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Internal Market and Services DG

Director-General

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Dr. Arnold Schilder
Chairman, IWCFC
De Nederlandsche Bank
Postbus 98
1000 AB Amsterdam
Netherlands

Dear Dr. Schilder,

Subject: Call for Technical Advice (No. 1) to IWCFC: Sectoral rules on eligible capital and analysis of the consequences for supervision of financial conglomerates

I am very pleased to send to you the Commission's first official call for technical advice from the Interim Working Committee on Financial Conglomerates.

The transposition and implementation of the Financial Conglomerates Directive has raised questions and difficulties for competent authorities in seeking to apply the underlying sectoral rules to financial conglomerates. This Call for Technical Advice asks the IWCFC to look at one particular area – sectoral rules on eligible capital – and to assess whether any differences in these sectoral rules are sufficiently problematic, when viewed from the perspective of conglomerate supervision, that action should be taken to address them.

I understand that the IWCFC has already made considerable progress in this area, on the basis of a draft Call for Technical Advice discussed at an earlier stage.

In issuing this Call for Technical Advice, the Commission is aware of the ongoing work that may well lead to changes in the sectoral rules – the Solvency II project in the insurance sector, and the Own funds review in the banking/securities sector. It will, therefore, be important for the IWCFC to maintain close contact with CEBS and CEIOPS during the process of producing the technical advice.

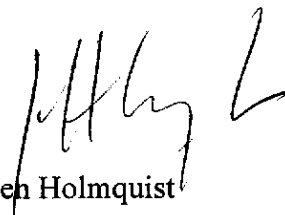
As this is the first Call for Technical Advice for the IWCFC, I should reiterate the importance that the Commission places on the challenge put to the IWCFC by my predecessor, Thierry Stoll, in his letter to you of 6 November last:

In particular, we will be looking to the IWCFC to provide a single view reflecting the group-wide perspective that conglomerate supervision requires, rather than a composite view reflecting differing sectoral perspectives. ... we expect the IWCFC to be able to synthesise these [sectoral] views into output that addresses the

unique challenges posed by conglomerates. In this way, we look to the IWCFC to mirror the way that the EU prudential legislation is intended to work, with conglomerate supervision a supplement to what is done from a sectoral perspective, rather than simply a variation of the sectoral supervision.

I am attaching to this letter a copy of our Call for Technical Advice.

Yours sincerely,



Jörgen Holmquist

c.c.: Messrs. Tertak, Pearson, Van Hulle



EUROPEAN COMMISSION
Internal Market and Services DG
FINANCIAL INSTITUTIONS
Banking and financial conglomerates

Brussels, 12 June 2007

CALL FOR TECHNICAL ADVICE (No.1) FROM THE INTERIM WORKING COMMITTEE ON FINANCIAL CONGLOMERATES

Subject: Sectoral rules on eligible capital and analysis of the consequences for supervision of financial conglomerates

1. Background

Article 6 of the Financial Conglomerates Directive ('FCD', Directive 2002/87/EC¹) requires EU competent authorities to supervise the capital adequacy of financial conglomerates. Annex I of the Directive provides further information on the methods that can be used for capital calculations by financial conglomerates.

During the process of transposition and implementation of the FCD, it became apparent that competent authorities faced challenges in applying supplementary supervision to financial conglomerates. Some of these challenges arose from differences in the rules in the banking/securities and insurance sectoral legislation, which underpins the FCD, on the items that firms can count as eligible capital.

2. Specific Call for Technical Advice

Following agreement in the European Financial Conglomerates Committee, the Commission services wish to seek the technical advice of the Interim Working Committee on Financial Conglomerates ('IWCFC') on the following issues:

(a) Comparison of the sectoral rules for eligibility of capital instruments

The IWCFC should produce a comparison of the capital instruments that are eligible in the banking/securities and insurance sectors for prudential purposes. This comparison should include any limits that are applicable to the inclusion of particular capital instruments, and any deductions that must be made from eligible capital.

The Commission services would welcome the receipt of this technical advice during January 2007.

¹ Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council.

(b) Consequences of the sectoral rules for the supervision of financial conglomerates

The IWCFE should analyse the impact that any differences in the sectoral rules have for the supervision of financial conglomerates, taking into account the results from part (a) of the work, and in particular the impact of any differences on the comparability of the results arising from the methods for capital calculation set out in FCD Annex I.

The Commission services would welcome the receipt of this advice during January 2008.

(c) Recommendations relevant to the supervision of financial conglomerates

The IWCFE should make any recommendations for action that it considers would be appropriate to address the consequences of the differences identified in parts (a) and (b) for the supervision of financial conglomerates.

The Commission services would welcome the receipt of this advice during January 2008.

3. Liaison with other groups

Work on the sectoral rules on eligible capital instruments is already in progress in the insurance sector (as part of the Solvency II project) and in the banking/securities sector².

Given this, the IWCFE should liaise closely with both CEBS and CEIOPS to make use of work that they have already undertaken, and to avoid duplication of work in the future.

² See http://europa.eu.int/comm/internal_market/bank/docs/calls/call_for_tech_advice_en.pdf for the Call for Technical Advice issued to CEBS on 26 September 2005.