

23rd MEETING OF THE ASSOCIATES

- Brussels, Belgium, 7 December 2006 -

MINUTES

ITEM 1 – OPENING AND WELCOME

Mr Guiseppe ZADRA, chairman of the FBE Executive Committee, chaired the meeting.

Mr. ZADRA welcomed the participants of the meeting to the home of the Federation and opened the meeting.

A list of participants is attached (enclosure 1).

ITEM 2 – MINUTES OF THE PREVIOUS MEETING

The members approved the minutes of the 22nd Meeting of the Associates, which was held in Istanbul, Turkey, on 19 May 2006.

ITEM 3 - FUTURE ENLARGEMENT OF THE EURO AREA IN THE BROADER CONTEXT OF EU ENLARGEMENT

Mr. Gerassimos THOMAS, Head of Cabinet, Cabinet of EU Commissioner on Economic and Monetary Affairs, European Commission presented his views on the future enlargement of the Euro area.

The creation of the Euro area has certainly brought many benefits alongside the costs incurred. The main benefits can be grouped in 3 main categories:

- stability of the framework, which has resulted in the stability of the exchange rate, lower premiums on bonds, etc.;
- additional trade and investment has been generated compared even with fixed exchange rate regimes;
- it has also acted and still acts as a catalyst for completion of the single market.

Besides the undisputed gains, also some risks exist; however, the “Maastricht” criteria are there to help to control most of them.

Another strong economic trend can be observed in the EU Member States, even before they join the euro area: business cycles are synchronizing already when the country joins the EU as the whole process of the coordination of economic policy is also valid for non-euro area EU Member States.

The rules for joining the euro area are well known and they are fairly and accurately defined in the Treaty.

Under the accession treaty, the new Member States went straight into Stage Three of Economic and Monetary Union on 1 May 2004. They have the status of "Member State with derogation" within the meaning of Article 122 EC. Relevant Articles which concern difficulties with a Member State's balance of payments, also apply to Member States with derogation.

With a view to achieving the necessary budgetary discipline to join the euro area, the new Member States' budgetary policies are subject to supervision. They are required to develop multi-annual stability and convergence programmes which include objectives concerning their progress towards adopting the euro, particularly as regards price stability and healthy public finances.

The European Commission and the European Central Bank are analysing country compliance with those rules every 2 years. On top of that, any Member State may ask for a separate evaluation to be carried out at any time.

In order to be able to adopt the euro, a Member State must have observed the normal fluctuation margins provided for by the European exchange-rate mechanism (ERM-II) for at least two years without devaluing its currency.

However, the real timing of the adoption of the euro in new Member States will mainly depend on how fast the new Member States reach a sufficient degree of sustainable nominal convergence. The sustainability of nominal convergence will be examined by means of the "Maastricht" convergence criteria.

The Maastricht criteria are based on the consensus view in Europe that stability oriented policies provide the best environment for promoting growth and employment creation. Convergence with the euro zone is required for four criteria:

- **price stability**, measured according to the rate of inflation in the three best performing Member States + 1,5%;
- **long-term interest rates** close to the rates in the countries with the best inflation results;
- an annual **budget deficit** which does not exceed 3% of gross domestic product (GDP) and **total government debt** which does not exceed 60% of GDP or which is falling steadily towards that figure;
- **stability in the exchange rate** of the national currency on exchange markets. The exchange-rate mechanism of the European Monetary System requires this stability to be demonstrated and sustained for two years.

Experience with the euro confirms that these criteria capture well the situation and the prevailing view at the European Commission is that these criteria are well

applicable also nowadays in the EU 25. The design of the system is fine and there is no appetite to change it. Nevertheless, sometimes difficulties arise with the implementation of it.

Convergence reports on Lithuania and Slovenia were published in the first half of 2006. Slovenia complied with all criteria and therefore is allowed and expected to adopt the Euro in January 2007.

Lithuania missed slightly the inflation criterion and therefore did not qualify to adopt the Euro in January 2007. The Commission services are convinced, that the decision was the right one as the recent data on Lithuanian inflation has confirmed initial worries.

