



MARKT/2518/05
June 2005

NEWSLETTER

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1. Capital Requirements Directive

The Commission and the other institutions are making every effort for a rapid adoption of the Basel II rules in the EU. Many EU banks are already well prepared and want to take advantage of the new rules. It is important for EU banks that the Directive should apply from the beginning of 2007. The Rapporteur in the European Parliament (Mr Radwan) published his initial report on 26 April and a vote on the Capital requirements Directive (CRD) in Parliament's ECON Committee is planned for mid-July, with an EP Plenary vote in September. Many amendments have been tabled (887) but there are a relatively limited number of real issues. It is important that industry should take a reasonable position regarding its own claims. Despite the large number of amendments, very good progress has been made so far and all parties remain strongly committed to reaching agreement in a single reading. The Commission is working very hard to include trading book results from Basel into the current legislative process. The optimum timetable would envisage an ECOFIN decision on the final text in October.

2. Motor insurance

The Directive 2205/14/EC (Fifth Motor Insurance Directive) was signed on 11th May 2005 and published in the OJEU N° L149 on 11th June. The main features of this Directive were already indicated in the former newsletter.

A clerical error in the German text was detected in recital 10 and Art 2. Indeed the minimum amounts of coverage per victim and per claim are connected with the word and ("und") instead than with the word or as in the other versions. This mistake was detected before the signing of the directive and the Council General Secretariat, the Parliament and the legal revisers were informed. However the error has passed to the OJEU. The Council has committed to publish a corrigendum as soon as possible.

The general deadline for implementation of the Directive will be two years from the date of its publication. However for the application of the minimum insurance amounts the Member States may establish a transitional period of up to five years from the date of implementation; they should inform the Commission on the duration of the transitional period. In any case within 30 months of the implementation date they will have to reach at least a half of the minimum amounts provided for in the Directive.

Furthermore, with respect to the 4th Motor Insurance Directive, the Commission is preparing the report provided for in its Article 6. This report will also examine, as an independent and separate

issue, the potential problems concerning the insurance of trailers in the Community. In the negotiations with Parliament on the Fifth Motor Directive the Commission committed itself to analyse the insurance issues related to trailers. The Commission has carried out a consultation in this matter with the Member States, the industry (CEA) and the Council of Bureaux. The Commission has also launched a public on-line consultation in this regard through its website. The deadline for replied expires on 15th July.

3. Solvency II

In addition to taking part in the CEIOPS work on the Calls for Advice, the Commission Services have been active on the following issues over the last months:

- Revision of the Framework for Consultation
- Considerations on the legal approach for the Solvency II Framework Directive
- Preliminary discussion on impact assessments and QIS for the Solvency II project

The Services are currently finalising the revision of the Framework for Consultation for Solvency II. The proposed amendments have been discussed several times with Member States and received considerable support. The draft document has also been out for public consultation and stakeholders broadly agree. After a final discussion in the EIOPC on 29 June 2005, the document will be finalised and formally sent to CEIOPS.

During the meeting of the Solvency Working Group on 17 May 2005 the Commission Services presented considerations concerning the outline for a Framework Directive on Solvency II. The approach favoured by the Commission Services was to draft and present simultaneously three different framework directives on Solvency II, i.e. one Directive amending and recasting (where necessary) the Life Assurance Directive, one Directive amending and recasting the Non-Life Directives and a third Directive amending other relevant Directives (e.g. the Insurance Groups Directive).

In the meeting one Member State proposed a fourth legislative approach. It suggested that the Commission should start from a "blank sheet" of paper with the aim of codifying and revising the existing Directives (life, non-life, reinsurance, group etc) in one single Directive. The proposal was, with some modifications, supported by nine other delegations.

The Commission Services agreed to consider the feasibility of the approach suggested at the meeting. A revised Services' paper will be discussed at the EIOPC meeting. This paper will be

publicly available – as most other EIOPC papers – after the meeting.

The Solvency II Framework Directive should be accompanied by an impact assessment. The purpose of an IA is to give a background to, argumentation for and an assessment of the impact of the critical choices during the preparation of the Framework Directive. An IA contains qualitative as well as quantitative parts. An IA comes in an early phase of the process of adopting an EU Directive, and significant changes can follow during the negotiations in Council and Parliament. In the case of a Lamfalussy directive, there will be additional complexities to perform an impact assessment as all details needed for the analysis may not be finally decided upon at the time of the presentation of the Commission Framework Directive. In such cases, certain parameters for the calculations may need to be estimated in order to perform the analysis.

