



FEDERATION BANCAIRE DE L'UNION EUROPEENNE

15th MEETING OF THE ASSOCIATES

- Brussels, Belgium, 5 December 2002 -

MINUTES

ITEM I – OPENING AND WELCOME

Mrs Katrin TALIHARM, Managing Director of the Estonian Banking Association, chaired the meeting.

Mr Nikolaus BÖMCKE, Secretary General of the European Banking Federation, welcomed the participants in Brussels, the home city of the European Banking Federation.

A list of participants is attached.

Mr Alexander SCHAUB, Director General, DG "Markt", European Commission welcomed participants of the meeting and shared the Commissions view on the current state of the Internal Market for financial services as well as on future visions.

The European financial sector is changing rapidly. We are living in a truly global financial environment: markets are inter-linked and money risks spread around the globe with the speed of light. In Europe these links go even a step further. We are creating a single market, including a single market for financial services.

To integrate our markets we need to implement existing rules and adopt new regulation. For the present Member States it means a heavy workload and need for careful attention. For the accession countries even more so, as they have to adjust their legislation, supervision and institutional structures all at the same time. In less than 2 years we are going to have an integrated financial market of 25 Member States.

The centrepiece of efforts to integrate Europe's financial sector is the Financial Services Action plan (FSAP), adopted in 1999. Nearly ¾ of its measures have been delivered already. Mid 2004 remains the final date for the adoption at EU level of remaining measures. This will allow 18 more months for transposition.

The main aims of the FSAP are:

- to tackle barriers to investment and capital raising;
- to ensure investors confidence in markets and companies;
- to strengthen the supervision of markets and companies.

But there is still much more to do. Some of the trickiest issues are only now coming into force, as the timely, accurate implementation and enforcement of well designed Community legislation is crucial for level playing fields, legal certainty and delivering benefits. The Commission and all Member States' authorities must continue to invest time and effort to ensure that the new Member States have the administrative capacity to implement and apply Community law correctly.

We need to involve the Accession countries in our work to complete the Action Plan as soon and as much as possible. The benefits from a single financial sector with 25 Member States are huge. A timely, accurate implementation and enforcement of Community legislation in all 25 Member States is crucial.

ITEM II – MINUTES OF THE PREVIOUS MEETING

The members approved the minutes of the 14th Joint Meeting of the Associates and the Pre-Accession Committee, which was held in Tallinn, Estonia, on 6 June 2002.

ITEM III – ENLARGEMENT – NEXT STEPS TO TAKE

Mr Maurice Guyardert, Principal Administrator, Negotiations on Pre-Accession coordination unit, DG Enlargement, European Commission, presented to the participants the European Commission's view on the progress achieved by the candidate countries since the previous Progress report was issued in November 2001 as well as future steps to take in the pre-accession process.

This presentation reflected and explained the European Commission's official view outlined in the last progress report and enlargement strategy paper issued shortly before the meeting – at the beginning of October 2002.

Altogether 31 chapters had to be negotiated during the Pre-Accession negotiations between the EU and candidate countries. With 10 of the 13 candidate countries (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) almost all chapters have been closed provisionally already on the date of the Meeting. Only the most sensitive and most difficult ones – mainly those regarding the agriculture, budget and financial package in general were in the final stage of negotiations.

The Brussels European Council of 24-25 October 2002 confirmed the Commission's assessment that ten candidate countries are ready for membership as of 2004.

The final agreement on the remaining issues is expected to be reached before the next European Council meeting in Copenhagen on 13-14 December 2002 or at latest during this meeting.

The European Council meeting in Copenhagen will decide on the conclusion of the negotiations with these ten accession countries and will establish detailed roadmap for Bulgaria and Romania and is expected to take a decision on possible next steps for Turkey's candidature.

Following the conclusions of the European Council in Brussels and depending on further progress in complying with the Membership criteria, the objective is to welcome Bulgaria and Romania as members of the EU in 2007.