The latest regular convergence reports for all countries were issued on 5 December 2006. The general conclusion is that some progress has been made since the previous reporting, but there is still a way to go. Although qualitatively the overall picture is better, there are still mixed developments within it.

Lately more and more new Member States are taking the decision to drop their efforts to adopt the euro as soon as possible. Instead, they are building more appropriate medium to long term strategies.

Apart from Slovenia, which will adopt the euro in January 2007, Malta and Cyprus may be the next candidates for joining the euro area. Both countries feel that they may do it already in January 2008.

ITEM 4 - INTRODUCTION OF THE NEW EBF ASSOCIATES

Mr. Seyran SARGSYAN and Mr. Stepan GISHYAN, representatives of the Union of Banks of Armenia, gave a short introduction on the Armenian banking sector and the Union of Banks of Armenia (UAB).

Armenia is a relatively small economy. The banking industry started to form in 1993. Nowadays the Armenian banking sector has 21 banks, 19 of which are members of the UAB. The UAB was established in 1995.

ITEM 5 - LATEST DEVELOPMENTS IN EU LEGISLATION CONCERNING THE FINANCIAL SERVICES AREA

Mr Elmars KRONBERGS, adviser at the European Banking Federation, started with the presentation of a tenth report on the latest developments in the EU legislation concerning the financial sector.

Altogether 17 pieces of legislation and other community action are included in the presentation.

He outlined six recently adopted legislative actions – Industry Code of Conduct in Clearing and Settlement, Regulation No 1329/2006 regarding the International Financial Reporting Interpretations Committee's interpretations Nr. 8 and 9, Directive to simplify the formation, maintenance and alteration of companies'

capital, 'Level 2' implementing measures to Third Anti-Money Laundering Directive, Regulation to tighten controls on money transfers and the Capital Requirements Directive.

Mr. Kronbergs continued his report on the European Commission's proposals covering: Mortgage Credit, "White Paper" on modernising EU investment fund market, Regulation implementing the Prospectuses Directive, Directive to improve supervisory approval process for M&A, Regulation on complex financial history of issuers and Directive implementing certain transparency requirements on issuers.

Among the most important European Commission other initiatives, highlighted in the presentation, were those regarding:

- Expert Group on Customer Mobility;
- Calls for technical advice from Committee of European Banking Supervisors;
- Review of the E-Money Directive;
- Hague Securities Convention; and
- Working document on Post-Trading.

ITEM 6 - SEPA DEVELOPMENTS

Mrs Ruth WANDHOEFER, adviser at the European Banking Federation, presented the latest developments in Single Euro Payments Area (SEPA) field.

The SEPA was for the first time subject of an official communication from the Council of Economic and Financial Affairs Ministers on 10 October 2006. The Council expressed its support for the project and its appreciation of the substantial work undertaken by industry.

At a SEPA summit in Frankfurt in November sponsored by the ECB, both MM. McCreevy and Trichet paid tribute to the work achieved by the European Payments Council (EPC) and industry. Conferences and seminars are taking place all over Europe where the subject is hotly debated.

The major topics of discussion and areas of risk are the following:

Buy-in by public administrations: the Council fell short of recommending that public administrations become early-adopters of the SEPA instruments. Public administrations are openly showing little interest in embracing SEPA. Yet they are counterparty in about 20% of all payments in SEPA. Their involvement is critical to the successful launch of SEPA.

The Payments Systems Committee is working on identifying possible incentives/benefits to be presented to public administrations in a communications campaign. This should be part of the national implementation plans.

Cards: the ECB has published in November a report: "the Eurosystem's view of a SEPA for Cards" where it expresses its concern for the lack of competition in the cards market in Europe and its wish to see at least a third, purely European scheme being established next to Visa and Mastercard. At the high-level meeting with bankers at the ECB in October and at the SEPA summit in Frankfurt, banks expressed their disagreement with the analysis of the ECB.

The EPC will respond to the ECB's report. The EBF Payments System Committee will give input to this response.

A special COGEPS meeting dedicated only to Cards will be called by the ECB in February 2007.