Quantitative impact studies (as for example used in the banking field) tend to be large simulation exercises on the basis of fairly well-elaborated solutions. QIS are often used iteratively in order to calibrate quantitative requirements. We foresee that several rounds of QIS will be needed during the Solvency II project in order to assess the detailed impact of for example the solvency requirement levels.

The Commission Services are currently working closely with the CEIOPS Financial Stability Group, and particularly its QIS task force, to prepare the impact assessment. A staff meeting between CEIOPS and Commission specialists is planned for the beginning of July).

4. Reinsurance supervision

The negotiations on the proposed Reinsurance Directive are nearly concluded. COREPER confirmed its unanimous support for the Presidency's compromise proposal on 26 April 2005. The European Parliament discussed the Skinner report in its plenary meeting 6-7 June 2005. On 7 June the report was adopted with great majority. Thanks to excellent cooperation between the European institutions, it is now generally expected that the Directive will be adopted at first reading.

The Council has sent the compromise text for legal and linguistic checks that will be finalised by September 2005. The formal adoption of the proposal by the ECOFIN Council is foreseen for October 2005.

5. Guarantee schemes

At the last meeting of the Commission Expert's Group on 01.06.2005 the Working Paper on Insurance Guarantee Schemes, Markt/2512/05-EN, was discussed. In this paper the Commission

Services presented an up-date of the Articles which had already been presented in Markt/2529/05-EN. There was broad support to differentiate the coverage between life and non-life in order to clarify that there might be different levels of protection needed and to differentiate between life and non-life claims in a more appropriate way. The inclusion of small businesses in the cover of IGS was discussed as well as the inclusion of an absolute limitation per claim. Further discussions are needed.

New Articles on third country branches, Cooperation between insurance guarantee schemes, Good governance and disclosure, Information requirements, Advertising and Triggering of intervention were also presented. These Articles found in general broad support. Details remain to be discussed. The treatment of third country branches might need further considerations.

The next meeting is envisaged in autumn this year. The powers of the insurance guarantee scheme to exclude an insurance undertaking, the time-frame for compensation, compulsory insurance and thirds party liability insurance and the exclusion from coverage still need to be discussed.

6. Accounting

The recreated EFRAG Insurance Subcommittee has held two meetings during May-June and the continued focus is on providing the IASB with constructive input for its phase II work. CEIOPS is now a permanent observer in the group. The next meeting is foreseen for 1 July 2005.

On 13 June 2005, the CEA organised an accounting seminar in Brussels with the aim of providing a new momentum in the EU insurance accounting discussion. Around 90 participants from industry, profession and supervisors discussed alternative accounting proposals for phase II, the needs of the financial markets, the meaning of market-based information as well as the link between supervisory reporting and financial statements. The constructive approach taken by the IAIS in its recent papers on insurance liabilities and solvency cornerstones was generally supported. The CEA will prepare a document outlining the major issues and possible solutions discussed.

7. Insurance Mediation

The deadline for the transposition of the Insurance Mediation Directive 2002/92/EC expired on 15th January 2005. To date eleven Member States (CZ, EE, DK, IE, LV, LT, HU AT, SI, UK and CY) have completed the process of implementation and have notified to the Commission their national measures which transpose the Directive. Infringement

proceedings were launched on 22 March 2005 against the fourteen other Member States, which have not yet transposed the Directive.

The first meeting of the CEIOPS Insurance Intermediaries Working Group took place on 2nd and 3rd December 2004 where the preparation of a Cooperation Protocol among Supervisory Authorities of the EU/EEA Member States and the elaboration of a notification procedure on cross-border business of insurance intermediaries within the EEA were discussed. The Cooperation Protocol is also to deal with the coordination and regular exchange of information between competent authorities. A second meeting of the CEIOPS working group was held on 3rd and 4th February 2005, where the draft cooperation protocol was discussed and revised. On this occasion, the consequences of non-transposition and asymmetric transposition were stressed.