If the European Council in December 2004, on the basis of a report and recommendation from the Commission, decides that Turkey fulfils the Copenhagen political criteria, the European Union will open accession negotiations with Turkey without delay.

Potentially the above-mentioned 10 candidate countries could conclude the negotiations during the Copenhagen meeting and as a consequence, up to 10 candidate countries all at once could become new members of the European Union at the beginning of 2004, before the next EU Parliament elections.

Following the EU Foreign Affairs Ministers agreement reached at their 18 November 2002 General Affairs and External Relations Council, the final date for the accession of up to 10 new member states is set to **May 1, 2004**. Before that, the Accession Treaty is going to be signed at the European Council meeting in Athens on 16 April 2003 and national referendums are to be held in all candidate countries.

ITEM IV – PROPOSED AMENDMENTS AND LATEST CHANGES IN THE EU DIRECTIVES FOR THE FINANCIAL SECTOR

Mr Elmars KRONBERGS, Adviser at the European Banking Federation, presented a fourth report on the latest developments in the EU legislation concerning the financial sector.

He outlined five recently **adopted pieces of legislation**:

- 1) Directive on distance marketing of financial services, adopted on June 2002;
- 2) Insurance mediation Directive, adopted on September 2002;
- 3) Directive Insider dealing and Market manipulation, approved in second reading in the Parliament on October 2002;
- 4) Financial Conglomerates Directive, adopted on November 2002 and
- 5) Regulation on International Accounting Standards, adopted on June 2002.

Mr. Kronbergs continued his report on the European Commission's **proposals** covering the following issues:

- 1) Directive amending the existing EU Accounting Directives, proposed on June 2002;
- 2) Pension Funds Directive, political agreement on the substance of the proposal was reached at the council of Economic and Finance Ministers on June 2002;
- 3) Directive on Consumer Credit, proposal adopted on September 2002;
- 4) Directive on prospectuses, political agreement was reached by the EU Council of Ministers on November 2002;
- 5) Directive on Investment Services and regulated markets, proposal presented on November 2002.

Among the most important **European Commission's consultations**, highlighted in the presentation, were the ones regarding the clearing and settlement in the EU and a highly technical consultation on regulation of UCITS (Undertakings for Collective Investments in Transferable Securities) depositories.

ITEM V – BASEL II

Mr Steve JOHNSON, Senior Adviser at the European Banking Federation presented a report on the latest developments in the BASEL II consultation process.

Latest version of the framework is better than the previous proposals of the Basel committee, but, nevertheless it is not perfect. The new accord should not increase the overall capital requirements for the banking system as a whole, but within the particular individual banks it should change considerably.

The Basel Committee issued its first consultation document in March 2000. The new Basel Capital Accord framework is based on **three pillars** that should be reinforcing:

- minimum capital requirement,
- supervisory review process,
- market discipline.

Pillar I: Minimum capital requirements weighted by:

- credit risks;
- market risks;
- operational risks.

The last one is a completely new feature for the Accord. The main problem is that the operational risk is difficult to measure. More work has to be done to improve current proposal.

Pillar II: Supervisory review process.

This pillar provides challenges for everybody – supervisors and banks as besides the supervisors judgement, banks' own judgement will be necessary and important.

Pillar III: Market discipline.

Least defined pillar up to now. As a result a lot of further work must be done in this field.

Further steps to be taken in the Basel Capital Accord review process:

Quantitative Impact Study 3 (QIS3) was launched in October 2002 with the deadline of 20 December 2002.

Final Consultative paper on the new Accord is expected to be published in May 2003, with the following publishing of the Basel II Accord in November 2003.

The deadline for the implementation of the new Accord is set for the 31 December 2006.

In the EU the Basel II will be implemented via the revision of the Capital Adequacy Directive. This Directive should be implemented in parallel with the new Basel II Accord.

