



Mr. J. Holmquist
Director General
DG Internal Market and Services
B-1049 Brussels
Belgium

07.04.2008

Recommendations to address the impact of differences in sectoral rules on own funds for financial conglomerates

Dear Mr. Holmquist,

I am pleased to send you the recommendations to address the consequences of the differences in sectoral rules on the calculation of own funds of financial conglomerates, as approved by the Interim Working Committee on Financial Conglomerates (IWCFC). This work follows from the Call for Advice from the European Commission of 21 June 2007 and constitutes the final advice of the IWCFC on this matter. As agreed with the EC at the IWCFC meeting in October last year, the initial deadline for responding to this last part of the CfA has been extended to the end of March.

This advice was prepared by a combined task force of CEBS and CEIOPS Members and co-chaired by Ms. Mathérat (Banque de France) and Mr. Sharma (FSA, UK). The cross-sectoral cooperation in the task force proved to be fruitful in enhancing the understanding from the financial conglomerate perspective. Before finalization, the draft advice was sent also to CEBS' and CEIOPS' Members to alert them and to allow them to raise – in exceptional circumstances - any issues not already resolved in the IWCFC. In this so-called 'alert procedure' no issues were raised.

Based on the findings of the previous two advices published in January and August 2007, the IWCFC has extensively consulted with the industry on the need and justification for potential amendments to the rules on the identification and use of own funds at financial conglomerate level. In this exercise, the IWCFC has aimed at achieving a financial conglomerate perspective beyond the mere juxtaposition of sectoral rules.

Please let me highlight some crucial findings of the exercise.

First, at many occasions industry participants called for achieving greater cross-border convergence on of sectoral rules across the EU, rather than – or

before - cross-sectoral convergence. Also, where sectoral differences justify the existence of different treatments, the IWCFC has taken care to highlight these (for example with regard to unrealized gains).

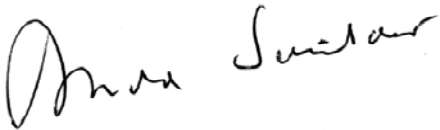
Second, the exercise is to a great extent dependent on the outcome of the discussions on own funds in the banking and insurance sector. Especially with regard to the harmonization of the rules on the treatment of hybrids, this month CEBS has sent to the EC its advice in relation to the CRD, and CEIOPS is currently developing and refining the treatment of these instruments, as part of its work on Solvency II. The IWCFC is of the opinion that the work of both committees should be taken into account when revising the rules applicable to financial conglomerates. This raises the question of how the revision of the current FCD rules can be undertaken, as long as the sectoral rules are undergoing important changes. The FCD revision should be dealt with either simultaneously or preferably immediately after the revision of the sector rules, where discussions are expected to be settled by the end of the year, though if possible the implementation dates should be harmonized to reduce the implementation burden on the conglomerates.

Taking into account these aspects, the IWCFC has aimed to achieve a balanced approach in the final recommendations.

The advice (IWCFC-DOC-08/03) will subsequently be published on the websites of CEBS and CEIOPS. As requested we will present our recommendations to the EFCC at its meeting on 11 April 2008 and we are looking forward to discuss the advice with the representatives of the Finance Ministries.

Please do not hesitate to contact me for any clarification you might need.

Best regards,

A handwritten signature in black ink, appearing to read "Arnold Schilder". The signature is written in a cursive, flowing style.

Arnold Schilder
(Chairman IWCFC)

CC: Mr. E. Tertak, Mr. P. Pearson, Mr. K. Van Hulle