A third meeting of the CEIOPS working group took place in Frankfurt in 28th April 2005. The working group finished the work. A new amended version, which will take account of the comments made during the meeting, will be presented to the Plenary meeting of CEIOPS in June to be submitted to public consultation. The objective is that CEIOPS approve the final document in November Plenary meeting.

The Protocol is based on the current "Siena Protocol" which lays down cooperation provisions with regard to non-life and life insurance directives. The Protocol focuses in particular on the registration process of insurance intermediaries, the data that should be included in the public register of insurance intermediaries in their Home Member State and the document to be used for the notification procedure for cross-border activities. The document also contains general provisions relating to the cooperation between competent authorities in order to ensure the application of the Directive.

8. Enlargement

Latest updates on Enlargement and European Neighbourhood Policy

The Treaty of Accession with Bulgaria and Romania was signed on 25 April 2005. As a result, these two countries have been granted the status of « active observer » in the EU institutions (including in all committees and working groups organised by the European Commission). In addition, Bulgaria and Romania are now to be informed and consulted about new initiatives in a similar way to existing Member States. In that context, the Bulgarian and Romanian authorities were invited to designate a high level representative and his/her alternate for their participation to the EIOPC and Expert Groups meetings.

The Commission is to start the preparation of the Comprehensive Monitoring Report for Bulgaria and Romania, which are to be adopted by the end of October 2005. It is also expected that in early November 2005, the Commission will adopt the Regular Reports for Croatia, Turkey, Serbia-Montenegro, Bosnia-Herzegovina, Albania, the Opinion on FYROM and the European partnerships for Western Balkans countries, Croatia and Turkey.

Bulgaria

Bulgaria is holding parliamentary elections in June 2005 and has ratified the Accession Treaty on 11 May 2005, formalising its commitment to become a fully-fledged Member State by 2007. However, there is still room for improvement in a number of areas to pave the way for accession. Commissioner McCreevy met the Bulgarian Minister of Economy, on 7 April 2005 and Director General Schaub followed up on this with Bulgarian Ambassador Daskalov on 29 April 2005 to take stock of the progress reached at this stage. Both urged Bulgaria to intensify and speed up efforts in order to align its legislation with the *acquis communautaire* and to put in place the necessary implementing structures, in particular in the fields of public procurement, establishment and intellectual property rights. The percentage of uninsured cars in Bulgaria was also extensively discussed in both meetings. In June 2005, DG Enlargement wrote to the Bulgarian Authorities and listed the areas which require urgent improvement. In that context, the Commission will closely monitor developments in the coming months and will assess progress in its Comprehensive Monitoring Report.

Romania

On 19-20 May 2005, a number of meetings took place in Bucharest between Director General Schaub and high-level representatives of the Romanian government and competent authorities. The objectives of these meetings were to highlight areas of the internal market where Romania needs to accelerate its preparations for accession and to inform the Romanian authorities about new developments in the policies of DG MARKT. DG Enlargement wrote also to the Romanian Authorities and listed the areas which require urgent improvement. In that context, the Commission will closely monitor developments in the coming months and will assess progress in its Comprehensive Monitoring Report. In June 2005, DG MARKT reviewed the transposition of the insurance *acquis* prepared by Romania and sent comments for further improvement. The Sub-Committee on Internal Market took place on 16-17 June, where the percentage of uninsured cars in Romania was discussed. The Peer Review on Financial Services is to take place in Bucharest on 11-13 July 2005, where experts of the Member States will have a close look at progress made on

the side of administrative capacity as regards banking, securities and insurance.

Serbia-Montenegro

On 12 April 2005, the Commission adopted a feasibility report assessing the readiness of Serbia and Montenegro to negotiate a Stabilisation and Association Agreement with the EU. The report concluded that they are sufficiently prepared to negotiate this agreement. Thus the Commission recommended the opening of negotiations for the conclusion of the Stabilisation and Association Agreement, which is a political agreement and will not have at this stage an operational impact in the field of insurance.

9. EU-US insurance regulatory dialogue

Following informal contacts between the NAIC, CEIOPS and the Commission, the tentative timing for the next meeting has been set for October 2005 in Vienna, directly following the IAIS Annual Meeting.

10. EU-CHINA regulatory dialogue

On 25 May discussions were held in Beijing with representatives of CIRC (China Insurance Regulatory Commission) in order to prepare a regulatory dialogue between the EU and China. Further discussions will be held in October.