Direct Debits: Still a lot of debate is taking place within the EPC on the co-existence of the two mandate flows, through the creditor and through the debtor bank. A national consultation will take place in Q1 2007. Furthermore the probable delay in the adoption of the Payments Services Directive risks preventing a swift take-off of the SEPA Direct Debit scheme.

Following the European Parliament ECON Committee, which cast its vote on the amendments to the Payment Services Directive on the 12th of September 2006, the directive proposal is still being discussed in Council under the Finnish Presidency, where meetings were held throughout September, October and November. The latest Council draft working documents date from the 16th of November. A position on these documents is currently prepared by the EPC legal group and will be shared with the FBE Payment Systems Committee as well as the Executive Committee.

The briefings prepared by EPC are of a technical nature and help to guide decision makers, for example financial attachés, in their negotiation on the topic.

The Role of national associations and the EBF in SEPA

The EBF is a direct member of the EPC Plenary and therefore directly involved in the decision-making around the SEPA project. National associations are represented on the one hand via the EBF Board, Executive Committee and Payment Systems Committee, while at the same time a number of national banking associations are also direct members of the EPC Plenary.

ITEM 7 - BASEL II: LATEST DEVELOPMENTS AND FUTURE PERSPECTIVES

Mrs Uta WASSMUTH, adviser at the European Banking Federation, and Mr. Wilfried WILMS, EBF senior adviser, presented the latest developments in BASEL II field.

The new Basel II capital adequacy rules are about to be implemented in the EU and in most other Basel Committee countries. Much of the current discussion focuses on the implementation delay in the US and on possible divergences in the US rules as compared to the choices made by most other countries. Furthermore, there are some EU-internal concerns as regards notably convergence of practices and the relationship between home and host supervisors.

In the US, the Notice of Proposed Rulemaking on the Basel II rules was finally issued for official consultation in mid-September, with a mid-January deadline for comments. This was half a year after its first unofficial publication, during which only one substantial change was made to the draft Notice. At the same time, some voices called for much further-going measures. *Inter alia*, Sheila Bair, Chairman of

the Federal Deposit Insurance Corporation (FDIC) suggested the international introduction of a leverage ratio, i.e. a ratio of capital to unweighted assets.

Whilst objecting to far-reaching measures such as these and stressing in the first place the need for the US to implement Basel II swiftly and in agreement with the spirit of the Accord, the industry identified a range of specific areas where the US proposal diverged significantly from the versions adopted in other jurisdictions. This concerns in particular the definition of default, the interpretation of Pillar 2, the definitions and floors of EAD and LGD and the treatment of intra-group exposures. However, there remains a high possibility that the industry will not only have to deal with divergent rules during the gap year but that the final divergences will be substantial, as well. Possible compromises will become apparent over the coming months but might build on the application of the respective local rules for retail exposures, and on the consistent application of home rules for wholesale exposures.

Regarding EU-internal implementation, it will become apparent in the near future to what extent the guidelines agreed by the Committee of European Banking Supervisors (CEBS) and the work of the European Commission Capital Requirements Transposition Group were successful in delivering convergence of practices. CEBS has agreed to make convergence its first and foremost aim, but in light of their practical experiences banks are sceptical and underline also the timing aspect. The currently preferred solution consists in the introduction of the consolidating supervisor model in the coming years, according to which the consolidating supervisor would be considered the main contact point for an international group.

In addition, there are some areas where the industry has already identified a need for urgent changes to the Directive, for example in the area of securitisation. A debate is also ongoing on the rules for large exposures, as well as on liquidity risk management and the definition of Own Funds.

ITEM 8 - CONSUMER CREDIT DIRECTIVE

Mr. Sebastien de BROUWER, head of EBF legal department presented the main features of the Directive to participants of the meeting.

The original Consumer Credit Directive was adopted back in December 1986. A Study of 1995 showed implementation in Member States at higher levels – but the original aim of harmonizing rules had not been achieved...

A proposal for amendment of the 1986 Directive was issued in September 2002, followed by a first reading resolution by the European Parliament in April 2004.

In October 2005 a new European Commission proposal was presented. No impact assessment was carried out before the proposal was made.

The Competitiveness Council of May 2006 deleted the mutual recognition clause. At Council WP & Coreper meetings various new proposals were submitted: the number

of changes proposed to meet the concerns of the national delegations eventually lowering the level of harmonization.

