[1] welcomes the opportunity to comment on IWCFC's draft recommendations to the Commission to address the consequences of the differences in sectoral rules on eligible capital for the supervision of financial conglomerates.

Given the high importance of this matter for many of our member organisations, we are available at any time for more detailed comments.

Yours sincerely,

Hervé Guider
General Manager

Volker Heegemann
Head of Legal Department

[1] The European Association of Co-operative Banks (EACB) is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 28 member institutions and of co-operative banks in general. With 4,500 locally operating banks and 60,000 outlets co-operative banks are widely represented throughout the enlarged European Union. They play a major role in the financial and economic system, serve 130 million customers. The co-operative banks in Europe represent million members and 700,000 employees and have a total average market share of about 20%.

Rue de l'Industrie 26-38 • B-1040 Brussels
Tel: (+32 2) 230 11 24 • Fax (+32 2) 230 06 49 • e-mail : secretariat@eurocoopbanks.coop

Hybrids

The EACB supports the IWCFC's proposal for equal eligibility principles and requirements for banks and insurers as well as its notion that differences should not occur unless they reflect specificities of the two sectors. Furthermore, these principles and requirements should be set out closely along the requirements stated in the Sidney Press Release (see CEBS CP 17). However, as the process to harmonise the eligibility criteria for hybrids within the banking sector is not yet finalised, we find it appropriate to await the amendments of directive 2006/48/EC.

Participations and deductions

Although we feel that the existence of two different thresholds for the deduction of holdings/participations leads to disadvantages for the banking sector (especially as the reasons for the stricter treatment in the banking sector were not addressed in the CRD, see IWCFC proposal par. 80, 81), we agree that these differences do not seem to cause real concerns for regulatory arbitrage within a conglomerate. These provisions were adopted some time ago and banks have managed to cope with the deduction requirements.

In Germany, for example, in order to avoid a deduction it is possible to include the relevant participations in the consolidated supervision on a voluntary basis.

Beside the differences between the treatment of holdings in banks and participations in insurance undertakings in banking group there are also differences in the interpretation of the criteria „durable link"in the EU-Member States. Therefore, we appreciate the attempt in par. 86 d to define criteria for the existence of a „durable link" for supervisory circumstances. We believe that these criteria are appropriate, because they describe circumstances, where the participating bank has a significant influence on the bank or insurance undertaking. Nevertheless, we fear that the exemplary listing of criteria could also lead to different national practices. Therefore, we suggest a definition of „durable link" using the criteria in par. 86 d in a final manner.

Revaluation reserves and unrealised gains

We fully support the notion that there is no need for changing the current rules. We plead for keeping the different valuation methods used in the two sectors, also at the level of financial conglomerates. In this respect, it is also better to see the outcome of the Basel Committee's full investigation on own funds.

Methods of calculation

As regards consolidation, the EACB takes the following view:

1. We support the deletion of method 3. The EACB shares IWCFC's views that this method leads to inadequate results when calculating the solvability on the level of a financial conglomerate.
2. We favour the maintenance of the option for the coordinator to decide on the calculation method for a conglomerate as currently provided by the

FCD and under the condition that either method 1 or 2 or a combination of them is used.

3. However, we do not see an overriding importance to declare method 1 as the standard method. In this respect, we take into account that methods 1 and 2 lead to broadly similar results and that the FCD has introduced the supplementary nature of supervision. Furthermore, we do not fully agree with IWCFC's allegation that method 1 would be consistent with the banking sector (see par. 102). In our opinion, this is not true for all banking groups in the EU.

   In Germany, for example, until the end of 2015 banking groups may base the calculation of the sectoral solvency requirements on the statutory solo accounts of each entity within the banking group. The method used in this consolidation for banking regulatory purposes is very close to method 2 of the FDC. For these banking groups, a change from this method to the proposed standard method for solvency calculation will imply a completely new set of rules. It could also prove time consuming and costly. For example, as entities consolidated in the group statutory accounts do not totally match the entities consolidated for regulatory purposes a reconciliation to provide for these differences has to be carried out.