11. Infringements

The Commission has not taken any formal decisions on infringement proceedings in the insurance field since the last meeting of the Insurance Committee on 8 April 2005. As far as the non-communication of legislative measures by new Member States is concerned, the Commission has been able to close all but 5 of the original 55 infringement cases. All insurance directives in force were to be transposed by the new Member States on the day of accession on 1 May 2004.

The deadline for the transposition of the Insurance Mediation Directive 2002/92/EC expired on 15th January 2005. In March 2005, letters of formal notice for non-communication were sent to fourteen Member States (BE, DE, EL, ES, FI, FR, IT, LU, MT, NL, PL, PT, SE, SK). Meanwhile, two additional Member States have notified measures. Failing complete communication of implementing measures, the Commission may decide to send reasoned opinions to the Member States concerned.

12. Financial Services Action Plan

On 3 May the Commission issued its Green Paper on EU Financial services policy for the next five years. The Green Paper launches ideas to further integrate EU financial markets and focuses primarily on implementing existing rules agreed under the Financial Services Action Plan (FSAP) and on cooperation, rather than proposing new laws. It explores ways of improving cross-border access to retail financial services and asset management. The Green Paper is open for public consultation until 1 August 2005. The final financial services policy programme will be presented in November 2005.

Driving forward the integration of EU financial market is crucial for ratcheting up Europe's economic growth and jobs potential. The FSAP has over the last six years aimed to put integrated, efficient, deep and liquid financial markets at the service of European issuers, investors and financial service providers. Almost all of the measures in the FSAP have been agreed and EU decision making and regulatory structures have become more efficient.

A short term need is to complete unfinished business and finalise legislation currently under negotiation in Parliament and Council. Furthermore, existing legislation must be implemented effectively, in three phases: effective transposition of EU rules into national law; more rigorous enforcement by supervisory authorities; continuous *ex-post* evaluation. At all stages of any future regulatory process, the Commission will apply the rigorous "better regulation" approach, with thorough impact assessment and extensive consultation.

In a few areas, new initiatives may be proposed. A separate Green Paper on asset management will be published in July 2005. The investment fund industry currently manages almost 5 trillion euro and a small improvement in efficiency has huge immediate beneficial economic effects.

The EU market in retail financial services remains fragmented. The Commission will look, for example, at ways to make cross-border use of bank accounts more consumer friendly and to break down barriers so that customers can shop around all over Europe for the best savings plans, mortgages, insurance and pensions, with clear information so that products can be compared. The Commission will propose legislation only if there are clear economic benefits.

Other issues covered in the Green Paper include ensuring that supervisory practices and standards converge across Europe, encouraging cross-border investment and taking advantage of Europe's

strategic opportunity to influence the regulatory parameters of the emerging global financial market. Financial relations with the US, Japan, China have become and will remain more important.

The full Green Paper text is at:

http://europa.eu.int/comm/internal_market/finances/actionplan/index_en.htm

13. Work of CEIOPS

CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors)

In the framework of the Solvency II project, the comments received during the public consultation phase on the *Draft Answers to the European Commission on the First Wave of Calls for Advice* (Consultation Paper No. 4) have been processed. The final advice to the Commission is expected to be approved by the CEIOPS Members' Meeting on 28 June 2005 in London.

At the same time the *Draft Answers to the European Commission on the Second Wave of Calls for Advice* are expected to be approved for public consultation.

Also, the *Third Progress Report* on CEIOPS' work in the framework of the Solvency Project will be approved to be submitted to the European Commission.

Meanwhile CEIOPS has also begun to prepare its advice on the *Third Wave of Calls for Advice*, which it has received on 29 April.

In the framework of answering the Call for Advice No. 13 (Quantitative impact study and data related issues) the Financial Stability Committee is currently evaluating the results received from supervisory authorities with regard to the *Preparatory Field Study*.

Regarding the *Draft Report on Possible Need for Amendments to the Insurance Groups Directive* (Consultation Paper No. 6) the comments received during the public consultation are being processed. The Report will give inputs to the Commission for any amendment of the IGD in the light of the supervisory experience. The Report will be sent to the European Commission before this autumn.