For the moment there is no qualified majority possible to reach a political agreement on the proposal. A Progress Report was submitted to the Competitiveness Council on 4 December 2006.

The EBF is generally in favor of a legislative initiative while strongly supporting an impact assessment and a full targeted harmonization approach. Main concerns of the Federation lay in the following fields:

- Responsible lending.
This clause is inappropriate because it has connotation of a legal obligation that would imply a private law liability regime. There can be no mandatory duty to advise/assist.
- APRC.
The EBF is supportive of a narrow definition covering only the costs directly in connection with the credit agreement (and not other fees or ancillary costs). This principle should be fully harmonized.
- Right of withdrawal.
Appropriate duration should be 7 days (and not 14 days). Consumers should have the possibility to waive this right. This principle should be fully harmonized.
- Scope – overdrafts.
Overdrafts should be excluded.
- Linked credit agreement.
(When the consumer has the right to withdraw from the purchase agreement, he also has the right to withdraw from the linked agreement). Only acceptable if neither of the 2 contracts would have been concluded without the other and each achieves its purpose only with the conclusion of the other contract.
- Early repayment.
Only to be granted to the consumer provided that the lender is fully compensated for the losses incurred for the early termination of the contract.

ITEM 9 - “THIERRY FRANCO REPORT” (BANKING SUPERVISION)

Mr. Robert PRIESTER, head of EBF Banking supervision department presented the main features of the report to participants of the meeting.

The report acknowledges the need to develop the supervisory framework further and highlights the main challenges and concrete steps forward. The supervisory framework covered is that of securities, banking and insurance, but its focus is EU-centric and does not include any aspects of third-country supervisory cooperation.

The report attributes the need to develop the existing framework further largely to two factors:

- (i) The FSAP and its implementation,
- (ii) The introduction of the Lamfalussy process and the “3L3 Committees” (CESR/CEBS/CEIOPS).

Both these factors call for an increasing degree of supervisory cooperation and the convergence of supervisory practices. Looking ahead, the FSC has identified 3 major challenges that should attract the attention of Finance Ministers:

- to foster supervisory convergence and cooperation;
- to enhance the cost-efficiency of the EU system;
- to improve cross-border supervision.

The Report also identifies as a separate but related set of issues the need to strengthen the EU and national arrangements for the prevention and resolution of financial crises, but it does not elaborate on this question.

The report puts forward a series of 6 recommendations on how Finance Ministers can intervene in the process of improving the supervisory framework and the corresponding tools:

- Recommendation 1: MoF are to provide political impetus for the process of supervisory convergence in the implementation of FSAP;
- Recommendation 2: MoF are to monitor progress towards fostering a European supervisory culture;
- Recommendation 3: MoF are to evaluate the practical functioning of the mediation mechanism and its extension to the banking and insurance fields;
- Recommendation 4: MoF are to explore the preconditions that would allow the use of the delegation mechanism between supervisors;
- Recommendation 5: MoF are to pay appropriate and timely attention to common supervisory formats (*by end 2007*) and IT data-sharing arrangements (*by end 2008*);
- Recommendation 6: MoF are to receive regular reports (starting in 2007) and monitor progress on the implementation of:
 - the mediation mechanism;
 - the delegation mechanisms; and
 - the streamlined reporting requirements and data-sharing arrangements.

The report finally sets out a strategic timeframe for action, with first deliverables by end-2006 or early 2007.

ITEM 10 - ANY OTHER BUSINESS

a) Latest developments in the EU-Russia Financial Industry Task Force

The EU-Russia Industrialists’ Round Table (IRT) is one of the industry-driven business dialogues initiated originally by the EU Commission to improve business conditions between the EU and its trading partners.

The key building block of IRT is the so-called Task Force. Currently there are Task Forces for Energy, Telecommunications and IT, Transport, Forest and Building industries and Financial Services.

The IRT had its 6th General Meeting in The Hague on the 10th of November 2004. On the basis of initiatives from the Russian side participants from the banking sector were also invited. During this General IRT meeting the proposal to establish a Financial Industry Task Force which would cover business sectors such as banking, insurance and financial markets was tabled.