The approximate EU timetable:

EU third consultative paper is to be published in June 2003.

European Commission's proposal is expected to be adopted in February 2004 with the following adoption of the Directive in autumn 2005.

The deadline for the implementation of the Directive should be set for the 31 December 2006 as it is currently with the Basel II Accord.

ITEM VI - THE DEVELOPMENT OF THE PAYMENT SYSTEM REFORM IN EMU

a) Mr. Sebastiano Tine, Administrator, DG Markt – C/4, European Commission presented the legal aspects of the payment system reform in EMU.

Currently the main pieces of legislation setting the regulatory framework for the payment system in EMU are:

- Cross-Border Credit Transfers Directive (97/5/EC);
- Settlement Finality Directive (98/26/EC);
- Recommendation on electronic payment instruments (97/489/EC);
- Regulation on cross-border payments in euro (2560/2001);

Besides that the possible new legal framework for the single payment area (SEPA) in the Internal Market is under discussion. The main objectives of the new legal framework are:

- Internal market for payments must function as good as for the payments in the domestic market;
- Promote efficient and secure payment means and systems;
- Enhance customer protection and consumer confidence in all means of payments;
- Ensure fair competition and level playing field.

There are and will be several sources of legal provisions, like legal and administrative provisions of the Member States at National level, Treaty, regulations, directives, recommendations of the European Parliament, Council, Commission and Central Bank at EU level, UNCITRAL, Bank for International Settlements, etc. at international level.

General principles of the framework:

- comprehensive and coherent legal framework;
- all means of payments should be covered;
- it should be technically neutral;
- it must cover retail payments for amounts in up to 50,000 Euros;
- subsidiarity principle should be followed;
- full or minimum harmonisation (still under discussion).

There are a bulk of important matters already identified for further discussions starting from general issues (like scope and definitions) and followed by more specific issues like problems related to bank accounts ('non-resident' accounts, portability of accounts and customer mobility), various aspects of the security of payments and several more different issues like credit transfers, electronic payments instruments, direct debiting, cheques, sanctions/penalties, refunding, burden of proof, etc.

The consultation document on the legal framework for payment systems in EMU was issued by the DG Markt, European Commission in May 2002. Formal Commission's consultative document is expected to be issued early 2003 with the possible legislative proposal in the end of 2003.

The proper administrative capacity will have to be built up to facilitate the implementation of the new legal framework and to facilitate the creation of truly integrated Internal Market for payments. Important role will have to be played by the out-of-court dispute settlement authorities (Ombudsman).

b) Mr. Tom Kokkola, Senior Policy Expert, Directorate General for Payment systems, ECB continued with the practical considerations regarding the payment system reform in EMU.

One of the basic tasks of the European Central Bank (ECB) is to promote a smooth operation of payment systems. "The ECB and national central banks may provide facilities, and the ECB may make regulations to ensure efficient and sound clearing and payments systems within the Community and with other countries."

With the move to the single currency in 1999 the question of the existence and functioning of an integrated payment system become crucial. Geographical borders no longer matter in payments, but those of a single currency. As a result part of what were foreign activities becomes domestic (for euro area).

Large value payment system Trans-European Automated Real-time Gross-settlement Express Transfer (TARGET) plays a key role in insuring the existence of an efficient and sound payments system within euro zone. TARGET has become de facto a standard for large value payments in euro.

The enhanced TARGET payments system, called TARGET 2, is in its way to the market. The improved payments platform will follow the decentralisation principle (will have fewer platforms than national central banks), will have broadly defined core service, will have a single price structure and is expected to be cost effective.

Besides the large value payments, the retail payment issue is of top importance, especially, taking into account the relatively poor service level for cross-border retail payments both – in terms of pricing and speed of payments execution and continuously growing demand for such service. Single payment area is not possible without efficient retail payments system. How to achieve a single payments area in retail payments? There are several possibilities like integrate national and cross-border activity, establishing clubs, ACH Network, single ACH, also a technology jump could be helpful in solving the above-mentioned problem.