In view of the implementation of the IORP Directive a draft Protocol for the Cooperation of Supervisory Authorities (*Occupational Pensions Protocol*) was published for consultation following the February Members' Meeting. The comments received will be processed during the coming weeks. Final approval is envisaged for this autumn.

Another Protocol organising the cooperation, coordination and regular exchange of information between competent authorities in view of the implementation of Directive 2002/92/EC will be presented for approval for public consultation at the Members' Meeting on 28 June (*Insurance Mediation Protocol*).

In addition to the work mentioned regarding the sector of insurance and occupational pensions, a number of projects are under way on a cross-sectoral basis. So-called *3L3 initiatives* have been started to coordinate the work in the three financial sectors on issues of common interest. E.g. a joint letter has been addressed to the European Commission proposing a *coordination arrangement for Level 3 work in the field of financial conglomerates*, with the aim of providing a harmonised, consistent approach across sectors, without creating an additional Level 3 Committee. A questionnaire has been prepared and sent to the Members of the 3L3 Committees with the aim to examine jointly, in liaison with the Commission, the existing problems in the *supervision of offshore financial centres*. A draft document has been prepared in order to formalise the *cooperation between the 3L3 Secretariats*. Also, work is under way to find a common approach to and definition of the Level 3 instruments (standards, guidelines and recommendations). Further, the Committees are preparing a common report on cross-sectoral risks, which will be presented to the EFC in autumn.

The next ordinary *Members' Meeting* following the meeting on 28 June 2005 is scheduled to take place on 27 October 2005 in Frankfurt.

14. Work of IAIS

IAIS has undertaken several key initiatives in the development of insurance standards, the main priority areas being solvency, accounting and reinsurance. With respect to solvency, major steps taken by the IAIS are the development of a framework for insurance supervision which underpins the IAIS's past and future standard setting activities and proposes the development of a common structure and standards for the assessment of insurer solvency. A draft cornerstone for the formulation of regulatory financial requirements by way of a common structure for the assessment of insurer solvency in order to enhance transparency and comparability has also been released for public consultation. For valuation of insurance liabilities for general purpose financial reporting a paper "Issues arising as a result of the IASB's Insurance Contracts Project - Phase II: Initial IAIS Observations" has been published. It provides initial observations on identified measurement themes common to both financial and regulatory reporting that the IAIS believes the IASB should

address in its consideration of Phase II of the IASB's Insurance Contracts Project (Phase II). Recent events reported publicly have highlighted the need for supervisory awareness and guidance on finite risk reinsurance contracts. A supervisory guidance paper is currently being developed in response to supervisory concerns about the use and abuse of finite risk reinsurance, or financial reinsurance, since limited or no risks are ceded (transferred) to the reinsurer. A survey of supervisors' current experiences with finite reinsurance is underway on a world-wide basis as part of this work. A review of the IAIS principles, standards and guidance papers that deal with cross border and cross sector cooperation and information exchange has recently been carried out for assessing the adequacy of these standards. No significant gaps have been found on the issue of cooperation information exchange. The Standard on disclosures concerning investment risks and performance for insurers and reinsurers shall be adopted in October 2005. Work is in progress on mutual recognition between supervisors of reinsurers.

Annexes:

EBC - European Banking Committee

Annex 1: Draft agenda of meeting of the European Banking Committee (EBC) on 5 July 2005 enclosed.

ARC – Accounting Regulatory Committee

Summary records of the meeting on 20 May 2005 available at:

http://europa.eu.int/comm/internal_market/accounting/committees_en.htm#arc

Draft agenda of the next meeting on 8 July 2005 enclosed.



EUROPEAN COMMISSION

Internal Market and Services DG

FINANCIAL INSTITUTIONS

EBC/008/05-EN

DRAFT AGENDA

*First meeting of the European Banking Committee (EBC), Brussels, 5 July 2005
9:30 to 17:00*

POLICY DISCUSSION ISSUES

1. **CROSS BORDER CONSOLIDATION**
The EBC will be consulted on the revision of Article 16 of Directive 2000/12/EC (EBC/009/05)
2. **LARGE EXPOSURES**
The EBC will be consulted on the roadmap for the review of large exposures rules (EBC/010/05).
3. **DEPOSIT GUARANTEE SCHEMES**
EBC Members' views will be sought on the draft Consultation paper on deposit guarantee schemes (Document EBC/011/05).