Against this background, the Financial Industry Task Force (FITF) was created in January 2005 by the Russian Organization of Professional Market Participants. The Association of Russian Banks, an FBE Associate, is a member of this organization alongside the All-Russian Insurance Association and the Russian National Association of Securities Markets Participants.

The European Banking Federation was invited to participate in this Task Force from its 4th Meeting, which took place in London, on 3rd October 2005. During this meeting Mr. Guido Ravoet was elected as FITF Co-Chairman for the EU side. Mr. Garegin Tosunyan, President of the Association of Russian Banks, is a Co-Chairman for the Russian side.

The last, 6th meeting of the FITF took place on 23rd of November 2006 in Helsinki under the umbrella of 8th IRT General Meeting.

During this meeting the European Bank for Reconstruction and Development (FITF member) was mandated to organize an international tender for a project which would result in publication of "Green" and "White" Papers on the creation of the integrated market in financial services under the framework of work on creation of the common economic space between the EU and Russia. Ideally the "Green Paper" would be ready by mid-2007 and the "White Paper" by mid-autumn 2007.

The next full-scale FITF meeting may be organized in late-spring/early summer 2007 in Montenegro under the framework of the international forum on "Common financial-economic space on the Eurasian continent: challenges of globalization and national interests".

ITEM 11 - DATE OF THE NEXT MEETING

It was announced that the next – 24th meeting of the EBF Associates will be held in Krakow, Poland on Friday, 29th of June 2007, a day after the EBF Executive Committee meeting.

FBE Executive Committee members will be invited to participate in all meetings of the FBE Associates.

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Enclosure: 1

23rd MEETING OF THE ASSOCIATES
- Brussels, Belgium, 7th December 2006

LIST OF PARTICIPANTS

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|-----------------------------|-----|-------------------------|
| <u>Chairman:</u> | Mr | Giuseppe ZADRA |
| <u>FBE Secretariat:</u> | Mr | Guido RAVOET |
| | Mr | Elmars KRONBERGS |
| | Mrs | Viktorija PROSKUROVSKA |
| Associates: | | |
| <u>Andorra</u> | Mrs | Claudia CORNELIA DURANY |
| <u>Armenia</u> | Mr | Stepan GISHYAN |
| | Mr | Seyran SARGSYAN |
| <u>Bulgaria</u> | Mrs | Irina MARTSEVA |
| <u>Croatia</u> | Mr | Zoran BOHACEK |
| <u>Romania</u> | Mr | Radu NEGREA |
| <u>Russia</u> | Mr | Konstantin MOZEL |
| <u>Turkey</u> | Mr | Ekrem KESKIN |
| Executive Committee: | | |
| <u>Austria</u> | Mrs | Maria GEYER |
| <u>Cyprus</u> | Mr | Michael KAMMAS |
| <u>Estonia</u> | Mrs | Katrin TALIHARM |
| <u>France</u> | Mr | Jean-François PONS |
| <u>Germany</u> | Mr | Bernd BRABAENDER |
| <u>Hungary</u> | Mr | Rezso NYERS |
| <u>Ireland</u> | Mr | Pat FARRELL |
| <u>Italy</u> | Mr | Enrico GRANATA |

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|----------------------|-----|-------------------|
| <u>Liechtenstein</u> | Mr | Michael LAUBER |
| <u>Netherlands</u> | Mr | Hein G. M. BLOCKS |
| <u>Poland</u> | Mr | Andrzej WOLSKI |
| <u>Sweden</u> | Mrs | Ulla LUNDQUIST |
| <u>Switzerland</u> | Mr | Urs ROTH |

Guest speakers:

Head of Cabinet,
Cabinet of EU Commissioner on
Economic and Monetary affairs,
European Commission:

Mr Gerassimos THOMAS

Head of Banking supervision
department, EBF

Mr Robert PRIESTER

Head of Legal department, EBF

Mr Sebastien de BROUWER

Senior Adviser, EBF

Mr Wilfried WILMS

Adviser, EBF

Mrs Uta WASSMUTH

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Mrs Ruth WANDHOEFER

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