Securities settlement and collateral is one more important issue to discuss. Liquidity in TARGET is determined by the minimum reserves. There is an unlimited intraday credit available free of interest but with 100% collateralisation, as all ESCB lending operations (intraday and overnight) have to be fully collateralised.

There are 20 eligible security settlement systems (SSSs) in Eurosystem with 66 links. The horizontal consolidation of SSSs at European level exists. The vertical consolidation exists on domestic level as well as on European level through Euronext, Clearnet and Euroclear.

As one can see the payments and securities settlement systems are very complicated ones consisting of numerous parts which are situated in different EU member countries. As a result to achieve a best possible result the comprehensive cooperation in different fields and on different levels is of an utmost importance.

ITEM VII - CONSUMER PROTECTION IN FINANCIAL SERVICES

Due to unforeseeable circumstances the invited guest speaker Mr. Jens Ring, DG Health and Consumer protection, European Commission was not able to attend the Meeting and address the issue.

As a result this item was withdrawn from the agenda. Nevertheless, it was stressed, that as the issue of the consumer protection in financial services is of top interest for the Associates banking industries, this item could be included in the agenda of the next Meeting of the Associates.

ITEM VIII - IBSS 2003

Mr Ingvar Strom from the Norwegian Banking Association introduced the subject to the participants of the meeting.

The International Banking Summer School (IBSS) is a co-operative project of 21 banking associations, of which 17 members of EBF together with the associations of USA, Canada, Japan and Australia.

In recent years there have been an increased number of students coming from markets also outside those represented by the co-operating associations. Next year's IBSS provides a special opportunity to get a better knowledge of international banking ideas and practices, as well as to build a basis for future personal and business related networking.

Candidates for attending the school should typically be young promising bankers between the ages of 30-45 years old. A fluent knowledge of the English language is needed. Candidates may also come from other institutions than the member banks, for instance from other financial services companies, the central bank, and certainly, from the banking associations themselves.

As host association for IBSS 2003 – Norwegian Financial Services Association (FSA) is devoted to provide for an event that meets with the traditional requirements of the school as well as with the challenges of the banking world in 2003. As the overall guideline for our choice of issues and the way they will be dealt with we shall rely on the vision chosen for IBSS 2003: "New Virtues and Core Values in a Changing World of Financial Services".

Some main features of next year's IBSS.

- The intention to offer the students better insight into the potential conflicts between a purely commercial financial services sector and the outside demand for more focus on corporate social responsibilities.
- FSA intends to engage a number of well reputed academics and professionals from abroad. A simulation program on asset management will be part of this.
- Intention to create the most efficient mix between academic and social parts of the program, between school hours and leisure time, between lectures and group activities and so on. IBSS is a school, not a conference, meaning that active involvement by all students during the total school period is a basic precondition for participation.

The unique characteristics of IBSS deserve to be underlined:

- Firstly, the school is built upon three areas for professional development. They are Leadership, Management and Banking Skills.
- Secondly, every IBSS student has the opportunity to build personal relations and establish the basis for future networking with colleagues from all over the world.
- Thirdly, the school provides for team working and personal development within an environment of diversity that is quite unique by any standard of in house seminars or industry wide conferences.

The IBSS would seem to be as attractive for qualified bankers of larger international banks as for those coming from smaller banks and/or smaller markets. Also, the variety of issues covered would seem to provide relevant knowledge and valuable training for bankers from within most categories of a bank's activity. The IBSS also represents a unique opportunity to develop the personality of aspiring bankers in order to make them better prepared to meet the increased diversity of challenges in a more and more global banking world.