INFORMATION ITEMS

4. **RETAIL BANKING:** State of play.
5. **CAPITAL REVIEW/"BASEL2"**
 - Update on the co-decision process. The EBC will receive feedback from discussions in ECON and in COREPER.
 - Update on the Trading book review
6. **E-MONEY:**
 - Advice from CEBS on the review of Article 8 of Directive 2000/46/EC
 - The Commission will inform about the timetable for the broader review of the E-money directive
7. **CEBS:** Presentation of first Annual Report, update on supervisory convergence, thinking of CEBS on their role and tasks

INTERNAL BUSINESS

8. **RULES OF PROCEDURES:** adoption of rules of procedures (EBC/012/05)
9. **FUTURE COMITOLGY:** presentation of draft amendments to Article 2 of Directive 2000/12/EC (EBC/013/05)

ROUNDTABLE ON HOME-HOST ISSUES (AFTERNOON SESSION)

The EBC will meet with supervisors, central banks and industry representatives to discuss the challenges embedded in the regulation and supervision of cross-border groups. The discussion will be introduced by two keynote speakers for each of the following topics:

- **ON-GOING REGULATION AND SUPERVISION ON A CROSS-BORDER BASIS**
- **ENHANCING CROSS-BORDER ARRANGEMENTS FOR CRISIS MANAGEMENT**

SIXTEENTH MEETING OF THE ACCOUNTING REGULATORY COMMITTEE (ARC)

CONTACT COMMITTEE MEETING

BRUSSELS, 8 JULY 2005 (9.30 AM – 4.30 PM)

**ALBERT BORSCHETTE CONFERENCE CENTRE – 36 RUE FROISSART
ROOM (AB/4A)**

DRAFT AGENDA

I	Approval of the minutes of the ARC and Contact Committee meeting of 20.05.2005 (Document ARC/10/2005)	9.30
II	Formal vote on amendment to IAS 39 Fair Value Option (Document ARC/11/2005)	9.30 to 10.00

Proposal for a Commission Regulation adopting an amendment to International Accounting Standard IAS 39 *Financial instruments: Recognition and measurement* with the additions of the provisions on the use of the fair value option in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council.

The members of the ARC are expected to give their opinion on this implementing measure in accordance with the regulatory procedure provided for in Article 6 of Regulation (EC) N° 1606/2002.

A draft Regulation will be sent as soon as possible. An annex will follow as soon as it is available from the IASB.

III	Report by the Commission to ARC about its intention not to propose endorsement of IFRIC 3 <i>Emission Rights</i> (Document ARC/12/2005)	10.00 to 10.30
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In accordance with Article 7 of the IAS Regulation (1606/2002) the Commission will inform delegations about its intention not to propose endorsement of IFRIC 3 *Emission rights* and will invite delegations for comments.

IV	Update regarding on new documents issued by the IASB and on the IASB's joint project with FASB on performance reporting (Document ARC/13/2005)	10.30 to 11.30
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The European Financial Reporting Advisory Group (EFRAG) will inform delegations about the most recent document issued by the IASB.

- Amendment to IAS 39 *Financial instruments: Recognition and measurement: Cash flow hedge accounting of forecast intragroup transactions.*

EFRAG will inform delegations about the progress to date on the IASB's joint project with FASB on performance reporting.

V	The International Accounting Standards Board (IASB) convergence project – on-going and upcoming issues (Document ARC/14/2005)	11.30 to 13.15
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Sir David Tweedie, Chairman of the International Accounting Standards Board (IASB) will give a presentation on the IASB's work programme.

VI	Consistent application (Document ARC/15/2005)	14.45 to 15.30
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The Commission will present its views concerning consistent application of IAS and invite delegations to comment.

VII	Future of EFRAG (Document ARC/16/2005)	15.30 to 16.30
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The Commission will present its views of an independent technical expert group and invite delegations to comment.

VIII	Links between statistics and accounting (Document ARC/17/2005)	16.30 to 17.00
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Eurostat, the European Union's office of statistics, will give a presentation on links between statistics and accounting.

IX	Miscellaneous	17.00 to 17:15
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Delegations will be invited to present any additional issues which need to be discussed.