ITEM IX - ANY OTHER BUSINESS

a) Budget 2003

Following the 4,48% increase for the contributions of FBE regular members for the year 2003 and the Executive Committee suggestion to apply the same increase for the contributions of the Pre-Accession Committee's members, the EBF Secretariat proposed to increase the yearly contributions for the members of the Pre-Accession Committee by 4,48% for the next year. This should compensate for the annual inflation rate and indexation of salaries in Belgium.

All Members of the Pre-Accession Committee participating in the meeting accepted the proposal.

b) FBE after the enlargement

Mr Nikolaus BÖMCKE, Secretary General of the European Banking Federation, informed participants about the FBE view on the main issues after up to 10 currently associated members and members of the Pre-Accession Committee could join the FBE as full members in 2004.

Institutional aspect:

The 10 candidate countries joining the EU in May 2004 and potentially the FBE as full members will increase the number of FBE Member Associations up to 28. As a consequence 28 countries will have their representatives sitting on the FBE governing bodies – the Executive Committee and the Board. This decision has been made – despite the fact that the size of the above-mentioned governing bodies will increase strongly.

Financial aspect:

Another consequence of the FBE enlargement will be the participation of the new full Members to the FBE budget according to a new distribution key.

The new distributive key is based on the usual parameters - staff and assets of the Members of the National Banking Associations, since these parameters reflect best the relative strength and size of each national banking sector. Moreover, the distributive key creates categories of percentage shares for the membership to avoid annual recalculation of the percentage share each year. This means that, according to its relative strength and size based on total assets and staff number of the banks represented by each member, this member is put in a percentage rate category.

The Executive Committee had looked at this issue and had proposed the distributive key as in the enclosed document (enclosure 2) and the Board of the FBE has adopted it in its Meeting in Copenhagen on 25 October 2002.

A minimum contribution of 1% is levied from smaller associations. The reasons are several: most importantly, each member, independently of its size, receives the same services from the FBE. In absolute terms, the minimum compensation is small compared to the benefit derived from FBE membership. New members are adhering to an efficient and economical lobbying organization, well established in Brussels with important tangible and intangible assets acquired over the years.

It is important to note that the exact amounts payable for each member will be calculated according to the approved distributive key only after the FBE budget for the particular year will be approved.

During the discussions, it was emphasized, that as most of the 10 candidate countries are small or even very small, 7 of them are falling under the minimum contribution rule and the 1% minimum fee seems to be a very problematic issue for smaller countries as for some of them it could take up to 50% of their yearly budget!

A number of important issues were raised during the discussion:

- 1) the above-mentioned minimum contribution level;
- 2) the possibility of a transition period regarding the new members contributions increasing them gradually over a certain period to the level set by the new distributive key;
- 3) it was also emphasized that, as the fast development of the national banking sectors continues in the candidate countries and banking industries will gradually become more efficient with less employees, the basic parameters – staff and assets – could change sharply in some countries even until 2004; this, of course was only valid for countries not paying the minimum fee.
- 4) the possibility of making 'pools' of smaller countries sharing a membership fee;
- 5) the question of what will happen in case a country will become a member of the EU, but the National Banking Association (currently FBE Associates) will decide not to become a full member of the FBE. What will be the status of such Banking Association within the FBE?
- 6) possibility to become an observer in Executive Committee and Board in spring 2003 (after the EU Accession Treaty will be signed in Athens).

All the above mentioned questions were noted by the FBE Secretariat and it was promised to pass this information and questions to the FBE Executive Committee for further discussion and deciding where necessary.

ITEM XI - PREPARATION OF THE NEXT MEETING

The next meeting (the 16th joint meeting of the FBE Associates and the Pre-accession Committee with the participation of the Executive Committee) will take place on 13 June 2003 in Bratislava, Slovakia and hosted by the Slovakian Banking Association.

A day before, on 12 June 2003 the regular Meeting of the FBE Executive Committee will also be held in Bratislava, Slovakia.

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Enclosure: 1 – List of the participants
 2 – Table of new distributive key